

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

RECEIVED  
AUG 27 4 42 PM '97  
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 MAJOR MAILERS ASSOCIATION  
(MMA/USPS-T32-3 - 10, 13 - 15a, 16, 18 - 24a AND 26)**

The United States Postal Service hereby files the responses of witness Fronk to the following interrogatories of Major Mailers Association, dated August 13, 1997:

MMA/USPS-T32-3 through 10, 13 through 15a, 16, 18 through 24a and 26.

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

An objection to MMA/USPS-T32-15(b) was filed on August 25, 1997.

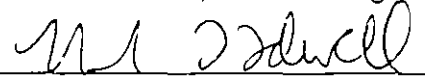
MMA/USPS-T32-1, T32-2, T32-11, T32-12, T32-17, T32-24b and T32-25 have been redirected to the Postal Service for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202)268-2998/FAX: -5402  
August 27, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-3.

(A) Please confirm that the Service's proposed rates would result in the following postage prices for First-Class Automation letters that are presorted to five digits and for single-piece letters:

**First-Class Automation  
5-Digit Letter: By Weight**

**Rate  
(Cents)**

|                    |      |
|--------------------|------|
| 0.1 oz. to 1.0 oz. | 24.9 |
| 1.1 oz. to 2.0 oz. | 47.9 |
| 2.1 oz. to 3.0 oz. | 70.9 |

**First-Class Single-  
Piece Letter: By Weight**

**Rate  
(Cents)**

|                    |      |
|--------------------|------|
| 0.1 oz. to 1.0 oz. | 33.0 |
| 1.1 oz. to 2.0 oz. | 56.0 |
| 2.1 oz. to 3.0 oz. | 79.0 |

(B) If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

- (a) Confirmed.
- (b) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-4. In your testimony (USPS-T-32), you state that "[t]he Postal Service proposes maintaining the additional-ounce rate at 23 cents for both single-piece and presorted mail...." (page 23). You also refer to "the proposal to maintain this rate at its current level...." *Id.*

(A) By these statements, did you mean to say that First-Class mailers will *not* pay higher-than-current rates for each additional ounce of presort letters weighing more than two ounces?

(B) Isn't it true that, under the Postal Service's proposal, First-Class mailers will pay higher-than-current rates for each additional ounce of presort letters weighing more than two ounces?

(C) Please confirm the current and proposed rates for First-Class 5-digit Automation letters:

| <b>First-Class Automation<br/>5-Digit Letter: By Weight</b> | <b>Increase<br/>In Rate<br/>(Cents)</b> | <b>Current<br/>Rate<br/>(Cents)</b> | <b>Proposed<br/>Rate<br/>(Cents)</b> |
|-------------------------------------------------------------|-----------------------------------------|-------------------------------------|--------------------------------------|
| One Ounce                                                   | 1.1                                     | 23.8                                | 24.9                                 |
| Two Ounces                                                  | 1.1                                     | 46.8                                | 47.9                                 |
| Three Ounces                                                | 5.7                                     | 65.2                                | 70.9                                 |

(D) If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

(a) These statements mean that the Postal Service has proposed maintaining the additional-ounce rate of 23 cents at its current level. As I state one page later in my testimony (page 24, lines 14-16), the Postal Service also proposes the elimination of the heavy-piece discount of 4.6 cents which currently applies to presort mail weighing more than 2 ounces.

I would note that the heavy piece discount was implemented in 1988 as a result of Docket No. R87-1. The discount was specifically targeted at flats, which incurred additional presort cost due to size and weight (see Docket No. R90-1 Opinion and Recommended Decision, paragraph 5050 at page V-13). Since this discount was

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

RESPONSE to MMA/USPS-T32-4 (continued)

instituted approximately 10 years ago, three things have happened which affect the original rationale for the discount.

First, barcodes were in their infancy in 1987. Since then, the increasingly widespread use of barcodes has reduced the value of presorting alone. Second, while the discount may have been originally targeted at flats, it appears that a significant percentage of the pieces qualifying for the discount are now letters. Using data for Postal Quarters I and II of FY 1997 (from USPS-T-32, Workpaper II, page 3 of 9), about half of the automated presorted mail pieces eligible for the discount were letters. Third, the difference between the first-ounce rate and the additional-ounce rate has increased significantly since Docket No. R87-1, reducing the relative price for heavy pieces and making a special discount less necessary. In 1988 the difference was 5 cents. At present, the difference is 9 cents, and the Postal Service is proposing to increase the difference to 10 cents (twice the amount of the 1988 difference).

