

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 MAJOR MAILERS ASSOCIATION  
(MMA/USPS-T29-15, 16 AND 17(A-C,E))

The United States Postal Service hereby provides the responses of witness Robinson to the following interrogatories of Major Mailers Association: MMA/USPS-T29-15, 16 and 17(A-C,E), filed on November 14, 2001.

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

MMA/USPS-T29-14 and 17(D) were redirected from witness Robinson to witness Miller for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 28, 2001

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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November 28, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON  
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**MMA/USPS-T29-15** Please refer to your response to Part B of Interrogatory MMA/USPS-T29-2 where you maintain that the Postal Service has not, historically, predicted that the alleged cost savings that its witnesses have estimated would decrease in the future.

- A. The following is a quotation from the Commission's Opinion and Recommended Decision in Docket No. R90-1, page V-27:

[5071] With greater automation and corresponding processing cost reductions, the Service argues that the value of mailer presortation to the Postal Service is anticipated to decline. USPS-T-18 at 107. Witness Lyons states that offering further incentives to presort mailers "sends a confusing signal as it overshadows automation-related worksharing" Id. at 110. This anticipated reduced role for presorted mail is reflected in the Service's proposal to keep the presort discount at the Docket No. R84-1 and R87-1 level of four cents. Id. at 108.

If this is not a prediction of lower anticipated workshare cost savings, please explain exactly what you think that USPS witness Lyons meant by his argument that the "value of mailer presortation to the Postal Service is anticipated to decline."

- B. The following is a quotation from the USPS witness Fronk's testimony in Docket No. R2000-1 that he repeated at least two times:

"If the cost data presented in this docket are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future." See Docket No. R2000-1, USPS-T-33 at 20 and 27.

If this is not a prediction of lower anticipated workshare cost savings, please explain exactly what you think USPS witness Fronk meant by his sworn testimony that "[i]f the cost data presented in this docket are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future."

- C. The following is a quotation from the USPS witness Miller's Direct testimony in this case (at USPS-T22, page 7) where he refers to future processing technologies for processing First-Class letters and cards:

"These enhancements could also result in worksharing related savings estimates that shrink over time, if the impact of these changes are not offset by increased wage rates."

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**Response to MMA/USPS-T29-15 (page 2 of 4)**

If this is not a prediction of lower anticipated workshare cost savings, please explain exactly what you think USPS witness Miller meant by his sworn testimony that postal technology could also result in “worksharing related savings estimates that shrink over time, if the impact of these changes are not offset by increased wage rates.”

**RESPONSE:**

A. Witness Lyons does not state that “the value of presortation is anticipated to decline”. The cited portion of witness Lyons’ Docket No. R90-1 testimony reads:

Second, the relative value of presort is declining. Simply put, most presort mail now avoids a relatively efficient automated handling as opposed to a more expensive letter sorting machine (LSM) or manual handling. As such, presort cost savings are declining. This does not mean that presort is not still important to the Postal Service. Both presortation and automation are essential to Postal Service efforts to control costs.

These trends regarding presort and automation should come as no surprise. The Commission quite correctly warned presorters at page 471 in its Opinion from the last omnibus rate proceeding of this “eventuality.”

Docket No. R90-1, USPS-T-18 at 107.

This portion of witness Lyons’ testimony is a description of what happened to presort cost savings between Docket No. R87-1 and the Docket No. R90-1 test year. Since the Postal Service used a future test year in Docket No. R90-1, the Commission’s statement that “the value of mailer presortation . . . is anticipated to decline” (Docket No. R90-1, PRC Op. at V-27 para. 5071) is correct.

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In reviewing the Postal Rate Commission's Docket No. R90-1 Opinion and Recommended Decision, it became apparent that the Postal Service had projected estimated cost avoidances beyond the test year. See Docket No. R90-1, PRC Op. at V-28, para. 5073. In Docket No. R90-1, witness Callies projected that, as a result of future automation plans, additional cost savings would occur "soon after the 1992 test year." Docket No. R90-1, USPS-T-14 at 26-28. This was not reflected in my response to MMA/USPS-T29-2. An erratum will be filed shortly.

