

DOCKET SECTION

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

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
NASHUA PHOTO INC., DISTRICT PHOTO INC., MYSTIC COLOR LAB, SEATTLE
FILMWORKS, INC., AND MERCK-MEDCO MANAGED CARE, L.L.C.
WITNESS HALDI
(USPS/NDMS-T3-1-35)

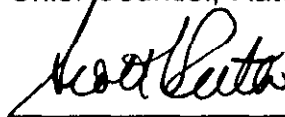
Pursuant to rules 25 and 26 of the Rules of Practice and Procedure and rule 2 of the Special Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to NDMS witness Haldi:
USPS/NDMS-T3-1-35.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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January 16, 1998

INTERROGATORIES OF UNITED STATES POSTAL SERVICE
TO NDMS WITNESS HALDI

USPS/NDMS-T3-1. Please see your testimony at page 3, line 5-8, where you state that the residual shape surcharge will likely lead to extensive repackaging of mailpieces.

- (a) Please quantify "extensive" in terms of the percentage of pieces which would otherwise be subject to the surcharge without repackaging. Provide any documentation supporting your contention.
- (b) Please explain how such expenditures would lead to a reduction of revenues.
- (c) Are there any other rate implications for some of those mailers who repackage their mailpieces? If so, please list those implications.
- (d) If the answer to part (c) is yes, please confirm that these rate implications would lessen the likelihood of the mailer repackaging.
- (e) Are there any preparation implications for those mailers who repackage their mailpieces? If so, please list those implications.
- (f) If the answer to part (e) is yes, please confirm that these preparation implications could lessen the likelihood of mailer repackaging.
- (g) If the answer to part (e) is yes, please confirm that these preparation implications could lower the cost to the Postal Service of processing these pieces.

USPS/NDMS-T3-2. Please see your testimony at page 6, lines 4-5, where you state the percentage of Standard Mail (A) envelopes mailed by NDMS that are parcel-shaped. Please provide the number of pieces represented by this percentage.

USPS/NDMS-T3-3. Please see your testimony at page 6, line 12.

- (a) Please confirm that prescription drugs are being mailed at Standard Mail (A) rates.
- (b) Please estimate the monetary value of the contents of a typical mailing by Merck-Medco Managed Care.

USPS/NDMS-T3-4. Please see your testimony at page 7, lines 14 through page 8, line 7, where you cite Commissioner LeBlanc's dissenting opinion in Docket No. MC95-1 regarding a Standard Mail (A) parcel surcharge.

- (a) Please confirm that Commissioner LeBlanc's opinion also proposed a 5-cent surcharge for Regular and ECR parcels.
- (b) Please confirm that Commission LeBlanc also stated that "the Commission need not know that each and every parcel is being cross-subsidized in order to justify a surcharge."

USPS/NDMS-T3-5. Please see your testimony at page 9, footnote 6. Please confirm that the quotation attributed to witness Moeller is actually the characterization of the Commission in its Recommended Decision (PRC Op., MC95-1, at page V-230, ¶ 5569).

USPS/NDMS-T3-6. Please see your testimony at page 10, lines 10-12, where you discuss rate increases of up to 7 percent for Regular nonletters.

- (a) Please identify the specific rate which is proposed to increase by this amount.
- (b) Please confirm that the proposed increase for Regular automation 3/5-digit flats (e.g. nonletters) is 9.5 percent.

USPS/NDMS-T3-7. Please see your testimony at page 11, footnote 9.

- (a) Please confirm that in the response to PSA/USPS-T36-8 cited in the footnote, witness Moeller provides a projection of Test Year volume subject to the residual shape surcharge. If you cannot confirm, please explain.
- (b) Please confirm that in response to PSA/USPS-T26-1, witness Moeller provides a citation to the Test Year volume subject to the residual shape surcharge in the Regular subclass (which was the subclass requested in the interrogatory).
- (c) Please clarify how the two responses cited in the footnote are "somewhat at variance"?

