

DOCKET SECTION

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

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POSTAL RATE COMMISSION

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
THE NATIONAL FEDERATION OF NONPROFITS WITNESS EMIGH
(USPS/NFN-T1-1-25)

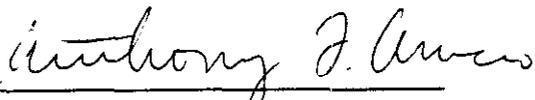
Pursuant to rules 25 and 26 of the Rules of Practice and Procedure and rule 2 of the Special Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to the National Federation of Nonprofits witness Emigh: USPS/NFN-T1-1-25.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/NFN-T1-1. Please refer to page 3 of your testimony. You state that, "historically nonprofit mailers tend to produce consistently lighter weight, more uniformly shaped piece of mail than do their commercial counterparts."

- a. Please identify the all of the subclasses and rate categories to which your statement applies.
- b. For each subclass and rate category identified in subpart (a), please provide the (i) total cost, (ii) the total unit cost, (iii) identification of the applicable commercial counterpart, (iv) the total cost of the commercial counterpart, and (v) the total unit cost of the commercial counterpart.

USPS/NFN-T1-2. Please refer to page 3 of your testimony. You state that, "historically nonprofit mailers tend to produce consistently lighter weight, more uniformly shaped piece of mail than do their commercial counterparts."

- a. Please provide all of the information that informs your conclusion that nonprofit mailers tend to produce consistently lighter weight pieces relative to commercial mailers. To the extent such information has already been filed in this docket, please provide citations.
- b. Please provide all information that informs your conclusion that nonprofit mailers tend to produce consistently more uniform shaped pieces of mail. To the extent such information has already been filed in this docket, please provide citations.
- c. Please explain the extent to which the alleged lighter weight characteristic of nonprofit mail for the subclasses and categories identified in your response to

subpart (a) of USPS/NFN-T1-1 contributes to a lower cost for each such nonprofit subclass or rate category. Please show all calculations.

- d. Please explain the extent to which the alleged uniform shape characteristic of nonprofit mail for the subclasses and categories identified in your response to subpart (a) of USPS/NFN-T1-1 contributes to a lower cost for each such nonprofit subclass or rate category. Please show all calculations.

USPS/NFN-T1-3. Please refer to page 3 of your testimony. You state that, "in the Revenue Forgone Reform Act, Congress directed rate regulators to set the 'institutional' (or overhead) costs of nonprofit mail at no more than one-half of the mark up used to assign the Postal Service's overhead costs to the comparable rate category of commercial mail. The policy objective was that nonprofit mail should be charged less than the comparable commercial rate within each rate category, but nonprofit rates should move in tandem with their respective comparable commercial rate."

- a. Please provide all quotations, with corresponding citations, to the legislative history of the RFRA that support for your contention that a policy objective of the RFRA was that nonprofit rates move "in tandem" with their respective commercial rates.
- b. Please provide a definition of the use of the term "rate category" in the second sentence quoted above.
- c. Is it your understanding that the RFRA's institutional cost contribution formula in 39 U.S.C. § 3626(a)(3)(B) applies at the rate category level or the subclass

level? If the former, please provide all quotations, with corresponding citations, to the legislative history of the RFRA that support your conclusion in this regard.

- d. Please provide your definition of "movement in tandem."
- e. Does your definition of "movement in tandem" have any tolerance for variance in the percentage increase of nonprofit relative to corresponding commercial category? If so, what is the upper bound of the variance, in percentage terms, that you would consider to still represent a movement in tandem?
- f. Please confirm that as a result of Docket No. R94-1, commercial third-class mail rates increased 14.0 percent, and nonprofit rates increased 3.9 percent.
- g. Would it be fair to characterize the relative rate changes for commercial and nonprofit mail as a result of R94-1 as moving in "tandem?" Please explain your response.
- h. Would you describe the relative rate changes that commercial mailers and nonprofit mailers experienced as a result of Docket Nos. MC95-1 and MC96-2 as moving in "tandem?" If your response is affirmative, please explain.

