

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY  
Docket No. R2001-1

POSTAL RATE AND FEE CHANGES, 2001 )

VAL-PAK DIRECT MARKETING SYSTEMS, INC.  
AND VAL-PAK DEALERS' ASSOCIATION, INC.  
FIRST INTERROGATORIES AND REQUESTS FOR  
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE  
WITNESS JOSEPH D. MOELLER (VP/USPS-T28-1-8)  
(October 19, 2001)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc. hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,



William J. Olson

John S. Miles

WILLIAM J. OLSON, P.C.

8180 Greensboro Drive, Suite 1070

McLean, Virginia 22102-3860


(703) 356-5070

Counsel for:

Val-Pak Direct Marketing Systems, Inc. and  
Val-Pak Dealers' Association, Inc.

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.

  
William J. Olson

October 19, 2001

**VP/USPS-T28-1.**

At page 36 of your testimony, you propose an aggregate cost coverage for Standard ECR and Nonprofit ECR of 217.8 percent.

- a. Please provide separate cost coverages for (i) ECR and (ii) Nonprofit ECR underlying your proposal.
- b. Is it your view that passage of P.L. 106-384 makes the separate coverages less important?
- c. Is it your view that the passage of P.L. 106-384 makes it inappropriate to provide distinct cost and coverage data on ECR and Nonprofit ECR?

**VP/USPS-T28-2.**

At page 33 of your testimony, you propose an aggregate cost coverage for Standard Regular and Nonprofit of 146.2 percent.

- a. Please provide separate cost coverages for (i) Regular and (ii) Nonprofit underlying your proposal.
- b. Is it your view that the passage of P.L. 106-384 makes the separate coverages less important?
- c. Is it your view that the passage of P.L. 106-384 makes it inappropriate to provide distinct cost and coverage data on Regular and Nonprofit?

**VP/USPS-T28-3.**

In your testimony, you state that in common with Standard Regular, the intrinsic value for Standard ECR is relatively low, since it lacks access to the collection system, receives ground transportation, has no free forwarding and its delivery may be deferred. (USPS-T-28, p. 37, ll. 1-3.) Moreover, you add that the price elasticity of ECR is higher than Regular, indicating that ECR has a comparatively lower economic value of service. (*Id.*, ll. 10-12.) You also observe that deferrability of ECR may be higher than Regular.

- a. Which of the noncost criteria in 39 U.S.C. § 3622(b) support a higher cost coverage for ECR when compared to Regular?
- b. Which of the noncost criteria in 39 U.S.C. § 3622(b) support a lower cost coverage for ECR when compared to Regular?
- c. Given your assessment of the noncost criteria, why did you select a cost coverage for ECR (and Nonprofit ECR) that was more than 70 percentage points higher than that assigned to Regular (and Nonprofit)?
- d. Given your assessment of the noncost criteria, why do you recommend cost coverages for ECR and Regular which would result in the markup index for ECR (and Nonprofit ECR) being nearly 2.5 times the markup index assigned to Regular (and Nonprofit)?
- e. Given your assessment of the noncost criteria, why do you recommend cost coverages for ECR and Regular which would result in the unit contribution from ECR (and Nonprofit ECR) being nearly 2.0 cents higher than the unit contribution from Regular (and Nonprofit) under your proposed rates; *i.e.*, a

proposed unit contribution of 8.75 cents from ECR (and Nonprofit ECR) versus 6.79 cents from Regular (and Nonprofit)?

- f. Since you state that ECR is subject to higher “deferrability” than Regular, would you agree that ECR may have worse service performance than Regular? If not, why not?

**VP/USPS-T28-4.**

- a. Is daily, six-days-per-week delivery as important for Standard ECR as it is for First-Class and Express Mail? Please explain any positive answer.
- b. When applying the non-cost criteria, what factors did you find in common among First-Class letters, Express Mail, and Standard ECR to support your decision to give them similar cost coverages?

