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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 VAL-PAK DIRECT MARKETING  
SYSTEMS, INC., VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT  
PROMOTIONS, INC.  
(VP-CW/ABA&NAPM-T1-1-7)**

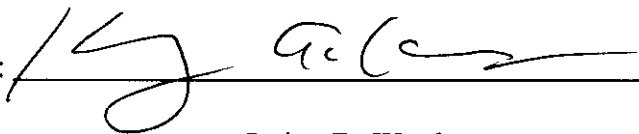
(July 3, 2000)

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 Val-Pak Direct Marketing Systems, Inc., Val-Pack Dealers' Association, Inc., and Carol Wright Promotions, Inc., which were filed on June 19, 2000: VP-CW/ABA&NAPM-T1-1-7.

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

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION  
NATIONAL ASSOCIATION OF PRESORT MAILERS

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Date: July 3, 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

July 3, 2000

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

**VP-CW/ABA&NAPM-T1-1.** Please refer to your testimony at page 51, where you compare Postal Service witness Daniel's unit cost data (by weight) between First-Class Presort and Standard A Regular for the range 0-3 ounces. You observe that, in the 0-1 ounce category, the costs incurred by Standard A Regular are 2.6 cents greater, and that any value of service difference between First-Class Mail and Standard A Mail such as premium pay and priority delivery factors should have been revealed in this analysis.

- a. Please confirm that, according to witness Daniel's calculations, Standard A Regular is the subclass of Standard A Mail with the highest unit costs for the weight range 0-3 ounces. If you do not confirm, please explain.
- b. Please confirm that, according to witness Daniel's calculations, First-Class Presort is the rate category of First-Class Mail with the lowest unit costs for the weight range 0-3 ounces. If you do not confirm, please explain.
- c. Please provide a comparison of unit cost data (by weight) between First-Class Presort and Standard A ECR for the range 0-3 ounces. Which mail product has lower unit costs? If the answer is ECR, please state the reasons for the difference in cost incurrence.
- d. Why in your testimony did you only choose to compare the subclass of Standard A Mail with the highest identified unit costs to the First-Class rate with the lowest identified unit costs for the weight range investigated?

### RESPONSE:

- a. Any analysis of Standard A non-profit subclass extra ounce data was entirely beyond the scope of my testimony. I can confirm that over the 0-3 ounce range, the unit costs for Standard A commercial Regular are higher than for Standard A commercial ECR.
- b. Confirmed.
- c. and d. It is unclear from your question whether you are referring to all shapes or letter data, and whether you are asking for my own calculations or a simple regurgitation of witness Daniel's data, which is already on the record. For letters, please see Figure 8 on page 53 of my testimony, and the Attachment herein for the exact numbers. Doing my own cost study would be beyond the scope of my testimony. For certain unit cost comparison

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

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- a. Please confirm that, according to witness Daniel's calculations, Standard A Regular is the subclass of Standard A Mail with the highest unit costs for the weight range 0-3 ounces. If you do not confirm, please explain.
- b. Please confirm that, according to witness Daniel's calculations, First-Class Presort is the rate category of First-Class Mail with the lowest unit costs for the weight range 0-3 ounces. If you do not confirm, please explain.
- c. Please provide a comparison of unit cost data (by weight) between First-Class Presort and Standard A ECR for the range 0-3 ounces. Which mail product has lower unit costs? If the answer is ECR, please state the reasons for the difference in cost incurrence.
- d. Why in your testimony did you only choose to compare the subclass of Standard A Mail with the highest identified unit costs to the First-Class rate with the lowest identified unit costs for the weight range investigated?

### RESPONSE:

- a. Any analysis of Standard A non-profit subclass extra ounce data was entirely beyond the scope of my testimony. I can confirm that over the 0-3 ounce range, the unit costs for Standard A commercial Regular are higher than for Standard A commercial ECR.
- b. Confirmed.
- c. and d. It is unclear from your question whether you are referring to all shapes or letter data, and whether you are asking for my own calculations or a simple regurgitation of witness Daniel's data, which is already on the record. For letters, please see Figure 8 on page 53 of my testimony, and the Attachment herein for the exact numbers. Doing my own cost study would be beyond the scope of my testimony. For certain unit cost comparison

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

purposes with First Class automation rate categories, I have always viewed Standard A commercial Regular letter mail as being the best benchmark, especially since reclassification. This goes beyond the issue of unit costs by weight increment, but includes it. Explaining the difference in unit costs between Standard A commercial ECR and First Class presort by light weight increment is beyond the scope of my testimony.