(b) The elimination of the heavy piece discount increases the rate for each piece weighing more than 2 ounces by 4.6 cents (the current amount of the discount). *Technically, however, the statement in the question is not correct since heavy pieces pay a first-ounce rate that is 4.6 cents lower. Each additional ounce then pays a uniform rate of 23 cents. Thus, the elimination of the discount only raises the rate for the first-ounce, not each additional ounce.*

(c) Confirmed.

(d) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-5. In Docket No. MC95-1, USPS Witness O'Hara was asked: "Do you believe that the current level of additional ounce rates is in line with the Postal Service's costs of handling letters weighing:

"(1) more than one ounce but not more than two ounces

"(2) more than two ounces but not more than three ounces

"(3) more than two ounces but not more than two-and-one-half ounces

"(4) up to two-and-one-half ounces

"(5) up to three ounces"

and he answered: "I know of no data that would allow me to form a considered opinion about costs in these weight intervals." (See R95-1 Tr. 10:3654-55; Interrogatory MMA/USPS-T17-18.) Do you know of any data that would allow a considered opinion about processing costs in those weight intervals?

RESPONSE:

I know of no data that would allow a considered opinion about processing costs in those weight intervals.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-6. In Docket No. MC95-1, USPS Witness O'Hara was asked to supply any data that supported an opinion about the Postal Service's processing costs of handling letters weighing:

- (1) more than one ounce but not more than two ounces
- (2) more than two ounces but not more than three ounces
- (3) more than two ounces but not more than two-and-one-half ounces
- (4) up to two-and-one-half ounces
- (5) up to three ounces"

and he answered that: "the requested cost data are not available...." (See R95-1 Tr. 10:3654-55; Interrogatory MMA/USPS-T17-18.)

(A) As far as you know (and can determine without unreasonable burden), is there any available data showing the Postal Service's costs for letters in those weight intervals?

(B) If you know of any such data, please supply copies of the documents providing such data.

RESPONSE:

(a) Data which would support an opinion about the Postal Service's costs of handling such letters are not available.

(b) Not applicable.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-7.

(A) Please confirm that in Docket No. R94-1 (Tr. 7A/3021):

(1) Postal Service Witness Foster affirmed that:

In Docket No. R90-1: (i) Witness Callies cited an official definition of "automation-compatible mail" as letter-sized mail that "weigh[s] no more than 2½ ounces" (Exh. USPS-T14-C, p. 5); (ii) Witness Lyons stated that the "automation equipment will be able to handle pieces weighing up to 2.5 ounces." (Tr. 9/3946. See also Tr. 9/3947, 3944-45, 3942.) (iii) Witness Moden defined machineable letter mail as weighing up to 3 ounces (Tr. 11/4845).

(2) When Mr. Foster was asked (id.):

To your knowledge (or as you can determine without unreasonable burden), do the most recent USPS studies continue to show that the automation machinery can handle clean, letter-size mail weighing up to 2.5 ounces? Up to 3 ounces?

Mr. Foster replied:

I know of no studies which support any changes in the maximum letter weight that can be efficiently processed on automated equipment.

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA's representations at Tr. 10: 3656, responding to Interrogatory MMA/USPS-T17-19.)

(B) To your knowledge (and so far as you can determine without unreasonable burden), have there been any developments or new information since Mr. Foster's reply that would change the answers given in Docket No. R94-1 for letter mail weighing up to two ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(C) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers given in Docket No. R94-1 for letter mail weighing up to 2.5 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(D) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers given in Docket No. R94-1 for letter mail weighing up to 2.8 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

RESPONSE To MMA/USPS-T32-7 (Continued)

(a) The records in Docket Nos. R90-1, R94-1, and MC95-1 speak for themselves.

(b)-(d) To my knowledge there have not been any developments or new information that would change Mr. Foster's Docket No. R94-1 answer for these weight steps. I also note that I am confused by the parenthetical reference in parts (b)-(d) of this question to the "1996 study." Which 1996 study is being referenced?

