

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

COMPLAINT OF GAMEFLY, INC.

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Docket No. C2009-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO DISCOVERY REQUESTS OF GAMEFLY, INC.
(GFL/USPS-66-67, 69, 71-72, 74-76, and 81-83)
(September 11, 2009)

Pursuant to Rules 26 and 27 of the Commission's Rules of Practice and Procedure, the United States Postal Service hereby provides its responses to the following discovery requests of GameFly, Inc., which were filed on August 28, 2009: GFL/USPS-66-67, 69, 71-72, 74-76, and 81-83.

Responses to the remaining requests in this set are forthcoming.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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GFL/USPS-66. This question refers to discovery request GFL/USPS-1(e) and your answer to it. GFL/USPS-1(e) asked

What conclusions did Mr. Laws and other Postal Service engineering employees who evaluated the Netflix DVD mailer reach on or about June 11, 2002, concerning its effectiveness (or likely effectiveness) in protecting against DVD breakage from automated letter processing?

Your answer was:

None. Engineering did not evaluate the Netflix mailer for its ability to protect a DVD from damage.

(a) Regardless of whether “Engineering” formally evaluated the Netflix mailer for its ability to protect a DVD from damage, did Mr. Laws or any other USPS engineering employee *personally* form an opinion on or about June 11, 2002, regarding the effectiveness of the Netflix DVD mailer in protecting against DVD breakage from automated letter processing?

(b) If your answer to part (a) is anything but an unqualified negative, please identify the employee and state his or her opinion on the issue.

RESPONSE:

- a. No. That evaluation was only focused on how the mailpiece would perform on Postal Service equipment with respect to jams and throughput.
- b. N/A.

GFL/USPS-67. Please refer to Paragraph 35 of the Postal Service's Answer to GameFly's Complaint, which states:

However, Respondent admits that some manual culling of DVDs being returned from customers may occur in local mail processing by personnel at the AFCS; bypassing automated processing is motivated by an interest in getting all mail processed during the available window so as to meet service standards and would accordingly apply to a lot of mail that is otherwise capable of being processed on automated equipment.

Please refer further to the Postal Service's response to GFL/USPS-18, which states:

The Postal Service expects that the amount of manual processing of Netflix mail is likely at least as large as was set forth in the OIG Report, though no specific percentages are available.

Finally, please refer further to Paragraph 36 of the GameFly Complaint, which states:

A report by the Postal Service's Office of Inspector General in November 2007 found that 70 percent of the two-way DVD mailers from one unnamed DVD rental company received manual processing for this reason. USPS Office of Inspector General, Audit Report No. MS-AR-08-001, Review of Postal Service First-Class Permit Reply Mail (November 8, 2007).

(a) Does the Postal Service believe that the primary reason that at least 70 percent of Netflix inbound mail is processed manually is to get all mail processed during the available window so as to meet service standards?

(b) Please explain fully why a large portion of Netflix mail must be handled manually to meet service standards.

RESPONSE:

a. No. It should be noted that the term "manual processing" may be used in different contexts, and carry different meanings. For example, the term "manual processing" is often used in the context of Netflix inbound mail to simply refer to

manual culling. In other contexts, “manual processing” may refer to pure end-to-end manual handling, including manual sortation.

b. The Postal Service disagrees with this statement.

GFL/USPS-69. The question refers to your answer to GFL/USPS-22. Please produce copies of all texts, outlines, PowerPoint slides, emails, questions, answers and other documents created in connection with any “webinar with field management” since January 1, 2007, that dealt wholly or in part with the processing of return DVD mail.

RESPONSE:

Responsive information is available for inspection by reviewing parties upon the promulgation of protective conditions, and certification by reviewing parties of adherence to those conditions.

GFL/USPS-71. Please define “most efficient method” as the term is used in the Postal Service’s response to GFL/USPS-23(d).

(a) In particular, is it the Postal Service’s position that processing Netflix’s pieces manually is sometimes a lower cost processing option than processing them on automation?

(b) Is it the Postal Service’s position that processing Netflix’s pieces manually is often a lower cost processing option than processing them on automation?

