

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

Postal Rate and Fee Changes, 2001

Docket No. R2001-1

RESPONSES OF UNITED STATES POSTAL SERVICE  
WITNESS ROBINSON  
TO INTERROGATORIES OF GREETING CARD ASSOCIATION  
(GCA/USPS-T29-1 THROUGH 15, 17-24, 25(A,C) AND 26)

The United States Postal Service hereby files the response of witness Robinson to the following interrogatories of Greeting Card Association, that were filed on November 8, 2001: GCA/USPS-T29-1 through 15, 17-24, 25(a,c) and 26.

The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,  
UNITED STATES POSTAL SERVICE  
By its attorneys:

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November 21, 2001

## CERTIFICATE OF SERVICE

I hereby certify that, in accordance with section 12 of the Rules of Practice, I have this day served the foregoing document upon all parties of record in Docket No. R2001-1.

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November 21, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON  
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**GCA/USPS-T29-1.** Please identify and provide the studies relied upon in the preparation of your testimony in this proceeding.

**RESPONSE:**

I cannot specify all of the documents or studies I relied on during the preparation of my testimony. With that qualification, I relied upon the studies and data provided in the testimony and associated library references of witnesses Tayman (USPS-T-6), Tolley (USPS-T-7), Thress (USPS-T-8), Patalunas (USPS-T-12), Miller (USPS-T-22 and USPS-T-24), Moeller (USPS-T-28), Kingsley (USPS-T-39), and Schenk (USPS-T-43). Copies of these studies were filed with the Postal Service's Request. In addition, during the preparation of my testimony, I reviewed prior Postal Rate Commission Recommended Decisions as well as previous testimonies of Postal Service and intervenor witnesses.

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**GCA/USPS-T29-2.** Please identify each of the persons you conferred with in the course of being assigned to and preparing your testimony in this proceeding. For each such person, identify the subjects addressed and when you conferred.

**RESPONSE:**

I do not maintain either telephone or activity logs; therefore, I cannot identify “each of the persons [I] conferred with . . . . identify the subjects addressed and when [I] conferred.” I spoke with a large number of individuals within the Postal Service in order to gain an understanding of First-Class Mail issues, some of these individuals are listed in the response to GCA/USPS-T29-1. The following list provides the names and titles of the members of Postal Service management with whom I conferred on First-Class Mail rate design.

- Anita J. Bizzotto, Chief Marketing Officer (formerly Vice-President, Pricing and Product Design)
- W. Ashley Lyons, Manager, Pricing
- Donald J. O’Hara, Executive Director, Product Redesign

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**GCA/USPS-T29-3.** Trade press reports indicate that the Postal Service is planning to file a “product redesign” classification proceeding (see Attachments A, B and C).

- a. Please set forth in detail your understanding of the present status of the proposed product redesign case.
- b. Please set forth in detail your understanding of present plans to include in the product redesign case any proposals to create new subclasses, or adjust the definitions of existing subclasses, within First-Class Mail.

**RESPONSE:**

- a. I understand that the product redesign effort is collecting input from stakeholders to use in developing prospective rate and classification structures for review by management.
- b. No decision has been made as to whether the existing First-Class Mail subclasses will be restructured.

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**GCA/USPS-T29-4.** Please refer to page 10 of your testimony. Is it your understanding that automation of mail processing is a goal in itself, or is it pursued for an overarching purpose or goal?

**RESPONSE:**

As discussed in my testimony, “[t]he Postal Service relies on automation to control the costs of mail processing and delivery functions” (USPS-T-29 at 10) in order to provide mail services at a reasonable price.

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**GCA/USPS-T29-5.** Do you agree that if worksharing discounts exceed the cost savings to the Postal Service occasioned by the worksharing, then, all else equal, a reduction in Postal Service net revenues will result? If you do not agree, please explain why.

**RESPONSE:**

No. While I am not an expert on the forecasting models (see USPS-T-7 and USPS-T-8), it is my understanding that the various price elasticities might need be considered, in addition to information on cost savings, determining whether a change in the workshare discounts will increase or decrease Postal Service net revenue. However, assuming that all else is equal, if prices are reduced for any product with a relatively inelastic own-price sensitivity, revenues decline. This is true regardless of whether the reduction is tied to a discount or not.

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**GCA/USPS-T29-6.** Do you agree that, all else equal, a worksharing discount exceeding the cost savings to the Postal Service occasioned by the worksharing can result in mailers' performing some work that would be performed at less cost by the Postal Service? If you do not agree, please explain why.

