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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

**AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS
JOINT INTERROGATORIES TO USPS WITNESS FRONK
(ABA&NAPM/USPS-T33-1-23)**

(March 8, 2000)

Pursuant to Sections 25 and 26 of the Commission's Rules of Practice, the American Bankers Association (ABA) and the National Association of Presort Mailers (NAPM) hereby submit these joint interrogatories and requests for the production of documents. The instructions included with ABA&NAPM interrogatories ABA&NAPM/USPS-24-1-24 are hereby incorporated by reference.

ABA&NAPM/USPS-T33-1. Consider two products whose costs and physical attributes are identical, but one of which has copyright protection (at no charge) which enables the seller to charge a price higher than the competitive price. Assume the price of the competitive product is \$1, and the price of the copyrighted product is \$2. The windfall economic profit from the copyrighted product is \$1, and the price gap between the two representing the degree of distortion from a competitive price system is also \$1. Now, a lower percentage increase is applied to the higher priced

product than to the competitively priced product, 8% and 10% respectively.

a. Please confirm that the price gap between the two products further widens despite the fact that the percentage increase is lower for the higher priced product, thus worsening the degree of economic distortion away from a competitive price system,.

b. Please confirm that in this example the windfall economic profit grows from \$1 to \$1.06.

ABA&NAPM/USPS-T33-2

a. Regarding your comment at page 23, line 9, is there any reason why the extra ounce rate should be "returned" to the rate that "prevailed from 1991 until 1999" just because it was unchanged over that period?

b. Does the constancy of extra ounce rates over that period reflect the fact that it has been set primarily to meet the overall revenue requirement?

c. Please confirm on page 24, lines 1-6, that "underlying costs" is only the third mentioned factor you cite as affecting the setting of the extra ounce rate in this case, the revenue requirement and First Class cost coverage factors being the first and second, respectively.

ABA&NAPM/USPS-T33-3 You propose to raise all First Class, first ounce letter rates, single piece and workshared by one penny.

a. Please confirm that the whole cent rounding convention for

First Class single piece letter mail rates does not apply to First Class workshared letter mail rates.

- b. For each rate category, provide the cost justification for rounding up the rates by a full penny.
- c. Were it not for the whole cent rounding convention, what rate level would have been chosen for First Class single piece letter mail in this case?

ABA&NAPM/USPS-T33-4.

- a. Please confirm, referencing the statistics at page 7, line 11, that the potential growth of presorted/prebarcoded First Class mail is measured by the 32% of nonhousehold to household mail that is still sent without such worksharing activity, down from 46% in 1987.
- b. What percentage of that 32% is BMM?

ABA&NAPM/USPS-T33-5

- a. From Table 4, please confirm that the absolute increase (571 million pieces) and percentage increase (1.4%) in First Class workshared letters, flats and IPPs, has substantially fallen in the latest available year, relative to past history.
- b. To what degree is the lack of incentives from the then-existing discount structure responsible for this slowing of volume increases?
- c. To what degree is the improvement in volume growth of

workshared mail in GFY1999 (5.5% from RPW data) due to the increase in discounts that went into effect January 10, 1999?

ABA&NAPM/USPS-T33-6 On page 11, lines 5-7, you state "Nonpresort letter, flat, and parcel volume has grown slowly and has fluctuated in the 54 billion to 57 billion piece range during the last 12 years.

- a. Please confirm from your Table 4 that the peak in this volume trend was 56,788 million pieces in 1990.
- b. Please confirm that there has been no observable growth trend in this volume over the 12 year period 1987-1998.
- c. Please confirm that a simple trend line analysis of this volume data from 1990 to 1998 infers negative growth in this volume trend.

ABA&NAPM/USPS-T33-7 On page 13, you state that the additional ounce rate has grown from 9 to 23 cents, before being cut back to 22 cents in R97-1.

- a. Please confirm that the extra ounce rate was also cut by a penny in December of 1975, a 10% decrease from its base.
- b. Over this period 1975 - 1998, for First Class Mail, please state the annual contribution revenues from First Class extra ounces have contributed to postal finances.

ABA&NAPM/USPS-T33-8

- a. Please explain why a discount "incentive" for postal services provided by private mailers should only exist if the mailer can prebarcode or presort "at a lower cost than the Postal Service", as you state on page 17, line 21.
- b. Isn't competition for the Postal Service healthy in a competitive environment where costs (including the opportunity cost of capital) are the same or lower?
- c. Aren't discounts warranted for such a competitive market environment?

ABA&NAPM/USPS-T33-9

- a. Suppose postal mail processing services were priced directly in a competitive market without economies of scale or scope. If a "presort bureau" or other private mailer can provide postal services such as prebarcoding and presorting at a "price" equal to the Postal Service in such a market, please confirm that such private firms, ceteris paribus, can successfully compete.
- b. Please confirm that, unlike the market setting assumed in a., the Postal Service is now unconstrained from setting worksharing discounts so low that private sector mailers could not recover their costs.
- c. Please confirm that if the private sector can prebarcode and presort mail at a lower cost than the Postal Service including the opportunity cost of capital, in a competitive

market, the market share of mail processing handled by the private sector should grow, while that of the Postal Service should shrink.

ABA&NAPM/USPS-T33-10

Refer to footnote 2 on page 18.

- a. What percentage of metered mail is entered as BMM?
- b. Do the BMM activities of traying the mail, and metering it, save the Postal Service any costs, and if so what costs at what levels?
- c. Please confirm that worksharing mailers perform traying operations that save the Postal Service costs, including the front end activity of building the trays from cardboard flats, and removing USPS tags from the trays.
- d. Please confirm that use of the BMM benchmark denies worksharing mailers the avoided costs of traying and metering even though they perform this activity.
- e. Please confirm that BMM receives no discount for the traying and metering activities it performs.

