

OFFICE OF THE SECRETARY  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

RECEIVED  
JUN 23 2 34 PM '00  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSE OF AMERICAN BANKERS ASSOCIATION AND  
NATIONAL ASSOCIATION OF PRESORT MAILERS  
WITNESS CLIFTON TO INTERROGATORIES OF MAIL ORDER ASSOCIATION OF  
AMERICA  
(MOAA/ABA&NAPM-T1-15)**

(June 23, 2000)

The American Bankers Association ("ABA") and the National Association of Presort Mailers ("NAPM") hereby provide the responses of witness Clifton to the following interrogatories of the Mail Order Association of America, which were filed on June 9, 2000: MOAA/ABA&NAPM-T1-1-15.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION  
NATIONAL ASSOCIATION OF PRESORT MAILERS

By: 

Henry A. Hart, Esq.  
Reed Smith Shaw & McClay LLP  
1301 K Street N.W.  
Suite 1100 - East Tower  
Washington, DC 20005  
Ph: 202-414-9225  
Fax: 202-414-9299

Counsel for  
National Association  
of Presort Mailers

Irving D. Warden  
Assoc. General Counsel  
American Bankers Association  
1120 Connecticut Ave., NW  
Washington, DC 20036  
Ph: 202-663-5035  
Fax: 202-828-4548

Counsel for  
American Banker Association

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-1** Please confirm that you are the same James A. Clifton that presented testimony on behalf of the Greeting Card Association, Inc. in Postal Rate Commission Docket No. MC95-1.

**RESPONSE:**

Confirmed.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-2** Please confirm that testimony and your responses to written and oral cross examination are found in volume twenty-six at 11810 ff of the official transcript of the proceedings in Docket No. MC95-1.

**RESPONSE:**

Not confirmed. My testimony begins at vol. 26, at 11801 of the official transcript.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-3** Please confirm that the purpose of your testimony in Docket No. MC95-1 was attempted to persuade the Commission that costing and pricing automation mail as a subclass would harm single piece mailers and should therefore be rejected.

**RESPONSE:**

Not confirmed. While GCA may have used my testimony for this purpose, the primary focus of my testimony in MC95-1 was to testify that First Class single piece mail had shouldered a substantial part of the investment costs of mail processing automation, while receiving few if any of the benefits of it as of July, 1995, the date my direct testimony was submitted. I argued that under Classification Reform I, based on information at the time, the inequity would likely become worse.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-4** Please confirm that your position in Docket No. MC95-1 was that single piece mail should not be deprived of the benefit of being costed and priced together with automation mail because to do otherwise would show that single piece mail has much higher costs and therefore its rates would have to be much higher.

### **RESPONSE:**

I supported maintaining the current classification system for First Class Mail on behalf of GCA because I believed (and still believe) that First Class worksharing mailers can and have done more to hold down the price of the single piece stamp than the constituencies in a rate proceeding directly affected by the price of the single piece stamp have been able to do for themselves.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-5** Please confirm that in your testimony you presented a simulation of a possible outcome for First-Class rates based on the acceptance of the Postal Service's proposed classification reforms predicting the following rate levels:

<u>Representative Rate</u>	<u>Postal Rates in Cents Per Piece</u>			
	<u>U.S.P.S. Proposed Rates (MC95-1)</u>	<u>Rates as of January 1</u>		
		<u>1998</u>	<u>2001</u>	<u>2004</u>
First-Class Retail Letter	32.0	39.0	45.0	50.0
First-Class Automation Letter (5-Digit PBC)	23.5	17.0	15.0	16.0

**RESPONSE:**

Confirmed, under the assumption (which happily turned out to be wrong but was the most realistic at the time) that the Postal Service would make little or no progress in automating the processing of single piece mail, and under the assumption that increasing cost avoidance for workshared mail from several factors including migration to higher levels of presortation would continue. Two other simulations presented showed First Class Retail letter mail rising to 34 cents through the year 2000, the best wage rate scenario and the best automation scenario.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-6** Please confirm that above rates were premised upon the cost coverage ratios shown below:

<u>Representative Rate</u>	1996 Based On U.S.P.S. <u>Rates</u>	<u>Cost Coverage Ratios</u> <u>Rates as of January 1</u>		
		<u>1998</u>	<u>2001</u>	<u>2004</u>
First-Class Retail	1.482	1.703	1.816	1.850
First-Class Automation	3.111	2.464	2.011	1.969

**RESPONSE:**

Not confirmed. The question presumes that I inputted cost coverages from which rates were then inferred, which mischaracterizes my testimony and the analytical work underlying it. It is correct that the cost coverage ratios above correspond in one run of the model to the rates for that run that you list in interrogatory 5 above.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-7** Please confirm that treating First-Class Automation Letter mail as a subclass, and basing its rates upon its actual costs and the application of the pricing factors which you deemed to be likely, resulted, under your simulation, in First-Class Automation rates that were only one-third of the level of First-Class Retail rates as of 2001.

