

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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OFFICE OF THE SECRETARY

Postal Rate and Fee Changes

Docket No. R2000-1

RESPONSE OF POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY VP-CW/USPS-T34-1

The United States Postal Service hereby provides the response of Postal Service witness Robinson to the following interrogatory of Val-Pak Direct Marketing Systems, Inc., et al., filed on March 22, 2000: VP-CW/USPS-T34-1.

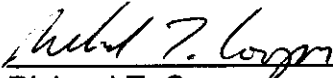
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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April 5, 2000

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT
PROMOTIONS, INC.

VP-CW/USPS-T34-1.

- a. Please refer to your response to APMU/USPS-T34-19. Please confirm that, in Priority Mail rate design, the difference in the rate for an item mailed to zone L, 1, 2, 3, and an item mailed to, say, zone 6, reflects distance-related transportation cost plus contingency plus markup. Please provide a detailed explanation for any nonconfirmation.
- b. Please confirm that the difference in the rate for pound-rated Standard A Mail entered at, say, a DSCF, and the same mail entered at a OMBC reflects only costs avoided by the Postal Service, without any contingency or markup, which costs in turn may be multiplied by a passthrough of less than 100 percent.
- c. Please provide a detailed explanation for any nonconfirmation. Please explain why this different treatment between subclasses (i.e., cost plus contingency plus markup in one instance, and less than 100 percent of costs avoided in the other) is (i) fair and equitable, (ii) consistent, and (iii) smart business for the Postal Service.
- d. Please refer to your response to APMU/USPS-T34-32.
 - (i) What different approaches to marking up distance-related transportation costs for Priority Mail did you discuss with Postal Service management?
 - (ii) What led you to retain the method used in this docket?

RESPONSE:

- a. Confirmed. See USPS-T34, Attachment G.
- b. Confirmed.
- c.
 - (i) The difference in the rate design for zoned Priority Mail and Standard Mail (A) is fair and equitable because of the dramatic differences in the mail

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characteristics of the two classes and the resulting effect on costs. While Standard Mail (A) pieces can weigh no more than 16 ounces, zoned Priority Mail rates are used for mail pieces weighing from five to seventy pounds. Transportation costs increase as weight and distance transported increase. The zoned rates reflect this and application of the markup and contingency to all costs including distance-related transportation costs is fair and equitable. It would be inequitable, and patently absurd, for a five-pound piece destinating in Zone 1 to pay the same contribution to institutional costs as a seventy pound piece destinating in Zone 8. Nonetheless, this is what the premise of this question implies.

Note: Total distance-related Priority Mail costs are \$454,124,369 (= 267,629,452 air + 186,492,917 surface, see USPS-T34, Attachment G, page 1). If the rate design does not mark up these costs and include a contingency on these costs, approximately \$378,737,221 (= 454,124,369 * (.809 + .025)) must be added to the costs recovered through the "per-piece" charge to maintain the overall Priority Mail cost coverage proposed by witness Mayes and meet the contingency proposed by witness Tayman. In the test year before rates this is approximately \$0.2792 (= 378,737,221 / 1,356,714,577) per piece.

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(ii) The difference in the rate design for zoned Priority Mail and Standard Mail (A) is consistent when the two rate structures are compared on an apples-to-apples basis. The scenario as described in APMU/USPS-T34-19 could be viewed as "unfair" to Standard Mail (A) -- the discount for drop shipment is only equal to a fraction of the avoided transportation costs instead of the 100% of avoided transportation costs plus markup plus contingency inherent in the "imputed discount" for Priority Mail destinating in Zone 1. Or this scenario could be viewed as "unfair" to Priority Mail -- the cost of transporting mail from Zone 1 to Zone 8 includes a markup and a contingency while the Standard Mail (A) discount or "cost" of avoided Postal Service transportation does not include a markup or contingency. Both these arguments ignore the fact that the rate designs for end-to-end service for both Priority Mail and Standard Mail (A) are consistent and include distance related transportation costs to which both a mark-up and the contingency are applied. The Standard Mail (A) dropship discount is designed to provide incentives for mailers to reduce combined overall costs by dropping Standard Mail (A) pieces deep in the postal system thus avoiding mail processing and transportation costs. On the other hand, Priority Mail is structured as a completely end-to-end system, the zoned structure reflects costs and not incentives for mailer worksharing. If, in the future and following the completion and evaluation of the appropriate costing studies, the Postal

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Service were to propose drop ship discounts for Priority Mail, it is unlikely that these incentives would eliminate the zoned rate structure for pieces weighing more than five pounds.

(iii) The difference in the rate design for zoned Priority Mail and Standard Mail (A) makes smart business sense for the Postal Service because it appropriately reflects the differences in the characteristics and costs for the two classes of mail.

d.

(i) In preparing the Priority Mail rate design for Docket No. R2000-1, I discussed with Postal Service management witness Haldi's proposals in prior omnibus rate cases to eliminate the markup on the distance-related component of transportation costs.

(ii) Witness Haldi's proposal was rejected because the Postal Service shares the Commission's concern (see Docket No. R94-1, PRC Op. at V-38) that implementing such a proposal may result in significant disruption in Priority Mail rates.

DECLARATION

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

Maura Robinson
MAURA ROBINSON

Dated: 4.5.2000

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.



Richard T. Cooper

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