(c) Is it the Postal Service’s position that processing Netflix’s inbound pieces manually, but charging machinable letter rates for those pieces, is more efficient than processing Netflix’s inbound pieces manually and charging extra for the manual processing, e.g., through a nonmachinable surcharge?

(d) Please explain your answers to parts (a) through (c) in detail and, if the answer to any part is “yes”, provide all reasoning and calculations.

(e) Please produce all studies, analyses and similar information that you contend support your responses to parts (a) through (d).

RESPONSE:

a. Yes, it would sometimes be a lower cost processing option. If the pieces were culled out immediately upon arrival at the AFCS, and put into Netflix-only tubs or trays, bypassing any and all processing and being handed directly to the Netflix agent, the only mail processing costs incurred would be the culling activity at the AFCS, and a crossdock to the staging area where the tubs or trays are then handed to the Netflix agent. This process is possible because it is not necessary to perform a manual sortation of the Netflix pieces to different addresses; by agreement, the Netflix agent picks up all of the Netflix inbound envelopes at certain plants.

b. The Postal Service has not performed the necessary calculations to answer this question, nor is the process described in part (a) the process that is followed at all postal plants. If, for instance, the Netflix mail is mixed with other mail culled at the AFCS, an additional manual sortation would be necessary.

c. If the Netflix pieces are culled immediately and receive no further sortation, as opposed to receiving an actual manual sortation, the process described in part (a) would be more efficient. Obviously, charging an additional surcharge would increase the revenue per piece and raise the cost coverage for the Netflix pieces. However, in some plants, the incoming Netflix pieces are processed through sorting equipment along with other incoming machinable mail. It would be difficult to surcharge the pieces only at the plants where the ordinary process for machinable mail is not used for Netflix pieces, but not surcharge at the offices where the Netflix pieces are not culled out.

d. Please see above.

e. N/A

GFL/USPS-72. This is a follow-up to your answer to GFL/USPS-24(d), in which you state that “Headquarters has not conducted any specific studies on this issue”—i.e., on whether “the choices made by local, district or area officials between the ‘automated’ and ‘manual handling of Netflix DVD return mail’ in fact are promoting the ‘overall efficiency of mail processing operations.’” Please produce all information that the Postal Service has on the issue, whether or not the result of a study devoted specifically to the issue.

RESPONSE:

Responsive information is available for inspection by reviewing parties upon the promulgation of protective conditions, and certification by reviewing parties of adherence to those conditions.

GFL/USPS-74. Please provide the Postal Service's FY 2008 unit cost per sort (including piggybacks) for manual letter sorting operations and all underlying calculations.

RESPONSE:

Please see USPS-FY-08-10, Docket No. ACR2008, Presort Letter Sum Tab, for all rate category automation and nonautomation cost estimates. Please note the Postal Service does not specifically calculate unit costs for the types of mail requested.

GFL/USPS-75. Please provide the Postal Service's FY 2008 unit cost per sort for automated letter sorting operations and all underlying calculations.

RESPONSE:

Please see USPS-FY-08-10, Docket No. ACR2008, Presort Letter Sum Tab, for all rate category automation and nonautomation cost estimates. Please note the Postal Service does not specifically calculate unit costs for the types of mail requested.

GFL/USPS-76. Please provide the Postal Service's FY 2008 unit cost per sort for automated flat sorting operations and all underlying calculations.

RESPONSE:

Please see USPS-FY-08-11, Docket No. ACR2008, for all flat rate category automation and nonautomation cost estimates. Please note the Postal Service does not specifically calculate unit costs for the types of mail requested.

GFL/USPS-81. This is a follow-up to your response to GFL/USPS-30. Please respond to each subpart of the interrogatory by providing the most precise percentage estimates that you can.

RESPONSE:

The Postal Service is unable to provide percentage estimates. Any attempt at a percentage would be pure speculation. The Postal Service can state that in almost all plants, flat tubs are used to separate mail shapes and other mail types that are deemed necessary to separate for proper mail preparation. It is possible that, in any given facility, those tubs may be used for Netflix, Blockbuster, or other DVD mailers, but the Postal Service.