**RESPONSE:**

No. As I discuss in my testimony, the high implicit cost coverage for workshared First-Class Mail suggests that the estimated cost avoidances "may not reflect factors such as mail characteristics or additional activities that the Postal Service does not perform (and thus cannot be 'avoided'), but which do provide a benefit to the Postal Service." USPS-T-29 at 11-12. This speculation can only be confirmed by a careful study of all factors that may affect the Postal Service's costs for workshared First-Class Mail. See response to MMA/USPS-T29-3.



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**GCA/USPS-T29-7.** In preparing your testimony, what was your understanding as to the respective quantified effects on volumes of (a) workshared First-Class Mail, (b) non-workshared First-Class Mail, and (c) First-Class Mail, as a whole, of setting worksharing discounts at (i) avoided cost (ii) the current discount, or (iii) the increased discount your testimony proposes?

**RESPONSE:**

The impact of First-Class Mail prices including First-Class Mail discounts on the volume of (a) workshared First-Class Mail, (b) nonworkshared First-Class Mail and (c) First-Class Mail as a whole are estimated by witnesses Tolley (USPS-T-7) and Thress (USPS-T-8). To the best of my knowledge and as I understand the question, no forecast was prepared using (i) avoided cost. The forecasts using (ii) the current discounts in conjunction with all other current rates and (iii) the proposed discounts in conjunction with all other proposed rates are included in witness Tolley's testimony (USPS-T-7) as the test-year-before-rates and the test-year-after-rates forecasts, respectively.

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**GCA/USPS-T29-8.** If called upon to quantify the volume effect of changing a First-Class letter mail worksharing discount, all else equal, would you use the Workshared Discount elasticity presented by witness Tolley (USPS-T7, table 3)?

- a. If your answer is “yes,” please explain how you would use this elasticity.
- b. If your answer is “no,” please explain why, and identify any other measure of change in volume with change in discount that you would use.

**RESPONSE:**

This question poses a hypothetical outside the scope of my testimony. I have not considered how I would forecast First-Class Mail volumes, if called upon to do so. Therefore, in the absence of any independent study of these issues, I would rely on the methodology presented in witness Tolley’s testimony.

- a. While I have a general understanding of the Postal Service forecasting models, I am not an expert on these models. Therefore, I rely on the professional judgment of witnesses Tolley (USPS-T-7) and Thress (USPS-T-8) to estimate the volume of First-Class Mail. As described in witnesses Tolley’s (USPS-T-7) and Thress’s (USPS-T-8) testimonies, this would include using the workshare discount elasticity in conjunction with the other inputs.
- b. Not applicable.

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**GCA/USPS-T29-9.** Does your proposal to raise worksharing discounts above the level of avoided costs have as one of its purposes to elicit new volumes of First-Class Mail (i.e., mail that would not have been sent at all but for the fixing of worksharing discounts at the levels you propose)? If your answer is affirmative, please provide any estimates you have made or relied on of the amount of new volume that would be elicited and the revenue and net revenue associated therewith.

**RESPONSE:**

No. As discussed in my testimony, the purpose of the discount proposal is to meet a variety of statutory requirements and policy goals rather than to meet specific volume goals.

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**GCA/USPS-T29-10.** Does your proposal to raise the worksharing discounts above the level of avoided costs have as one of its purposes to elicit volumes of First-Class Mail that would not have been, or would not continue to be sent but for the fixing of worksharing discounts at the levels you propose. If your answer is affirmative, please provide any estimates you have made or relied on of the amount of new volume that would be elicited and the revenue and net revenue associated therewith.

**RESPONSE:**

No, but witness Tolley's (USPS-T-7) test-year-after-rates volume forecast does incorporate the impact of changed workshare discounts on mail volume. However, my testimony does recognize the Postal Service's ongoing concern that significant decreases in the workshare discounts may reduce the willingness of mailers to presort and to make their mail automation compatible. In addition, witness Bernstein's testimony (USPS-T-10) discusses the issues of electronic diversion and its potential impact on mail volume.

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**GCA/USPS-T29-11.** Are you familiar with the concept of a “supply curve?”

**RESPONSE:**

Yes.

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**GCA/USPS-T29-12.** If your response to question 11 is in the affirmative, does your testimony rely upon any supply curves relating worksharing discounts to worksharing supplied? If it does, please provide those supply curves and their derivation.

**RESPONSE:**

No.

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**GCA/USPS-T29-13.** Please set forth in detail your understanding as to how the Postal Service benefits from worksharing other than by avoiding costs.

**RESPONSE:**

See response to MMA/USPS-T29-3.

