

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-T29-27 THROUGH 37(a))

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 30, 2001: GCA/USPS-T29-27 through 37(a).

The interrogatories are stated verbatim and followed by the responses.

Interrogatory GCA/USPS-T29-37(b) has been redirected to witness Patelunas for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE  
By its attorneys:

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December 14, 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. Happy birthday, Dad.

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON  
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**GCA/USPS-T29-27.** Please refer to your response to GCA/USPS-T29-1. Identify with specificity each individual study relied upon in the preparation of your testimony and indicate the matters of fact, if any, for which each such study was relied upon.

**RESPONSE:**

As indicated in the response to GCA/USPS-T-1, I cannot specify all of the documents or studies I relied on during the preparation of my testimony. With that qualification, the following list indicates, to the extent possible, the studies relied upon and the matters of fact for which each study was relied upon.

**Docket No. R2001-1 Testimony and Library References**

Witness	Reference	Data
Tayman	USPS-T-6 at 45-67	Contingency
Tolley	USPS-T-7 at 26-67	First-Class Mail Test-Year Volumes
Thress	USPS-T-8 at 10-32	First-Class Mail Forecasting
Patelunas	Exhibit USPS-12F & Exhibit USPS-12G	Test-year-before-rates costs
Patelunas	Exhibit USPS-12H & Exhibit USPS-12I	Test-year-after-rates costs
Miller	USPS-T-22 at 17-23, Table 1 & USPS-LR-J-60, Worksheets "FCM Letters," "FCM Cards"	Workshared First-Class Mail (letter-shaped) estimated cost avoidances
Miller	USPS-T-22 at 26-27 & USPS-LR-J-60, worksheet "FCM QBRM Savings"	Qualified Business Reply Mail estimated cost avoidances
Miller	USPS-T-22 at 28-35 & USPS-LR-J-60, worksheets "FCM Nonmach Letters," and "FCM Nonstd Surcharge"	First-Class Mail cost estimates for nonmachinable and nonstandard mail

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**Response to GCA/USPS-T29-27 (continued)**

**Docket No. R2001-1 Testimony and Library References**

Miller	USPS-T-24 at 13, Table 1 & USPS-LR-J-60 worksheets "FCM Flats," and "FCM Flats Adj"	Workshared First-Class Mail (flat-shaped) estimated cost avoidances
Moeller	USPS-T-28 at 14-22, Exhibit USPS-28A, Exhibit USPS-28B, and Exhibit USPS-28D	Application of the nine pricing criteria to First-Class Mail cost coverages
Kingsley	USPS-T-39 at 9-13	Operational impact of manual mail processing
Kingsley	USPS-T-39 at 13	Operational impact of level of presort (Mixed AADC vs. AADC)
Schenk	USPS-LR-J-58, Workbook "Lr58asp," worksheet "Table 1" and Workbook "Lr58pre," worksheet "Table 2"	Average cost per additional ounce

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**GCA/USPS-T29-28.** Please refer to your response to GCA/USPS-T29-2. Did you confer with any persons outside of the Postal Service? If you did, identify each such person and the subjects addressed.

**RESPONSE:**

Postal Service management meets with mailers and industry representatives on an ongoing basis to discuss issues of mutual interest. To the best of my knowledge, while potential classification changes may be discussed to assess their feasibility from the mailing community's perspective, the Postal Service did not "confer" or discuss with mailers either preliminary or proposed First-Class Mail rates. With that qualification, since January 1, 2001, immediately prior to my receiving the assignment as First-Class Mail pricing witness for Docket No. R2001-1, I have participated in meetings with the following mailers or industry groups. I have listed the topics discussed to the best of my recollection.

- Baltimore Postal Customer Council: Speech on Docket No. R2000-1.
- Stamps.com (Deborah Cullen, Seth Weisberg, and Seth Oster): Postage discount for IBIP and on-line postage purchases.
- Envelope Manufacturers Association (Maynard Benjamin and others): Postcard rates.
- National Association of Presort Mailers (Joel Thomas, Jay Oxtton and others): Bulk discount for retail First-Class Mail, Docket R2000-1 modification, nonmachinable First-Class Mail, optional 3-Digit sortation, mail preparation requirements, rates for 2-ounce flats.

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- SmartMail (Tom Sides and others): Atlanta plant tour, Priority Mail dropshipment issues.
- Major Mailers Association (Michael Hall, Robert Bentley, Mury Salls, John Crider and others): Docket No. R2000-1 modification, nonmachinable First-Class Mail, optional 3-Digit sortation, mail preparation requirements, calculation of cost avoidances.
- Office of the Consumer Advocate (E. Rand Costich and James Callow): Additional ounce forecasting.