GFL/USPS-82. Please refer to Paragraph 37 of the parties' July 20, 2009, Joint Statement of Undisputed and Disputed Facts." Paragraph 37 contains the following GameFly statement, which the Postal Service declined to join:

GameFly contends that the avoidance of automated letter processing of DVD return mailers by the Postal Service—with no change in the physical attributes of the DVD, its handling by the employees and customers of the DVD rental company, and the average number of mailing cycles per DVD—can reduce the average DVD breakage rate from approximately five percent per return trip to less than one percent per return trip.

(a) Does the Postal Service agree that “the avoidance of automated letter processing of DVD return mailers by the Postal Service—with no change in the physical attributes of the DVD, its handling by the employees and customers of the DVD rental company, and the average number of mailing cycles per DVD—can reduce the average DVD breakage rate”? Please explain fully any disagreement.

(b) Have any other senders of round-trip DVD mailers communicated to the Postal Service that “the avoidance of automated letter processing of DVD return mailers by the Postal Service—with no change in the physical attributes of the DVD, its handling by the employees and customers of the DVD rental company, and the average number of mailing cycles per DVD—can reduce the average DVD breakage rate”? If so, please provide a list of companies that have so communicated this to the Postal Service and provide copies of all communications.

(c) Have any senders of round-trip DVD mailers requested that their inbound mailpieces be handled manually to reduce breakage rates? If so, please provide a list of companies that have made such a request and provide copies of all such requests and USPS responses to those requests.

RESPONSE:

a. The Postal Service does not have any data to support or refute this statement.

The Postal Service does not know what causes the breakage, or have any means of independently monitoring breakage rates.

b. Yes, Netflix. Responsive documents have already been made available in response to prior discovery requests, and will be supplemented if necessary.

c. Yes, Netflix and Blockbuster. Responsive documents have already been made available in response to prior discovery requests, and will be supplemented if necessary.

GFL/USPS-83. Please refer to R2006-1, USPS-T-42 (Marc McCrery, then Manager, Operational Requirements) at 11-12, which states:

Volume that is still left in manual letter operations is primarily composed of pieces that are deemed to be nonmachinable on letter automation due to one of several factors. Any letter-size piece is considered nonmachinable if it meets any of the nonmachinable criteria listed in DMM 201.2.0.

These mailpieces are excluded from automated processing for various reasons, but primarily due to the incompatibility with automated processing, which may impede the mail flow or damage the mail or mail processing equipment. Manual letters are considerably more costly to operations (approximately 13 times more labor cost per handling) to process than machinable letters. Pieces over 6 1/8 inches in height, 1/4 inch thick, and/or 11½ inches in length are considered a flat or a parcel.

Rejects from automation also end up in the manual operation. Pieces may have been rejected due to an unreadable barcode and ID tag, inadequate customer addressing, or insufficient barcode (e.g., 5- or 9-digit code) for DPS processing. For example, the street directional (North or South) or suffix (St, Rd, Dr) may be missing, yet is required for coding to the delivery point when duplication exists in the address range. As stackers are swept in automated operations, many of these rejects arrive in manual operations close to the clearance time, which is the completion time necessary to meet dispatches. Manual operations are staffed accordingly to meet service commitments.”

(a) Does the Postal Service agree with Mr. McCrery that sorting letters manually is “considerably more costly to operations” than automated sorting? If not, please explain fully.

(b) Please reconcile Mr. McCrery’s statement with the Postal Service’s apparent position that manual processing (USPS response to GFL/USPS-23(d)) of Netflix inbound machinable letters may sometimes be deemed by the field to be the “most efficient method.”

(c) Does the Postal Service agree with Mr. McCrery that the primary reasons for manual processing are nonmachinability and rejects from automation?

(d) Please reconcile Mr. McCrery’s statement with the Postal Service’s assertion in this proceeding (Paragraph 35 of the USPS Answer) that “bypassing automated processing is motivated by an interest in getting all mail processed

during the available window so as to meet service standards and would accordingly apply to a lot of mail that is otherwise capable of being processed on automated equipment.”

RESPONSE:

a. Yes, in this example, although please note that Mr. McCrery was providing rate-case testimony about mail in general, and not about Netflix inbound processing in particular.

b. See the Postal Service’s response to GFL/USPS-71. Please note that Mr. McCrery was providing rate-case testimony about mail in general, and not about Netflix inbound processing in particular.

c. Yes, as a general matter.

d. See the response to part (b).