

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF VAL-PAK DIRECT
MARKETING SYSTEMS, INC., VAL-PAK DEALERS' ASSOCIATION, INC.,
AND CAROL WRIGHT PROMOTIONS, INC.
(VP-CW/USPS-T35—9-18)**

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions: VP-CW/USPS-T35—9-18, filed on March 8, 2000.

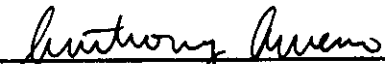
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 22, 2000

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
OF VAL-PAK AND CAROL WRIGHT PROMOTIONS**

VP-CW/USPS-T35-9.

- a. Did you utilize the principles of Ramsey pricing in any way when designing Standard A rates? Please explain your answer, regardless of whether it is affirmative or negative.
- b. Do these principles have any relevance to rate design within the Standard A subclasses? Please explain your answer, regardless of whether it is affirmative or negative.

RESPONSE:

- a. No. The issue of the appropriate allocation of institutional costs is one that customarily has been handled at the subclass level, and that is not the subject of my testimony. I understand, however, that many of the types of issues that would need to be addressed to respond fully to this question are discussed in of the testimony of Peter Bernstein, USPS-T-41. See witness Mayes' testimony (USPS-T-32) at page 19 for a discussion of Ramsey pricing and its effect on the rate level proposals.
- b. The relevant guidelines to be followed within the Standard Mail (A) subclasses are described throughout my testimony. I do not have an opinion as to whether Ramsey pricing principles have relevance below the subclass level, although, as a practical matter, I know of no reason why one could not approach the rate design with some consideration of relative demand.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
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VP-CW/USPS-T35-10.

- a. Please explain your familiarity with and understanding of the concept of efficient component pricing.
- b. In your opinion, is efficient component pricing an important principle for design of rates in the Standard A subclass?
- c. Suppose the average rate increase for one subclass is substantially higher than the rate of inflation, while the average rate increase for a second subclass is substantially less than the rate of inflation. Is efficient component pricing a more important principle for rate design in either of the two subclasses? For each case, please explain why or why not.
- d. When determining the various passthroughs that you recommend within the Standard A subclass, what effort did you make, if any, to incorporate the principle of efficient component pricing?

RESPONSE:

- a. Witness Bernstein (USPS-T-41) defines the principle at page 78, lines 9-12, as
“designed to minimize the total cost of providing mail service by establishing the workshare discount that provides incentives for the party (the Postal Service or the mailer) with the lower cost of performing the workshare activity to perform that activity.”
- b. Yes, but it is not the only principle.
- c. The principle itself is important and is considered within each subclass. While a number of considerations must be weighed in the rate design, the overall percentage increase and whether it is above or below the rate of inflation does not, by itself, render efficient component pricing more or less important.
- d. My testimony recognizes the cost savings due to worksharing while meeting the other rate design constraints and objectives described throughout my testimony.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
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VP-CW/USPS-T35-11. For cost savings that arise from dropshipment of Standard A ECR Mail, you recommend passthroughs varying between 73 and 77.5 percent in this case.

- a. Do these passthroughs represent the "optimal" passthrough for Standard A ECR Mail, or are they constrained in this case by other considerations? If the latter, please describe all other considerations that you consider significant.
- b. Under what conditions would you consider a 100 percent passthrough for dropship discounts to be appropriate?
- c. Under what conditions would you consider a passthrough of more than 100 percent (e.g., including a markup) for dropship discounts to be appropriate?
- d. Was consideration given to retaining the current passthrough of 85 percent (see Docket No. R97-1, *Op. & Rec. Dec.*, para 5501)? If so, why was this option rejected? If not, why not?

RESPONSE:

- a. I view these passthroughs as optimal in that they meet the objectives of the rate design as discussed in my testimony, page 14, line 14, through page 16, line 15, and page 26, line 16, through page 17, line 3. Another factor one might want to consider is the fact that the dropship savings are expressed in terms of cents per pound, and the discount for letters assumes a weight of 3.3 ounces, even though the average weight for a letter is significantly lower.
- b. A 100 percent passthrough might be appropriate if it did not cause other rate design objectives to not be met. Also, see responses to interrogatories MOAA/USPS-T35-1-2.
- c. As is the case with the automation discounts in this proposal, passthroughs of greater than 100 percent can be considered if necessary to avoid significant reduction in the current discounts. Such a consideration would be sensitive to the investments made by mailers to take advantage of the discounts.