ABA&NAPM/USPS-T33-11

- a. Please confirm that worksharing activities for which private sector mailers are not compensated in the current structure of discounts are nonetheless costs for these enterprises or divisions of firms while also being cost savings for the Postal Service.
- b. Please confirm that these non-compensated worksharing

activities must nonetheless be paid for by the structure of discounts, otherwise such private firms could not remain in business.

ABA&NAPM/USPS-T33-12 What is the Postal Service's "need for continued bulk mailer participation in that automation program" noted on page 19, lines 14-15?

- a. Is there a lack of capacity in automation equipment to handle the 45 billion pieces of First Class letter mail now processed by the private sector?
- b. Does the Postal Service envision reducing the capacity of the private sector to process First Class mail in the future, given its statement that the value of worksharing to the Postal Service may have peaked?

ABA&NAPM/USPS-T33-13 Referencing your discussion of Table 6 on pages 19 and 20, please confirm that over the period you discuss, unit costs for First Class single piece letter mail were going up, while unit costs for First Class workshared mail were going down.

ABA&NAPM/USPS-T33-14 Referencing your discussion on page 20, lines 12-21, please confirm that one reason for the smaller cost differences estimated in this case is simply a change in methodology which excludes certain cost pools that were included in the calculation of cost differences in prior rate and classification cases.

ABA&NAPM/USPS-T33-15

By cost differences between automation tiers on line 13, page 20, do you mean the cost difference between a prebarcoded letter and a 3D presorted prebarcoded letter, and also the difference between a prebarcoded 3D letter and 5D letter? If your answer is in the affirmative please explain fully the reasons for the "smaller" cost differences. If your answer is in the negative, please explain what you mean, and document the causes of the phenomenon.

ABA&NAPM/USPS-T33-16

Beyond the "value of worksharing to the Postal Service", that you consider on page 20, lines 19 and 20, is there a value of worksharing to the general public? If mail processing was priced as a separate postal service, what would the value of USPS mail processing be to the marketplace, and whose price would be lower, the Postal Service's or private sector presort bureaus?

ABA&NAPM/USPS-T33-17

- a. Referencing lines 10-11 on page 21, is the basic one ounce rate also "the most visible and important rate in the eyes" of the Postal Service?
- b. Please confirm that the rates that large volume mailers in First Class and Standard A commercial pay make up the bulk of the revenue and volume of the Postal Service.
- c. Are the rates that large volume mailers pay visible and important to the Postal Service?

ABA&NAPM/USPS-T33-18

Referencing the Daniel weight studies on page 24 of your testimony, please confirm that according to the Postal Service, the marginal cost of the second ounce is shown to be greater than the marginal cost of the first ounce.

ABA&NAPM/USPS-T33-19.

Consider two First Class letters, one weighing just under one ounce and the other weighing between one and two ounces. For First Class single piece, BMM and prebarcoded mail, please explain what postal services are provided for the extra ounce letter that are not already provided for and built into the less than one ounce letter that might explain the higher marginal cost the postal service alleges is associated with the second ounce. Please do this by each cost pool.

ABA&NAPM/USPS-T33-20.

In previous rate cases, the Postal Service has alleged that the "value of presortation goes down in an automated environment." Hundreds of private sector mailers have sought to fit into the new system by prebarcoding as well as presorting their mail, making substantial capital expenditures in the process. Now, in R2000-1, the Postal Service is alleging that "the value of worksharing to the Postal Service has peaked" in your testimony, page 27, lines 12-13.

- a. Please confirm that the value of worksharing to the marketplace (i.e. the costs of mail processing to the

consumer) is not the same thing as the value of worksharing to one competitor in the marketplace, namely the Postal Service.

- b. Please confirm that the wage structure of the Postal Service renders the total cost of barcoding and sorting letter mail greater than the costs of the private sector for the same activities.
- c. Please confirm that if mail processing was directly priced in the market, costs for private sector processing operations that are now not taken into account in setting discounts would be included in the cost-price structure of the marketplace, as both USPS operations and presort bureau operations incur these costs.
- d. Please confirm that among these costs are all "associated worksharing" activities, including the mail processing operations USPS witness Miller has excluded in this case.

ABA&NAPM/USPS-T33-21. You argue on page 31, line 4, that the costs for presort mail "catch up for heavier pieces" as a justification for not reducing the additional ounce rate for presort letters. Please confirm that almost all the presort extra ounce volume (93%) is concentrated in the 1 to 3 ounce range, and not the heavier pieces.

ABA&NAPM/USPS-T33-22

Please be specific about the

operational difficulties you cite on page 34, lines 3-4 if a "large portion of the nearly 45 billion workshared First Class Mail pieces reverted to the Postal Service for sorting and barcoding." How many more MLOCs and BCSs and space would the Postal Service have to purchase? How many and what other types of extra equipment would it have to purchase? How many more manhours would it have to purchase? What would be the incremental costs associated with each of these purchases, that is the total costs associated with moving private sector processing activities back within the Postal Service?

ABA&NAPM/USPS-T33-23

Please confirm that in your rate proposal, the percentage rate increases for all First Class workshared letter mail are between 22% and 39% higher than the rate increase for First Class single piece letter mail, first ounce. What is your justification for such treatment for workshared mail?

Respectfully submitted,
AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

By: _____



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Date: March 8, 2000
Washington, D.C.

CERTIFICATE OF SERVICE

I hereby certify that I have this date caused the foregoing document to be served upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



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