USPS/NFN-T1-4. Please refer to page 4 where you state that, "[h]istorically, the nonprofit rate has been about one-half of the comparable commercial rate."

- a. Please identify all factors that you believe have contributed to this rate relationship.

- b. Please explain the span of time that your statement considers.
- c. Please provide a table or chart showing this historical pattern.
- d. To what extent has the pattern you describe in your statement been driven by statutory prescription of the method by which nonprofit rates should be determined? Please explain your response.

USPS/NFN-T1-5. Please refer to page 4 of your testimony. You state:

An analysis of the rate of increase or decrease that the Postal Service proposes for each of the 26 rate categories of Standard A mail reveals that, in almost 90 percent of the categories, the proposed rates of change for nonprofit and comparable commercial rates are asymmetrical.

- a. Please define "asymmetrical" as it is used in this passage.
- b. Please list the 26 rate categories referred to in this passage, as well as the proposed commercial and nonprofit rates (Step 5) for those categories and the differential between such proposed nonprofit rates and the corresponding commercial rates.
- c. Please confirm that Table I on page 15 of your testimony shows that in the seven categories for which "asymmetric" changes are allegedly proposed, nonprofit rates are proposed to decrease in three of the categories, while commercial rates are proposed to decrease in only one of the categories.
- d. Is it your understanding that commercial and nonprofit classification reform also resulted in many "asymmetric" changes? If your response is negative,

what is your understanding of the relative rate changes, by category, that resulted from the two classification reform initiatives?

- e. If your response to subpart (d) is affirmative, is it your understanding that nonprofit mail was more frequently the beneficiary of the asymmetric changes in classification reform? Please explain your response.
- f. Aside from category comparisons, is it your understanding that, while commercial classification reform was essentially contribution neutral, nonprofit classification reform resulted in a lower test year (FY95) contribution? If this is not your understanding, please explain what you believe the relationship between test year before and after rates contribution was for both commercial Standard Mail (A) (Regular and ECR) and nonprofit Standard Mail (A) (Nonprofit and NECR).

USPS/NFN-T1-6. Please refer to pages 4 and 5 of your testimony where you state, “[p]ostal management’s proposal departs from both the historical relationship between nonprofit and commercial Standard A rates and from the relationship that Congress envisioned when it enacted the [RFRA].”

- a. Please define the “historical relationship” that you claim “Congress envisioned.”
- b. Please provide all quotations, with corresponding citations, to the legislative history of the RFRA that support the claim that Congress envisioned the “historical relationship” as you have defined it in subpart (a).

USPS/NFN-T1-7. On page 5, you describe the “proposed differential” to be “so large as to be discriminatory on its face.”

- a. To what “differential” are you referring? Please identify the subclasses and rate categories to which your statement refers.
- b. Please provide your definition of “discriminatory.”
- c. For each category and subclass in subpart (a), please identify the rate category (i.e., nonprofit or commercial) that suffers from the alleged “discrimination.”

USPS/NFN-T1-8. Please refer to your testimony at page 6, lines 6-8. You state, “[f]or Standard A mail that costs the most to process, postal management proposes that nonprofit mail underwrite a rate rollback for commercial mail.”

- a. Please identify the subclasses and categories of Standard A mail “that [cost] the most to process.”
- b. Please identify all commercial mail rate categories that are subject to a “rollback” at the expense of nonprofit mail.
- c. Please identify all commercial mail rate categories for which the Postal Service proposes a rate increase.
- d. Please explain how nonprofit mail is “underwriting” a commercial mail rate rollback.

- e. Is it your testimony that the revenue from nonprofit is being used to propose lower commercial rates? If so, please quantify the amount of this alleged "underwriting," and show all calculations used to arrive at your conclusion.
- f. Please confirm that, all else equal, if the rates proposed for commercial mail were lower, then the rates for nonprofit mail would be lower, also.

