

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, 2001

Docket No. R2001-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS HOPE TO INTERROGATORIES OF VAL-PAK DIRECT
MARKETING SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T31—9(A)-(D) & (G) & 10-17)**

The United States Postal Service hereby provides the responses of
witness Hope to the following interrogatories of Val-Pak Direct Marketing
Systems, Inc. and Val-Pak Dealers' Association: VP/USPS-T31—9(a-d) & (g)
and 10-17, filed on October 11, 2001.

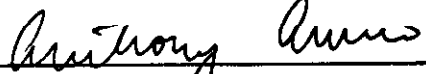
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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VP/USPS-T31-9:

In your testimony, USPS-T-31, page 23, lines 6-7, you state that "merchandise samples with DALs are the only surcharged pieces in ECR" (i.e., subject to the residual shape surcharge). You also state at lines 7-8 that, "[s]ome merchandise samples are mailed as flats and therefore are not surcharged."

- a. Please confirm that:
 - (i) Merchandise samples may be mailed as Standard ECR flats. If you do not confirm, please explain.
 - (ii) Merchandise samples sent as Standard ECR flats may use DALs but are not required to do so. If you do not confirm, please explain.
 - (iii) Merchandise samples sent as Standard ECR parcels must use DALs. If you do not confirm, please explain.

- b. If some merchandise samples can be entered as addressed ECR flats without a DAL, why are merchandise sample ECR flats treated differently with respect to the requirement of a DAL than merchandise sample ECR parcels?

- c. Is any effort made by Postal Service personnel to determine whether the contents of a given mailing of ECR flats are merchandise samples? If so, what procedures are used? Is this information recorded, and, if so, where and by whom?

- d. Has any analysis been made of costs incurred by merchandise samples mailed as ECR flats? If so, please provide a copy of the study as a library reference.

- e. Could the cost difference between the average ECR flat (most of which are not mailed with DALs) and the average ECR parcel (all of which are mailed with DALs) be due to the additional costs caused by DALs, rather than costs incurred by the shape or weight of ECR parcels? Please explain your answer.

- f. In Docket No. R2000-1, Postal Service witness Crum (USPS-T-27) observed that the high costs attributed to ECR parcels (\$0.746 in FY 1998) may reflect the costs of DAL mailings. Response to PSA/USPS-T27-5(a), Tr. 8/3427, Docket No. R2000-1.

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- (i) Do you believe that the high costs attributed to ECR parcels in this docket are due, at least in part, to the higher costs incurred in processing and delivering DAL mailings? Please explain your answer.
 - (ii) What other reason(s) would you suggest that explain the high costs attributed to ECR parcels in this docket?
- g.
 - (i) Has the Postal Service considered imposing a surcharge on all DAL ECR mailings, instead of on all ECR parcels?
 - (ii) Do you agree such an idea would have merit? Please explain why or why not. Under what conditions would such an idea have merit?

RESPONSE:

- a.
 - (i) Confirmed.
 - (ii) See DMM A060.1.3 for what must be sent with DALs.
 - (iii) Confirmed.
- b. *Parcels have different cost characteristics than flats. It is my understanding that a flat is considered a flat based on physical size and shape, not on whether it is a merchandise sample. For a merchandise sample to be mailed as an ECR flat, it must meet the criteria outlined in DMM C600.1.1d.*
- c. It is my understanding that Business Mail Entry Unit (BMEU) employees are required to open and examine one piece from each Standard Mail mailing to verify that the contents are eligible for the rate claimed. Information about each piece examined is not kept.
- d. No.

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- e. Redirected to Witness Schenk (USPS-T-43).
- f. Redirected to Witness Schenk (USPS-T-43).
- g. (i) No.
(ii) In this particular instance, I cannot say whether the idea has merit or not. DALs are intended to facilitate the casing and delivery of flats and parcels. In general, if a potential rate element makes business sense and could be shown to be consistent with the classification criteria, it could have merit.

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VP/USPS-T31-10:

Why are not special services, such as delivery confirmation or insurance, available for Standard ECR parcels when they are available for Standard Regular parcels? What differences, if any, between Standard ECR parcels and Standard Regular parcels dictate this distinction?

RESPONSE:

These are two separate subclasses. Standard ECR parcels must bear detached address labels (DALs), which renders them ineligible for special services, as specified in DMM E610.9.2.

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VP/USPS-T31-11:

Has the Postal Service ever considered establishing a distinct rate or separate surcharge for ECR DAL mailings? Please explain your answer.

RESPONSE:

Not to my knowledge. See response to VP/USPS-T31-9g.(ii), above.

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VP/USPS-T31-12:

- a. Is the volume of ECR parcels - which you state is "less than 0.07 percent of total ECR nonletters" (USPS-T-31, p. 23, ll. 1-2, emphasis added) - so small that the cost of separately identifying ECR parcels greatly outweighs any benefit to the Postal Service? Please explain your answer.
- b. Please state the volume of ECR parcels sent with DALs.
- c. Would you agree that it makes more sense to have an ECR nonletter DAL rate category than an ECR parcel rate category? Please explain your answer.

