

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—18-24)**

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—18-24, filed on October 12, 2001.

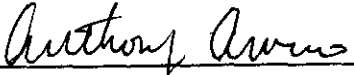
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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AND VAL-PAK DEALERS' ASSOCIATION, INC.**

VP/USPS-T31-18:

Please confirm that:

- a. The current letter-flat cost differential for ECR Saturation is 1.14 cents. If you do not confirm, please explain.
- b. Under your proposed rates, the ECR Saturation letter rate will be 0.7 cents lower than the ECR Saturation flat rate. If you do not confirm, please explain.
- c. In your workpapers, LR-J-131, folder ECR PASS, page M, worktable 3, you identify the percentage passthrough of the ECR Saturation letter-flat cost differential in your rates as being 65 percent. If you do not confirm, please explain.
- d. 0.7 is actually 61.4 percent of 1.14. If you do not confirm, please explain.
- e. The Commission's letter-flat cost differential passthrough for ECR Saturation in Docket No. R2000-1 was 100 percent. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed. Due to rounding, a range of passthroughs produces the same differential.
- e. Confirmed. The Commission's passthrough was 100 percent of 0.447 cent, or 0.4 cent. (Some observers may view this as a passthrough of 89.5 percent.)

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VP/USPS-T31-19:

- a. Where do you discuss the amount of your proposed ECR Saturation letter-flat cost differential passthrough in your testimony? If you do not discuss this passthrough, explain why.
- b. Please reconcile the notation in your workpapers that your proposed rates reflect a 65.0 percent passthrough of the ECR Saturation letter-flat cost differential, with the calculation that the actual passthrough is 61.4 percent.
- c. Please explain why you adopted a 61.4 percent passthrough of the ECR Saturation letter-flat cost differential, when the current passthrough is 100 percent.
- d. In your testimony, at USPS-T-31, page 24, line 9, you suggest that additional information regarding the letter-flat cost differential, and the passthrough thereof, is found in the discussion under Section 6, "Density Tiers." Where do you discuss the letter-flat cost differentials and the ensuring passthroughs in that section?

RESPONSE:

- a. This is not discussed in detail in my text, except in the context of the proposed classification change, where I discuss the gaps between High Density letters and nonletters and Saturation letters and nonletters (page 10, lines 17 – 23). The letter/nonletter passthroughs are included on page M of WP1, library reference USPS-LR-J-131, which is incorporated by reference into the testimony (page 1, lines 6 – 8), and allusion to the *letter/nonletter differential is made in several places, including page 37 in the Nonprofit ECR section. Any omission of discussion in the ECR section of the text was not intentional. See response to subsection (d), below.*

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- b. In fact, in WP1, Page M, Worktable C, cell E35 – the cell in which the passthrough is selected – could have any passthrough ranging from 58 percent to 65 percent, and the rate differential would be 0.7 cent, because of the rounding element.
- c. The current Saturation letter/flat passthrough is 100 percent from a base of 0.447 cent, or, rounded down to the nearest tenth of a cent, to 0.4 cent. (See Docket No. R2000-1, GOVS-LR-8, WP1, page 18.) My testimony in this docket strives to balance various rate design issues while maintaining or increasing the rate differences. In the case of the Saturation letter/nonletter rate difference, the amount has been increased from 0.4 cent to 0.7 cent, which is a 75 percent increase. Another factor that was taken into account in this rate design, as discussed in VP/USPS-T31-19(a), is the proposed classification change, requiring barcoding for ECR High Density and Saturation letters.
- d. I assume the question refers to “ensuing” passthroughs rather than “ensuring” passthroughs. As noted in subpart (a), above, the reference to the letter/nonletter differential is not specific. I employed the general theme, which is discussed in several places in my testimony, including page 25, lines 14 –16, of maintaining or increasing the absolute discounts,

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if feasible. This is indeed the case with the letter/nonletter passthroughs, in addition to other passthroughs. The following passage on page 27, lines 1 – 5, of my testimony discusses Density Tier discounts, and is also relevant to the letter/nonletter discounts:

In summary, the proposed passthroughs...remain sensitive to the rate increases for individual rate categories and preserve relevant rate relationships as recommended by the Commission in Docket No. R2000-1. Where possible, savings to mailers using the High Density and Saturation tiers have been increased, without unduly raising the basic rates.

Following is a comparison of the current letter/nonletter rate differentials, as recommended by the Commission in R2000-1, and the rate differentials proposed in my testimony:

LETTER/NONLETTER COST PASSTHROUGHS

	<i>Basic</i>	<i>High Density</i>	<i>Saturation</i>
R2001-1 USPS Proposed	0	0.5 cent	0.7 cent
PRC Op., R2000-1	0	0.3 cent	0.4 cent
R2000-1 USPS Proposed	0	0.2 cent	0.5 cent

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The proposed increase in absolute savings to mailers shown above and detailed in WP1 on Page M, Table D, is consistent with the design for automation, density tier, and destination entry monetary passthroughs in this docket. As discussed in my testimony on page 8, lines 1-6, in Docket No. R-97, the Postal Service proposed the elimination of a rate differential (*i.e.*, a zero per cent passthrough) for letters in the basic tier to facilitate rate design. This has been a structural part of the ECR rate design since that time, and as such, is incorporated into this docket.