USPS/NFN-T1-9. Please refer to page 6 of your testimony. You characterize a 24 percentage point differential as "classic price gouging." Please provide your definition of the concept of "price gouging."

USPS/NFN-T1-10. Please refer to page 7 of your testimony where you state, "Postal management repeatedly promised rate reductions, or at least to slow down the rate of increase, for mailers who financed the tremendous costs to produce mail that the automated sorting equipment could read and process at optimum speed. With one exception, postal management's proposal makes good on that promise for commercial Standard A mail, but they would penalize the comparable nonprofit piece."

- a. Please provide all information that informs your conclusion that mailers were repeatedly promised rate reductions, or at least a slow down in the rate of increase, for automation mail. To the extent that such information has already been provided in this docket, please provide relevant citations.

- b. Is the exception to which your statement refers ECR Automation Letters? If not, what is the one "exception" noted in line 7 regarding commercial mail rates that supposedly was not in keeping with the "promise?"
- c. Please provide your definition of the word "penalize." In your opinion, at what point (quantitatively) does a percentage increase in a rate amount to a "penalty"? Please explain your response.
- d. Is it your belief that ECR Automation Letter rate mailers are being penalized? Please explain your response.
- e. Is it your belief that proposed Automation category rates in Rate Schedule 321.4B do not incorporate discounts for mailer worksharing related to automation? If your response is affirmative, then what do you believe accounts for the rate differentials between the Nonprofit Presort rates in Rate Schedule 321.4B and the Nonprofit Automation rates in Rate Schedule 321.4A?
- f. Is it your belief that the ECR Automation letter rate category does not incorporate savings for mailer worksharing that is deducted from the ECR Basic rate? If your answer is affirmative, then what do you believe accounts for the 0.7 cent difference between ECR Basic and ECR Automated Letter rates?
- g. Is it your belief that the NECR Automation letter rate category does not incorporate savings for mailer worksharing that is deducted from the NECR Basic rate? If your answer is affirmative, then what do you believe accounts

for the 0.4 cent difference between NECR Basic and NECR Automated Letter rates?

USPS/NFN-T1-11. Please refer to page 8 of your testimony where you state that “[p]ostal management would have both nonprofit and commercial mailers bear equally in the expense to process mail with the automated sorting equipment.”

- a. To what is your reference to “bear equally in the expense” intended to refer-- total volume variable unit costs, contribution, or some other concept? Please explain.
- b. Does this statement apply only to ECR Automation letter and NECR Automation letter categories or to others? Please explain your response.

USPS/NFN-T1-12. Please refer to page 9 of your testimony where you state that, “postal management has manipulated its cost data to produce these disparate rates of change.”

- a. Is it your testimony that the Postal Service has deliberately manipulated cost data in order to produce disparate rates of change in the rates for commercial mail and nonprofit mail?
- b. If your response to subpart (a) is affirmative, please respond to each of the following subparts:
 - (i) identify who within the Postal Service (by name if known to you) manipulated such data,

- (ii) state whether such manipulation was authorized or unauthorized, and if authorized, who (by name if known to you) authorized such manipulation,
 - (iii) the purpose served by such alleged manipulation, and
 - (iv) all known effects of such manipulation.
- c. If your response to subpart (a) is affirmative, please provide all information that informs your conclusion. To the extent such information has already been provided in this docket, please provide citations.

USPS/NFN-T1-13. Please see your testimony at pages 13-14 where you state:

Despite these fundamental similarities in the lengths that the Postal Service has to go in order to process each piece, the postal management proposes an absolute rollback of four percent for the commercial piece of mail and a whopping 20 percent increase for the nonprofit piece. That's a swing of 24 percentage points for the two pieces that are [sic] require essentially similar handling.