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-8. In Docket No. R87-1, the Commission observed: "Letters up to two ounces for the most part can be processed on the new automation at a cost no higher than a one ounce letter" (Docket No. R87-1 Op., p. 448). In Docket No. R90-1, the Service submitted a study (USPS LR-F-177) which MMA/ABA's witness interpreted as showing that presorted letter's attributable costs are (Tr. 24/10845):

ATTRIBUTABLE COSTS FOR PRESORT MAIL  
Test Year 1989

| <u>Ounce Categories</u> | <u>Average Weight</u><br>(ounces) | <u>Attributable</u><br><u>Cost/Piece</u><br>(\$) |
|-------------------------|-----------------------------------|--------------------------------------------------|
| 0.1-1                   | 0.50                              | 0.095                                            |
| 1-2                     | 1.50                              | 0.118                                            |
| 2-4                     | 2.66                              | 0.141                                            |
| 4-7                     | 5.16                              | 0.414                                            |
| 7-12                    | 8.78                              | 0.634                                            |

(A) Please confirm that, in Docket No. R94-1 (Tr. 7A/3022-23), USPS Witness Foster stated in response to Interrogatory MMA/USPS-T11-16 that:

The Postal Service does not have information which shows costs, by weight increment, for First-Class Mail letters which are presorted, nonpresort prebarcoded, presort prebarcoded, or nonpresort nonbarcoded. A preliminary study was initiated using FY 1992 data to try to obtain volume and unit cost data by weight, shape, and rate category for First-Class Mail. However, the study effort was abandoned after its preliminary results revealed its methodology to be too flawed to produce reliable information.

The Postal Service has not undertaken a successor effort and, therefore, cannot state what data sources or other information can be used to derive the requested costs.

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA's representations at Tr. 10:3658-59 in response to MMA Interrogatory MMA/USPS - T17-20.)

(B) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers regarding costs given in Docket No. R94-1 for letter mail weighing up to two ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-8 (Continued)

MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(C) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers regarding costs given in Docket No. R94-1 for letter mail weighing up to 2.5 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

(D) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Mr. Foster's reply that would change the answers regarding costs given in Docket No. R94-1 for letter mail weighing up to 2.8 ounces. If so, please explain in detail and update Mr. Foster's study and provide copies of any new studies. (The 1996 study referred to in Interrogatory MMA/USPS-T32-10 concerns letter mail weighing in excess of three ounces.)

RESPONSE:

(a) The records in Docket Nos. R87-1, R90-1, R94-1, and MC95-1 speak for themselves.

(b)-(d) To my knowledge there have not been any developments or new information.

As in MMA/USPS-T-32-7, I am uncertain what the "1996 study" referenced is parts (b)-

(d) is.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-9.

(A) Interrogatories MMA/USPS-T11-19(e) and 19(f) in Docket R94-1 asked USPS to provide copies of "any" studies known to underlie the document, "United States Postal Service Three-In-One Pricing Summary," or to concern a common postage rate covering letters up to two and one-half or three ounces, or to show the costs for the "Three-In-One" proposal. USPS' response was to refer to Library Reference G-177 and USPS-LR-G-177, which is entitled, "Three-In-One Pricing--Building New Value Into the Postal System."

(A) Please confirm that, according to the Three-In-One Pricing document:

- 1) "Three-In-One results in practically all First-Class letters (as opposed to flats or parcels) being charged the same rate because 99.9 percent of these letters weigh three ounces or less" (page 6).
- 2) "Price structures that track cost patterns are considered to be fair because they link price signals with resource consumption. Conversely, price structures that deviate from cost patterns are considered to be less fair and equitable because they may encourage uneconomic behavior, or sometimes result in cross-subsidization" (page 7-8).
- 3) "The Competition Services Task Force endorsed increasing the fairness of the First-Class rate structure when it made the following recommendation concerning incremental-ounce rates: 'Incremental ounce cost for First-Class Mail is extremely high compared to the incremental increase in the cost of handling. Other pricing structures should be considered to encourage use and treat cost fairly'" (page 8).
- 4) "In short, Three-In-One recognizes that shape is the dominant cost driver, not weight" (page 8).
- 5) "By eliminating the additional-ounce burden for mail under three ounces and applying the nonstandard surcharge through three ounces, Three-In-One pushes the evolution of this First-Class rate structure an additional step. Three-In-One further decreases the importance of weight and increases the importance of shape" (page 10).