USPS/NDMS-T3-8. Please see your testimony at page 11, line 23, through page 12, line 2.

- (a) Assuming a 10 cent residual shape surcharge, do you have a projection of the number of pieces which will be subject to the surcharge in the test year? If so, please provide the projection.
- (b) Do you have an own-price elasticity estimate for pieces subject to the residual shape surcharge? If so, please provide the estimate.
- (c) Please confirm that price changes are not the only factor affecting volumes from year to year. If you cannot confirm, please explain.

USPS/NDMS-T3-9. Please see your testimony at page 13.

- (a) Would the alternative packaging which would allegedly occur increase the cost to the mailer?
- (b) If the answer to part (a) is no, please explain why mailers aren't packaging their mailpieces as flats today.

USPS/NDMS-T3-10. Please see your testimony at page 14.

- (a) Please confirm that you are predicting that virtually all parcel mailers who can repackage their mailpiece will indeed repackage the piece as a flat.
- (b) What percentage of current non-flat nonletters in Standard Mail (A) can be repackaged?
- (c) Provide any quantitative information supporting your contention that "virtually all" mailers who can repackage will indeed do so.

USPS/NDMS-T3-11. Please see your testimony at page 14, lines 1-3, where you state that, other than economy, parcel-shaped pieces do not provide mailers with any added value over a flat-shaped mailpiece.

- (a) Please quantify the economy offered to mailers by parcel-shaped pieces versus flat-shaped pieces.

- (b) Can you say that there is no added value to the recipient of a parcel-shaped piece versus a flat-shaped piece, all else equal?

USPS/NDMS-T3-12. Please see your testimony at page 14, line 14, regarding unintended consequences.

- (a) If widespread repackaging occurred, and indeed the repackaged pieces were significantly more costly than other flats, might one of the consequences be a change in the definition of a flat?
- (b) Would the possibility of a change in the definition of a flat temper a mailer's enthusiasm to pursue a repackaging effort to produce, as you describe them, "perversely created cumbersome flats?"

USPS/NDMS-T3-13. Please see your testimony at page 15, lines 6-7.

- (a) Might one of the new problems presented to a carrier as a result of the repackaging be the inability to fit the piece into the mailbox, requiring the recipient to retrieve the piece at the post office?
- (b) Would such an outcome be desirable from the perspectives of (i) the recipient and (ii) the mailer?
- (c) Would the mailer consider this effect on the recipient when deciding whether to engage in repackaging "mischief," as you describe it at page 19 of your testimony?

USPS/NDMS-T3-14. Please see your testimony at page 15, lines 7-9, where you state that the proposed surcharge neither recognizes nor gives any incentive for machinability, citing witness Moeller's response to NDMS/USPS-T36-4.

- (a) Please reconcile your statement that "machinability is not recognized" with witness Moeller's statement in the cited response that "machinability is factored into the calculation of the cost differences."
- (b) Is it your testimony that machinability of parcels is not encouraged at all by rates or preparation requirements?

USPS/NDMS-T3-15. Please see your testimony at page 20, line 12, where you quote parts of an interrogatory response of witness Moeller, and the accompanying footnote 18, which states that the emphasis in your testimony on the words "not relevant" was in the original of the quoted passage. Is it your testimony that the response by witness Moeller contained the emphasis? If this is not your testimony, please provide a revised page 20.

USPS/NDMS-T3-16. Please see your testimony at page 20, line 11, through page 21, line 4.

- (a) Please confirm that a rate difference between letters and nonletters was implemented for third-class mail in 1991.
- (b) Is it your understanding that the rate differential was instituted so that nonletters would cover their costs?
- (c) *Were carrier route nonletters not covering their costs prior to the institution of a letter/nonletter rate differential?*
- (d) Do you advocate elimination of the rate distinction between letters and nonletters in ECR?
- (e) If the rate difference were eliminated in ECR, would nonletters cover their costs?

