

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

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POSTAL RATE AND FEE CHANGES, 2001

Docket No. P2001-1
POSTAL RATE COMMISSION
SECRETARY

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF VAL-PAK DIRECT
MARKETING SYSTEMS, INC. AND VAL PAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T32—1-4)**

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc: VP/USPS-T32—1-4, filed on October 11, 2001.

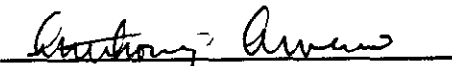
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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October 24, 2001

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.
AND VAL-PAK DEALERS' ASSOCIATION**

VP/USPS-T32-1. Please refer to your testimony at pages 3-5, where you discuss extension of the weight limit for Standard Mail Regular Automation letters.

- a. Please confirm that one rationale for your proposal is that it will enable mailers of Standard Regular Automation letter-shaped mail that weighs between 3.3 and 3.5 ounces and that can be processed on automation equipment to avoid a big increase in postage that otherwise would occur when an automation letter crosses the breakpoint weight. If you do not confirm, please explain fully.
- b. Is it your understanding that the Postal Service can and does process routinely on automation equipment letter-shaped mail that weighs between 3.3 and 3.5 ounces and is pre-barcoded? If not, please explain.
- c. Please state and explain any other justification or rationale on which you rely to support your proposed rates for Standard Regular and Nonprofit Automation letters that weigh between 3.3 and 3.5 ounces.

RESPONSE:

- a. Confirmed as stated on page 4 lines 17-19 of my testimony.
- b. Since there are relatively few prebarcoded letter-shaped pieces weighing between 3.3 and 3.5 ounces, it is difficult to determine how they are currently processed, let alone whether that process is "routine." Furthermore, under current rates and mailing requirements, pieces weighing more than 3.3 ounces would not be prepared as automation letters, so they may not be routinely processed on letter automation equipment since they are not be identified as automation letters.

However, if the rate were available and the pieces were prepared as automation letters, it is my understanding that the criteria for processing on automation equipment include dimensions such as length, height and thickness, not necessarily weight. Thus, the fact that a letter-

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shaped piece meeting all the requirements for automation compatibility happens to weigh between 3.3 and 3.5 ounces should not affect whether it is processed on automation equipment.

- b. Please see my testimony page 4 line 3 through page 5 line 10.

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VP/USPS-T32-2. In this docket, Postal Service witness Hope (USPS-T-31) is proposing that all ECR High Density and Saturation letters must bear delivery point barcodes and meet other Postal Service requirements for automation compatibility in order to qualify for the letter rate (USPS-T-31, p. 9).

- a. Would you agree that ECR and NECR High Density and Saturation letters that meet the stipulated requirements and weigh between 3.3 and 3.5 ounces also can be run on Postal Service automation equipment just as can Standard Regular and Nonprofit Automation letters weighing between 3.3 and 3.5 ounces? If you do not agree, please explain fully.
- b. Would you agree that extending your proposed treatment for Standard Regular and Nonprofit Automation letters weighing between 3.3 and 3.5 ounces to ECR and NECR High Density and Saturation letters weighing between 3.3 and 3.5 ounces would enable ECR and NECR mailers of such letters to avoid a big increase in postage that would otherwise occur when ECR and NECR High Density and Saturation letters cross the breakpoint weight? If not, please explain.
- c. Please state and explain every argument on which you and the Postal Service rely to justify or support your statement at page 15, lines 12-13, that "This proposal [for automation letters in the 3.3 to 3.5 ounce weight range] is limited to Regular and Nonprofit Automation Letters" and which, thereby, necessarily excludes ECR and NECR High Density and Saturation letters.

RESPONSE:

- a. Under the ECR proposal, mail processing would have the option of merging letters into the DPS mailstream. While physically the ECR pieces may be just as machinable as Regular letters, they may be less likely to actually be processed on automation given the walk-sequence preparation of ECR letters and the casing option.
- b. The difference in the Standard Mail Regular subclass between the current method versus the proposed method for determining the rate for an

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automation letter weighing more than 3.3 ounces is \$0.058 (equivalent to the letter-nonletter differential). For instance, for a non-destination entry 3-digit automation letter this \$0.058 represents a change of 28.6 percent. On the other hand, if the classification proposal were extended to ECR, the difference would be \$0.007 (equivalent to the letter-nonletter differential). For a non-destination entry saturation letter this \$0.007 represents a 4.6 percent change. I would not characterize this as a big increase for ECR, especially relative to the change in Regular.