- B. The quoted portion of witness Fronk's Docket No. R2000-1 testimony is not a prediction of lower anticipated workshare cost savings. It is a conditional statement that observed "if the cost data presented . . . are the beginning of a new cost trend . . . then the mailing community might anticipate smaller discounts in the future." Docket No. R2000-1, USPS-T-33 at 20 [emphasis added]. This statement reaches no conclusions about future trends in estimated cost savings.
- C. The quoted portion of witness Miller's testimony is not a prediction of lower anticipated workshare cost savings. It is a conditional statement that observed "if the impact of these changes are not offset by increased wage rates" then "[t]hese enhancements could also result in worksharing related savings estimates that shrink over time". USPS-T-22 at 7 [emphasis added].

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This statement does not project the future net effect of changing mail processing technologies and changing wage rates but rather suggests one possible result.

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**MMA/USPS-T29-16** Please refer to your answer to Part A of Interrogatory MMA/USPS-T29-4 where you note that “some unknown factors” contribute to the high implicit cost coverage for workshare letters?

- A. Please explain when the Postal Service first recognized that the workshare implicit cost coverage was high and caused by these unknown factors?
- B. What, if anything, has the Postal Service done to identify the “unknown factors” that have caused the implicit cost coverage of workshare letters to be high? If the Postal Service has not done anything to identify the “unknown factors,” why has it not done so?
- C. What specific plans or recommendations does the Postal Service have for mitigating the high implicit cost coverage for workshare mailers?
- D. In your response, you indicate that any further increase in the automation discounts from those you proposed would shift the revenue burdens within First-Class Mail to the detriment of single piece. You note that you did not want to propose this without a better understanding of the reasons for the high implicit cost coverage for workshare mail. Is this a correct paraphrasing of your statement? If no please explain.
- E. Please confirm that your proposed First-Class workshare mail rates (excluding fees), compared to current rates, result in an average increase of 9.3 %. If no, please explain.
- F. Please confirm that your proposed First-Class single piece rates (excluding fees), compared to current rates, result in an average increase of 7.4 %. If no, please explain.
- G. Please confirm that the implicit cost coverages (excluding fees) for First-Class single piece and workshare mail recommended by the Commission in Docket No. R2000-1 were 153 and 248 respectively. If no, please explain.
- H. Please confirm that your proposed implicit cost coverages (excluding fees) using the PRC cost methodology for First-Class single piece and workshare mail are 158 and 267, respectively.
- I. Within First Class, do your proposed First-Class rates increase, decrease, or maintain the revenue burden for workshare mail compared to single piece? Please explain your answer.

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- J. Please confirm that had you proposed an average of 7.4% increase for First-Class workshare rates, as you do for single piece, the resulting implicit cost coverage for workshare mail (excluding fees) using the PRC cost methodology would be 262. If no, please explain.
- K. If you had proposed an average of 7.4% increase for First-Class workshare rates, as you do for single piece, would the workshare revenue burden within First Class increase, decrease, or remain the same. Please explain your answer.
- L. Please confirm that notwithstanding your stated concern for the high implicit cost coverage for workshare letters, you still propose to increase it further. If you cannot confirm, please explain.
- M. Please confirm that your proposed average 9.3 % average increase for First-Class workshare mail, compared to a 7.4 % average increase for single piece mail, shifts approximately \$284 million in revenue burden from First-Class single piece to workshare mail. If you cannot confirm, please explain.
- N. Please explain how your proposal to raise workshare rates 26% (9.3% / 7.4%) more than single piece rates is consistent with your stated concern, as expressed in your response to Part F of Interrogatory MMA/USPS-T29-13, "not [to] dramatically" change "the existing rate relationships" so as "to avoid unduly shifting the revenue burden among the various First-Class rate elements."

