

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS FRONK  
TO INTERROGATORIES OF NASHUA, DISTRICT, MYSTIC & SEATTLE  
(NDMS/USPS-T32-1, 2a-d, 3 - 7, 12 - 14)**

The United States Postal Service hereby files the responses of David Fronk to the following interrogatories of Nashua, District, Mystic & Seattle, dated August 1, 1997: NDMS/USPS-T32-1, 2a-d, 3 - 7, 12 - 14.

The interrogatories are stated verbatim and are followed by the responses.

Interrogatories T32-2e, T32-8 through T32-11, and T32-15 have been redirected to the Postal Service for response.

An objection to NDMS/USPS-T32-16 has been filed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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August 18, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF NASHUA PHOTO INC., DISTRICT PHOTO INC.,  
MYSTIC COLOR LAB, AND SEATTLE FILMWORKS, INC. (NDMS)

NDMS/USPS-T32-1. Please refer to your testimony at p. 24, where you refer to LR-H-112.

- a. Did you prepare, or participate in any way in the preparation of, LR-H-112.
- b. Unless your answer to preceding part (a) is an unqualified negative, please describe your role with respect to preparation and conduct of the study contained in LR-H-112.
- c. With respect to LR-H-112, are you sponsoring that study?
- d. Please indicate whether any other witness in this docket is sponsoring LR-H-112.

RESPONSE:

- (a) No.
- (b) Not applicable.
- (c) No.
- (d) I am unaware of any other witness who is sponsoring LR-H-112.

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NDMS/USPS-T32-2. LR-H-112 states that "we now have Test Year Unit Cost data by shape information available from Library Reference H-106 and have used it." pp.1-2.

- a. Did you prepare, or participate in any way in the preparation of, LR-H-106?
- b. Unless your answer to preceding part (a) is an unqualified negative, please describe your role with respect to LR-H-106.
- c. With respect to LR-H-106, are you sponsoring that study in this docket?
- d. Please indicate whether any other witness in this docket is sponsoring LR-H-106.
- e. LR-H-106 is an extensive document containing a large number of tables. Please provide specific references and cross references to all data in LR-H-106 that were used as input to the study in LR-H-112, *i.e.*, cite the specific places in LR-H-112 where reliance is made on input from LR-H-106, and provide specific citations to the tables and data in LR-H-106.

RESPONSE:

- (a) No.
- (b) Not applicable.
- (c) No.
- (d) I am unaware of any other witness who is sponsoring LR-H-106.
- (e) Redirected to the Postal Service for response.

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NDMS/USPS-T32-3. Would you agree that the nonstandard surcharge for First-Class Mail that you propose at page 24 of your testimony is a surcharge for shape-related cost differences? Please explain fully any disagreement.

RESPONSE:

Section C100.4.0 of the Domestic Mail Manual defines Nonstandard First-Class Mail as follows:

Except for Priority Mail, any piece of First-Class Mail weighing 1 ounce or less and not claimed at a card rate is nonstandard and subject to the applicable surcharge if its thickness exceeds  $\frac{1}{4}$  inch or, if based on the placement (orientation) of the address, its length exceeds 11-1/2 inches, its height exceeds 6-1/8 inches, or its aspect ratio (length divided by height) is less than 1.3 or more than 2.5.

This description of nonstandard clearly involves size and shape. The surcharge I proposed is meant to recover the mail processing cost differences between nonstandard pieces, as defined above, and standard single-piece and presorted First-Class Mail.

At the same time, I would not agree that this surcharge is simply for "shape-related cost differences" in the sense that the term may be used by others. For example, witness Moeller proposes a Residual Shape Surcharge which would apply to Standard (A) pieces that are not letter or flat shaped. In that sense, "shape-related" refers to letters versus flats versus other pieces. Many of the pieces that are subject to the First-Class Mail nonstandard surcharge are letters whose aspect ratio is less than 1.3 or more than 2.5. These nonstandard letters are still letter-shaped, as opposed to flat-shaped, for example.

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NDMS/USPS-T32-4.

- a. For nonpresort and presort mail, the nonstandard surcharges that you propose (16 and 11 cents, respectively) represent what percentage passthrough of the shape-related cost differences?
- b. Please explain fully your rationale for each passthrough of shape-related cost differences that you are recommending.

RESPONSE:

(a) The proposed surcharges were developed to passthrough 100 percent of the additional mail processing costs associated with nonstandard mail. As indicated in the Library Reference H-112 (as originally filed), the cost difference for nonstandard pieces is 15.08 cents for single-piece and 10.78 cents for presort. Because the nonstandard surcharge is a whole-cent rate, these costs were rounded up to the next cent to insure recovery of these cost differences. These cost differences are limited to mail processing costs and did not include carrier cost differences associated with nonstandard pieces.