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA's representations at Tr. 10:3661-62 in response to MMA Interrogatory MMA/USPS-T17-22.)

(B) To your knowledge (and so far as you can determine without unreasonable burden) have there been any development or new information which supplements the "Three-In-One Pricing" study? If so, please explain in full detail.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

RESPONSE to MMA/USPS-T32-9

- (a) The Three-in-One Pricing document from Docket No. R94-1 speaks for itself.
- (b) No.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-10. See Interrogatory MMA/USPS-T32-8.

(A) Please confirm that according to the Three-In-One pricing document:

- (1) A "Mail Characteristics Study" ("MCS"), conducted on behalf of the former Technology Resources Department, supplied shape data which, along with cost data by weight increment produced for the Docket No. R90-1 rate case (Library Reference LR-F-177 in that docket), were used in a multiple regression to separately estimate the effects of weight and space (page 19).
- (2) The results of that multiple regression, factored up to Fiscal Year 1992 cost levels, were used to construct a Table 5 showing, as "markups over attributable cost":

| <u>Ounce Interval</u> | <u>Current Markups: Letters</u> |
|-----------------------|---------------------------------|
| 0-1 oz.               | 37%                             |
| 1-2 oz.               | 125%                            |
| 2-3 oz.               | 199%                            |

(See R94-1 Tr. 7A/3041)

(B) To your knowledge (and so far as you can determine without unreasonable burden) have there been any developments or new information since Docket No. R94-1 that supplements the "Three-In-One" study? If so, please explain in detail and update the information in Paragraph (A).

(In Docket No. MC95-1, USPS Witness O'Hara accepted these MMA representations and stated that there had been no new developments as far as he had been able to determine. See MC95-1 Tr. 10:3663, responding to MMA Interrogatory MMA/USPS-T17-22.)

RESPONSE:

(a) The record in Docket No. R94-1 and the Three-In-One pricing document speak for themselves.

(b) As far as I have been able to determine, there have been no new developments or information.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-13. Please refer to Part (A) of Interrogatory MMA/USPS-T32-8.

(A) Please describe the "flawed" methodology of the "preliminary study" which sought to obtain unit cost data by weight (among other things) for First-Class Mail.

(B) Were the "preliminary results" of the study reported in writing?

(C) If the preliminary results of the study were reported in writing, please provide a copy.

RESPONSE:

(a) This question asks me to explain a witness Foster interrogatory response in Docket No. R94-1. I do not know what witness Foster had in mind when he used the term "flawed."

(b)-(c) See Docket No. R94-1, USPS LR G-169.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-14.

(A) Please confirm that the Service's proposed rates would result in the following postage rates for (A) a 1.0 ounce nonstandard single-piece First-Class letter and (B) a 1.1 ounce Automation letter that is presorted to five digits:

|                            | Rate (Cents) | Difference (Cents) |
|----------------------------|--------------|--------------------|
| 1.0-Oz. Nonstandard Letter | 49.0         | +01.1              |
| 1.1-Oz. Automation Letter  | 47.9         |                    |

(B) If you cannot confirm this, please state the correct postage prices for each of the listed letters.

(C) Confirm that *nonstandard letters are charged additional postage because of the higher costs required to process nonstandard letters*. If you cannot confirm, please explain.

(D) If you confirm that nonstandard letters are charged higher postage because of the additional costs required to process nonstandard letters, please explain the Postal Service's reasons for charging higher postage for letters imposing additional costs for processing.

RESPONSE:

(a) Confirmed.

(b) Not applicable.

(c) Confirmed. Also, see my responses to NDMS/USPS-T32-3 and 4.

(d) In general, I work to develop rates and fees that are aligned with costs and that meet the statutory pricing criteria (section 3622(b) of title 39, United States Code). By passing through additional costs associated with nonstandard pieces, I can send an appropriate signal to mailers and encourage the use of standard, automation-compatible pieces.

Also, 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."

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-15.

(A) Under the Postal Service's proposal, what are the coverages for (1) First-Class single-piece letters and (2) worksharing letters, under the Postal Service's new costing methodology?