**RESPONSE:**

- A. I became aware of the relatively high implicit cost coverage for workshared First-Class Mail in January 2001 when I was assigned First-Class Mail rate design. As indicated in my response to MMA/USPS-T29-4, I do not know why the implicit cost coverage has increased; therefore, this may be an area to be evaluated in future studies.

It is my understanding that Postal Service management has been aware of the relatively high implicit cost coverage for workshared First-Class



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Mail since the mid-1990's and has been concerned as to whether this relatively high implicit cost coverage would persist. For example, in Docket No. MC95-1, the Postal Service's proposal to deaverage the First-Class Mail Letters and Sealed Parcels subclass into a Retail and an Automation subclass was based, in part, on the differing cost characteristics between the two market segments.

- B. It is my understanding that the Postal Service has not studied the reasons underlying the increase in the implicit cost coverage for workshared mail due to resource constraints.
- C. As I discuss in my testimony, I considered the high implicit cost coverage for workshared First-Class Mail and therefore increased the automation discounts by 0.5 cents. USPS-T-29 at 13.
- D. No. If the Automation Letter and Flats rates were reduced below the level I proposed in my testimony, all other rate elements within the First-Class Mail Letters and Sealed Parcels subclass would need to be re-evaluated. This would include: the single-piece, first-ounce rate, the additional ounce rates (both single-piece and presort), the nonmachinable surcharges (both single-piece and presort), the QBRM rate, the heavy piece discount, and the Nonautomation Presort discount. Your "paraphrase" of my statement suggests that only single-piece rates would need to be reconsidered if the automation discounts were further increased. I would not propose any

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**Response to MMA/USPS-T29-16 (page 4 of 11)**

change, beyond that proposed in my testimony, in the Automation discounts for letters and flats without an understanding of the reasons behind the increase in the implicit cost coverage for workshared Letters.

- E. Not confirmed. The proposed rate increase for First-Class Mail workshared Letters excluding fees is 9.2 percent.

**Test Year Before Rates (USPS-T-29 Attachment D)**

	<b>Pieces</b>	<b>Revenue</b>	<b>Revenue per piece</b>
Single-Piece Letters	47,899,389	20,619,369	0.4305
Workshared Letters	51,299,213	14,597,501	0.2846

**Test Year Before Rates Volume at Proposed Rates (USPS-T-29 Attachment E)**

Single-Piece Letters	47,899,389	22,139,109	0.4622
Workshared Letters	51,299,213	15,936,789	0.3107

**Percentage Rate Increase**

Single-Piece Letters	7.4%
Workshared Letters	9.2%

- F. Confirmed.
- G. Confirmed.
- H. Confirmed.
- I. The revenue burden for First-Class Mail workshared pieces within the Letters and Sealed Parcels subclass remains approximately the same. Assuming constant (test-year-before-rates) volume, workshare revenue is 41.45 percent ( $=14,597,501 / [20,619,369 + 14,597,501]$ ) of total First-Class Mail Letters and Sealed Parcels subclass revenue under the current rates and 41.86

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percent ( $=15,936,789 / [22,139,109 + 15,939,789]$ ) under the proposed rates.

See response to MMA/USPS-T29-16E.

- J. Not confirmed. I did not prepare a First-Class Mail rate design resulting in a 7.4 percent increase in First-Class Mail workshare rates. Therefore, I do not have a volume forecast or a roll-forward associated with this hypothetical 7.4 percent increase in First-Class Mail workshare rates. As a result, I cannot determine what the implicit cost coverages would be under any such rate design.
- K. While I have not prepared a rate design resulting in a 7.4 percent increase for First-Class Mail workshared rates, I believe that any such rate design would result in a decrease in the workshare revenue burden within the First-Class Mail Letters and Sealed Parcels subclass. As indicated in the response to MMA/USPS-T29-16I, the revenue burden for workshared First-Class Mail Letters is approximately the same under the current and the proposed rates. Therefore, any reduction in the workshared Letters rates beyond that proposed in my testimony would result in a reduction in the workshare Letters revenue burden.
- L. Confirmed that the TYBR cost coverage is less than the TYAR cost coverage. However, if the implicit cost coverage did not increase between the test-year-before-rates and the test-year-after-rates that would imply a minimal, if any, rate increase for workshared letters. I believe it would be unreasonable for

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workshare Letters which comprise 22 percent (=14,622,580 / 65,766,829 USPS-Exhibit-28A) of the Postal Service's total test-year-before-rates domestic mail revenue to receive no rate increase when the system average rate increase is 8.7 percent. USPS Exhibit-28D.

