

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

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POSTAL RATE COMMISSION  
OFFICE OF THE CHIEF COUNSEL

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS PLUNKETT TO INTERROGATORIES OF  
THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T36-1-7)

The United States Postal Service hereby provides the responses of witness Plunkett to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T36-1-7, filed on February 22, 2000.

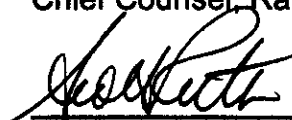
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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March 7, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
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OCA/USPS-T36-1. Please refer to your testimony at page 13. There you state, in regard to Parcel Post, that "Rates have been constrained such that no rate is allowed to increase by more than 10 percent."

- a. Please explain on what the basis you chose ten percent.
- b. If the ten percent constraint relies on a study or other empirical evidence, please provide such evidence.
- c. Did you consider other constraints? If so, what were they and why were they rejected.

OCA/USPS-T-36-1 Response.

a. – b. The decision to use 10 percent as an upper limit was based on my application of the statutory ratemaking criteria in this case. In arriving at this limit I considered the revenue required from parcel post, the increases that were being considered for other classes, and previous Commission recommendations on parcel post.

c. The use of this particular ceiling does not represent a rejection of other specific constraints, but represents what I considered to be a reasonable boundary given the existing circumstances of this case. There were no other constraints considered explicitly.

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OCA/USPS-T36-2. Please refer to your testimony at page 13-14. There you state, in regard to Parcel Post, that "Moreover, for the newest rate categories, rate changes were restricted so that no rate could change by more than 2 percent in either direction."

- a. Please explain on what the basis you chose two percent.
- b. If the two percent constraint relies on a study or other empirical evidence, please provide such evidence.
- c. Did you consider other constraints? If so, what were they and why were they rejected.
- d. Please specify exactly what you refer to as "newest rate categories." Do these include the DSCF and DDU rate categories added in Docket No. R97-1?

OCA/USPS-T-36-2 Response.

- a. In the case of the rate categories established in Docket No. R97-1, I was reluctant to propose drastic changes in rates due to the lack of empirical data with which to judge the appropriateness of the existing rates (see also page 13 of my testimony). Moreover, the lack of empirical data makes it difficult to predict the effect of price changes, and because consolidators and their mailer clients have made investments and contracts based on the current rate relationships, significant changes in those relationships could hinder the orderly development of these new worksharing arrangements.
- b. The process by which I arrived at this constraint is similar to that described in my response to OCA/USPS-T-36-1, however, in this particular case my main concern was rate stability given the relative newness of the rates in these categories.
- c. No.
- d. My testimony refers to the DSCF and DDU categories in this instance.

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OCA/USPS-T36-3. Did you constrain any other rates or rate categories of Parcel Post that are not included in those discussed in OCA/USPS-T36-2 & 3 above? If so, please give a detailed explanation of such constraints.

OCA/USPS-T-36-3 Response.

No.

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OCA/USPS-T36-4. Please refer to your testimony at page 9. There you state, in regard to Express Mail, that "The rate increases for each rate element were constrained to be no more than 4.5 percent consistent with rounding constraints, rates were rounded up to the nearest nickel and rates for Post Office to Addressee are set to be at least twice the Priority Mail rates for zone 5."

- a. Please explain on what the basis you chose 4.5 percent.
- b. If the 4.5 percent constraint relies on a study or other empirical evidence, please provide such evidence.
- c. Did you consider other constraints? If so, what were they and why were they rejected?

OCA/USPS-T-36- 4 Response.

a. – b. The decision to use 4.5 percent as an upper limit was based on my application of the statutory ratemaking criteria in this case. In arriving at this limit I considered the revenue required from Express Mail, the increases that were being considered for other classes, and previous Commission recommendations on Express Mail. Rounding the rates to the nearest nickel and maintaining a suitable gap between Express Mail and Priority Mail are consistent with long standing ratemaking practice..

c. The use of this particular ceiling does not represent a rejection of other specific constraints, but represents what I considered to be a reasonable boundary given the existing circumstances of this case.

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OCA/USPS-T36-5. Please refer to your testimony at page 9. There you state, in regard to Express Mail, that "The popular letter rate, which accounts for 78 percent of all Express Mail volume, is proposed to be increased from "11.75 to \$12.30, an approximate 4.7 percent increase."

- a. Please explain on what the basis you chose 4.7 percent.
- b. Do you consider this to be a constraint on the increase for the letter rate?  
Please explain why or why not.

OCA/USPS-T-36- 5 Response.

- a. – b. For this particular rate I used the same 4.5 percent constraint as with other Express Mail rates. A 4.5 percent increase over the existing rate produces a rate of \$12.28 which, when rounded to the nearest nickel is \$12.30.

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OCA/USPS-T36-6. Please refer to your testimony at page 9. There you state, in regard to Express Mail, that "In a number of cells in each category, particularly for pieces weighing between 20 and 35 pounds, I manually adjusted rates to preserve reasonable relationships between adjacent weight cells."

- a. Please provide several examples of these manual adjustments with an explanation of how it preserved reasonable rate relationships.
- b. Please indicate what you mean by "a number." A count of cells is not necessary, a percent or a range is satisfactory in order to give the magnitude of "a number."

OCA/USPS-T-36-6 Response.

- a. For example, the rate for a 25 pound PO to addressee piece was adjusted so that the rate would be \$1.40 more than the rate for a 24 pound piece. These adjustments were introduced to preserve relatively uniform relationships between adjacent cells within a rate category. For the same weight increment I adjusted the PO to PO rate so that it would be \$2.30 less than the PO to addressee rate, and adjusted the Custom Designed rate to be \$0.20 less than the PO to PO rate. These adjustments were made to maintain a consistent relationship among rate categories for a particular rate increment.
- b. Manual adjustments of the kind described in part a were made to approximately 7 percent of the rate cells.

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OCA/USPS-T36-7. Please refer to your testimony at page 14. There you discuss the amount of the passthroughs you use for various surcharges and discounts applicable to Parcel Post.

- a. Please explain how a decision to pass through lesser amounts of the cost differences (in rate categories in which the passthrough was 100 percent) would have affected the rates for Parcel Post. For example, what would be the effect of a 50 percent or a 75 percent passthrough?
- b. If passthroughs were held to 50 or 75 percent, as above, would you have changed/reconsidered your general ten percent constraint on Parcel Post rates? Please explain in detail.

OCA/USPS-T-36-7 Response.

- a. Because surcharges apply in relatively limited circumstances, changing passthroughs would have had a minimal effect on rates in general. In the case of discounts, however, one would expect the effect on rates would be greater, and that with smaller discounts, the rate increase needed to produce a given revenue level would be smaller. In order to provide a more detailed response, it would be necessary to produce a volume forecast incorporating these assumptions. I would also point out that in producing final rates I constrained the rates for discounted categories. The practical effect of these constraints was higher rates than would have resulted otherwise; an effect similar to what would be produced by limiting passthroughs in this case.
- b. The use of 100 percent passthroughs – except in the case of new non-machinable surcharges – was an assumption that I employed throughout the rate design process. I have not performed any analysis to estimate the effect of rates of passthrough adjustment. However, as mentioned in my response to part a, the constraints I employed in the rate design process produce a similar effect on rates - in direction if not in magnitude. As is also mentioned



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in my response to part a, a definitive answer is difficult in the absence of a volume forecast that incorporates the assumptions that have been posed.

DECLARATION

I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Dated: 3/7/00

Michael K. Plunkett

**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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March 7, 2000