(B) Under the Postal Service's proposal, what are the coverages for (1) First-Class single-piece letters and (2) worksharing letters, under the Commission-approved costing methodology?

RESPONSE:

(a) These cost coverages appear correctly in your interrogatory MMA/USPS-T32-20(c).

(b) Objection filed.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-16.

(A) Please confirm that the Service's proposed increase in First-Class letter rate is greater for First-Class Automation letters than for First-Class single-piece letters, as shown in the following table:

**Increase In Rates For One Ounce Letters**

| <b>Type of Mail</b> | <b>Increase (Cents)</b> |
|---------------------|-------------------------|
| Single-Piece        | 1.0                     |
| Basic Automation    | 1.4                     |
| 3-Digit Automation  | 1.1                     |
| 5-Digit Automation  | 1.1                     |
| Carrier-Route       | 1.6                     |

**RESPONSE:**

Confirmed. I would note that for administrative ease and to avoid burdening the public, the Postal Service is continuing the practice of proposing the single-piece rate in whole cents. Conceivably, some fractional rate could be developed which would satisfy the revenue requirement, but this would be cumbersome at best. Automation rates, however, are developed to tenths of a cent.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-18. Please refer to the Postal Service's Request in this case, Attachment B at page 7. Footnote 2 indicates that the proposed First-Class rates apply through 11 ounces and that heavier pieces (over 11 ounces but less than 16 ounces) are subject to Priority Mail rates.

(A) Under current rates, does a 12-ounce First-Class piece pay \$2.85 (first ounce charge of 32 cents plus eleven times the additional ounce charge of 23 cents) or the one pound Priority Mail rate of \$3.00? Please explain your answer.

(B) Please confirm that the following tables reflects the unit rates proposed by the Postal Service in this proceeding for First-Class Mail.

| <u>Ounce Increment</u> | <u>Unit Rate</u> |
|------------------------|------------------|
| 1                      | \$.33            |
| 2                      | .56              |
| 3                      | .79              |
| 4                      | 1.02             |
| 5                      | 1.25             |
| 6                      | 1.48             |
| 7                      | 1.71             |
| 8                      | 1.94             |
| 9                      | 2.17             |
| 10                     | 2.40             |
| 11                     | 2.63             |

(C) Under the Postal Service's proposed rates, would a 12 ounce piece be charged \$2.86 (11-ounce charge of \$2.63 plus additional ounce charge of 23 cents) or the proposed one pound Priority Mail rate of \$3.20? Please explain your answer.

(D) Under the Postal Service's proposed rates, would a 13 ounce piece be charged \$3.09 (12-ounce charge of \$2.86 plus additional ounce charge of 23 cents) or the proposed one pound Priority Mail rate of \$3.20? Please explain your answer.

RESPONSE:

(a) Please note that the Priority Mail rate of \$3.00 applies to single-pieces up to two pounds (in a USPS "flat rate" envelope), not one pound. First-Class rates apply through 11 ounces. Under current rates, a 12-ounce piece would pay the Priority Mail rate of \$3.00.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

RESPONSE to MMA/USPS-T32-18 (Continued)

(b) These are the proposed rates for single-piece First-Class Mail.

(c)-(d) Under the proposed rates, a 12-ounce or a 13-ounce piece would pay the proposed Priority Mail rate of \$3.20. Note that this two-pound rate is an average rate that applies to Priority Mail pieces weighing up to two pounds. Thus, an 18-ounce piece, a 24-ounce piece, or 32-ounce piece would also pay \$3.20.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-19. On page 1 of USPS-T-32, you show the proposed percentage increases for First-Class Mail. Please show separately the proposed percentage increase for Single Piece and Presorted First-Class Mail. Please also show the source and derivation of your answer.