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**GCA/USPS-T29-14.** Please refer to page 20 of your testimony, at line 12. Please explain how you quantify the “value of mailer worksharing” for purposes of recognizing it in selecting your chosen passthroughs and discounts. In responding, please specifically identify and quantify any value-creating factors other than worksharing-generated savings to the Postal Service which you took in account.

**RESPONSE:**

The “value of mailer worksharing” is quantified in witness Miller’s cost avoidance estimates. See USPS-T-22 at Table 1. In setting the automation discounts, I also considered “the importance of mailer barcoding and presortation in overall postal operations” and that, “overall, automated letters are a low cost, high contribution mail stream.” USPS-T-29 at 20-21. This is quantified by the high implicit cost coverage for workshared Letters (294.1 percent TYAR) as compared to the implicit cost coverage for single-piece Letters (176.1 percent TYAR). USPS-T-29, Attachment A at 2. In designing First-Class Mail rates, in light of the high relative implicit cost coverage for workshared Letters, I determined that it was appropriate to mitigate the rate change for workshared letters by increasing the discounts by 0.5 cents. USPS-T-29 at 21.



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**GCA/USPS-T29-15.** Please refer to page 11 of your testimony.

- a. Please state your understanding of the reasons for witness Miller's finding of "smaller avoided cost differences between automation tiers than the discounts resulting from Docket R2000-1."
- b. Please supply citations to all portions of witness Miller's testimony on which you rely for the understanding stated in response to part a.

**RESPONSE:**

- a. To clarify, the cited quote is from my testimony and reflects my comparison of witness Miller's avoided cost estimates (USPS-T22 at Table 1) to the current workshare discounts. It is my understanding that witness Miller developed his avoided cost estimates through an analysis of the expected test-year operating environment and projected test-year costs which are not necessarily the same as in the Docket No. R2000-1 test year. In addition, the current workshare discounts are based on the Postal Rate Commission's costing methodology that differs from that of the Postal Service. In Docket R2000-1, this resulted in different estimates of the cost avoidances for workshare mail. Compare Docket No. R2000-1, PRC Op. Table 5-3 at 243, to Docket No. R2000-1, USPS-T-33, Table 7 at 33.
- b. My understanding is based on conversations with witness Miller. Some of these factors are discussed in USPS-T-22 at 5, lines 8-10 and USPS-T-22 at 6, line 22 – line 5.

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**GCA/USPS-T29-17.** Are you familiar with the concept of a “cross subsidy?” If your answer is in the affirmative, please provide your understanding of that concept.

**RESPONSE:**

Yes. My understanding is that cross subsidy is precluded, as discussed in the testimony of witness Moeller (USPS-T-28), if “the Postal Service’s proposed rate levels result in revenue that will cover the incremental costs.” USPS-T-28 at 7.

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**GCA/USPS-T29-18.** Please refer to page 12 of your testimony.

- a. When preparing your testimony, did you consider the costs incurred by mailers to provide worksharing?
- b. Did you attempt to quantify those costs and to compare them to discounts at current levels, at levels equal to avoided costs, or at your proposed levels? If so, please provide your quantification of the costs and your comparison of the costs and the respective discounts.

**RESPONSE:**

- a. No. However, I do recognize that some mailers have expended resources to participate in the workshare program.
- b. No.

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**GCA/USPS-T29-19.** With regard to implied coverage, please provide your understanding as to:

- a. the Commission's prior treatment of that concept; and
- b. the respective implied coverages of the various types of mail matter within First-Class Letters, i.e., letters, flats, and sealed parcels, at current rates and at your proposed rates.

**RESPONSE:**

- a. In its Docket No. R2000-1 discussion of the Standard Mail ECR pound rate, the Postal Rate Commission recognized that examining implicit markups can "advance understanding" of some issues. Docket No. R2000-1, PRC Op. at 390-393.
- b. I did not calculate implied cost coverages by shape for the various types of mail matter within First-Class Mail Letters and Sealed Parcels. My testimony provides TYBR and TYAR implied cost coverages for (1) single-piece, First-Class Mail Letters and Sealed Parcels; (2) workshared, First-Class Mail Letters and Sealed Parcels; (3) single-piece, First-Class Mail Cards; and (4) workshared, First-Class Mail Cards. USPS-T-29 at Attachment A.

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**GCA/USPS-T29-20.** In preparing your testimony, did you give consideration to the implied coverage of single-piece First-Class Mail other than flats and sealed parcels? If you did, please explain that consideration and the results you obtained when considering the implied coverages of such mail without the inclusion of flats and sealed parcels.

**RESPONSE:**

I did not consider the implied coverage of single-piece, First-Class Mail other than flats and sealed parcels. See response to GCA/USPS-T-29-19.

