

OFFICE OF THE SECRETARY
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
Nov 21 11 29 AM '01
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF PRESORT
MAILERS JOINT INTERROGATORIES AND REQUEST FOR PRODUCTION OF
DOCUMENTS TO UNITED STATES POSTAL WITNESS LESLIE M. SCHENK (USPS
T43) ABA&NAPM/USPS (T43-1-12)

(November 21, 2001)

Pursuant to Sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the American Bankers Association and the National Association of Presort Mailers hereby submit these joint interrogatories and requests for production of documents. If the witness to whom an interrogatory is directed is unable to answer the interrogatory or produce the requested documents and another person is able to do so, the interrogatory or request should be referred to such person.

If data requested are not available in the exact format or level of detail requested, any data available in (1) substantially similar format or level of detail or (2) susceptible to being converted to the requested format and detail should be provided.

Responses to requests for explanations or the derivation of numbers should be accompanied by workpapers. The terms "workpapers" shall include all backup material whether prepared manually, mechanically or electronically, and without consideration to the type of paper used. Such workpapers should, if necessary, be prepared as part of the witness's responses and should "show what the numbers were, what numbers were added to other numbers to achieve a final result." The witness should "prepare sufficient workpapers so that it is possible for a third party to understand how he took data from a

primary source and developed that data to achieve his final results." Docket No. R83-1, Tr. 10/2795-96.

ABA&NAPM/USPS-T43-1 In your testimony, you devote less than one page to the discussion and analysis of the largest cost segment of the entire Postal Service, delivery costs. At that, the one page starting at page 10, line 8, simply states that you are sponsoring LR-117, which also contains no analytical discussion of Postal Service delivery costs. By contrast, for mail processing costs in First Class Mail alone, the direct testimony is 41 pages.

- a. What is your understanding, if any, of the "single subclass stop" debate between various parties in postal rate cases and how does it affect the topics of your testimony? If you have incorporated any part of the Commission's methodology on this issue, please state where in LR117 it appears.
- b. What is your position on the "Chown metric" from R97-1 in connection with the allocation of delivery costs?
- c. Why did you avoid the discussion of delivery costs in your testimony?
- d. Who prepared LR-117? If it was not you, who prepared it? Was it prepared under your supervision? If not, under whose supervision was LR117 prepared?

ABA&NAPM/USPS-T43-2 Why, in your opinion, is there a great deal of testimony, work papers and library references presented on mail processing and so little presented on delivery costs?

ABA&NAPM/USPS-T43-3 You assert in your testimony at line 9, page ii, that you have had experience with "cost models of mail processing".

- a. Can most mail processing costs be attributed by class and subclass?
- b. Have most mail processing costs in the Postal Service request been attributed by class or subclass?
- c. In an automated mail processing system, where several different classes/subclasses of mail are intermingled as they are run on mail processing equipment, do you believe that it is as easy to attribute costs as in a manual or mechanized environment for which the IOCS tally method was designed?
- d. At what point in the analysis of costs does work activity including machine time and space time cease to be defined as mail processing costs and begin to be defined as delivery costs. Please give complete and full details in your answer.
- e. Has this demarcation line changed with the advent of automation? For example, were DPS activities now attributed to mail processing once part of the manual activity of carriers and attributed to CRA cost segments 7 and 10?

- f. Is there any part of cost segment 3.1 in the final preparation of mail for delivery that was formerly activity conducted by carriers?
- g. Do carriers spend more time on mail processing docks under automation than they used to before automation?
- h. If your answer to g. is in the affirmative, please explain fully why carriers have to spend more time on the docks and less time on the streets actually delivering mail.

ABA&NAPM/USPS-T43-4

- a. Explain the distribution keys used for all portions of FCM and Standard A mail delivery costs that are attributed, e.g. per piece for cost segment "x.z" or per weight increment for cost segment "a.c".
- b. What is your expert opinion as to why so few delivery costs are attributed while so many mail processing costs are?
- c. Before the advent of large volumes of advertising and catalogue mail into the Postal Service, did First Class Mail pay for almost all the total costs of the universal delivery system of the Postal Service?
- d. Do you have knowledge of how Standard A mail (old Third Class classification) was first priced when it became a major mailstream within the Postal Service? Specifically, whether it paid any portion of delivery costs at all and if so how much? Can you cite where this data can be found?

ABA&NAPM/USPS-T43-5 Consider the following hypothetical. An existing product pays for all postal delivery costs, and there is extra capacity available given the universal service statutory requirement wherein even a one letter per week household receives the same services as a fifty letter per week household. A new product becomes available and the Postal Service prices it strictly at short run marginal cost in order to attract the business. Delivery costs, already paid for by the older product, do not figure into the calculation of that short run marginal cost.