RESPONSE:

My testimony presented these proposed percentages at the subclass level. My workpapers (USPS-T-32 Workpaper I, pages 3 and 4) present the proposed increases and the underlying data at the level of detail you request. The proposed average changes from current rates for First-Class Mail, including fee revenue, are as follows:

|              | <u>Letters</u> | <u>Cards</u> |
|--------------|----------------|--------------|
| Single-Piece | 2.5%           | 4.6%         |
| Presort      | 4.5%           | 7.9%         |

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-20. On page 2 of USPS-T-32, you note that the First-Class cost coverage is 199%. You also add that this bears "the same relationship to the system-wide average cost coverage as it did following Docket No. R94-1" (*Id.*, footnote 1). A. a. (A) Please explain your statement and provide computations showing class and systemwide "relationship[s]" in Dockets Nos. R94-1 and R97-1. (B) Please explain your computations provided in response to Paragraph (A). (C) Please confirm that, under the Service's methodology, the cost coverages are 173% for First-Class single-piece mail and 282 % for First-Class presort mail (including Automation and Carrier-Route mail). If you cannot confirm, please provide the correct percentage figures.

RESPONSE:

(a)-(b) Following Docket No. R94-1, the First-Class cost coverage at Commission recommended rates was 173.2% and the system-wide average was 156.8% (Opinion and Recommended Decision in Docket N. R94-1, Appendix G, Schedule 1). Thus, the First-Class coverage was about 10.5% above the system-wide average.

In Docket No. R97-1, the proposed First-Class cost coverage is 199.0% and the proposed system-wide cost coverage is 178.6 (see Exhibit USPS-30B). Thus, the proposed First-Class cost coverage is about 11.4% above the system average. Since the First-Class cost coverage exceeds the system-wide average by about the same percentage in both dockets, the Docket No. R97-1 First-Class cost coverage bears the same relationship to the system-wide average as it did following Docket No. R94-1.

(c) Confirmed. These are the implicit cost coverages for single-piece and presort letters (See Exhibit USPS-30B).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-21. You focused on mail processing and delivery cost aspects of bulk metered mail within nonpresorted letters because, as you state, "these are the costs that will be affected by presorting and pre-barcoding" (USPS-T-32, page 20).

(A) In your statement and your computations, is it your goal to eliminate the effect of all costs associated with mail "cleanliness" when deriving cost savings associated with "presorting" and pre-barcoding"? Please explain any no answer.

(B) Is it true that you did not measure any cost savings which are due to the fact that presorted letters by-pass all mail preparation operations within the Postal Service? Please explain any no answer.

RESPONSE:

(a) I would not characterize my goal in these terms. My focus in developing these discounts was on the costs avoided by successive degrees of presorting or automation compatibility, though I did not blindly follow this approach because the statutory pricing criteria call for a careful consideration of a number of factors. Moreover, the cost savings I derive include a component of "cleanliness." For example, one measure of cleanliness is address quality in the form of accurate, complete addresses. Barcoded mail must meet more rigorous address quality requirements than nonautomated presort mail. This is one reason it is cheaper to process.

(b) Yes, it is my understanding that the bulk metered benchmark I used in setting the discounts for bulk automation letters excludes the cost pool for culling, cancellation, and meter mail preparation costs as shown in LR-H-106, page II-11.

It is correct that presorted mail along with other types of bulk First-Class Mail will bypass culling and facer/canceller operations at the Postal Service and move from bulk mail acceptance directly to piece distribution. The bulk metered benchmark mail, that is, the mail most likely to convert to presorting/barcoding, will also bypass these mail preparation operations. A discount based on these mail preparation costs, which are not likely to be avoided by worksharing, would be too large.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-22. Is it a requirement that in order to qualify for pre-barcode discounts, the following are requirements of eligibility?

- i. All letters must meet certain machineable criteria,
- ii. All letters must be prepared according to strict entry requirements,
- iii. All letters must have addresses that have been checked for accuracy and must be up to date,
- iv. All letters that include a reply envelope must make sure that the reply envelope is machineable and pre-barcode.
- v. All mailings must have a minimum of 500 pieces.
- vi. Any others?

Please explain any no answer.

RESPONSE:

The requirements are spelled out in detail in the Domestic Mail Manual. See sections E140 (eligibility), C810 (automation compatibility), C840 (barcoding), A800 (addressing), A950 (addressing), M810 (preparation and sortation), and P100 (postage and payment methods).

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-23. When designing your additional ounce rates "for simplicity in rate design" (USPS-T-32, page 23), did you take into account the relationship between First-Class heavy pieces and Priority Mail one pound pieces? Please explain.