This question incorrectly suggests that the rate design for the First-Class Mail Letters and Sealed Parcels subclass was based on a selection of implicit cost coverages for single-piece Letters and workshared Letters. As I indicated in my response to MMA/USPS-T29-4B, I did not establish cost coverage targets for either single-piece Letters or workshared Letters. Instead, in designing First-Class Mail rates, I considered the overall subclass cost coverages proposed by witness Moeller (USPS-T-28), witness Miller's estimated cost avoidances, the relative rate relationships resulting from all of the rate elements, and the relative rate changes at different weight increments.

M. Not confirmed. As discussed in the response to MMA/USPS-T29-16J, I have not prepared a rate design resulting in a 7.4 percent increase for First-Class Mail workshared rates.

N. My concern is focused on rate relationships, not absolute percentage changes in groups of First-Class Mail rates. Using the average percentage changes in single-piece and workshared First-Class Mail Letter rates, ignores the differing weight distributions between single-piece and workshared First-

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Class Mail and therefore masks the relative rate changes holding weight constant. The following tables show the percentage change in rates, by rate category for First-Class Mail. In general, with the exception of one-ounce pieces, the percentage rate increase for Automation Letters and Automation Flats are less than the percentage increase for single-piece First-Class Mail at the same weight increment.

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**Response to MMA/USPS-T29-16 (page 8 of 11)**

**Comparison of Current Rates to  
Docket No. R2001-1 Proposed Rates**

**Current Rates**

Weight (ounces)	Single Piece	Nonauto Presort	Mixed AADC	AADC	3-D Auto Letters	5-D Auto Letters	Carrier-Route Letters
1	0.340	0.322	0.280	0.280	0.269	0.255	0.245
2	0.570	0.552	0.510	0.510	0.499	0.485	0.475
3	0.800	0.736	0.694	0.694	0.683	0.669	0.659
4	1.030	0.966	0.924	0.924	0.913	0.899	0.889
5	1.260	1.196					
6	1.490	1.426					
7	1.720	1.656					
8	1.950	1.886					
9	2.180	2.116					
10	2.410	2.346					
11	2.640	2.576					
12	2.870	2.806					
13	3.100	3.036					

**Proposed Rates**

Weight (ounces)	Single Piece	Nonauto Presort	Mixed AADC	AADC	3-D Auto Letters	5-D Auto Letters	Carrier-Route Letters
1	0.370	0.352	0.309	0.301	0.294	0.280	0.275
2	0.600	0.577	0.534	0.526	0.519	0.505	0.500
3	0.830	0.761	0.718	0.710	0.703	0.689	0.684
4	1.060	0.986	0.943	0.935	0.928	0.914	0.909
5	1.290	1.211					
6	1.520	1.436					
7	1.750	1.661					
8	1.980	1.886					
9	2.210	2.111					
10	2.440	2.336					
11	2.670	2.561					
12	2.900	2.786					
13	3.130	3.011					

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**Response to MMA/USPS-T29-16 (page 9 of 11)**

**Comparison of Current Rates to  
Docket No. R2001-1 Proposed Rates**

**Percentage Change**

Weight (ounces)	Single Piece	Nonauto Presort	Mixed AADC	AADC	3-D Auto Letters	5-D Auto Letters	Carrier- Route Letters
1	8.8%	9.3%	10.4%	7.5%	9.3%	9.8%	12.2%
2	5.3%	4.5%	4.7%	3.1%	4.0%	4.1%	5.3%
3	3.7%	3.4%	3.5%	2.3%	2.9%	3.0%	3.8%
4	2.9%	2.1%	2.1%	1.2%	1.6%	1.7%	2.2%
5	2.4%	1.3%					
6	2.0%	0.7%					
7	1.7%	0.3%					
8	1.5%	0.0%					
9	1.4%	-0.2%					
10	1.2%	-0.4%					
11	1.1%	-0.6%					
12	1.0%	-0.7%					
13	1.0%	-0.8%					