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**GCA/USPS-T29-21.** Please refer to page 20 of your testimony, at lines 12-13. Please identify all portions of your testimony in which you considered the value of avoiding disruptive rate impacts with respect to any portion of First-Class Mail other than workshared letters.

**RESPONSE:**

I considered the potential impact on customers of the all proposed First-Class Mail rate elements whether this is explicitly discussed in my testimony or not. For specific examples, see the discussion of:

- Qualified Business Reply Mail discount: “I did not reduce the discount further in recognition of the potential impact on QBRM recipients.” USPS-T-29 at 15, lines 7-9.
- Single-piece, additional ounce rates: “I did not want to burden single-piece mailers with a fractional additional ounce rate.” USPS-T-29 at 16, lines 6-7.
- Nonmachinable surcharge: “[T]hose mailers who prepare machinable mail will not be unfairly penalized by the upward pressure on costs caused by nonmachinable pieces.” USPS-T-29 at 17, lines 16-18.
- Nonautomation Presort Discount: “[A] further reduction in the discount . . . in conjunction with the extension of the nonmachinable . . . surcharge could result in a significant impact for customers.” USPS-T-29 at 19, lines 12-15.
- Workshare additional ounce rate: “the overall impact on the affected mailers should be minimal.” USPS-T-29 at 24, line 21 – 25, line 1.
- Heavy Piece Discount: “[I]t would cause significant disruption for some mailers.” USPS-T-29 at 26, lines 12-13.

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**Response to GCA/USPS-T29-21 (continued)**

- Single-piece postcards: “[a] larger rate increase for single-piece postcards was not proposed because of the potential impact on mailers.” USPS-T-29 at 27, lines 9-10.
- Qualified Business Reply Mail postcards: “I chose not to further reduce the QBRM cards postage discount in recognition of the effect on QBRM mailers.” USPS-T-29 at 27, line 22 – 28, line 2.
- Preparation requirements for First-Class Mail Cards: “[T]he changes to the preparation requirements are expected to be minimal and are expected to have little impact on mailers.” USPS-T-29 at 30, lines 6-8.

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**GCA/USPS-T29-22.** With reference to your table 3, please provide your understanding as to:

- a. whether discounts exceeding avoided costs are proposed for any other mail categories;
- b. how the revenue foregoing from discounts that are proposed to exceed avoided costs would be elsewhere obtained; and
- c. assuming for purposes of your answer the appropriateness of the considerations you list at page 20, line 9 through page 21, line 16, when and in what circumstances you would recommend reducing worksharing discounts to the level of avoided costs.

RESPONSE:

- a. It is my understanding that discounts exceeding estimated avoided costs are proposed in the following subclasses: Periodicals, Outside County; Standard Mail Regular; Standard Mail Nonprofit; Standard Mail ECR; Standard Mail NECR; Bound Printed Matter; Media Mail; and, Library Mail.
- b. The revenue to be obtained from any subclass of mail is calculated from the test-year subclass costs calculated by witness Patelunas (USPS-T-12) and the cost coverage proposed by witness Moeller (USPS-T-28). Within any subclass of mail, rates are designed to reflect cost avoidance estimates associated with workshare discounts, historical rate relationships, concern for the potential impact on mailers, and other factors specific to the subclass. In designing First-Class Mail workshare discounts, I considered the high implicit cost coverage for workshare Letters and workshare Cards as indicative of possible factors that may reduce Postal Service costs that are not reflected in witness Miller's cost avoidance estimates. USPS-T-29 at 11-12. Because of



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**Response to GCA/USPS-T29-22 (continued)**

this high implicit cost coverage, I cannot necessarily conclude that, in this circumstance, revenue must be “made up” from other rate elements. By almost any standard, the 294.1 percent cost coverage for workshare Letters and the 335.2 percent cost coverage for workshare Cards suggest that these rate categories are making high contributions to the Postal Service’s institutional costs. In fact, the contributions of these rate categories is higher than that of any mail subclass. USPS-T-28 at Exhibit-28B.

- c. See response to MMA/USPS-T29-4. Without a clear understanding of the factors underlying the increase in implicit cost coverage for workshared First-Class Mail, I cannot determine under what circumstances I would recommend a reduction of the proposed discounts to the level of estimated avoided costs.

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**GCA/USPS-T29-23.** Please refer to page 21 of your testimony. Please state your understanding of, and provide all studies you rely upon regarding, (i) the investments by mailers in worksharing, (ii) the way(s) in which such investment costs can be recovered, (iii) the ability of mailers to recover such investment costs in a reasonable time, and (iv) the costs mailers would avoid if they reduced worksharing efforts.