- a. Confirm that you are referring to the proposed rate of 24.7 cents for Regular Basic Presort letters, and the Step 6 rate of 16.5 cents for Nonprofit Basic Presort letters. If you cannot confirm, please identify the rate(s) to which you are referring.
- b. If subpart (a) is confirmed, please confirm that the commercial rate exceeds the nonprofit rate by 50 percent. If your response to subpart (a) is not confirmed, please calculate the percentage by which the commercial rate exceeds the nonprofit rate.
- c. Please confirm that the Mail Processing and Delivery costs for Regular Basic Presort and Nonprofit Basic Presort presented by USPS witness Daniel were

12.96 cents for commercial and 11.36 cents for nonprofit (USPS-T-29C, pages 3 and 5, revised 10/1/97).

- d. Please confirm that these pieces require essentially similar handling.

USPS/NFN-T1-14. Please refer to your testimony at page 14, lines 5-14. You state:

For pieces in the second presort tier within the non-automation rate category, the postal management proposes to leave the rate where it has been for mail that serves a commercial purpose but raise the rate by 19 percent for nonprofit mail. In effect, the postal management claims that it costs no more than before to process a piece of commercial mail that fails the characteristics needed in order to process it using the automated sorting equipment but is presorted to like three digits, but it now costs 19 percent more to handle the same piece of mail that serves a nonprofit purpose.

- a. Do you believe that a proposed rate change of zero percent for any given category implies that the cost for that category has not changed?
- b. Do you believe that a proposed rate change of 19 percent for any given category implies that that category has experienced a cost change of 19 percent?
- c. Are there any other factors, other than cost change, that might affect the percentage rate change for an individual rate category? If your answer is affirmative, please identify all such other factors.

USPS/NFN-T1-15. Please see your testimony at page 14, lines 15-18. You state that, "[t]his same phenomenon--the rate for nonprofit and commercial mail

moving in opposite directions within the same rate category--can be observed in two-thirds of nine rate categories that make up the two Standard A mail subclasses."

- a. Please list the "nine rate categories that make up the two Standard A mail subclasses" to which you refer in this passage.
- b. Of the nine categories, please identify the categories that are not depicted in Table I of your testimony, and, for each such category, please give the rates for the corresponding commercial and nonprofit categories.
- c. Please show the derivation of the "two-thirds" figure. Please show all calculations.
- d. Please show all calculations that underlie the zero percent figure in Table I for commercial Automation 3-digit.

USPS/NFN-T1-16. Please see your testimony at page 14, where you state, "[i]n only one rate category does postal management propose to do what seems intuitively logical, and that is to increase each piece by the same factor."

- a. Does your statement imply that it is illogical to have a different percentage change for any given commercial rate category as compared to its nonprofit counterpart? Please explain your response.
- b. Is it your belief that corresponding nonprofit and commercial rate categories should exhibit the same cost characteristics? Please explain your response.
- c. What is the one rate category to which your statement refers?

d. What is the “factor” by which these rates are being increased?

USPS/NFN-T1-17. Please refer to pages 15-16 of your testimony. You state, “[t]here are 17 rate categories for this type of Standard A mail. Two rate categories are omitted from this analysis because the relatively low base on which the percentage has be computed distorts the size of the percentage increase. A third is omitted because it didn’t exist prior to this rate filing.”

a. Please list the 17 rate categories for nonletter Standard Mail (A).

b. Please list the two rate categories which have a “relatively low base.”

c. What category didn’t exist prior to this rate filing?

USPS/NFN-T1-18. Please see your testimony at page 16, where you state “[w]ith respect to the remaining 14 rate categories, postal management proposes rates of change for eight rate categories that move in opposite directions depending on whether the non-letter size piece serves a nonprofit or commercial purpose. For the remaining six categories, in five of them postal management proposes to increase the rate for both nonprofit and commercial mail; however, the proposed rates of increase vary substantially.”

a. Is it your testimony that eight nonletter rate categories have proposed rates which move in opposite direction for commercial and nonprofit?

b. If your response to subpart (a) is affirmative, how many of the eight categories involve a rate decrease for the nonprofit piece?

USPS/NFN-T1-19. Please show all calculations used to derive the figures in Table II of your testimony. In showing your calculations, please identify each figure used, and provide a source for each.

