

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES)

Docket No. R2006-1

RESPONSES OF OFFICE OF CONSUMER ADVOCATE
WITNESS PAMELA A. THOMPSON TO INTERROGATORIES OF
MAJOR MAILERS ASSOCIATION (MMA/OCA-T4-2-10)
(OCTOBER 17, 2006)

The Office of the Consumer Advocate hereby submits responses of Pamela A. Thompson to interrogatories MMA/OCA-T4-2 -10, dated October 3, 2006. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-2.

On page 3 of your testimony, you state, “[t]he letter monopoly exists to hold down rates for the more costly pieces of mail and provide mail service to all.” Please define precisely what you mean by “more costly pieces” and provide the source of your definition.

RESPONSE TO MMA/OCA-T4-2.

Please see my response to USPS/OCA-T4-1. In addition, whenever costs are averaged, there is implicitly some mail that is more costly to process and some that costs less to process.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-3.

On page 4 of your testimony, you state that “[t]he monopoly’s existence is such that one does not have to give large discounts to those mailers of cleaner mail (automation compatible) and shift more of the cost of the universal service to those mailers who are unable to provide discounted mail.”

- A. Please provide the source of any information whereby the Private Express Statutes say anything whatsoever about providing large discounts to mailers who send out mail that is less expensive to process and deliver.
- B. Please explain your understanding of how the Private Express Statutes impact, if at all, the Postal Service’s ability to offer workshared discounts.

RESPONSE TO MMA/OCA-T4-3.

a – b. Please see my response to USPS/OCA-T4-1.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-4.

Please refer to Table 1 on page 8 of your testimony and Library Reference OCA-LR-5, file "OCA Rates" where you provide your proposed First-Class Single Piece rates

- a. Please provide the total amount of revenue that you project will be lost to the Postal Service as a direct result of your proposal to eliminate the additional ounce rate for Single Piece letters weighing up to 4 ounces.
- b. Please provide the total amount of revenue that you project will be lost to the Postal Service as a direct result of your proposal to eliminate the additional ounce rate for Presorted letters weighing up to 4 ounces.
- c. Please provide the total amount of revenue that you project the Postal Service will gain as a direct result of your proposal to increase the first ounce rates for Presorted letters weighing up to 4 ounces.
- d. Please confirm that you simply adopted the Postal Service's proposal to lower the QBRM discount from 3.2 cents to 2.5 cents, and that you offered no independent analysis or judgment as justification for that proposal. If you cannot confirm, please provide citations to the portion(s) of the evidence you offer to support reducing the QBRM discount from 3.2 cents to 2.5 cents.
- e. In Library Reference OCA-LR-5, file "OCA Rates," under the word "Presorted" (Row 19) should the word "Non-presorted" on Row 20 be "Nonautomation?" If not, please explain.
- f. Would you agree that it is fair to say that, in order to finance your proposal to eliminate the additional ounce rates for First-Class Single Piece letters weighing up to 4 ounces, you propose to increase the first ounce rates for Presorted letters weighing up to 4 ounces. If you do not agree, please explain.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

RESPONSE TO MMA/OCA-T4-4.

a – c. My rate proposal is essentially revenue neutral. As stated in my testimony at page 26, the TYAR revenues in my proposal increase by \$2.8 million.

d. I did not make new calculations for the QBRM rate. USPS witness Taufique at page 24 of his testimony indicates that the discount of \$0.025 is the same discount that prevailed prior to the across the board rate increases. Thus, I felt the \$0.395 was appropriate.

e. Confirmed.

f. Not confirmed. It is use of the BMM benchmark that results in higher Presort automation rates.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-5.

On page 18 of your testimony, you state that since R2000-1, “the Commission has continued to maintain that the BMM benchmark method is the appropriate method for determining First-Class automation rates.”

- A. Please confirm that, in the quoted passage, you are referring to R2001-1 and R2005-1. If you do confirm, please provide citations to the specific rulings and/or statements you relied upon. If you do not confirm, please indicate all the proceedings (after R2000-1) in which you believe the Commission has continued to maintain BMM as the benchmark from which to measure workshared mail cost savings and provide citations to the specific rulings you relied upon.

- B. Please confirm that, if an average Presorted letter was not presorted and was sent out as First-Class Single Piece, it would be mailed in “bulk” (which you may define), would be faced, prepared in trays, be brought to a local post office, and would be presented at a BMEU and not a window. Please support your answer.

