

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-000

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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 AMERICAN BANKERS ASSOCIATION
(ABA/USPS-T32-1 AND 2)**

The United States Postal Service hereby files the responses of witness Fronk to the following interrogatories of American Bankers Association, dated August 15, 1997: ABA/USPS-T32-1 and 2.

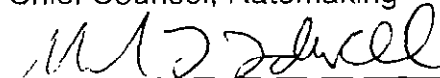
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

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August 29, 1997

RESPONSE OF U.S. POSTAL WITNESS FRONK TO
INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION (ABA)

ABA/USPS-T32-1.

(a) Do you believe that over years immediately preceding a rate case, whether unit costs have fallen, risen, or remained the same for a subclass or rate category is an important criterion in setting rates?

(b) Please confirm that from postal fiscal year 1994 to postal fiscal year 1996, CRA unit costs for First Class workshared letter mail went down 10.9%.

(c) Please confirm that from postal fiscal year 1994 to postal fiscal year 1996, CRA unit costs for First-Class non-workshared mail went up 11.6%.

(d) Please confirm that from postal fiscal year 1994 to postal fiscal year 1996, CRA unit costs for standard class workshared regular and ECR mail went up an average of 6%.

RESPONSE:

(a) Unit cost trends can be difficult to interpret for a number of reasons. For instance, they are sensitive to the base year and the length of the time period selected for study. As an example, a review of five-year trends might produce different results than a review of three-year trends. In addition, they can be influenced by how operational programs in the process of being implemented affect various types of mail over time. For example, an automation program that was now fully implemented would affect the historic trend, yet it would be doubtful that the trend would continue. I believe that the roll-forward model provides a better indicator of the effect of future programs on costs.

Cost trends can also be influenced by changes in mail preparation requirements, and they can be affected by any changes in cost methodology or data collection practices. Finally, reduced costs may already be reflected in lower rates. I note that a number of the First-Class workshare rates went down following implementation of Docket No. MC95-1. For example, the rate for 3-digit letters, the largest category of workshare mail, went from 26.4 cents following Docket No. R94-1 to 25.4 cents following Docket No. MC95-1. My proposal in this proceeding is to increase this rate to 26.5 cents, which is only 0.1 cent above its Docket No. R94-1 level. On the other hand, the proposed first-

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RESPONSE to ABA/USPS-T32-1 (Continued)

ounce rate for single-piece letters, 33 cents, is 1.0 cents above its Docket No. R94-1 level of 32 cents.

(b) Confirmed. Note that "letters" in this context includes flats and parcels.

(c) I can approximate the 11.6%. According to my calculation, the percentage increase is 11.5% (from 23.4 cents to 26.1 cents). Note that "letters" in this context includes flats and parcels.

(d) Over this time period, the average unit costs for Bulk Rate Regular mail went up by this percentage.

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ABA/USPS-T32-2. On page 26 of your testimony, Table 5, you note a "bulk metered benchmark" unit cost of 13.6851.

- (a) Was that benchmark the basis for your rate proposals for First Class automation letter mail?
- (b) Was that benchmark the basis for your claim on page 27 at lines 19 and 20 that your rate proposal for 3 digit automated mail "passes through approximately 118% of the cost differential"?
- (c) Was that benchmark the basis for your claim on page 28, line 2, that for your basic automation rate, you also "passed through 118% of the cost difference" between that mail and the benchmark?
- (d) Using the corrected metered cost bench mark of 14.7274 cents referenced in USPS witness Daniel's testimony at USPS-29C, page 1, footnote 5, which you refer to but do not cite in your Table 5, footnote 5, please calculate the corrected cost differences for each of the automation letter categories you list in your Table 5.
- (e) Please recompute using your revised cost differences from (d) the percentage pass-through of unit cost differences for each of the automation letter rate categories you list in your Table 5.

RESPONSE:

(a)-(c) Yes.

(d) To assist in answering this question, I have reproduced below Table 5 and its footnote (renumbered as 1 here) from my testimony:

**Table 5
Unit Cost Data for Automation Letters**

	Unit Costs* (Cents)	Difference (Cents)	Notes
Bulk Metered Benchmark	13.6851¹	-	
Basic Automation	9.0298	4.6553	difference with benchmark
3-Digit	8.1997	5.4854	difference with benchmark
5-Digit	6.5995	1.6002	difference with 3-digit
Carrier Route	6.4170	0.1825	difference with 5-digit

* Unit costs include mail processing and delivery costs. Source USPS-T-29C.

¹ As indicated in the preceding footnote, very recently the mail processing cost associated with this benchmark was revised. This revision affects the differences for Basic Automation and 3-Digit mail shown in the table. This revised cost was not available at the time the rate proposals for these two rate categories were developed and approved by the Board of Governors.

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RESPONSE to ABA/USPS-T32-2 (Continued)

There are no changes in the table for the 5-digit category or the carrier route category since these cost differences were not calculated using the bulk metered benchmark. Although they are unchanged, I have repeated the 5-digit and carrier route data below for completeness. The corrected benchmark, basic automation, and 3-digit data are as follows. The three numbers that change appear in bolded type:

**Unit Cost Data for Automation Letters
(Corrected for Revised Benchmark)**

	Unit Costs* (Cents)	Difference (Cents)	Notes
Bulk Metered Benchmark	14.7274	-	
Basic Automation	9.0298	5.6976	difference with benchmark
3-Digit	8.1997	6.5277	difference with benchmark
5-Digit	6.5995	1.6002	difference with 3-digit
Carrier Route	6.4170	0.1825	difference with 5-digit

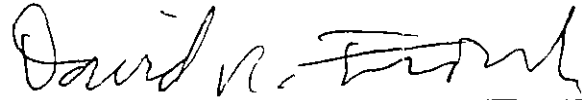
* Unit costs include mail processing and delivery costs. Source USPS-T-29C.

(e) As indicated above, the percentage passthroughs for the 5-digit category and the carrier route category do not change. They remain 100 percent and 150 percent, respectively.

Using the revised cost difference data, the percentage passthrough of the cost differential for the 3-digit category changes from approximately 118% to 100%. The percentage passthrough of the cost differential for the basic automation category changes from approximately 118% to 97%.

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 script that reads "David R. Fronk". The signature is written in black ink and is positioned above a horizontal line.

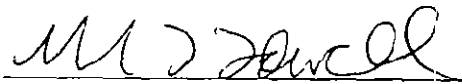
David R. Fronk

8-29-97

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.

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

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
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August 29, 1997