

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF MAJOR MAILER'S ASSOCIATION

MMA/USPS-T29-1 Please refer to footnote 6 on page 10 of your Direct Testimony.

- A. Please fully explain the unique circumstances surrounding the Docket No. R2000-1 rates, as proposed by the Postal Service, recommended by the Commission, and modified by the Governors.
- B. Is it your understanding that these unique circumstances no longer exist? Please explain your answer.
- C. Are the unique circumstances that you refer to still present in this case? If so, how did you account for these circumstances, if at all? If not, how did you adjust your recommendations to counter these circumstances?

RESPONSE:

- A. The "unique circumstances" referenced in USPS-T-29 at 10, footnote 6 are the Governors' determination that the rates recommended by the Postal Rate Commission were not sufficient to meet the Postal Service's revenue requirement and the July 2001 modification of the R2000-1 Postal Rate Commission recommended rates and fees.
- B. Yes. These circumstances are associated with Docket No. R2000-1.
- C. No. There is an error in USPS-T-29 at 10, footnote 6. The footnote should read: "The unique circumstances surrounding Docket No. R2000-1 resulted in a decrease in the 5-Digit Automation letter discount in July 2001." With this exception, discounts for 5-Digit Automation letters have not decreased in any rate change implemented since Docket No. R94-1. See USPS-T-29, Table 2 at 11. The Postal Service does not propose a decrease in the 5-Digit Automation discount in this docket for the reasons discussed in my testimony. In fact the Postal Service proposes a half cent increase in that discount. That

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amounts to a 5.9 percent increase in the 5-Digit Automation discount from the current level and a 3.4 percent increase in the 5-Digit Automation discount from the level recommended by the Postal Rate Commission in Docket No. R2000-1.

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MMA/USPS-T29-2 Please refer to your Direct Testimony on page 11 where you point out that notwithstanding USPS witness Miller's derived cost savings, you recommend that the workshare discounts be increased.

- A. Historically, has the Postal Service in rate cases recommended First-Class discounts that are higher than the alleged cost savings that its witnesses have estimated? Please explain your answer.
- B. Historically, has the Postal Service in rate cases predicted that the alleged cost savings that its witnesses have estimated would decrease in the future? Please explain your answer.
- C. Historically, has the Commission in rate cases found that the alleged cost savings that the Postal Service's witnesses have estimated were understated? Please explain your answer.

RESPONSE:

- A. Yes. See, for example, Docket No. R2000-1, USPS-T-33 Table 7 at 33 and Docket No. R97-1, USPS-T-32 at 27-28.
- B. No. It is my understanding that Postal Service costing witnesses project cost avoidances for the test year in any docket.
- C. Yes, differences between the Postal Service's costing methodology and the Postal Rate Commission's costing methodology have resulted in differing cost avoidance estimates. Compare, for example, Docket No. R2000-1, USPS-T-33 at 33 (revised 4/14/00) and Docket No. R2000-1, PRC Op. at Table 5-3. My rate proposal balances the estimated cost avoidances, with the increase in the implicit cost coverage for workshared letters by increasing the discounts by 0.5 cents above their current levels.

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MMA/USPS-T29-3 Please refer to page 11 of your Direct Testimony where you discuss reasons for proposing automation discounts that are greater than the cost savings. One reason you give is that USPS witness Miller's cost savings estimates may not reflect factors such as mail characteristics or additional activities that mailers perform that the Postal Service does not.

- A. Please describe all mail characteristics that automation letters possess that Mr. Miller's cost savings estimates may not reflect.
- B. Please describe the additional activities that mailers perform that the Postal Service does not, but which provide a benefit to the Postal Service and cannot be "avoided"?
- C. Please indicate how you have taken into account these factors in developing your specific automation rate proposals.

RESPONSE:

- A. – B. As discussed in my testimony, "the automation mail stream provides a high relative contribution to the Postal Service's institutional costs. . . . This can be seen in the relatively high implicit cost coverages for workshared mail." USPS-T-29 at 12. In my testimony, I speculate that this may be due to mail characteristics unique to the automation mail stream or additional activities that mailers perform that the Postal Service does not, and therefore that cannot be "avoided" by the Postal Service. However, to the best of my knowledge, the Postal Service has not studied the impact of either of these two factors on the cost of workshared mail.
- C. My rate proposal increases the discounts for automation letters, flats and cards by 0.5 cents. In considering the appropriate level for automation discounts, the relatively high implicit cost coverage for workshare mail was considered and led me to mitigate the rate increase for automation mail. A

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second reason for proposing increased discounts for automation letters, flats and cards was to recognize the value of mailer worksharing in helping the Postal Service meet its automation program goals. The table below shows that 5-Digit Automation rates have decreased since 1995 despite overall increases in the single-piece First-Class Mail rates.