**VP/USPS-T28-5.**

In Docket No. R2000-1, the Postal Service’s Reply Brief (pp. V-26-V-27) stated:

Witness Haldi shows that the unit contribution of ECR exceeds that of Regular by 2.6 cents in the base year. This disparity is projected to grow to more than 4 cents in FY 2000. Tr. 32/15796-97. These figures prompt witness Haldi to advocate in favor of a progressively lower unit contribution of ECR relative to Regular subclass mail. Tr. 32/15807. If the Commission insists upon conducting unit contribution comparisons, then witness Haldi’s analysis is highly persuasive. USPS-T-32 at 39. Nevertheless, for purposes of this proceeding, witness Mayes acknowledges that, but for the need to avoid shifting the institutional cost burden borne by ECR to other subclasses, the Postal Service would have proposed to reduce ECR rates beyond those actually proposed. USPS-T-32 at 39.

- a. Did you conduct any unit contribution comparisons of Regular and ECR before determining your proposed coverages?
  - (i) If so, what did your analysis show?
  - (ii) If not, why not?
- b. Are unit contributions a useful basis for comparing subclasses within the same class? Please explain your answer.

**VP/USPS-T28-6.**

In your testimony at page 37, lines 15-17, you observe that ECR (like other mail products) received two rate increases in 2001, and faces another rate increase in this docket. You note that ECR mailers are relatively sophisticated (p. 38, l. 6), and have a broad range of alternatives (p. 37, ll. 18-20). You also identify ECR as having one of the highest price-elasticities (in absolute value) (p. 6, Table 2). Given these factors, particularly in combination, why was ECR's cost coverage not moderated further? Please explain your answer.

**VP/USPS-T28-7.**

- a. Please confirm that RPW data for Postal Quarters 2 and 3 of FY 2001, reflecting only the impact from the January 7, 2001 rate increase, and not the impact from the July 1, 2001 rate increase, show that **First-Class** volumes were up 362,160,000 in PQ2, and down 149,505,000 in PQ3, for a **net gain** of 212,655,000 compared to Same Period Last Year ("SPLY"). If you do not confirm, please explain.

- b. Please confirm that Standard ECR volumes were down 372,518,000 in PQ2, and 515,856,000 in PQ3, for a net loss of 888,374,000 SPLY (a decrease of 6.1 percent for the two quarters combined SPLY). If you do not confirm, please explain.
- c. Did you take into account ECR's loss of volume from the January 2001 rate increase in setting cost coverage and revenue targets for Docket No. R2001-1? Please explain your answer.
- d. What conclusions do you draw concerning coverage from these volume data?
- e. For PQ4, do you expect the July 1, 2001 rate increase will result in further precipitous decreases in ECR volume, contrasted to SPLY? Please explain your answer.
- f. Is it not probable that your proposed Docket No. R2001-1 rates would result in an even more dramatic reduction in ECR volumes, and its resultant loss in contribution to institutional costs? Please explain your answer.

**VP/USPS-T28-8.**

- a. Would you agree that your proposed coverage of 217.8 percent for Standard ECR and Nonprofit ECR results in a markup of 117.8 percent? If you disagree, please provide the correct markup.
- b. Would you agree that your proposed coverage of 146.2 percent for Standard Regular and Nonprofit results in a markup of 46.2 percent? If you disagree, please provide the correct markup.

- c. Would you agree that the ratio of the ECR/Regular markups is 2.55 (*i.e.*, 117.8/46.2)? If you disagree, please provide the correct ratio.
- d. When considering the appropriate markup and coverage of Standard ECR relative to Standard Regular, did you consider the relative markups of these two subclasses shown under Postal Service witness Bernstein's (USPS-T-10) Ramsey-based After-Rates Prices in Table 17 of USPS-T-10; *i.e.*, 45.7 percent for Regular and 18.0 percent for ECR, or Regular/ECR ratio of 2.54?
- e. If you did consider the above-cited testimony of witness Bernstein, please indicate what consideration you gave it. If you chose to ignore totally witness Bernstein's testimony, please explain why.
- f. Your coverage and markup recommendations for Standard Regular/Nonprofit and ECR/Nonprofit ECR seem to have totally reversed witness Bernstein's indicated markup ratio. Was this purely coincidental, or did you intend this result?