**RESPONSE:**

- i. It is my understanding that some mailers have invested resources in order to participate in the Postal Service's workshare program. This understanding is based on conversations with Postal Service operations, costing, and mail preparation requirements analysts.
- ii. I have not studied this question.
- iii. I have not studied this question.
- iv. I have not studied this question.

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**GCA/USPS-T29-24.** Please refer to page 21, lines 4-5 of your testimony.

- a. Is it your position that the reasoning set forth at the referenced lines is responsive to the “fairness and equity” criterion of a §3622(b)(1) of the Postal Reorganization Act?
- b. Whether or not have you answered “yes” to part a., please explain fully the criterion of “fairness” you have applied in the referenced lines.
- c. Is it your understanding that at the present time worksharing mailers generally have been aware or are on notice that worksharing discounts are normally set at more than avoided cost? If your answer is negative, please explain what circumstances would have led mailers to expect discounts greater than avoided cost.

**RESPONSE:**

- a. No. The referenced portion of my testimony reads: “Mailers have invested significantly in automation equipment and changed their mail processes as a result of the recent expansion in worksharing incentives, and it would be unfair to sharply reverse these incentives.” USPS-T-29 at 21, lines 2-5. This is a common language use of the term “fairly” and the quotation is designed to highlight the potentially disruptive effect of large changes in the workshare incentives on a group of mailers that have contributed to the success of the Postal Service’s automation program. The criteria of §3622(b) of the Postal Reorganization Act are applied at the subclass level as discussed in the testimony of witness Moeller (USPS-T-28).
- b. As discussed in the response to GCA/USPS-T29-21, I considered the impact of potential rate changes on mailers in developing the First-Class Mail rate design. In setting the workshare discounts, I evaluated all available information. This included weighing the estimated cost avoidances provided

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**Response to GCA/USPS-T29-24 (continued)**

by witness Miller (USPS-T-22) as well as the implicit cost coverages for single-piece and workshared mail (USPS-T-29 at Attachment A). In addition, I considered that “the Postal Service chose to target its automation program at letter-shaped mail, with the result of considerable success in reducing the costs of processing this mail.” USPS-T-29 at 11. Witness Miller observes that “components of the automation program . . . have affected the costs for all mail pieces.” USPS-T-22 at 6. In light of this, it seemed to be unreasonable to sharply reduce workshare discounts (as might be suggested by a consideration of the estimated cost avoidances alone) in light of the uncertainty as to whether the estimated cost avoidances were capturing all of the factors that might be reducing Postal Service costs due to mailer participation in the workshare program.

- c. Yes, in recent dockets, the Postal Service has proposed First-Class Mail discounts that are greater than estimated avoided costs. See response to MMA/USPS-T29-2.

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**GCA/USPS-T29-25.** Please refer to page 21, lines 5 – 7 of your testimony.

- a. Please state as precisely as possible what, in terms of piece volume, would constitute a large portion of the workshared First-Class Mail pieces.
- b. Please identify the operational areas in which the Postal Service could experience operational difficulties upon reversion of a large portion of workshared First-Class Mail.
- c. Please refer to page 23 of your testimony. What is your understanding of the implicit coverage proposed for automation flats?

**RESPONSE:**

- a. I cannot quantify what would constitute a “large” volume that might cause operational difficulties. However, if all workshared Letters reverted to single-piece Letters, that would suggest a 110 percent increase in single-piece Letters (TYAR). ( $= 51,322 / 46,865$ ). As described in the response to part b, the degree of operational difficulty would vary depending on the characteristics of the mail that reverted to single-piece (barcoded, presorted), the entry profile (different locations or processing facilities) at which the mail was entered, the available capacity and equipment to process the mail at these locations, and the amount of time the Postal Service would have to reallocate existing or purchase additional resources.
- b. Redirected to witness Kingsley.
- c. I have not calculated the implicit cost coverage for Automation Flats. See response to GCA/USPS-T29-19(b).

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**GCA/USPS-T29-26.** Please refer to page 25 of your testimony.

- a. Please confirm that the additional-ounce cost difference to the Postal Service as between automation and non-automation mail is 0.15 cents per piece.
- b. If you so confirm, please explain to what shapes of mail (e.g., letters, flats, sealed parcels) the 0.15 cents applies.

**RESPONSE:**

- a. Confirmed. See USPS-LR-J-58.
- b. It is my understanding that cited average costs for single-piece (13.90 cents) and presorted (13.75 cents) additional ounces are calculated as an average across all shapes of mail.