**Total Unit Cost by Ounce Increment (\$)**

Weight Increment	<b>All Shape</b>			<b>Letters</b>		
	0-1	1-2	2-3	0-1	1-2	2-3
FC Single Piece	0.202	0.425	0.518	0.196	0.327	0.474
FC Presort	0.100	0.277	0.343	0.098	0.250	0.383
Standard A Regular	0.126	0.165	0.181	0.107	0.111	0.146
Standard A ECR	0.064	0.072	0.065	0.061	0.082	0.100

Sources: USPS LR-I-91 (revised 3/1/00) and USPS LR-I-92

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

**VP-CW/ABA&NAPM-T1-2.** Please refer to your testimony at page 52, where you advise the Commission to use the Standard A Regular data presented by witness Daniel to develop the First-Class extra-ounce rate.

- a. Do' you make this recommendation because you do not believe the value of service differences (between First-Class Mail and Standard A Mail) identified by witness Daniel, such as premium pay and priority delivery factors, exist, or because you do not believe they should be acknowledged in the formulation of First-Class rates? Please explain fully.
- b. Do you have more confidence in the credibility of witness Daniel's analysis of Standard A Regular than First-Class presort? Explain any affirmative answer.

### **RESPONSE:**

- a. I make my recommendation based on a variety of considerations, not simply the Standard A commercial Regular letter extra ounce costs. In particular, see Table Eleven, and the discussion of this at page 51, lines 9-15. The resemblance of Standard A commercial Regular letter extra ounce marginal costs in this case to the data for First Class presort I presented in R97-1 is in the main the credibility I attach to the former for use in this case as one basis for setting extra ounce rates and the heavy weight discount for First Class presort. For a 0-1 ounce letter, wherein reside almost all the IOCS tallies, the unit costs for First Class presort letters are below those of Standard A commercial Regular, 9.8 cents versus 10.7 cents. At face value, this would indicate to me Standard A commercial Regular letters of one ounce or less are

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

receiving more USPS effort, a higher value of service, than are First Class presort letters in the same weight range.

- b. Yes, based on the coefficients of determination provided by witness Daniel, reproduced in Table Nine on page 49 of my testimony, but with the following caveat. Many witnesses have challenged the reliability of witness Daniel's data for mail other than First Class presort, but I have not examined these, whether for Standard A commercial subclasses or other subclasses.



## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

**VP-CW/ABA&NAPM-T1-3.** Please refer to your testimony at page 58, where you opine that a stated goal of the Commission in recent cases has been to keep First-Class Mail's cost coverage close to the average for all mail.

- a. Please provide a citation to the *Opinion & Recommended Decision* in Docket No. R97-1 where this goal is expressed by the Commission.
- b. Has the Commission identified in either of the past two omnibus rate cases any subclasses which it stated should always have a cost coverage above that of First-Class Mail? If so, please provide the citations to the relevant portions of each *Opinion & Recommended Decision*.
- c. Express Mail once had a cost coverage that was far higher than First-Class Mail. Now Express Mail contributes very little to institutional costs. Do you see any long-term danger to First-Class mailers of harming other competitive postal products so that First-Class monopoly mail is the only class left making significant contributions to institutional costs? Please explain your answer fully.
- d. Preliminary RPW data (drawn from the same resource which you cite for Table 12) for the first two quarters of FY 2000 show that both volume and revenue for Automation Presort letters and flats are increasing (compared to SPLY), while volume and revenue for Standard A ECR are decreasing. All of the Postal Service's proposed increases to automation letters and flats (except 3-digit flats) are below the average proposed increase to ECR (some categories of which face double-digit increases under the Postal Service's proposed rates). Please state whether or not you have any reluctance to impose new noncost-based burdens on one subclass that is already losing volume and revenue to benefit another rate category with healthy rates of growth, and explain fully.