USPS/NFN-T1-20. Please confirm that the figures in Table II omit those *categories where the proposed rate of increase is equal for corresponding nonprofit and commercial categories, or the difference in the proposed increases in a range that you would not characterize as asymmetric.* If not confirmed, please explain your response.

USPS/NFN-T1-21. Please confirm that you use the terms “attributable” and “direct” interchangeably in your testimony (see page 3). Does your testimony equate the two concepts?

USPS/NFN-T1-22. Please refer to pages 5-6 of your testimony, where you state, “handling, hence costing, characteristics are virtually identical for nonprofit and commercial mail within a particular rate category”

- a. Why do corresponding nonprofit and commercial category exhibit “virtually identical” handling characteristics? Please explain your response.
- b. Do the “virtually identical” handling characteristics for corresponding nonprofit and commercial categories imply that the cost characteristics should be virtually identical as well? Why or why not?

USPS/NFN-T1-23. Please refer to page 6 of your testimony, where you state:

Whether the piece of mail serves a nonprofit or commercial purpose, postal workers will have to do a comparable amount of work in order to process each piece of mail in that rate category. . . for mail that essentially has the same handling characteristics.

- a. Does your statement imply that corresponding nonprofit and commercial mail categories receive essentially the same handling?
Please explain your response.
- b. Does your statement imply that the handling of nonprofit and commercial mail should be the same for corresponding nonprofit and commercial categories? Please explain.
- c. Please define "comparable amount of work" as used in your statement.

USPS/NFN-T1-24. Please refer to page 9 of your testimony where you state, "postal management has so skillfully covered its tracks that nonprofits might not be able to discover the answer"

- a. In what manner has the Postal Service "skillfully covered its tracks"? Please explain.
- b. Is it your testimony that the Postal Service has deliberately "covered its tracks"?
- c. If your response to subpart (b) is affirmative, please respond to each of the following subparts:

- (i) identify all cost data for which you believe the Postal Service has "covered its tracks",
- (ii) identify who within the Postal Service (by name if known to you) "covered up",
- (iii) state whether such coverup was authorized or unauthorized, and if authorized, who (by name if known to you) authorized such coverup,
- (iv) the purpose served by such coverup, and
- (v) all known effects of such coverup.

USPS/NFN-T1-25. Please refer to page 13 of your testimony where you state, "[f]or example, consider the non-automation rate category for letters with the Regular Subclass. Whether the piece serves a nonprofit or a commercial purpose, neither piece may be processed using the Postal Service's automated sorting equipment"?

- a. Is it your testimony that any given letter entered under Rate Schedule 321.4A (Nonprofit Presort Categories) is not processed on automated sorting equipment? Please explain your response.
- b. If your response to subpart (a) is affirmative, what is your source?
- c. Assume that a subset of letters entered as Nonprofit Presort (under schedule 321.4A) are barcoded by the Postal Service and processed on automated sorting equipment.
 - (i) Would you agree that the handling of this subset of Nonprofit Presort letters could significantly affect the type and cost of

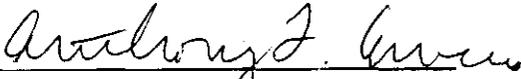
handling of the rate categories in the Nonprofit Presort schedule? Please explain your response.

(ii) How would you expect the mail processing costs of the subset of Nonprofit Presort letters (for any given Nonprofit Presort letter rate category) that are barcoded by the Postal Service and processed on automated sorting equipment to compare with the mail processing costs of Nonprofit Presort letters (for the same Nonprofit Presort letter rate category) that are not processed on automated sorting equipment?

(iii) How would you expect the delivery costs of the subset of Nonprofit Presort letters (for any given Nonprofit Presort letter rate category) that are barcoded by the Postal Service and processed on automated sorting equipment to compare with the delivery costs of Nonprofit Presort letters (for the same Nonprofit Presort letter rate category) that are not processed on automated sorting equipment?

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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January 28, 1998