RESPONSE:

- a. If the question of "separately identifying ECR parcels" refers to a separate rate treatment, then I do not feel that the Postal Service should ignore parcels. There are substantial cost differences in processing parcels, and the rate design for Standard Mail ECR needs to recognize these cost differences, even though parcels' percentage of overall ECR volume is low, relative to letters and flats.
- b. See LR-USPS-J-131, page I (RES SHAPE REV), cell reference E12. This is a calculation of ECR nonletters in the test year that are subject to the residual shape surcharge. Since all ECR parcels are subject to the residual shape surcharge and all ECR parcels are required to bear detached address labels (DALs), 100% of this figure - 15,879,000 - should represent the volume of ECR parcels sent with DALs.
- c. No. The parcel category distinction is shape-based, and thus is consistent with the way the Postal Service sorts and delivers mail. Parcels are a

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separate component of the mail stream; thus, a rate design that recognizes ECR parcels as a separate mail stream, with a distinct rate, is very reasonable and logical. Also see response to VP/USPS-T31-9(g).

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VP/USPS-T31-13:

Please refer to LR-J-131, WP1 , page H, Mail Processing and Delivery Costs Per Piece Test Year.

- a. Are the figures shown the estimated total volume variable costs for each rate cell? If not, what other costs need to be included to arrive at Test Year estimates of total volume variable costs?
- b. Have the estimated per piece costs shown here been "reconciled" to the CRA estimate of total volume variable costs for Standard ECR mail in the Test Year? That is, when the unit costs are multiplied by the appropriate volumes, do they equal total Test Year volume variable costs as developed by the roll-forward model? If not, by what percentage, or how much, do they differ?

RESPONSE:

- a. No. The Mail Processing and Delivery Costs Per Piece Test Year shown on page H are part of volume variable costs. The "other" volume variable costs include: window service, vehicle service, and associated indirect cost segments in addition to air/water/highway/rail transportation.

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- b. No, it is my understanding from witness Schenk (USPS-T-43) that the mail processing and delivery costs reported in USPS-LR-J-131, WP1, page H are developed by tying base year CRA costs to test year CRA costs, as shown in USPS-LR-J-59 and -117. As such, although they are not reconciled to the total costs, they should roll up to the total rollforward costs for those cost segments. Therefore, no reconciliation to the CRA is needed.

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VP/USPS-T31-14:

Please refer to your testimony at pages 11-21, where you discuss the pound rate for Standard ECR Mail.

- a. At page 12, lines 5-6, you state that witness Schenk's study and analysis suggest that, strictly on a cost basis, "a lower ECR pound rate would be appropriate." Please provide specific references to her testimony, her study, or any other document sponsored by witness Schenk in this docket here she states that which you assert; i.e., that a lower ECR pound rate would be appropriate.
- b. Aside from the unit cost data presented in your Table #3 and the distribution of pieces by weight in Table #4, on pages 13 and 15, respectively, please indicate all other data, analyses, regressions, conclusions, etc. found in or derived from witness Schenk on which you rely to support your assertion that her study and analysis indicate that "a lower ECR pound rate would be appropriate."
- c. Has witness Schenk indicated to you, whether orally or in writing or otherwise, what she considers to be the best or most reliable estimate of the weight-cost relationship for ECR mail that weighs in excess of 3.3 ounce breakpoint? If so, please state what she provided you and indicate the source.
- d. Did witness Schenk provide you with the implicit coverages shown in your Table #3?
- e.
 - (i) To the extent that you have analyzed witness Schenk's data yourself and drawn your own conclusions concerning the weight-cost relationship for Standard ECR Mail or the appropriate level of the pound rate, please indicate which data you analyzed, provide copies of your analyses, including any regressions or other statistical studies, and your results and conclusions.
 - (ii) If you have independently determined what you believe to be the best estimate of the weight-cost relationship for ECR mail that weighs in excess of 3.3 ounce breakpoint, please indicate what that is.
 - (iii) If you have not done any separate analysis or study using witness Schenk's data, and if you have not developed any independent estimate of the weight-cost relationship for ECR mail, please so state explicitly.

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RESPONSE:

- a. My testimony does not state what the interrogatory implies, *i.e.*, that witness Schenk states a lower pound rate would be appropriate. Rather, *this passage of my testimony is my explanation of the results of her study.*
- b. See tables #5A, #5B, and #5C (on pages 17, 18, and 19, respectively, of my testimony).
- c. Witness Schenk has not given me an opinion, either orally or in writing, of the weight-cost relationship for ECR mail, other than providing the updated study presented in USPS LR-J-58.
- d. I computed the implicit coverages and compiled Table #3. The cost data included in the table were provided by witness Schenk.
- e. (i) - (iii) I have not analyzed witness Schenk's data from a cost perspective or independently determined the best estimate of the weight-cost relationship for ECR mail.