USPS/NDMS-T3-17. Please see your testimony at page 22, lines 6-9. You state that it is a reasonable proposition that parcels, on average, cost more to handle than flats.

- (a) Please confirm that the first factor you cite to explain why the average parcel costs more to handle than the average flat is the heavier weight of parcels on average.
- (b) What other factors can you offer to explain why parcels cost more than flats?
- (c) Is it your testimony that weight is the only reason parcels are more costly than flats, and that shape plays no role?

USPS/NDMS-T3-18. Please see your testimony at page 27, line 8. Provide the citation to the quote "it is no secret" attributed to witness Moeller.

USPS/NDMS-T3-19. Please see your testimony at page 27, footnote 29.

- (a) Please explain how witness Moeller's response to DMA/USPS-T36-3 is related to the sentence to which this footnote refers.
- (b) Please explain how witness Moeller's response to DMA/USPS-T36-9 is related to the sentence to which this footnote refers.
- (c) Please explain how witness Moeller's response to NAA/USPS-T36-5 is related to the sentence to which this footnote refers.
- (d) Please define "characterized" in line 11 of page 27.

USPS/NDMS-T3-20. Please see your testimony at page 29 where you say there may be "chaos" if all pieces subject to the surcharge are not identifiable by IOCS as pieces which are subject to the surcharge.

- (a) Please explain what you mean by "chaos" in this context.
- (b) Would a requirement that pieces be marked to indicate that they paid the surcharge prevent this "chaos"??

USPS/NDMS-T3-21. Please see your testimony at page 29, lines 6 through 9.

- (a) Please confirm that, under the current rates and classifications, there are some pieces which are eligible for more than one rate.
- (b) Please confirm that if a piece is prepared as a flat, its costs will be different from its costs if it were prepared as a parcel. If you cannot confirm, please explain why the costs would not be dependent on how the piece was prepared.

USPS/NDMS-T3-22. Please see your testimony at page 33, line 15.

- (a) Please confirm that a machinable parcel presorted to BMC receives the 3/5 digit nonletter presort discount. If you cannot confirm, what presort discount are these pieces eligible for?

- (b) Please confirm that if these machinable parcels were instead flats, they would need to be presorted to 3-digit, at a minimum, to receive the 3/5-digit nonletter presort discount. If you cannot confirm, please explain.
- (c) Please confirm that 3-digit is a finer presortation than BMC. If you cannot confirm, explain.
- (d) Please confirm that it is possible that the parcels presorted to BMC would not have the density required to presort to 3-digit, and therefore, would not qualify for the 3/5-digit presort discount if they were prepared as flats. If you cannot confirm, please explain how, in every instance, a machinable parcel mailing would qualify for the 3/5-digit presort discount if it were instead prepared as a flat mailing.
- (e) Assume that a machinable parcel mailing qualifies for the 3/5-digit presort discount, and would not qualify if that same mailing were prepared as non-machinable flats. Would you characterize the presorted parcels as being "short-changed" when it comes to presort discounts?

USPS/NDMS-T3-23. Please see your testimony at page 40, line 13, where you refer to a 1.8 cent "margin."

- (a) What percent cost coverage is implied for these pieces, assuming they are in the Regular subclass, with a 1.8 cent "margin?"
- (b) Does your calculation of the "margin" reflect any rate reduction the piece would receive by virtue of the proposed lowering of the pound rate? If not, how would the "margin" be affected? What would the resulting "margin" be?

USPS/NDMS-T3-24. Please confirm that you have done no analysis to calculate the own-price elasticity for Standard Mail (A) parcels. If you have, please provide your analysis.