	R94-1 Rates (1/1/95)	R2000-1 Rates (7/1/01)	Difference	Percent
Single Piece Rate	32.0	34.0	2.0	6.3%
5-Digit Auto Discount	6.2	8.5	2.3	37.1%
5-Digit Auto Rate	25.8	25.5	-0.3	-1.2%

Source: USPS-LR-J-90

These rate incentives have encouraged mailers to participate in the automation program and change their mail processes in order to take advantage of the discounts. As noted in my testimony, I considered this historical context in designing the First-Class Mail automation letter discounts. USPS-T-29 at 10-13, 20-21.

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MMA/USPS-T29-4 Please refer to pages 11-12 of your Direct Testimony where you discuss the high implied cost coverage for First-Class workshare letters. Please also refer to footnote 7 on page 12, which discusses the implied cost coverage using the PRC costing method.

- A. In evaluating your proposed rates, did you take into account the increasing cost coverage that First-Class workshare letters have been forced to bear? Please explain your answer.
- B. Please explain why you believe it is necessary to require workshare mailers to attain a cost coverage that increases from 237.1 percent in Docket No. MC95-1 to your proposed 267 percent. Please explain your answer.
- C. Did you perform any kind of analysis that compares historic cost coverages for First-Class workshare letters over time? If so, please provide the results of such an analysis.
- D. Is there a level at which you would find that a target cost coverage is simply be too high to recommend for First-Class workshare letters? If so, please provide that level. If not, why not?

RESPONSE:

- A. Yes. In developing the proposed First-Class Mail automation rates, I considered the increasing implicit cost coverage for First-Class Mail workshared letters . USPS-T-29 at 11-12. I was concerned by the potential impact on workshare mailers if the proposed automation discounts were based on a 100 percent pass through of the estimated cost avoidances when it appears that some unknown factors may be contributing to the high implicit cost coverage. As I note in my testimony, “[t]he treatment of workshare discount in instances where they have been an important component in controlling cost is an issue ripe for longer-term investigation in First-Class Mail rate design.” USPS-T-29 at 13. At the same time, I was also reluctant to increase discounts further given the lack of data on the reasons underlying

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the high implicit cost coverages observed for workshare mail. In weighing these factors, I determined that a reasonable proposal would be to increase First-Class Mail automation discounts by 0.5 cents. This results in a absolute increase in automation rates of 2.5 cents as compared to the increase of 3.0 cents proposed for single-piece letters. Any further reduction in the automation discounts would shift revenue burdens within First-Class Mail without adequate supporting evidence based on a clear understanding of the factors underlying the increase in implicit cost coverage for workshare mail.

- B. The implicit cost coverage for First-Class Mail workshared letters using the Postal Service's costing methodology is 294.1% in the test-year-after-rates. See USPS-T-29, Attachment A at 2. The implicit cost coverage of 267% cited in USPS-T-29 at 12, footnote 7 is based on the Postal Rate Commission's costing methodology and is presented only to facilitate comparisons across dockets. In designing rates, I did not establish an implicit cost coverage "target" for First-Class Mail workshared letters; however, the size of the implicit cost coverage and its growth over time suggest that some rate mitigation is appropriate. I chose to mitigate the impact on automation rates by increasing discounts by 0.5 cents.
- C. See USPS-T-29 at 12, footnote 7 and witness Moeller's response to DMA/USPS-T28-1.

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D. As discussed in the response to MMA/USPS-T29-4B, I am not recommending an implicit cost coverage for First-Class Mail workshared letters.

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MMA/USPS-T29-5 Please refer to page 12 of your Direct Testimony where you discuss the Postal Service's concern about the rate impact on customers that have played such an important part to the success of the automation program. Based on Mr. Tolley's conclusion that First-Class workshare letters are highly inelastic, i.e., have a price elasticity of just $-.07$ (USPS-T-7, page 57) why do you share the Postal Service's concern for such a rate impact.

RESPONSE:

I share the Postal Service's concern because it is possible that customers who have participated in the automation program may find new alternatives to First-Class Mail if the rate discounts established for workshared mail were significantly reduced. The success of the Postal Service's automation program has been due, in part, to continued mailer participation. The result has been low relative cost increases for First-Class Mail and correspondingly low relative First-Class Mail rate increases since the mid-1990s.

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MMA/USPS-T29-6 On page 13 of your Direct Testimony you state that “[as] efforts to encourage worksharing are successful, avoided costs appear to decline.”

- A. What is the basis for this statement? Please provide copies of all studies or other documents you reviewed in arriving at that conclusion.
- B. Are you aware that First-Class workshare mailers have recently been requested to sort pallets of automation letters onto trucks so that those trucks may bypass intermediate USPS facilities and go directly to postal service hub and spoke facilities and/or airports? If no, please explain.
- C. How does a practice by mailers, such as that described in Part B, cause USPS avoided costs to decline?