**RESPONSE:**

Please see my answer to interrogatory 5, above.



## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-8** Please confirm that had the Postal Rate Commission accepted the Postal Service's proposed classification reform of First-Class mail rates for automation First-Class mail would be considerably lower than either existing or USPS proposed rates for that type of mail.

### **RESPONSE:**

This question is really beyond the scope of my testimony in MC95-1 and remains so. Some of my simulations in that testimony showed an illustrative rate for a First Class 5 digit prebarcoded letter of 24 cents in the year 2000, close to the current actual rate of 24.3 cents, and not "considerably lower" as your question asserts. However, I did not study in any detail the "proposed classification reform . . . for automation First Class mail", as I was representing at the time GCA and single piece mailers.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-9** Please confirm that you testified in that proceeding that “the proposed automation subclass for First-Class letter mail will not have any ECSI value as that criterion has been applied by the Commission. . .” (Tr. 26/12021).

**RESPONSE:**

Confirmed, with the caveat that my own view was at that time and remains today that the most important First Class letter mail that households receive periodically month to month today is bills, bank statement and the like, which in my view have very high ECSI informational value.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-10** Please confirm that your use of the term First-Class mail single piece in your testimony in this proceeding refers to the same type of mail referred to as First-Class Retail in your testimony in Docket No. MC95-1.

### **RESPONSE:**

I assume that your “Fist” was intended by you to be “First”. Partially confirmed. As you have noted, I was representing the GCA, and my focus was on that typically hand written stream of greeting card mail, especially at holidays, and I devoted an entire Section IV. of my testimony to that subset of single piece letter mail. The “base case” model results simulated the costs and possible rate evolution of all single piece letter mail under the assumptions noted in my above response to interrogatory 5. My concern with First Class single piece mail in this case is primarily found in Section VII., where I propose extending the benefits of worksharing directly to all single piece letter mail with my proposed “P” rate mail processing system. That discussion of single piece is extended into Section XIII. in a few tables and a very minor amount of testimony, notably one paragraph at lines 7-13 on page 60, out of a total of 7 pages. However, most of the reference to single piece mail in that section is the passive result of my thinking about single piece in the context of the ‘P’ rate, now that automation technology is finally working for single piece mail, as it was not in MC95-1.

**MOAA/ABA&NAPM-T-1-11** In your testimony in this proceeding you contend that “the growing disparate trends between cost coverages for single piece versus workshared mail in the allocation of institutional costs, workshared mail is being singled out in an arbitrary and almost punitive way.” (at 60).

- a. Please confirm that class or subclass treatment has its fundamental purpose permitting the costs of the class or subclass to be allocated on the basis of the Postal Service’s costing systems and the pricing factors of the Act to be applied to that class or subclass.
- b. Please provide any reference in the Commission’s decisions that support the proposition that the application of the pricing factors of the Act to arrive at proper cost coverages is appropriate at anything other than the class or subclass level.
- c. Please confirm that in your table fourteen on page 62 of your testimony you are comparing what you label as cost coverages for “FCM single piece” and “FCM presort,” which are not subclasses, to “Standard A Mail” and “Standard A Mail Commercial” even though by doing so you are combining four Standard Mail A subclasses.
- d. Please confirm that the cost coverages for Standard Mail A nonprofit ECR and regular are to be determined by a mathematical statutory scheme and not by the Commission’s independent evaluation of the pricing factors of the Act.

**RESPONSE:**

a. and b. This is an issue which is a matter for legal briefs, but I will add what I can. In its R87-1, O&RD, the Commission stated at para. 5144 that while workshared mail is not formally a subclass, “[w]e point out that the Commission has consistently treated presort as a subclass for costing and pricing purposes. . . .”. It also noted at para. 5151 that First Class workshared mail has at least partial benefits from the application of section 3622 (b) criteria, while noting that “we are not led to fully apply section 3622(b) factors”. I do believe that the Commission in the past has consistently considered fairness at the rate category level; and disparate cost coverages, particularly in the extreme, affect fairness. See, for example, in addition to the above cites MC95-1, O&RD, para. 5046.

**RESPONSE to MOAA/ABA&NAPM-T-1-11 (Continued)**

Thus, I do not confirm part a. of your interrogatory. I also note that the issue of subclass status for First Class worksharing mailers, as distinct from First Class single piece mailers, which you raise again here implicitly and explicitly throughout much of your questioning about my testimony in MC95-1, is rendered entirely obsolete by the proposal made in Section VII. of my testimony. The present feasibility of the "P" rate reflects improved RCR read rates, continued expansion in national coverage by presort bureaus and other MLOCR qualified institutions, and a desire by presort mailers to enter the business of prebarcoding and presorting single piece mail. If the "P" rate mail processing system ramps up over the next decade, it seems quite possible that very little of the First Class letter mail stream will be entered into the USPS as non-prebarcoded, non-presorted single piece mail.

c. I am not precluded by any postal statute from presenting my own independent analysis of what is the most glaring and inequitable mis-allocation of costs in the entire postal system, the allocation of institutional delivery costs between Standard A Commercial and First Class Mail, subclass definitions notwithstanding. With that caveat I confirm c.

