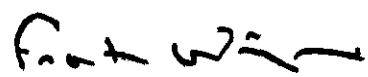
BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000 **Docket No. R2000-1**

RESPONSES OF ASSOCIATION FOR POSTAL COMMERCE WITNESS GLICK TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE (USPS/POSTCOM-T1-1-6)

Association for Postal Commerce hereby provides responses to the above listed interrogatories of the United States Postal Service filed June 15, 16 and 19, 2000. Each question is stated verbatim and is followed by the response.

Respectfully submitted,



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June 28, 2000

USPS/Postcom-T1-1. Please see your testimony at Page 6, Table 2.

a. Confirm that your proposed increase in the DBMC piece discount is 50%. If you cannot confirm, please provide your proposed percentage increase.
b. Confirm that your proposed increase in the DSCF piece discount is 38%. If you cannot confirm, please provide your proposed percentage increase.
c. Confirm that your proposed increase in the DDU piece discount is 38%. If you cannot confirm, please provide your proposed percentage increase.
d. Confirm that your proposed increase in the DBMC pound discount is 44%. If you cannot confirm, please provide your proposed percentage increase.
e. Confirm that your proposed increase in the DSCF pound discount is 40%. If you cannot confirm, please provide your proposed percentage increase.
f. Confirm that your proposed increase in the DDU pound discount is 37%. If you cannot confirm, please provide your proposed percentage increase.
g. If, in subsequent rate proceedings, the passthrough of 100 percent of the calculated cost avoidances used to support the destination entry discounts were to lead to reductions of 40% in the discounts, would you continue to advocate 100 percent passthrough? If not, what passthrough would you recommend?

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Confirmed.

e. Confirmed.

f. Confirmed.

g. If the calculated cost avoidance included all cost savings that result from drop shipping and the lower cost avoidance was one that I believed would continue into the future, I would advocate a 100 percent passthrough. If I believed that the calculated cost avoidance ignored a portion of the savings that result from dropshipping or there was a large amount of uncertainty about the value of drop shipping in the future USPS operating environment, I would argue that reducing destination entry discounts only to increase them again in the next case would be inappropriate.

USPS/Postcom-T1-2. Please see Attachment A of your testimony which includes POSTCOM proposed rates for Standard Mail (A).

a. Please confirm that the POSTCOM proposed increase for non-destination entry 3/5-digit automation flats is 15.8 percent. If you cannot confirm, please provide the percentage increase you are proposing for non-destination entry 3/5-digit automation flats.
b. Please confirm that your proposed increase for non-destination entry 3/5-digit automation flats exceeds the largest USPS proposed percentage increase in Standard Mail (A) Regular for pieces not subject to the Residual Shape Surcharge.
c. Please confirm that the POSTCOM proposed increase for non-destination entry Saturation letters is 15.4%. If you cannot confirm, please provide the percentage increase you are proposing for non-destination entry Saturation letters.
d. Please confirm that your proposed increase for non-destination entry Saturation letters exceeds the largest USPS proposed percentage increase in Standard Mail (A) ECR for pieces not subject to the Residual Shape Surcharge.

RESPONSE:

a. Confirmed. Note that this rate increase is only slightly higher than the increase that the Postal Service is proposing for DSCF entry 3/5-digit automation flats. To the extent that mitigating rate shock should be considered in rate design, I believe that a 15.8 percent rate increase for non-destination entry mail is an improvement over a 14.8 percent rate increase for DSCF entry mail because non-destination entry mailers have an opportunity to reduce their rate increase through increased worksharing.

b. Confirmed.

c. Confirmed. Note that non-destination entry saturation letters comprise only one percent of Standard (A) ECR volume.

d. Confirmed.

USPS/PostCom-T1-3. On page 10 of your testimony, you state that you developed MPA-LR-2 with Time Warner witness Stralberg. Please refer to the mail processing unit costs on the worksheet entitled 'CRA Cost Pools' within MPA-LR-2.

(a) Please confirm that these mail processing unit costs are identical to the mail processing costs on the worksheet entitled 'CRA Cost Pools' within USPS LR-I-90. If you do not confirm, please explain.
(b) Please confirm that these mail processing unit costs do not reflect any changes due to proposed volume variability, cost reduction program, cost allocation, or cost distribution differences from the Postal Service's proposal. If you do not confirm, please explain.
(c) Please confirm that, if these mail processing unit costs reflected any changes due to proposed volume variability, cost reduction program, cost allocation, or cost distribution differences from the Postal Service's proposal, then the proposed presort/automation cost differentials calculated from MPA-LR-2 would, in all likelihood, be different. If you do not confirm, please explain.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed. In particular, note that the CRA costs would increase if the Postal Rate Commission recommended using its traditional mail processing volume variability method.