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- d. As described in my testimony at page 5, lines 1-3, in general, the rate design process begins with the passthroughs underlying the current discounts. On page 15, lines 1-3, of my testimony, I note that passthroughs higher than those proposed would conflict with the general guideline of tempering individual rate increases. Also on page 15, lines 4-11, of my testimony, I describe the effort to maintain or increase the differential between the levels of destination entry.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
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VP-CW/USPS-T35-12. Transportation costs represent a significant portion of the costs avoided by dropshipment to destinating facilities. In Priority Mail rate design, transportation cost differences reflect cost plus contingency plus markup (see USPS-T-34). Your cost differences are between 73 and 77.5 percent of identified cost savings. Which principle of rate design is correct? That is, is it most desirable to reflect transportation cost differences in rate design at (i) less than 100 percent, (ii) 100 percent, or (iii) somewhat more than 100 percent (e.g., the full cost difference times the subclass coverage factor)? Regardless of your answer, please explain all rate design principles upon which you rely to support your position.

RESPONSE:

I believe that it is desirable to reflect transportation costs in a manner that is consistent with the rate design objectives for a particular subclass. In both Standard Mail (A) and Priority Mail, a markup and contingency are applied to transportation costs. However, the cited aspects of Priority Mail rate design and Standard Mail (A) rate design are not directly comparable. In Standard Mail (A), some transportation costs and mail processing costs are deemed destination-entry related and are quantified for purposes of offering a workshare discount. As such, a passthrough of these costs (which represent savings to the Postal Service if the mailer performs the activity) is applied to determine a discount. See my response to interrogatory VP-CW/USPS-T35-11 regarding the level of the passthrough and how much of the cost difference should be reflected in the rate design. As with all workshare discounts, these calculated cost differentials are not marked up. It is my understanding that there are no workshare discounts in Priority Mail.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
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VP-CW/USPS-T35-13.

- a. At page 5 (l. 18) of your testimony, you state that the Postal Service has a "desire to moderate rate increases for individual categories." Please explain (i) the basis or reason why individual categories should have their rate increases moderated, and (ii) whether such moderation is inconsistent with having rates that reflect costs.
- b. Assume that the Standard A Regular or ECR Subclass as a whole has an average rate increase of X percent. What is the maximum increase in any given rate cell, stated as a multiple of X, that you consider to be desirable? Please explain the basis for your answer.

RESPONSE:

- a. In my testimony, I cite the principle embodied in criterion 4 of the statutory ratemaking criteria as the basis for moderating the rate increases for individual categories. Such moderation is not inconsistent with rates based on costs.
- b. The rate design did not employ a multiple of the overall subclass rate change as the upper bound on rate increases for individual cells. In ECR, the highest percentage increase for non-destination entry rates is roughly two times the overall subclass change. This is not the analysis that was employed in the rate design, although the result, a maximum of about 10 percent, is not unacceptable.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
OF VAL-PAK AND CAROL WRIGHT PROMOTIONS**

VP-CW/USPS-T35-14. Does the Postal Service have any delivery standards (or service standards or goals, commitments, etc., by whatever name they are called), other than those identified in Attachment G of the Postal Service's request (in response to Rule 54(n)) for delivery of (i) Standard A ECR Mail and (ii) Standard A Regular Mail?

RESPONSE:

It is my understanding that the cited attachment depicts the current service standards for Standard Mail (A).

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
OF VAL-PAK AND CAROL WRIGHT PROMOTIONS**

VP-CW/USPS-T35-15. Please provide all data in the possession or control of the Postal Service that show actual performance in the delivery of (i) Standard A ECR Mail and (ii) Standard A Regular Mail since reclassification in Docket No. MC95-1.

RESPONSE:

It is my understanding that there are no nationally representative performance data for these categories for this time period.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
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VP-CW/USPS-T35-16. For (i) Standard A ECR Mail and (ii) Standard A Regular Mail, what performance measurement system does the Postal Service plan to have implemented by the end of the Test Year, and what performance data do the Postal Service plan to have available by the end of the Test Year?

RESPONSE:

It is my understanding that there is no plan to have any performance data for Standard Mail (A) available by the end of the test year.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
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VP-CW/USPS-T35-17. Since the Postal Reorganization Act became effective, please identify (i) each occasion when the Postal Service attempted to develop a performance measurement system for third-class or Standard A Mail, (ii) any results obtained from each such performance measurement system, and (iii) the elapsed time from the beginning of implementation until discontinuance.

RESPONSE:

Although I am not familiar with the history of performance measurement since postal reorganization, I am aware that there have been a number of efforts (e.g., EX3C, ADVANCE/DAR, TCMAS) to measure performance of individual mailers' mail, with the goal of developing nationally representative performance figures; however, it is my understanding none of these efforts culminated in a performance measurement system.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES
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VP-CW/USPS-T35-18. Has the Postal Service ever attempted to develop an external performance measurement system for monitoring the service given to third-class mail or Standard A Mail? Please explain fully any affirmative answer.

RESPONSE:

It is my understanding that the Postal Service developed EX3C; however, it did not culminate in a performance measurement system. See response to VP-CW/USPS-T35-17.

DECLARATION

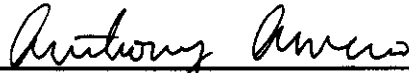
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


JOSEPH D. MOELLER

Dated: 3/22/00

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 22, 2000