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VP/USPS-T31-15:

At page 20, lines 1-3, you state that "the proposed reduction in the pound rate of 4 cents is eminently reasonable, in terms of bringing the piece and pound implicit coverages closer in line..."

- a. Would you agree that other changes in rate design that bring implicit coverages of different rate categories within Standard ECR closer in line would also be eminently reasonable? Unless your answer is an unqualified affirmative, please state every reason upon which you rely to disagree and explain the basis for such disagreement.
- b. Is it your opinion that bringing the piece and pound implicit coverages closer in line for Standard ECR Mail is more reasonable, or more desirable, than bringing the implicit coverages of other rate categories closer in line? Unless your answer is an unqualified negative, please state and explain every reason upon which you rely to support your position.
- c. In your opinion, would the implicit coverage test which you apply to Standard ECR Mail, as exemplified by your Table #3 (p. 13), also be a valid test to apply to Standard Regular Mail? Unless your answer is an unqualified affirmative, please explain why you think your implicit coverage test should be limited to Standard ECR Mail.

RESPONSE:

- a. It depends on the specific changes in question. For example, I would try to preserve current rate relationships, limit increases by rate cells so that no cells bear disproportionate increases, and maintain support of automation programs. I might include other factors, too, depending on the specific change(s) under consideration.

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b. It depends what changes and what other rate categories are involved.

With respect to ECR implicit coverages, my analysis has been confined to the information presented in Table #3.

c. Please see my response to VP/USPS-T31-8a and 8d.

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VP/USPS-T31-16:

Please refer to your testimony at page 20, lines 5-6. There you note that the Commission recommended a 2.5-cent reduction in the pound rate in Docket No. R2000-1. Is it your view that the Commission's reduction of the pound rate in Docket No. R2000-1 in and of itself justifies a further reduction of the pound rate in this docket? If so, please explain your reasoning in detail.

RESPONSE:

No, I do not feel that – “in and of itself” – the Commission's reduction of the pound rate justifies a further reduction. The proposal in this docket takes into account other factors as discussed in my testimony. However, the Commission's rationale in its decision is a guide in the rate design.

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VP/USPS-T31-17:

Your testimony, at page 13, Table #3, contains data on the unit cost of piece-rated and pound-rated pieces (i) at a 3.0 ounce dividing line, and (ii) at a 3.5 ounce dividing line. In Docket No. R2001, Postal Service witness Moeller (USPS-T-35) presented data for Standard ECR Mail on a similar basis. Commenting on those data, the Commission stated at paragraph 5541 of its *Opinion and Recommended Decision*:

Witness Moeller's implicit markups reflect the mix of mail on either side of the break point. However, pieces above and below the break point have different worksharing profiles and different shape profiles. The Commission believes that implicit markups comparison should be adjusted for these differences.

- a. To your knowledge, did the unit cost data which you received from witness Schenk make any or all of the adjustments for different worksharing and shape profiles called for by the Commission?
- b. Were any adjustments made to the unit revenue figures to account for the different worksharing and shape profiles described by the Commission?
- c. In your opinion, do the implicit coverages shown in your Table #3 reflect any or all of the adjustments called for by the Commission?
- d. Unless your answers to the preceding parts of this interrogatory are an unqualified negative, please indicate which adjustments were made, where they are described, and where they can be found in your testimony, any library references, or other documents sponsored by you in this docket.
- e. If you in fact made any of the adjustments called for by the Commission, but did not document or describe them adequately, please do so in response to this interrogatory.

RESPONSE:

- a. No. It is my understanding from witness Schenk (USPS-T-43) that no changes were made in the costing methodology which was used in Docket No. R2000-1, which develops costs by shape and weight increment but does not make adjustments for worksharing differences.

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b-e. No changes were made from the way the revenue was calculated in Docket No. R2000-1 by witness Moeller (USPS-T-35). Also, the data in the Before and After Unit Revenue columns do reflect revenue consistent with the worksharing profile. Data were taken from Page Y, ECR TYBR TYAR REV in Library Reference USPS-LR-J-131, WP1. The net revenue columns on page W, TYBR VOL CAT (column AA) and Page X, TYAR VOL CAT (column AA) feed into Page Y; the net revenue columns on pages W and X are adjusted for dropship discounts.

As stated in subpart (a), it is my understanding from witness Schenk that no changes were made in costing methodology for the costs used in the implicit coverages. However, the cost data used as the basis for the costs for nonletters are derived from costs by shape and weight increment.

Thus, the revenues and costs used for the calculations in Table #3 both consistently represent the mix of mail on either side of the dividing line at 3.0 and 3.5 ounces. It is my understanding that the comparison of implicit coverage of piece-rated and pound-rated pieces does not require isolating the impact of weight.

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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