- a. Would such pricing for the new product be efficient? Would it be fair?
- b. If the product in a. were an equally mature product that had grown up side by side, year by year with the first product, would it have been efficient to price the second one at SRMC and the first one well above SRMC, *ceteris paribus*, including elasticities?
- c. If the then-new but now-mature product were priced well below its total costs, including all delivery costs, and the original product were as a result priced well above its actual total costs, including delivery costs, could this stimulate the growth of the cost-advantaged product and suppress the growth of the cost-disadvantaged product, *ceteris paribus*, including elasticity considerations?
- d. *Ceteris paribus*, if the pricing situation were reversed, could that stimulate the volume growth of the formerly cost-disadvantaged product and suppress the growth of the formerly cost advantaged product?

- e. Please confirm that efficient pricing of two mature products would not involve volume growth being artificially stimulated or suppressed by under- or over-pricing the two products under consideration, i.e. by having incorrect relative prices in the market.

ABA&NAPM/USPS-T43-6 Please confirm that in a purely technical sense, it is possible to allocate all of the Postal Service's delivery costs by piece and by weight, i.e. these numbers are known or could be known by class, subclass and rate category.

ABA&NAPM/USPS-T43-7 In your testimony at page 10, lines 16 and 17, you state that you have adopted the "same" "methodology" for the estimation of delivery costs as used by USPS witness Sharon Daniel in R2000-1.

- a. Please explain fully for each column in USPS LR-J117, e.g. "6.1", "6.2" etc., BY and TY cost sheets for FCM letters, exactly what that methodology is?
- b. Did you accept the methodology after independently evaluating it, or did you evaluate it at all?
- c. Were you asked to evaluate the Postal Service's methodology for examining delivery costs?
- d. Did you ask the Postal Service whether you could independently evaluate the pre-packaged delivery cost methodology that was handed to you?

ABA&NAPM/USPS-T43-8 With reference to your base year or test year spread sheets by CRA delivery cost segment, please explain:

- a. The methodology for each piggyback in the "total piggyback" column, including exactly what costs are piggybacked by rate category.
- b. What "adjusted" means in the column labeled "Adj TY Volume", by rate category unless the adjustment is identical in content across all rate categories.

ABA&NAPM/USPS-T43-9 In your BY spreadsheets, you show that cost segment 7.1 (city carrier route costs) is distributed by volume.

- a. Please confirm using the audited 2000 CRA that only \$110 million of C. S. 7.1 are distributed across classes by volume, while \$2.7 billion of those costs are not distributed across classes and subclasses at all.
- b. Please provide the calculations distributing all 7.1 costs by volume across classes and subclasses.
- c. Please do the same for cost segment 7.2.

ABA&NAPM/USPS-T43-10

- a. Please list and explain the entire "rural key" that is referenced in your spreadsheets.

- b. Why shouldn't the rural allocation of delivery costs be based, e.g. on the same method used for 7.1 and 7.2, namely volume?
- c. Why are a higher percentage of rural carrier costs declared as volume variable than city carrier costs?

ABA&NAPM/USPS-T43-11 In the allocation of rural volume variable cost as between FCM and Standard Mail for C. S. 10.1, Standard mail delivery costs are 55% greater, whereas under city carrier costs, C. S. 7, Standard mail volume variable delivery costs are slightly under corresponding FCM mail costs.

- a. Why is the percentage of the volume variable costs as between rural and city carrier activities so different?
- b. Since most C. S. 7 costs are "declared" to be institutional rather than volume variable, please confirm that the allocation of these supposed non-volume variable, non-allocable costs is based on relative cost coverages as between Standard and FCM especially, and among classes generally.
- c. Why is the percentage of allocable delivery costs as between rural and city carrier activities so different?

ABA&NAPM/USPS-T43-12

- a. Please state where in your TY spreadsheets you used the "Mix TY Piggys" referenced on page 2.
- b. Please explain what you mean by "discount" in the set of TY rural and city Piggys labeled "Discount TY Piggys".

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT
MAILERS

By: 

Henry A. Hart, Esq.
Reed Smith LLP
1301 K Street N.W.

Suite 1100 - East Tower
Washington, DC 20005
Ph: 202-414-9225
Fax: 202-414-9299

Counsel for
National Association

Irving D. Warden
Assoc. General Counsel
American Bankers
Association
1120 Connecticut Ave., NW
Washington, DC 20036
Ph: 202-663-5027
Fax: 202-828-4548

Counsel for
American Bankers Association


of Presort Mailers

Date: November 21, 2001

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.



Irving D. Warden

November 21, 2001