RESPONSE:

I note that the question lifts the phrase "simplicity of rate design" out of context. In my testimony, this phrase is used in the context of continuing the practice of having a uniform rate of 23 cents for both automated and nonautomated mail (page 23 at lines 14-15).

I am unsure what relationship is being referred to in this question, but as I noted in my responses to MMA/USPS-T32-18, single-piece Priority Mail weighing no more than two pounds will pay a proposed rate of \$3.20. This is an average rate which applies to one-pound or two-pound single-piece Priority Mail. Proposed First-Class Mail rates will apply to pieces weighing 11 ounces or less.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-24. Please examine the unit processing costs and proposed rates in cents for First-Class Mail as shown in the following table.

(A) Please confirm that these figures are correct or, if you cannot confirm them, please provide the correct figures, along with an explanation for your corrections.

|                        | Processing<br><u>Cost</u> | <u>Difference</u> | Proposed<br><u>Rate</u> | <u>Difference</u> | <u>Notes</u>        |
|------------------------|---------------------------|-------------------|-------------------------|-------------------|---------------------|
| Single Piece Letters   | 16.7                      |                   | 33.0                    |                   |                     |
| Bulk Metered Benchmark | 14.7                      |                   | 33.0                    |                   |                     |
| Presort                | 11.3                      | 3.4               | 31.0                    | 2.0               | Diff with benchmark |
| Basic Automation       | 9.0                       | 5.7               | 27.5                    | 5.5               | Diff with benchmark |
| 3-Digit Automation     | 8.2                       | 6.5               | 26.5                    | 6.5               | Diff with benchmark |
| 5-Digit Automation     | 6.6                       | 1.6               | 24.9                    | 1.6               | Diff with 3-digit   |
| Carrier Route          | 6.4                       | 0.2               | 24.6                    | 0.3               | Diff with 5-digit   |

Source: USPS-29C, page 1, corrected based on footnote 5

(B) Please confirm that the unit processing cost shown for single piece letters, 16.7 cents, (1) is an average for all single piece letters, including bulk metered letters, and (2) excludes all mail preparation and acceptance costs. If you cannot confirm, please explain.

RESPONSE:

(a) The numbers in the column entitled "Processing Cost" represent mail processing plus delivery costs. These costs can be found in USPS-29C as indicated. As you indicate in the source footnote, the mail processing plus delivery costs for the bulk metered benchmark reflect revised data that were not available at the time the First-Class Mail rate proposals were developed and approved by the Board of Governors.

The proposed rates are from USPS-T-32 and have been correctly reproduced. The arithmetic to derive the figures in the two columns labeled "Difference" has been correctly performed.

(b) Redirected to the Postal Service for response.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION (MMA)

MMA/USPS-T32-26. On page 24 of USPS-T-32, you discuss the increase in the nonstandard surcharge for First-Class letters weighing up to one ounce.

(A) Confirm that the proposed unit rate for such pieces is 43 cents.

(B) Confirm that the reason for the nonstandard surcharge is to account for the additional costs required to process nonstandard letters since they cannot be processed on machines such as optical character readers and barcode sorters.

(C) What is the projected unit attributable processing cost for nonstandard letters?

Please provide the source for your answer.

(D) Confirm that the projected unit attributable processing cost for an average Automation letter varies between 2.3 and 5.3 cents, depending upon degree of presort, as shown in USPS-29C.

RESPONSE:

(a) Not confirmed. The proposed single-piece rate for a nonstandard piece is 49 cents, as you correctly state in MMA/USPS-T32-14(a).

(b) Confirmed. Also see responses to MMA/USPS-T32-14(c) and (d).

(c) An estimate of the projected unit volume variable cost difference for nonstandard pieces is presented in USPS Library Reference H-112, as revised. These costs are 14.95 cents for single-piece and 10.79 cents for presort.

(d) Not confirmed. The referenced numbers in USPS-29C are projected unit volume variable mail processing costs.

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.

8-27-97

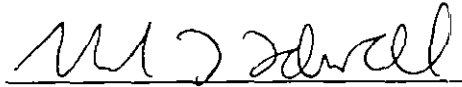
Date

David R. Fronk

David R. Fronk

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.

A handwritten signature in black ink, appearing to read "M T Tidwell", written over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1145  
August 27, 1997