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**Response to MMA/USPS-T29-16 (page 10 of 11)**

**Comparison of Current Rates to  
Docket No. R2001-1 Proposed Rates**

Weight (ounces)	Single-Piece Flats	Nonauto Presort Flats	Mixed AADC Flats	AADC Flats	3-D Auto Flats	5-D Auto Flats
1	0.450	0.372	0.362	0.362	0.347	0.327
2	0.570	0.552	0.542	0.542	0.527	0.507
3	0.800	0.736	0.726	0.726	0.711	0.691
4	1.030	0.966	0.956	0.956	0.941	0.921
5	1.260	1.196	1.186	1.186	1.171	1.151
6	1.490	1.426	1.416	1.416	1.401	1.381
7	1.720	1.656	1.646	1.646	1.631	1.611
8	1.950	1.886	1.876	1.876	1.861	1.841
9	2.180	2.116	2.106	2.106	2.091	2.071
10	2.410	2.346	2.336	2.336	2.321	2.301
11	2.640	2.576	2.566	2.566	2.551	2.531
12	2.870	2.806	2.796	2.796	2.781	2.761
13	3.100	3.036	3.026	3.026	3.011	2.991

**Proposed Rates**

Weight (ounces)	Single-Piece Flats	Nonauto Presort Flats	Mixed AADC Flats	AADC Flats	3-D Auto Flats	5-D Auto Flats
1	0.490	0.407	0.396	0.388	0.377	0.357
2	0.600	0.577	0.566	0.558	0.547	0.527
3	0.830	0.761	0.750	0.742	0.731	0.711
4	1.060	0.986	0.975	0.967	0.956	0.936
5	1.290	1.211	1.200	1.192	1.181	1.161
6	1.520	1.436	1.425	1.417	1.406	1.386
7	1.750	1.661	1.650	1.642	1.631	1.611
8	1.980	1.886	1.875	1.867	1.856	1.836
9	2.210	2.111	2.100	2.092	2.081	2.061
10	2.440	2.336	2.325	2.317	2.306	2.286
11	2.670	2.561	2.550	2.542	2.531	2.511
12	2.900	2.786	2.775	2.767	2.756	2.736
13	3.130	3.011	3.000	2.992	2.981	2.961



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**Comparison of Current Rates to  
Docket No. R2001-1 Proposed Rates**

**Percentage Change**

Weight (ounces)	Single-Piece Flats	Nonauto Presort Flats	Mixed AADC Flats	AADC Flats	3-D Auto Flats	5-D Auto Flats
1	8.9%	9.4%	9.4%	7.2%	8.6%	9.2%
2	5.3%	4.5%	4.4%	3.0%	3.8%	3.9%
3	3.7%	3.4%	3.3%	2.2%	2.8%	2.9%
4	2.9%	2.1%	2.0%	1.2%	1.6%	1.6%
5	2.4%	1.3%	1.2%	0.5%	0.9%	0.9%
6	2.0%	0.7%	0.6%	0.1%	0.4%	0.4%
7	1.7%	0.3%	0.2%	-0.2%	0.0%	0.0%
8	1.5%	0.0%	-0.1%	-0.5%	-0.3%	-0.3%
9	1.4%	-0.2%	-0.3%	-0.7%	-0.5%	-0.5%
10	1.2%	-0.4%	-0.5%	-0.8%	-0.6%	-0.7%
11	1.1%	-0.6%	-0.6%	-0.9%	-0.8%	-0.8%
12	1.0%	-0.7%	-0.8%	-1.0%	-0.9%	-0.9%
13	1.0%	-0.8%	-0.9%	-1.1%	-1.0%	-1.0%

**NOTE:** Nonmachinable surcharge included in rates for one-ounce flats.

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**MMA/USPS-T29-17** Please refer to your response to Interrogatory MMA/USPS-T29-13 where you indicate that you do not know whether cross subsidization within First-Class of light weight flats by letters exists.