### RESPONSE:

- a. See my response to VP-CW/ABA&NAPM-T1-7.b. In its R97-1 Q&RD, as you quote it in that interrogatory, the Commission goes back to its R94-1 Q&RD. However, that Q&RD appears to me to make the R90-1 Q&RD the benchmark insofar as explicitly stated cost coverage goals for First Class for normal rate cases is concerned.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

- b. First Class Mail is not a subclass, so I doubt whether the Commission would have made such a comparison of subclass(es) to a class, but I am not aware of any such statement by the Commission. As indicated above in my response to a. and also later 7.b., all roads seem to lead back to the cost coverage goals set forth in the Commission's R90-1 O&RD.
- c. If by "other competitive postal products", you mean Standard A commercial mail, and if I understand your question correctly, the answer is that redressing inequitable cost coverages between First Class and Standard A commercial is not going to hurt First Class mailers insofar as contribution levels are concerned, because Standard A commercial mail is price inelastic.
- d. I do not agree with the premise of your question that in Section XIII. of my testimony I am imposing "noncost-based burdens" on Standard A commercial mail, as is clear from the gross misallocation of institutional delivery costs evident from Table Fourteen. Second, two quarters of RPW data is not a basis for inferring what should or should not be done about rates in this case, especially since the source of the volume trends has not been analyzed and may have nothing to do with rate structures. Finally, higher percentage rate increases from an artificially low rate base do not close any discriminatory rate and cost coverage gaps with lower percentage rate increases for artificially high rate base products.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

**VP-CW/ABA&NAPM-T1-4.** Please refer to your testimony at pages 58-59, where you compare the annual markup and cost coverage for First-Class Presort and Standard A Regular.

- a. In applying the statutory noncost criteria, do you see differences between an expedited, prioritized rate category and a ground transportation subclass (ECR) that has the lowest service standard among postal products (see Postal Service Request, Rule 54(n)) which would support a lower coverage for ECR?
- b. Are you asserting again in this docket that Standard A Mail is cross-subsidized by First-Class Mail? Please explain your answer.
- c. Do you believe the implicit cost coverage for First-Class Presort (which is not a subclass) should be compared to the expressly set cost coverage of other (non First-Class) postal products exactly as though First-Class Presort were a subclass?
- d. In its *Opinion & Recommended Decision* in Docket No. R97-1, the Commission stated that it “has never compared intrinsic cost coverages of rate cells within different subclasses.” (¶ 5554)
  - (i) Do you believe the Commission’s observation was wrong?
  - (ii) Do you believe the Commission’s policy is wrong?
- e. Which subclass has a higher cost coverage under the Postal Service’s proposed rates, First-Class letters and sealed parcels, or Standard A ECR?
- f. Please define “First-Class Presort” and “First-Class workshared” as used in your testimony, and explain any distinctions you intend between “presort” and “workshared.”
- g. What did you mean when you said that “First-Class workshared” is supposed to be part of a single First-Class letters subclass at page 60 of your testimony? Do you mean that there is some manner in which this rate category is not part of the First-Class letters and sealed parcels subclass?
- h. In Table 12, you present three columns of First-Class Mail data - Total, Single-Piece, and Presort.
  - (i) Does Total refer to all First-Class Mail, or rather all mail in the sealed letters and parcels subclass?
  - (ii) What categories make up Presort as used in your testimony?
- i. In Table 12, does Total under Standard A Mail include data from the Standard A Mail single-piece and nonprofit subclasses?