RESPONSE:

- A. This statement is based on the unit cost savings calculated by Postal Service costing witnesses for automation letters as compared to Bulk Metered Mail.

Cost Savings Compared to Bulk Metered Mail

	<u>R97-1</u>	<u>R2000-1</u>	<u>R2001-1</u>
Basic	5.6976	5.178	5.117 (mixed AADC) 5.985 (AADC)
3-Digit	6.5277	6.192	6.299
5-Digit	8.1279	7.475	7.425

Sources: Docket No. R97-1, Exhibit USPS-29C at 1; Docket No. R2000-1, USPS-T-24, Table 1 at 18 (revised 4/11/2000); Docket No. R2001-1, USPS-T-22, Table 1 at 25.

- B. Mailers are not required to sort mail as described in this question. However, I am aware that local operating agreements exist between local Postal Service officials and individual mailers that may include such an arrangement. It is also my understanding that this type of agreement often provides for

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exceptions resulting in later acceptance times for the customer's mail and
other provisions that may improve customer service.

C. Redirected to witness Miller.

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MMA/USPS-T29-7 On pages 13-14 and 16-18 of your Direct Testimony you discuss your proposal to modify the current nonstandard surcharge by extending it to include mail that is nonmachinable and renaming it the “nonmachinable surcharge.”

- A. How will the Postal Service handle a single piece letter that is nonmachinable because the handwritten address is too messy to be read, but pays no surcharge? Please explain.
- B. How will the Postal Service handle a single piece letter that is nonmachinable because the envelope is too dark leaving too little contrast for the envelope to be read by an OCR, but pays no surcharge? Please explain.
- C. How will the Postal Service handle a letter that is nonmachinable because the paper is too flimsy to successfully be sorted by automation, but pays no surcharge? Please explain.

RESPONSE:

Redirected to witness Kingsley.

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MMA/USPS-T29-8 On page 14 of your Direct Testimony you state that anything less than a 3-cent increase in the basic First-Class single piece rate would impose unreasonably large rate increases on other classes and, conversely, anything more than a 3-cent increase would unfairly relieve other mail classes of their fair share of the institutional cost burden. Please provide any studies or, analyses that you reviewed before arriving at these conclusions.

RESPONSE:

I relied on witness Moeller's assessment (USPS-T-28) of the First-Class Mail cost coverage needed to meet the revenue requirement presented by witness Tayman (USPS-T-6). Given the cost coverage proposed by witness Moeller, I was unable to prepare a First-Class Mail rate design that resulted in reasonable First-Class Mail rate relationships with anything other than a 37-cent, single-piece, first-ounce, First-Class Mail rate.

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MMA/USPS-T29-9 On page 18 you indicate that, according to USPS witness Miller, nonstandard First-Class single piece letters cost the Postal Service an additional 24 cents per piece. Please explain the rationale for increasing the nonstandard surcharge by just one cent so that the surcharge recovers only about 50% of the additional cost.

RESPONSE:

I am proposing that the single-piece nonstandard surcharge be increased by one cent and that this surcharge be expanded (with an associated renaming) to include nonmachinable mail. I did not propose a higher nonmachinable surcharge because of my concern for the impact on customers not currently paying the nonstandard surcharge who would pay the proposed nonmachinable surcharge under the expanded definition. However, at the proposed level, the nonmachinable surcharge serves to signal customers about the costs associated with Postal Service processing of nonmachinable (including nonstandard mail). This is consistent with the Postal Service position on increasing the nonstandard surcharge proposal in Docket No. R2000-1. See Docket No. R2000-1, USPS-T-33 at 28-30.

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MMA/USPS-T29-10 Please explain all postal charges to mailers associated with the Postal Service's planet code program.

RESPONSE:

There are no postal rates or fees associated with the Postal Service's Planet Code program.

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MMA/USPS-T29-11 On page 22 of your Direct Testimony you discuss the current rate incentive for mailers to "split" mailings and reduce density to avoid a mandatory AADC sort.

- A. Please describe the severity of this problem in the market place
- B. Are you aware that the current rate structure provides an incentive that makes it less costly for First-Class mailers (and more costly to the Postal Service) to split one mailing that combines an invoice with advertising matter into two separate mailings consisting of 1-ounce letters mailed at First-Class automation rates and separate letters (weighing up to 3.5 ounces) to the same address at Standard automation rates? Please explain your answer.
- C. Please describe the severity of the problem suggested in part B to this interrogatory.
- D. Does the Postal Service have any plans to rectify the problem suggested in part B to this interrogatory? Please explain your answer.