- C. Please confirm that all of the factors that influence the growth in Presorted mail volume today are the same as those that affected the growth in Presorted mail volume when the BMM benchmark was established almost ten years ago. Please support your answer by identifying all factors that you believe affected the volume of Presorted mail when the BMM benchmark was first adopted and indicate how they have changed since that time.

RESPONSE TO MMA/OCA-T4-5.

- a. Not confirmed. See PRC Op. R2000-1, para. 5089.

Docket No. R2001-1 was settled and as stated in PRC Op. R2001-1 at i: “The agreed-upon rates, and any process used to arrive at them, are to have no precedential effect in future cases.” In Docket No. R2005-1, the Postal Service and mailers proposed a Stipulation and Agreement that resulted in a 5.4 percent across-the-board rate increase. In the Stipulation and Agreement, under the Terms and Conditions of the Stipulation, item number 12 indicates that signatories agreed:

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

[I]n any future proceeding, adherence to this agreement is not intended to constitute or represent agreement with, or concession to the applicability of any ratemaking principle, any method of cost of service determination, any method of cost savings, measurement, any principle or method of rate or fee design, any principle or method of mail classification,

- b. If those average Presorted letters are faced, prepared in trays, brought to a local post office and presented at the BMEU by the mailer and not a Presort bureau, then confirmed. If the mailer wanted the mail processed sooner rather than later, it would be senseless to do otherwise.
- c. My testimony does not address any factors that may have influenced Presort mail volume in the past, present or future. I have no opinion.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-6.

On page 18 of your testimony, you state “[t]he USPS’s proposal may encourage worksharing, but does so at the expense of First-Class single piece mailers.” Do you believe that, at the Postal Service’s proposed rates in this case, workshared letters would be cross-subsidized by revenues from Single Piece letters? Please explain and support your answer. Please refer to average attributable costs and revenues for First-Class Single Piece and Presorted mail as part of your response.

RESPONSE TO MMA/OCA-T4-6.

The Postal Service proposes to de-link First-Class single piece mail from First-Class Presort mail. The overall effect of de-linking is to prevent mail that is not being Presorted from being averaged with that mail which is Presorted. I am not a costing witness and am unable to answer your question regarding attributable costs. For the average revenue per piece for First-Class single piece letters and Presort letters, please see my response to MMA/OCA-T4-1.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-7.

Please refer to your response to MMA/OCA-T4-1 where you compute the implicit cost coverage for First-Class workshared letters as 338%.

- A. Does this mean that for every \$1 of direct and indirect cost to process an average workshared letter, the Postal Service receives \$3.38 in revenue? If not, please explain.
- B. Please provide examples of any commodity, product or service that you know of that is regulated and generates revenues that are more than three times the amount of direct and indirect costs to produce that commodity, product or service.

RESPONSE TO MMA/OCA-T4-7.

- a. Confirmed.
- b. In this docket, USPS witness Taufique proposes a 312 percent implicit cost coverage for First-Class workshared letters and sealed parcels.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-8.

Please refer to Library Reference OCA-LR-5, WP-FCM-18 and your testimony on page 18 where you indicate that you start with the BMM rate of 42 cents from which you subtract the MAADC savings of 5.8 cents to derive the OCA recommended MAADC rate of 36.2 cents.

- A. Please confirm that the MAADC unit cost savings from Library Reference USPS-LR-L-141 is 5.831 cents, yet you have used 5.821 cents. If you cannot confirm, please provide the exact source of the 5.821 used in Library Reference OCA-LR-5. If you can confirm, please explain why there is a difference.
- B. Please confirm that, to support your proposed rates for First Class workshared mail, you have accepted the entire analysis provided by the Postal Service in Library Reference USPS-LR-L-141 as the basis for your derived cost savings. If you cannot confirm, please identify exactly what aspects of the USPS-LR-L-141 analysis that you have accepted and what aspects you have not accepted, and, for each explain the reasons why you accepted or did not accept it.
- C. Please confirm that the workshared cost analysis presented in Library Reference USPS-LR-L-141 was not provided by the Postal Service as part of its direct rate request, but was provided as an institutional answer only in response to a Presiding Officer's Information Request (POIR) that requested for an update of the Postal Service's workshared cost savings analysis presented in R2005-1. If you cannot confirm, please explain.
- D. Please confirm that you relied upon the USPS-LR-L-141 analysis because you believe it represents the most recent methodology relied upon by the Commission. If you cannot confirm, please explain.