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

### RESPONSE to VP-CW/ABA&NAPM-T1-4:

- a. It is not clear from the question what your reference point is insofar as “a lower cost coverage for ECR” is concerned. Lower than what? My proposals keep the cost coverage for ECR within its recent range. If your question means a lower cost coverage than for First Class Mail, I do not see that ECR’s alleged lower value of service warrants a lower cost coverage. In many industries, prices are set so that those purchasing the entire bundle of services receive better prices than those purchasing only one service.
- b. This is a difficult question because the source of the subsidy, the allocation of unit delivery costs, falls outside of the strict definition of cross subsidy based on incremental cost calculations as the USPS calculates those. Clearly, far more delivery costs could be attributed than is now done under existing procedures. Were that to be done in any objective way, the comparison with the current allocation of unit delivery costs after allowing for the likelihood that not all costs could be attributed, would reveal that the current structure leads to a cross subsidy of Standard A commercial mail delivery costs by First Class Mail.
- c. Please see my answer to MOAA/ABA&NAPM-T1-11 and 12 including the table with an explicit comparison of subclasses. Also see the errata filed on June 23<sup>rd</sup>, which correct some numbers in testimony text Table Twelve. However one does the

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

comparisons, my conclusions about discrimination or unfairness and my proposed remedies remain the same.

- d. At the most fundamental level for an economist, the Postal Rate Commission sets individual prices for individual products in individual markets. By its very act of setting cost coverages by subclass, it is making implicit comparisons by rate cells both across subclasses and within a subclass. The fact that this is done formally at an aggregated level rather than being built up rate by individual rate does not mean that in practice staff do not “think” rate category by rate category. To some degree they have to, as they inherit from the Commission’s past decisions, a history of rates at the most fundamental level, and not regulatory constructs such as subclasses and cost coverages.
- e. The latter. However, this is not and never has been a meaningful comparison from the standpoint of economic analysis and what any market analysis would call “comparables” for an arm’s length analysis of similar transactions.
- f. “First-Class Presort” and “First-Class workshared” are synonymous as I use the terms. The CRA still refers to prebarcoded mail as presort, and worksharing entails either prebarcoding and/or presorting along with necessary support functions insofar as First Class mail is concerned.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

- g. No, it is part of the same subclass. However, within the context of the paragraph (lines 7-13) on page 60, I am stating that “First-Class workshared” is singled out in an arbitrary and punitive way relative to single piece in this case. There is no cost justification for raising the rates of First Class workshared mail by a full penny as is being done for single piece mail, and there is no justification for setting rates within this subclass that lower the cost coverage for single piece while increasing it for workshared.
- h.
  - (i) All First-Class Mail is the CRA definition of “Total First Class Mail”, letters, cards, flats, IPPs, and fees.
  - (ii) Presort includes CRA definitions “Non-Automation Presort”, “Automation Presort”, and “Automation Carrier-Route Presort”, and consists of letters, flats and IPPs.
- i. Total Standard A mail in table 12 refers to the CRA definition of “Total Standard Mail (A) under current classification, or its counterparts pre-reclassification. It includes single piece and non-profit subclasses.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

**VP-CW/ABA&NAPM-T1-5.** Please refer to your testimony at page 61, where you speak of First-Class Mail paying nearly twice the amount per piece in institutional delivery costs as Standard A Commercial mailpieces, while First-Class workshared mail pays 2.3 times as much.

- a. You noted on page 51 of your testimony that witness Daniel had referred to the value of service differences between First-Class Mail and Standard A Mail, reflected in such attributable cost factors as premium pay and priority delivery. Do you disagree that such value of service differences of this sort help explain why First-Class should make a higher per-piece contribution to institutional delivery costs than lower value mailpieces?
- b. Is it not true that, under Postal Service service standards, delivery of Standard A Mail can be and is deferred, while First-Class cannot? Should this fact have a bearing on the two classes' respective per-piece contributions to institutional delivery costs?

### RESPONSE:

- a. Yes, I disagree, especially to the degree that now exists. Once a carrier has the mail in his possession in the automated environment, in which in - office costs have dropped dramatically, I see absolutely no difference in the value of service between First Class and Standard A mail.
- b. I confirm that it can be deferred but I cannot confirm any frequency with which it is deferred. It is my understanding that the windows for scheduling delivery of Standard A mail are set well in advance at times that are mutually convenient for the USPS and such mailers, and that minimize the chance of deferrals. For that reason, I do not think value of service differences in this regard actually show up much in actuality. My own current carrier views Standard A mail as his bread and butter, his main reason for having a job. Furthermore, I think value of service differences should be reflected first in attributable cost differences, second in institutional cost differences reflecting

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

differences in attributable costs (i. e. identical mark-ups from different bases), and only lastly in different cost coverage ratios.



## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

**VP-CW/ABA&NAPM-T1-6.** Please refer to your testimony at page 62, Table 14, where you present a difference between “Allocated” institutional delivery costs and “Fully Allocated” institutional delivery costs. Do you propose that the Commission recommend rates based upon your “Full Allocation” of institutional delivery costs? If so, where do you discuss this in your testimony? If not, why did you include it in your testimony?

### **RESPONSE:**

All of the proposals in my testimony are cost justified, and I can support them without any reference to Table 14 or the Section XIII. discussion surrounding it. However, my proposals are not revenue neutral on the Postal Service’s terms of definition, and must be funded. The issues of equity, discrimination and unfairness in rate setting and cost coverage exposure as between First Class Mail and Standard A commercial mail which I raise in Section XIII. of my testimony are the reasons I believe that Standard A mail should have higher cost coverages than at present. These higher cost coverages would offset any and all proposals I make, and would fall well within the range of recent cost coverages for such mail. The proposals would begin to address the full allocation of institutional delivery costs discussed in Section XIII, but they would not come close to fully offsetting the inequities apparent from Table Fourteen. I am not proposing a “Chown metric” of separate cost coverages by postal service, but proposing to address the issue she raised, which the Commission understands and acknowledged in its O&RD in R97-1, by reducing the overall cost coverage for First Class Mail and increasing it for Standard A commercial regular mail.

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

**VP-CW/ABA&NAPM-T1-7.** Please refer to your testimony at page 63, where you set out an additional uniform 0.645 cent increase in rates/decrease in discounts for each rate category of Standard A Regular and ECR (although you state that this is not a formal rate recommendation).

- a. Please confirm that the TYAR markup index for the First-Class letters and sealed parcels subclass is 1.17, while the TYAR markup index for Standard A Commercial is 0.91 (Exhibit USPS-32B, page 1, as revised 4/21/00). If you do not confirm, please provide the correct figures and the supporting calculations.
- b. In its *Opinion & Recommended Decision* in Docket No. R97-1, the Commission stated:

The Commission likewise rejects interveners' arguments that First-Class pays a disproportionate share of institutional cost compared to Standard A. In R94-1, the Commission recommended rates which produced a markup index of 1.3 11 for First-Class letters and 0.897 for Standard A commercial mail (prior to reclassification). PRC Op. R94-1, para. 5287. The recommended rates in the instant proceeding produce a slightly reduced markup index of 1.308 for First-Class letters and an increased markup index of 0.949 for the combined ECR and Regular subclasses, which narrows the gap between the classes' respective cost coverages. [Para. 5555]

Please confirm that the Postal Service's proposed rates in this docket would result in a more aggressive narrowing of the "gap" between the markups for First-Class letters and Standard A Commercial than resulted from the rates recommended in Docket No. R97-1. If you do not confirm, please explain your answer.

### RESPONSE:

- a. Confirmed.
- b. In my opinion, the R97-1 Q&RD paragraph which you refer to above reflects a somewhat inconsistent rationale for the decision rendered in that case insofar as it references the R94-1 decision. In particular it takes the R94-1 decision out of context. The context, found at para. 4022 in its R94-1 Q&RD, is that the Commission stated

## RESPONSE OF ABA&NAPM WITNESS CLIFTON TO VP-CW INTERROGATORIES

“If this were a more typical rate case, the Commission would be inclined to select its pricing targets primarily for consistency with the inter-subclass relationships recommended in Docket No. R90-1 ....” In its R97-1 Q&RD, the Commission does not explain why it is not referencing those R90-1 goals, does not indicate that R97-1 is a non-typical rate case, and I therefore use the R90-1 discussion as my benchmark for these issues, as indicated in my discussion at page 60, lines 1-5. I can confirm that my proposals in Section XIII. narrow the gap by more than what the Commission recommended in its R97-1 Q&RD. However, they are not “aggressive” in that they simply restore relative cost coverages to ranges that have existed in recent years and that are consistent with what the Commission set forth far more explicitly about relative cost coverage goals in its R90-1 Q&RD than in any subsequent Q&RD.

## 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: 07-03-00