**RESPONSE to MOAA/ABA&NAPM-T-1-11 (Continued)**

d. Confirmed. However, please note that my proposals affect only the Standard A commercial subclasses, and that my arguments surrounding the need for changes in relative cost coverage between Standard A and First Class do not relate to the non-profit subclasses.

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-12** With reference to page 63 of your testimony, please provide the cost coverage for the First Class mail subclass of “Letters and Sealed Parcels” that would result from your proposed adjustments.

**RESPONSE:**

The cost coverage from my proposals is contained in the table below by subclass. Referencing your interrogatory 11. c., I have also provided recent history by subclass, which is in part the context underlying my proposed changes. As with the presentation in Table Twelve in my testimony, the presentation by strict subclass does not alter my perspective on recent history or the rationale for my proposed changes in cost coverage in the least. My proposals simply begin to establish some modicum of equity and fairness between the letters subclass in First Class and the commercial subclasses in Standard A, beginning to reverse the discrimination and unfairness that is evident in the cost coverage dynamics between those subclasses during the 1990s. The table is the following:

RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

RESPONSE to MOAA/ABA&NAPM-T-1-12 (Continued)

	All Mail & Special Service	Compared to Average			Compared to Average		
		<u>First-Class Letters Subclass</u>			<u>Standard A Commercial Subclasses</u>		
		Total	Single-Piece Rate	Presort Rates	Total	Regular*	ECR**
1994	155%	1.07	0.97	1.40	1.02	0.85	1.40
1995	163%	1.06	0.93	1.51	1.03	0.86	1.40
1996	164%	1.07	0.91	1.60	1.03	0.88	1.40
1997	181%	1.13	1.01	1.52	1.00	0.85	1.34
1998	179%	1.16	1.04	1.54	0.96	0.79	1.38
1999	168%	1.17	1.04	1.54	0.93	0.81	1.23
TY2001 USPS	168%	1.17	1.02	1.57	0.91	0.79	1.24
TY2001 ABA/NAPM	169%	1.15	1.01	1.51	0.96	0.84	1.27
Cost Coverage							
	All Mail & Special Service	<u>First-Class Letters Subclass</u>			<u>Standard A Commercial Subclasses</u>		
		Total	Single-Piece Rate	Presort Rates	Total	Regular*	ECR**
1994	155%	166%	150%	216%	158%	131%	217%
1995	163%	173%	151%	247%	167%	140%	227%
1996	164%	175%	150%	262%	169%	144%	230%
1997	181%	205%	182%	275%	180%	154%	242%
1998	179%	209%	186%	276%	171%	142%	248%
1999	168%	197%	175%	259%	156%	136%	207%
TY2001 USPS	168%	197%	172%	264%	153%	133%	209%
TY2001 ABA/NAPM	169%	194%	170%	255%	161%	142%	214%

\* 1994 and 1995 are pre-classification reform, bulk rate regular.

\*\* 1994 and 1995 are pre-classification reform, ECR.



RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-13**  
initiated in 1996.

Please confirm that the Standard Mail A ECR subclass was

**RESPONSE:**

Confirmed.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-14** Please explain why you have presented Table Twelve purporting to show various results for Standard Mail A ECR for the years 1994 and 1995.

### **RESPONSE:**

There was ECR mail in the old third class before classification reform. It is possible to estimate cost coverages for this mailstream pre-reform, and it is the only meaningful way to get the time series of data I wanted to examine. Classification change is only one change that happened over the period covered. There have also been numerous methodological changes to the CRA pre and post reform, technological and other changes.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO MOAA INTERROGATORIES

**MOAA/ABA&NAPM-T-1-15** Please confirm that the cost coverage for the Standard Mail A ECR subclass has exceeded the cost coverage for the First-Class Letters and Sealed Parcels subclass in every year since the initiation of the ECR subclass.

### **RESPONSE:**

This is evident from the table in my response to your interrogatory 12 above, but it is also evident that the cost coverage for ECR has gone down from 230% to 207% since initiation of the ECR subclass while over the same time period the cost coverage for the First Class letters subclass has increased from 175% to 197%. Given these trends, it will not be long before the cost coverage for the First Class letters subclass exceeds that for the Standard A ECR subclass, unless the Commission takes decisive action such as my proposed changes in discounts and extra ounce rates for First Class letters. Further, I continue to dispute that your question provides the most economically meaningful comparison. The most economically meaningful comparison is between the cost coverage for First Class workshared mail (“presort rates” in the table) and the Standard A commercial subclasses, individually and combined. This reveals that the cost coverage is far higher for First Class workshared mail than for either Standard A subclass, Regular or ECR, and it would still remain substantially higher under my proposals.

**DECLARATION**

I, James A. Clifton, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
James A. Clifton


Dated: 06-23-00

Date: June 23, 2000

Washington, D.C.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

  
Henry A. Hart

June 23, 2000