- c. Please see my response to subparts a and b to this interrogatory.

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VP/USPS-T32-3.

- a. Please confirm that the maximum percentage rate increase that your (sic) propose for any cell in Standard Regular mail is 9.5 percent for Mixed AADC (automated area distribution center) Automation letters, as shown in your WPI, page AA (LR-J-132). If you do not confirm, please indicate the correct cell and the proposed percentage increase for that cell.
- b. Please confirm that Mixed AADC Automation letters is the rate cell with the highest ratio of percentage rate increase (9.5 percent) to the percentage change in revenue per piece (8.0 percent) shown on page 1 of your testimony; i.e., 1.1875. If you do not confirm, please provide the correct figures for the preceding computation.

RESPONSE:

- a. Not confirmed. A Mixed AADC letter subject to the \$0.04 nonmachinable surcharge would be subject to a 29.5 percent increase.
 - b. Not confirmed. The math in the interrogatory is correct, but as stated in subpart (a), the Mixed AADC rate does not represent the highest rate of increase. Thus, the correct ratio would be 29.5 percent divided by 8.0 percent, or 3.6875.
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VP/USPS-T32-4. In Docket No. R2000-1, you prepared a chart showing the implicit coverage for Standard (A) Mail ECR that weighed (i) both less than and more than 3.0 ounces, and (ii) both less than and more than 3.5 ounces (Docket No. R2000-1, USPS-T-35, p. 21 (Revised 4/3/2000)). In this docket, witness Hope offers a similar chart for Standard Mail ECR (USPS-T-31, p. 13, Table 3).

- a. In this docket, when preparing your testimony (USPS-T-32), did you compute implicit coverages for Standard Regular Mail similar to those you computed for Standard (A) Mail ECR in Docket No. R2000-1?
- b. If your answer to the preceding question is affirmative, please provide the results in a format similar to that used by witness Hope in this docket.
- c. If your answer to part a is negative, please explain why you did not consider the computation to be worth the effort.
- d. Please provide the implicit coverages for Standard Mail Regular that weighs (i) both less than and more than 3.0 ounces, and (ii) both less than and more than 3.5 ounces.

RESPONSE:

- a. No.
- b. N/A
- c. The reasoning for not computing implicit coverages is same as in the last omnibus rate proceeding. Specifically, as explained in Docket No. R2000-1 at Tr. 10/4017, lines 5-7: "[t]here are a number of issues at play in commercial regular involving the residual surcharge and the effect of push-up on the piece rates . . ." The overriding concerns in setting the pound rate in this docket as explained on page 11 lines 3-5 of my testimony are "(i) recognition of the reduced role of the pound rate as a proxy for shape change... and (ii) restraint of the percentage changes for individual rate cells." Calculation of implicit coverages would not necessarily provide information that would outweigh these considerations.

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Furthermore, one would expect that since about 90 percent of pieces subject to the residual shape surcharge are pound-rated, and since these pieces are still "contribution-challenged," the implicit coverage for pound-rated pieces would be lower than piece-rated pieces. If true, raising the pound rate might not be the best way to address the disparity in the implicit coverages.

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d.

	BEFORE RATES				AFTER RATES		
	<i>Unit Revenue</i>	<i>Unit Cost</i>	<i>Implicit Coverage</i>		<i>Unit Revenue</i>	<i>Unit Cost</i>	<i>Implicit Coverage</i>
3.0 ounce Dividing Line for Costs							
Piece-rated	\$0.1901	\$0.1250	152%		\$0.2047	\$0.1250	164%
Pound-rated	\$0.3440	\$0.2565	134%		\$0.3747	\$0.2565	146%
3.5 ounce Dividing Line for Costs							
Piece-rated	\$0.1901	\$0.1274	149%		\$0.2047	\$0.1274	161%
Pound-rated	\$0.3440	\$0.2810	122%		\$0.3747	\$0.2810	133%

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: 10-24-01

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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