- A. Please confirm that a 2-ounce letter and a 2-ounce flat each pay the same postage. If no, please explain.
- B. Please explain your understanding of whether or not 2-ounce letters and flats follow separate sorting and processing operations within the Postal Service from the originating office to the destinating office. If you cannot confirm that letters and flats follow different mail processing flows, please explain
- C. Please explain your understanding of whether or not 2-ounce letters and flats incur the same processing costs by the Postal Service. Please note that USPS witness Smith finds that the average mail processing costs for First-Class letters and flats are 12.35 cents and 38.75 cents, respectively, as shown on worksheet "Summary (2)" of Library Reference USPS-LR-J-53.

Also, please note the significantly different productivities as reported and used by USPS witness Miller in his mail simulation models for letters and flats at page 46 of Library References USPS-LR-J-60 and page 25 of Library Reference USPS-LR-J-61, respectively. If you do not conclude that the processing of flats is more costly than letters, please justify your answer.

- D. In Part A of Interrogatory MMA/USPS-T29-13, you were asked whether shape is the most important cost driver for mail weighing less than 3 ounces within First-Class single piece. Please explain how, in your response to Part A, the reference to the response to OCA/USPS-2 (b), which refers to First-Class Automation mail, answers the question posed to you. If you find that your original answer was incorrect, please provide a more responsive answer.
- E. Are you familiar with a study entitled "Three-In-One Pricing--Building New Value Into the Postal System" that was performed by the Postal Service and presented in Docket No. R94-1 as Library Reference G-177? If yes, please describe the conclusions and recommendations drawn by this study, explain the current status of those recommendations within the Postal Service and how, if at all, you took each of those conclusions and recommendations into account in the First-Class letter rates you are proposing in this case. If not, why not.

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**RESPONSE:**

- A. Not confirmed. Under the proposed rates, two-ounce letters and flats pay the same rates for the single-piece and Nonautomation Presort rate categories. For two-ounce letters and flats in the Automation rate categories, letters pay a lower rate than flats. See response to MMA/USPS-T29-16N.
- B. It is my understanding that letters and flats are sorted and processed differently.
- C. It is my understanding that, on average, the costs of processing flats is greater than the cost of processing letters.

Witness Smith has informed me that the test-year, mail processing costs for single-piece letters (12.35 cents) and for single-piece flats (38.75 cents) cited in this question are averages across all weights of single-piece letters and flats respectively. Therefore, it is my understanding that this data cannot be used to draw conclusions about two-ounce letters and flats.

Witness Miller has informed me that his mail processing models average across all weights of letters and flats. Therefore, it is my understanding that the data presented in witness Miller's testimony cannot be used to draw conclusions about two-ounce letters and flats.

My response to question MMA/USPS-T29-13B addressed the question of whether, within single-piece First-Class Mail, cross-subsidization of letters by flats occurs at differing ounce increments. I cannot answer this question

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absent reliable information on the costs of letters and flats by ounce increment. It is my understanding that the only information available on the costs by ounce increment for First-Class Mail letters and flats has been presented by witness Schenk. (See USPS-LR-J-58 and USPS-LR-J-105). It is my further understanding that use of this First-Class Mail cost data by shape and by ounce increment data are problematic and therefore cannot be used to draw any conclusion based on a comparison of unit costs and revenues.

D. Redirected to witness Miller.

E. No. While I am aware that a "Three-in-One Pricing" study was prepared, my understanding of its contents is limited to the description in the Postal Rate Commission's Docket No. R94-1 Opinion and Recommended Decision.

Docket No. R94-1, PRC Op. at V-5, para. 5015-5016.