USPS/NDMS-T3-25. Please refer to your comments on page 13 regarding "highly competitive industries". Also, please refer to the Commission's Opinion and

Recommended Decision in Docket No. MC95-1, dated January 26, 1996. The Opinion says that "the parcel pricing problem needs action through a near-term rate filing." PRC Op., MC95-1, at V-230. In his dissent from the Commission's declining to recommend a solution in that case, Commissioner LeBlanc stated that "[w]hat is necessary for the Commission is ...to alert the third-class parcel mailers that in the future there may be adjustments in their rates. Thus, they would be wise to adjust their mailing practices to protect themselves against these increased costs." Dissenting Opinion of Vice Chairman W.H. "Trey" LeBlanc at 2. Is it your testimony that the business decision makers in these "highly competitive industries" have taken no steps thus far despite such clear statements as to the likely future changes affecting their businesses? Please state your rationale for describing a foreshadowed 10-cent surcharge as "staggering."

USPS/NDMS-T3-26. Please refer to page 14 of your testimony where you state "one can predict with a high degree of confidence that virtually all parcel mailers whose product gives them a repackaging option will in fact seek to repackage their products into flat-shaped mailpieces if confronted with a significant surcharge for parcels... Thus, one immediate and highly predictable result of the Standard A parcel surcharge would be a massive repackaging of mailpieces now classified as parcels."

- (a) Is it your testimony that the business decision makers in these "highly competitive industries" have taken no steps thus far despite such clear statements as to the likely future changes affecting their businesses? Please state your rationale for describing a foreshadowed 10-cent surcharge as "staggering."
- (b) Is it your testimony that the business decision makers in these "highly competitive industries" have taken no steps thus far despite such clear statements as to the likely future changes affecting their businesses? Please state your rationale for describing a foreshadowed 10-cent surcharge as "staggering."

USPS/NDMS-T3-27. Please provide any analyses you have done within any industry, or any nationally representative study you have completed, showing the costs of repackaging and retooling production systems versus the costs of a 10 cent surcharge?

USPS/NDMS-T3-28. In light of your comments regarding the proposed 10 cent surcharge, please compare the rate for shipping a 15.9-ounce parcel and the rate for shipping a 16.1-ounce parcel, both including and excluding the 10-cent surcharge in Standard Mail (A)? You may make any assumptions regarding dropship or presort that you find reasonable, but please exclude any content restricted subclasses.

USPS/NDMS-T3-29. Please refer to page 15 of your testimony. Please confirm that you have done no analysis regarding the incentives, either intended or otherwise, related to the proposed 10-cent surcharge. If you have, please provide the results of any such analysis used to support your claims.

USPS/NDMS-T3-30. Please refer to page 17 of your testimony. Please confirm that you have done no nationally representative study to analyze the size and types of delivery receptacles and how packaging changes could raise or lower costs Postal Service delivery costs. If you have, please provide those results.

USPS/NDMS-T3-31. Is it your testimony that Standard A parcel mailers might spend more than 10 cents to reconfigure their packages as flats? If not, up to how much do you believe such mailers would spend?

USPS/NDMS-T3-32. Please refer to page 18 of your testimony. Do you have any nationally representative evidence to show that mailers will indeed repackage their product and that this repackaging will either raise or lower Postal Service mail processing costs?

USPS/NDMS-T3-33. Please refer to page 21 of your testimony and witness Crum's response to NDMS/USPS-T28-19. Please explain exactly how modeling mail processing costs would alter the results shown in Table 3, Exhibit K of witness Crum's testimony.

USPS/NDMS-T3-34. Please refer to page 22, lines 3 and 4 of your testimony. Is it your understanding that the information related to Cost Segments 7, 8, 10, and 14 in Table 3, Exhibit K in witness Crum's testimony is produced by the In-Office Cost System?

USPS/NDMS-T3-35. Please refer to page 24 of your testimony. Please identify exactly how describing each cost driver to whatever level of detail you desire would alter either the results of the analysis in witness Crum's testimony or the actual surcharge proposed by witness Moeller?

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.

A handwritten signature in black ink, appearing to read "Scott L. Reiter", written over a horizontal line.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
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January 16, 1998