RESPONSE:

- A. According to the 1997 Mail Characteristics Study, Docket No. R97-1, USPS-LR-H-185, 48.3 percent of First-Class Mail Automation Basic letters are sorted to the Mixed AADC level and 65.1 percent of First-Class Mail Automation Basic flats are sorted to the Mixed ADC level. The Postal Service is unable to estimate the extent to which mailers will consolidate mailings to achieve an AADC sort due to the deaveraging of the Automation Basic rate into a Mixed-AADC rate and an AADC rate (ADC for flats).
- B. Under the Postal Service's current rate structure, the rate charged for a two-ounce First-Class Mail Automation Basic letter is 51.0 cents which is greater than the total postage charged for a one-ounce First-Class Automation Basic letter (28.0 cents) plus the rate charged for a one-ounce Standard Mail Automation Basic letter (20.0 cents). Note: The 20.0 cent Standard Mail

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Automation Basic letter rate applies to letters weighing up to 3.3 ounces not 3.5 ounces as stated in this question.

C. I do not believe that this rate relationship presents a "problem." This rate relationship presents mailers with alternative methods to mail an invoice and an advertising piece. In addition to the postage paid for the two options, mailers must consider, for example, additional costs associated with preparing two mailings, the expected response rates from an advertising piece enclosed with an invoice versus a stand-alone advertising piece, and differing service standards for First-Class Mail and Standard Mail.

D. No. See response to MMA/USPS-T29-11C.

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MMA/USPS-T29-12 Please refer to page 25 of your Direct Testimony where you discuss the additional ounce rate reduction for presorted First-Class letters. You indicate that you relied on the additional ounce cost study, "in the aggregate", as the basis for your proposal. You also note that workshare mailers can better understand a more complicated rate structure than the general public.

- A. Please describe specifically, what you mean by "in the aggregate".
- B. Did you, in any way, use as a basis for this proposed rate the cost results from that study that estimated the incremental costs by each ounce increment? Please explain your answer.
- C. Do you believe that First-Class workshare mailers could understand a rate structure that charges different amounts for different weight increments? Please explain your answer.

RESPONSE:

- A. By "in the aggregate," I mean that I rely on the average cost per additional ounce, not the marginal costs estimates for each ounce increment.
- B. No. It is my understanding that the marginal cost estimates by ounce increment are problematic.
- C. Yes, it is possible that First-Class Mail workshare mailers could understand a rate structure that charges different amounts for different weight increments.

However, this does not necessarily imply that any potential rate structure charging different amounts for different weight increments is appropriate.

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MMA/USPS-T29-13 Please refer to pages 15 and 25 of your Direct Testimony where you discuss the additional ounce rates for First-Class single piece and presorted mail. Please also refer to Library Reference USPS-LR-J-105 that derives costs separately for First-Class letters, flats and SPRs.

- A. Do you agree that, for First-Class single piece mail weighing under 3 ounces, the most important cost driver is shape? Please explain your answer.
- B. If your answer to part A is yes, do you agree that the current First-Class single piece rate structure that charges the same amount per ounce, independent of shape, fosters significant cross subsidization of flats and SPRs by letters that weigh:
1. under 1 ounce;
 2. between 1 and 2 ounces; and
 3. between 2 and 3 ounces.

Please explain your answer

- C. Has the Postal Service ever considered shape-based rates for First-Class single piece, aside from the nonstandard/nonmachinable surcharge? Please explain and provide copies of any studies or other documents in which this matter was discussed.
- D. If your answer to part C is yes, please explain how the Postal Service considered charging for the second and third ounces of a letter.
- E. Please confirm that the Postal Service has instituted a shape-based rate structure for First-Class presorted mail within its automation categories. If you cannot confirm, please explain.
- F. Assuming your answer to Part E is yes, please explain the rationale for instituting a shape-based rate structure within the automation categories of presorted First-Class mail.

RESPONSE:

- A. Redirected to witness Miller.
- B. No. It is my understanding that the marginal cost data by ounce increment and shape presented in USPS-LR-J-58 and USPS-LR-J-105 are problematic

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and are best used in the aggregate as discussed in the response to MMA/USPS-T29-12. Therefore, I am unable to determine whether "significant cross-subsidization" does or does not exist.

- C. While shape-based rates may have been informally discussed within the Postal Service at some time in the past, to the best of my knowledge, the Postal Service has not considered a First-Class Mail, single-piece, shape-based rate design.
- D. Not applicable.
- E. Confirmed.
- F. Generally, the shape-based rate structure within the automation categories of presorted First-Class Mail is based on the additional cost of processing Automation Flats as compared to Automation Letters. However, the nature of rate design involves weighing the costs associated with different types of mail pieces with many other factors. In designing rates, I also considered the resulting rate relationships and the degree of rate complexity. To the extent possible, I chose not to complicate rate design without significantly increased value in signaling the additional cost of processing a given type of mail piece. Lastly, I was concerned with the interaction of all the rate elements and not dramatically changing the existing rate relationships to avoid unduly shifting the revenue burden among the various First-Class Mail rate elements.