As indicated in the Postal Service's response to NDMS/USPS-T32-10, LR-H-112 does not explicitly control for the effect of pieces heavier than one ounce. At the time of my proposal, I assumed that the cost differences of 15.08 and 10.78 cents applied to one-ounce pieces. I am unsure of how completely controlling for the effect of heavier weight pieces would affect these cost differences, and what effect the inclusion of delivery-related costs would have.

(b) The rationale for the single-piece and presort passthrough was the same: I passed through 100 percent of the identifiable cost difference between nonstandard and standard pieces. By passing through additional costs associated with nonstandard pieces, I can send the appropriate signal to mailers and encourage the use of standard, automation-compatible pieces.

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NDMS/USPS-T32-5. Either before or at the time you decided on what percentage passthrough to recommend for shape-related cost differences in First-Class Mail, did you consult with witness Moeller to see what passthroughs he was recommending for shape-related cost differences in the Standard A Subclass? Was there any effort to rationalize the shape-related cost passthroughs?

RESPONSE:

I did not consult with witness Moeller about percentage passthroughs of shape-related cost differences. Each witness faces a number of considerations in choosing passthroughs; there was no specific attempt to "straight-jacket" a single shape-related cost passthrough.

In general, I work to develop pricing proposals that align prices with costs and meet the statutory pricing criteria. As the Commission stated in its Opinion and Recommended Decision in Docket No. R90-1 (at paragraph 5034), "Historically the [nonstandard] surcharge has been imposed to recover the added cost of processing nonstandard pieces." Also, see response to NDMS/USPS-T32-6.

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NDMS/USPS-T32-6.

- a. In your opinion, should the percentage passthrough for shape-related cost differences be identical, or at least similar, for First-Class Mail and Standard A subclass?
- b. Regardless of whether your answer to part (a) is affirmative or negative, please explain all factors, considerations or principles that you think should be considered when deciding what percent passthrough is appropriate to recommend for shape-related cost differences.

RESPONSE:

(a) This percentage passthrough should not necessarily be identical or similar. Each witness must balance a number of considerations in selecting passthroughs.

(b) The factors, considerations, or principles I think should guide the recommendation of a passthrough for shape-related cost differences are set forth in Section 3622(b) of title 39, United States Code. Section 3622(b) describes the pricing criteria that need to be followed when setting postal rates and fees. The recommended passthrough of cost differences depends on a balancing of the various pricing criteria set forth in Section 3622(b). There is no hard-and-fast rule.

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NDMS/USPS-T32-7. Please confirm that the nonstandard surcharge which you recommend at page 24 of your testimony applies only to pieces that weigh one ounce or less and fail to meet the size limits specified at page 1 of LR-H-112. Explain fully any nonconfirmation.

RESPONSE: My proposed nonstandard surcharges apply to nonstandard pieces as defined in Section C100.4.0 of the Domestic Mail Manual. Section C100.4.0 is correctly paraphrased at page 1 of LR-H-112.



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NDMS/USPS-T32-12. Aside from the results shown in LR-H-112, to which you refer in your testimony, please cite all other evidence on which you rely that shows the additional cost of processing First-Class Mail that weighs one ounce or less and exceeds the size requirements.

RESPONSE: I had no other quantitative evidence. However, I am aware of discussions of various operations personnel about the relative difficulty of handling large or otherwise cumbersome light-weight pieces.

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NDMS/USPS-T32-13. In Base Year 1996, what was the total volume of First-Class single piece and nonautomated presort nonstandard pieces that were subject to the surcharge.

RESPONSE: In Base Year 1996, 325.6 million pieces, or 0.6 percent, of First-Class single-piece letters were subject to the nonstandard surcharge. 49.6 million pieces, or 0.1 percent, of presorted letters were subject to the surcharge. (In 1996, because reclassification changes were not implemented until July 1, 1996, I am unable to separate nonautomated presort and automated presort nonstandard pieces.) Also, 8.0 million pieces, or 0.3 percent, of carrier route letters were subject to the surcharge. In sum, 383.2 million pieces, or 0.4 percent, of First-Class letters were subject to the surcharge.

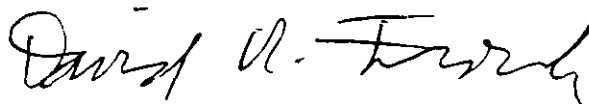
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NDMS/USPS-T32-14. Please cite all studies (i) relied on, and/or referenced by Postal Service direct testimony in this docket, and (ii) conducted or updated since 1990, that show the effect of weight on the cost of processing First-Class Mail.

RESPONSE: None.

**DECLARATION**

I, David R. Fronk, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

A handwritten signature in cursive that reads "David R. Fronk". The signature is written in dark ink and is positioned above a horizontal line.

David R. Fronk

8-15-97

Date

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1145  
August 18, 1997