RESPONSE TO MMA/OCA-T4-8.

- a. Not confirmed. In the revised USPS-LR-L-141, dated 8/23/06, filename "USPS.LR-L.141 FCM Rev2.xls", the worksharing related unit cost savings for MAADC letters is \$0.05821.
- b. Confirmed that I relied upon the "Summary" worksheet found in USPS-LR-L-141, filename "USPS.LR-L.141.FCM Rev2.xls."
- c. Confirmed.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

d. Not confirmed. The USPS-LR-L-141 was requested in POIR 5, question 5 to facilitate the Commission's and participants' understanding of the impact that the proposed methodology changes would have on the Docket No. R2005-1 methodology. I used the information from the worksheet "Summary" in USPS-LR-L-141, revised 8/23/2006. See my response to MMA/OCA-T4-5.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-9

Please refer to Library Reference USPS-LR-L-141, pages 2 and 6, where the Postal Service has derived the CRA unit costs, broken down by proportional, worksharing fixed, and nonworksharing fixed, for BMM and Automation letters, respectively and to Library References USPS-LR-48, page 3, and USPS-LR-110, page 3.

- A. Please confirm that cost pools 1OPBULK, 1OPREF and 1POUCHING are classified as workshare-related fixed in Library Reference USPS-LR-L-141, but classified as proportional in Library References USPS-LR-L-48 and 110. If you cannot confirm, please explain.
- B. Assuming you confirm Part A, please explain why you did not “update” the cost pool classifications as provided in Library Reference USPS-LR-L-141 to reflect the Postal Service’s position on these cost pools in this case?
- C. Please confirm that the analysis provided in Library Reference USPS-LR-L-141 uses metered mail letter (MML) unit costs, obtained from the CRA without adjustment, as a proxy for BMM unit costs. If you cannot confirm, please explain.
- D. Please explain why you did not adjust the CRA MML unit costs, to obtain a proxy for BMM unit costs, as the Commission did in R2000-1.

RESPONSE TO MMA/OCA-T4-9.

a – d. I relied on page 1, of USPS-LR-L-141, revised 8/23/2006. I did not analyze cost pools, nor did I analyze the derivation of other costs in USPS-LR-L-141, revised 8/23/2006. I cannot presume that the Commission will accept the Postal Service’s proposed changes.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

MMA/OCA-T4-10

Please refer to Library Reference USPS-LR-L-141, pages 6, and 20, where the Postal Service has derived the CRA unit costs broken down by proportional, worksharing fixed, and nonworksharing fixed, for Automation and Nonautomation letters, respectively.

- A. Please confirm that this analysis relies on the breakdown of costs between Automation letters and Nonautomation letters provided by the CRA. If you cannot confirm, please explain.

- B. Please confirm that USPS witness Abdirahman rejected the CRA breakdown of Automation and Nonautomation costs and, instead, used his mail-flow models in this case to de-average "Presorted" letter costs into Automation and Nonautomation. See USPS-T-22, pages 5-6. If you cannot confirm, please explain.

RESPONSE TO MMA/OCA-T4-10.

a. I relied upon USPS-LR-L-141, revised 8/23/2006, page 1. I did not analyze other pages in that library reference.

b. USPS-T-22, page 5 states the following:

In response to POIR 1, question 1(a), I [USPS witness Abdirahman] discussed the issues that were affecting the veracity of nonautomation presort cards and letters cost estimates as developed by reference to the CRA-based auto and nonauto cost pools. Under current mail preparation standards, a percentage of letters accepted at the automation presort letters rates may have 9-digit barcodes, 5-digit barcodes, or no barcodes at all. As I noted in my response to that POIR, classifying tallies as automation presort letters based solely on the presence of a specific barcode may therefore not be valid.

USPS-T-22, page 6 states the following:

As a result of proposed changes in the approach used to develop the worksharing rates for First-Class Mail, Bulk Metered Mail (BMM) unit costs are no longer used in the First-Class Mail letters cost analysis. All analysis of workshare-related activities are constrained within the self-contained CRA set of costs associated with Presort Letters. Because it is no longer necessary to create a separate estimate of BMM unit costs and develop comparable cost pools isolating the workshare-related costs within the Presort Letters costs, the CRA cost pools within Presort Letters are no longer classified into the three classifications: proportional, workshare related and non-workshare

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORIES MMA/OCA-T4-2-10

related as was previously done in R2005-1. Each cost pool is now classified as being proportional or fixed,