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**GCA/USPS-T29-29.** Please refer to your response to GCA/USPS-T29-5 and -7. Please provide all studies you have performed or rely upon for your testimony that quantify and/or compare the revenue effects on the Postal Service of your proposal to increase worksharing discounts with the revenue effects that would be expected under alternative levels of such discounts.

**RESPONSE:**

I have not performed any studies quantifying the revenue effects on the Postal Service that would be expected under alternative levels of the automation discounts. Under the Postal Service's statutorily mandated "break-even constraint," maximizing revenue is not a goal; therefore, there was no need to perform this analysis. Since the demand for workshared First-Class Mail is relatively inelastic (see USPS-T-7), I felt no need to perform independent analysis confirming that if we raised those rates, the Postal Service would obtain more revenue.

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**GCA/USPS-T29-30.** Please refer to your response to GCA/USPS-T29-6.

- a. GCA/USPS-T29-6 did not specifically address First-Class Mail, but sought to ascertain your position on the general economic relationships involved. Would your answer to GCA/USPS-T29-6 be in the affirmative but for the particular suppositions you advance regarding the unit cost / unit revenue relationships you find characteristic of First-Class Mail?
- b. Please confirm that your testimony does not present nor does it reference any testimony quantifying the “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” not quantified in Witness Miller’s testimony, USPS-T22 at Table 1.
- c. Is it your position that the “mail characteristics or additional activities” that you state cannot be reflected as cost avoidances would be absent if discounts did not exceed cost savings to the Postal Service?
- d. Please identify with as much specificity as possible the factors other than worksharing which you believe could affect the differences in the implicit cost coverages that you present, as between workshared and non-workshared First Class Mail (Letters and Sealed Parcels).

**RESPONSE:**

- a. Any discussion of products and services other than First-Class Mail is outside the scope of my testimony. However, I believe the following generalization of my response to GCA/USPS-T29-6 can be made. If the estimated cost avoidances underlying the discounts for a class of mail are based on data that may not fully reflect the actual avoided cost to the Postal Service of customer worksharing, then a direct comparison of the worksharing discount and the estimated cost avoidance cannot be used to determine whether “mailers’ perform[] some work that would be performed at less cost by the Postal Service”. The key variable is whether the cost avoidance estimates reflect all factors that result in reduced Postal Service costs. In the case of workshare



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First-Class Mail, the high implicit cost coverage suggests that there may be unknown factors that reduce the Postal Service's costs and are not captured in witness Miller's (USPS-T-22) cost studies. I believe this is a topic that should be studied further to determine whether these factors exist. See response to MMA/USPS-T29-3A.

- b. Confirmed.
- c. No. To clarify, I do not state that "mail characteristics or additional activities . . . cannot be reflected as cost avoidances." My decision to propose discounts that exceed witness Miller's estimated cost avoidances is based on my observation that the implicit cost coverage for workshared mail has been increasing. USPS-T-29 at 11-12. One possible explanation is that the current method of estimating cost avoidances does not capture some mail characteristics or other activities that result in lower costs for the Postal Service. If a study of these issues determines that such factors exist, then it may be possible, to include them in the cost avoidance estimates.
- d. To the best of my knowledge, these factors have not been studied.  
Therefore, I cannot identify them.

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**GCA/USPS-T29-31.** Please refer to your response to GCA/USPS-T29-10.

[Sic, parts numbered as filed]

- e. Please identify and provide any and all surveys of mailers that you conducted or relied upon in the preparation of your testimony.
- f. Do you rely on witness Bernstein's testimony with respect to electronic diversion for any of the proposals in your testimony? If so, please specify which portions of Mr. Bernstein's testimony you rely on, and for which proposals.
- g. Please provide your understanding, if any, of the relationship between the costs of using e-mail and the costs of sending workshared mail.

**RESPONSE:**

- e. See USPS-LR-J-196 to be filed shortly.
- f. No. However, witness Bernstein discusses the issues surrounding electronic diversion which are of concern to the Postal Service.
- g. I have no understanding of the relationship between the costs of using e-mail and the costs of sending workshared mail.

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**GCA/USPS-T29-32.** Please refer to your response to GCA/USPS-T29-14. Please provide your understanding, if any, of the quantified amount of the revenue changes associated with increasing the discounts by 0.5 cents.

**RESPONSE:**

I did not prepare a rate design incorporating any discount levels other than those which incorporate an increase of 0.5 cents in these discounts. Therefore, I cannot quantify the revenue effect of not increasing those discounts by 0.5 cents.

