

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—27-28)**

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—27-28, filed on April 7, 2000.

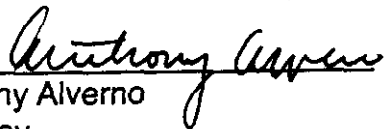
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 18, 2000

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

**VP-CW/USPS-T35-27.** Please refer to your response to VP-CW/USPS-T35-21, where you confirmed that under the Postal Service's proposed rates, Standard A ECR Basic letters face a rate increase of 8.0 percent; Automation — 4.5 percent; High Density — 9.4 percent; and Saturation — 10.0 percent. You were asked (i) why do Automation letters receive a below-average rate increase, while Basic, High-Density and Saturation letters receive a rate increase which is substantially above the subclass average, and (ii) why is the requested rate increase for Saturation letters more than double the subclass average? You responded that "[t]he relative rate increases are driven by the costs underlying the discounts and rate differentials, as well as the passthroughs selected." However, in your response to NAA/USPS-T35-17, you state that a presortation passthrough of 100 percent would have given Automation letters nearly a 10 percent increase, and that avoiding such an increase was a "rate design objective."

- a. Why was it a rate design objective to reduce Standard A Regular Automation letter rate increases from nearly a 10 percent increase, but not Standard A ECR High Density, and Saturation letter rates?
- b. How were the passthroughs selected for Standard A ECR Basic, Automation, High Density, and Saturation letters?

RESPONSE:

- a. The response to interrogatory NAA/USPS-T35-17 addresses why a less-than-100-percent passthrough was selected for presort discounts in the Regular subclass. As stated in the response, the passthrough was selected to offset some of the "push-up" that Basic automation letters were receiving due to efforts to limit the rate increases for automation flats. The response notes that, absent the lower presort passthrough, the increase for Basic automation letters would have approached 10 percent. However, the 10 percent figure, per se, was not the driving factor in the passthrough selection. Rather, it was the acknowledgement that Basic and 3-digit automation letters were bearing the brunt of the efforts to limit the increases automation flats. (As discussed in response to interrogatory NAA/USPS-T35-10, one of the rate design objectives is to monitor cells that are pushed up in order to finance the limitations on percentage increases for individual cells.) By contrast, in

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ECR, High Density and Saturation letter rates were not "bearing the brunt" of efforts to avoid rate shock elsewhere in the ECR rate schedule, so the 10 percent increases were not particularly troublesome. In fact, efforts were made in the rate design to limit the percentage increases to 10 percent (similar to the efforts for automation flats in the Regular subclass.)

- b. The passthroughs were selected as described in my testimony. In general, the rate design began with the passthroughs used in the Commission Recommended Decision from Docket No. R97-1; those passthroughs were adjusted to meet rate design objectives. For instance, to limit the rate increase for saturation letters, the passthrough between Basic and High-Density letters was increased from 100 percent to 125 percent.

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**VP-CW/USPS-T35-28.** Please refer to your response to VP-CW/USPS-T35-22, where you state that the rate relationships between letters and nonletters in the Standard A ECR rates are fair and equitable.

- a. Were the presort discounts (i) for nonletters calculated from nonletter costs incurred, and (ii) for letters calculated from letter costs incurred?
- b. If so, how is this approach fair and equitable, since Basic letter rates, which serve as the baseline for other ECR letter rates, are artificially high, with the letter-flat differential passthrough for ECR Basic rates set at zero? Please explain why it would not be more appropriate to calculate ECR letter rates from the baseline of actual letter-flat cost differential data.

**RESPONSE:**

- a. The presort discounts (or density discounts) for letters and nonletters are based on cost differentials between the tiers for letters and nonletters, respectively. See USPS-T-35, WP1, page 19, column (2), lines 2, 3, 7, and 8.
- b. Actually, at page 26, lines 9-10, of my testimony, I state that the high passthrough (125 percent) between the Basic and High Density letter tiers helps mitigate the effect of the zero percent passthrough for shape at the Basic tier. Incidentally, if the High Density discount for letters were viewed purely as an incentive for Basic letters to be prepared as High Density, a 100 percent passthrough would create the appropriate price signal regardless of how the Basic letter rate was set. Also, a zero percent shape passthrough at the Basic tier, accompanied with 100 percent passthroughs for the density tiers in Docket No. R97-1, is what underlies the current rates, which were established by the Commission with due consideration of fairness and equity.

**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: 4/18/00

**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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