USPS/PostCom-T1-4. Please refer to your testimony at page 7, at lines 20-22, where you state that "as described by witness Lubenow (PostCom, et al.-T-3), the Postal Service has not quantified all of the cost savings that result from the higher address quality that result directly from automation requirements."

(a) Please identify and describe each distinct component of cost savings that results from the higher address quality associated with automation requirements.
(b) Please quantify each distinct cost savings as a percentage of total mail processing costs and provide the supporting data, reports, or analyses. Show all calculations and provide citations for all figures used in your analysis.

RESPONSE:

(a)-(b) For examples of the activities necessitated by address deficiencies, please refer to PostCom/USPS-T-3 at 20-22. Also, refer to Section 3 of USPS-LR-I-82. While these activities will be performed for both automation and nonautomation flats, the higher address quality of automation flats will reduce the frequency with which these activities are performed for automation flats. I, like the Postal Service itself (PostCom/USPS-T10-9(h)), have not quantified the unit cost of all of the individual activities necessitated by address deficiencies.

USPS/PostCom-T1-5. Please refer to your testimony at page 17, at 14-16, where you state that "accounting for costs caused by address problems via the CRA cost adjustments essentially ignores them for the purpose of determining automation-related cost savings."

(a) Please quantify the percentage of total mail processing costs caused by address problems and provide the supporting data, reports, or analyses. Show all calculations and provide citations for all figures.

(b) Please identify each CRA mail processing cost pool that address problems affect.

(c) For each CRA mail processing cost pool identified in subpart (b), please quantify the percentage of the cost pool's total mail processing cost that is caused by address problems and provide the supporting data, reports, and analyses. Show all calculations and provide citations for all figures.

RESPONSE:

(a) In FY 1998, USPS accrued mail processing costs were approximately $14 billion. As I noted in my testimony, the Postal Service's UAA Study indicated that the FY 1998 cost of UAA mail is approximately $1.5 billion. USPS-LR-I-82 at 30. While not all of these costs are mail processing costs, this $1.5-billion cost figure represents more than ten percent of accrued mail processing costs. Because this study only addresses UAA mail, it is a conservative estimate of the total cost caused by poor address quality.

(b)-(c) I have not performed a detailed analysis of the costs caused by address deficiencies. The intent of the referenced statement was to rebut witness Yacobucci's contention (Tr. 5/1481) that differences in address quality are taken into account through the use of a CRA adjustment. As I noted in my testimony, this isn't the case. For 3/5-digit flats (which comprise the vast majority of Standard (A) Regular flats), the CRA adjustment increases the automation differential by less than 0.1 cent. To further illustrate this point, this amount represents less than one-tenth of a second of a clerk's time.

USPS/PostCom-T1-6. Please see your testimony at pages 10-13. You state that, for eligible Standard A Mail flats, 70 percent of incoming secondary processing should be on an FSM in the test year (IS factor), an increase of 20 percentage points over witness Yacobucci's LR-I-90 factor of 50 percent.

a. Please confirm that volume arrival and operation clearance times along with service standards (i.e. operating window) would have an impact on incoming secondary processing. If you do not confirm, please explain.
b. Please confirm that the distance of a delivery unit from a plant with an FSM may prohibit incoming secondary processing on a FSM in the plant in order to transport it to the delivery unit in time for delivery. If you do not confirm, please explain.

RESPONSE:

a-b. Confirmed for preferential mail. Please note that these factors are not as relevant for Standard A mail as for preferential mail because, as USPS witness Unger stated in his testimony, "time sensitivity is not as frequently a factor for Standard A mailings." USPS-T-43 at 6. For more detail on this point, please refer to Section C of witness Unger's testimony (USPS-ST-43).

Furthermore, as I calculated on pages 11-12 of my testimony, the Postal Service will have more capacity in the Test Year than they need to provide incoming secondary sorts on machines for all eligible flats in large zones. Because of this and the cost difference between FSM sorting and manual flat sorting, if the aforementioned factors are important for non-preferential mail (and therefore are even more important for preferential mail), I would expect that the Postal Service would appropriately use its FSM capacity to perform incoming secondary sorts on mailpieces destinating in small zones just as it did for the delivery point sequencing of letters. Kingsley, Tr. 5/1980.

ATTESTATION

I, Sander Glick, declare under penalty of perjury that the foregoing answers to interrogatories were prepared by me or under my supervision and control and that such answers are true and correct, to the best of my knowledge, information and belief.

Sander Glick

Dated: 6/28/2000

CERTIFICATION

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding having requested service of discovery documents in accordance with Section 12 of the rules of practice.

Ian D. Volner