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**GCA/USPS-T29-33.** Please refer to your response to GCA/USPS-T29-15(a).

- a. Please provide
  - i. your understanding, if any, of the changes in the avoided cost from those in R2000-1 using the Postal Service's methodology for estimating such costs, and
  - ii. your understanding of why those cost differences have changed.
- b. Is your proposed 0.5 cent increase in the discounts intended, in part, to offset the difference between the avoided costing methodology of the Postal Service and that adopted by the Postal Rate Commission?

RESPONSE:

- a.
  - i. See response to MMA/USPS-T29-6A.
  - ii. My understanding is that witness Miller (USPS-T-22) developed these cost estimates based "an analysis of the expected test-year operating environment and the projected test-year costs which are not necessarily the same as in the Docket R2000-1 test-year." Response to GCA/USPS-T29-15(a). A complete description of the reasons for the changes in witness Miller's cost avoidance estimates can be found in his testimony, USPS-T-22.
- b. No.

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**GCA/USPS-T29-34.** Please refer to your response to GCA/USPS-T29-15(b).  
Please provide all notes of your conversations with Witness Miller.

**RESPONSE:**

Neither witness Miller nor I have preserved any notes that we may have  
taken that would have reflected the substance of our conversations.

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**GCA/USPS-T29-35.** Please refer to your response to GCA/USPS-T29-21. Please confirm that you did not consider the effects of a rate increase on single-piece First Class letter mail weighing one ounce or less.

**RESPONSE:**

Not confirmed. As I indicate in my response to GCA/USPS-T29-21, “I considered the potential impact on customers of all proposed First-Class Mail rate elements.” This includes the single-piece, first-ounce, First-Class Mail rate. As discussed in my testimony, “[t]he single-piece, first-ounce, First-Class Mail rate alone accounted for about 28.3 percent of domestic mail revenues (excluding special services), more than any other class of mail.” USPS-T-29 at 14. Therefore, any change in this rate has a significant effect on the overall revenue of the Postal Service. My goal in designing First-Class Mail rates was to balance the effect on customers with the need to propose rates that achieved the revenue targets resulting from witness Tayman’s (USPS-T-6) revenue requirement proposal, the test-year costs estimated by witness Patelunas (USPS-T-12) and the cost coverage proposed by witness Moeller (USPS-T-28). The resulting single-piece, first-ounce, First-Class Mail rate increases 8.8 percent which is a lower percentage increase than the increase proposed for any (other than AADC) first-ounce rate for workshared letters. Response to MMA/USPS-T29-16 at 9. In addition, the resulting implicit cost coverage for single-piece Letters is 176.1 percent which is slightly less than 178.5 percent system-average cost coverage for all mail and services. USPS-T28 at Exhibit USPS-28B.

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**GCA/USPS-T29-36.** Please refer to your response to GCA/USPS-T29-22(a). Please provide your understanding, if any, of the quantified difference in anticipated postal revenues between what those forecast revenues would be with and without discounts that exceed estimated avoided costs.

**RESPONSE:**

See response to GCA/USPS-T29-32.

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**GCA/USPS-T29-37.** Please refer to your response to GCA/USPS-T29-22(b).

- a. Is it your testimony or understanding that revenue would not be foregone if discounts exceed the Postal Service's avoided costs
- b. Please identify and provide all accounting studies that address the accuracy with which Postal Service's costs of First-Class Mail may be subdivided to calculate a separate cost coverage for workshared letters.

**RESPONSE:**

- a. GCA/USPS-T29-22(b) asked "how the revenue foregone from discounts that are proposed to exceed avoided costs would be elsewhere obtained." The process of rate design, in general, does not involve simplistic trade-offs between changes in revenue from automation discounts and changes in revenue from any other rate element. In designing rates, I examined the rate relationships and relative changes in the rates paid for various types of mail to propose an overall First-Class Mail rate structure that met the cost coverage proposed by witness Moeller (USPS-T-28). The proposal to increase automation discounts was based on consideration of witness Miller's (USPS-T-22) estimated cost avoidances, the high implicit cost coverage for workshared Letters (USPS-T-29 at 11-12), the potential rate change (as compared to single-piece rates) for workshare mailers if discounts were not increased (USPS-T-29 at 12, fn. 8), and the resulting rate relationships between different rate categories. If the proposed automation discounts had not been increased by 0.5 cents, it is possible that some other rate element would be lower resulting in reduced revenue from that rate element.



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However, the resulting changes in rate relationships (very large increases for automation pieces) would not necessarily be reasonable.

b. Redirected to witness Patelunas.