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VP/USPS-T31-20:

Please confirm that:

- a. The letter-flat cost differential for ECR High Density is 0.661 cents. If you do not confirm, please explain.
- b. Under your proposed rates, the ECR High Density letter rate will be 0.5 cents lower than the ECR High Density flat rate. If you do not confirm, please explain.
- c. In your workpapers, LR-J-131, folder ECR PASS, page M, worktable 3, you identify the percentage passthrough of the ECR High Density letter-flat cost differential in your rates as being 82 percent. If you do not confirm, please explain.
- d. 0.5 is actually 75.6 percent of 0.661. If you do not confirm, please explain.
- e. The Commission's letter-flat cost differential passthrough for ECR High Density in Docket No. R2000-1 was 100 percent. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed. The Commission's passthrough in Docket No. R2000-1 was 100 percent of 0.273 cent, which rounds to 0.3 cent. (Some observers may view this as a passthrough of 109.9 percent.) In the Commission's model, a broad range starting from 91.6 percent would net a 0.3 cent rate differential. See also response to 18(d).

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VP/USPS-T31-21:

- a. Please reconcile the notation in your workpapers that your proposed rates reflect an 82.0 percent passthrough of the ECR High Density letter-flat cost differential, with the calculation that the actual passthrough is 75.6 percent.
- b. Please explain why you adopted a 75.6 percent passthrough of the ECR High Density letter-flat cost differential, when the current passthrough is 100 percent.

RESPONSE:

- a. In fact, in WP 1, Page M, Worktable E, the passthrough could range from 69 percent to 83 percent, and the rate differential would be 0.5 cent, because of the rounding element.
- b. In this docket, as noted in my testimony on pages 25, lines 14 - 16; page 37, lines 11 - 15; and elsewhere, emphasis was placed on measured cost savings – *i.e.*, the absolute discount in monetary terms – rather than the passthrough percentage. Where feasible, the rate design maintains or increases rate differentials. For the high density letter/nonletter differential, the amount of the passthrough was increased from 0.3 cent to 0.5 cent, which represents a 66.7 percent increase in the differential.

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VP/USPS-T31-22:

- a. Please confirm that your proposed rates pass through 108.3 percent of the High Density/Saturation density nonletter cost differential. If you do not confirm, please explain.
- b. Please confirm that, if you were to raise Saturation nonletters rates by 0.2 cents, and decrease Saturation letters rates by 0.2 cents, the passthroughs for the Saturation/High Density letter cost differential, the Saturation/High Density nonletter cost differential, and the Saturation letter/nonletter cost differential would all be close to, but below, 100 percent. If you do not confirm, please explain.
- c. Would you agree that setting passthroughs at close to, yet under, 100 percent results in rates that more nearly reflect actual costs, than having some passthroughs over 100 percent, and other passthroughs at nearly 60 percent? Please explain your answer.
- d. Did you consider setting Saturation nonletter rates at 0.2 cents higher, and letter rates at 0.2 cents lower? If so, please explain your proposed rates. If not, why not?

RESPONSE:

- a. Confirmed.
- b. The passthroughs cannot be viewed as isolated inputs, because the Standard ECR formula is dynamic. This question presupposes that the rates determine the passthroughs, whereas in fact, the passthroughs are an element of determining the rates. There are several variables in the rate design formula, including the three passthroughs cited above, which work interactively and with other inputs in the spreadsheet model that is incorporated by reference into my testimony as USPS-LR-J-131. (For more detail on the relationship of the shape and density passthroughs, also see Appendix #1 of my testimony, which is a description of the ECR

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Presort Tree.) A change in the passthroughs to increase the Saturation nonletter average rate by 0.2 cent and decrease the Saturation letter average rate by 0.2 cent would impact other rates as well as the overall ECR average per piece increase. In addition, this change could impact the projected Test Year After Rates volumes; commensurate changes in the passthroughs or other "soft" inputs would have to be made to meet the ECR revenue requirement as set by the rate level witness. Passthroughs are only a part of rate design and they are not the only consideration in setting rates. Also, they are not set independently of these other considerations.

- c. In general, I agree. However, the rate relationships must be taken into account, as well as the overall subclass revenue requirement and other rate design considerations, including the resulting percentage changes by rate cell.
- d. No. This would not be consistent with elements of the rate design outlined in the proposal overview included in my testimony (page 2, lines 8 - 15).

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VP/USPS-T31-23:

Please refer to USPS-LR-J-131, WP1, Page H, COST. For the mail processing unit costs shown there, have you or the Postal Service computed a breakdown of the mail processing unit cost by different entry points such as BMC, SCF, and DDU? If so, please explain.

RESPONSE:

No, the costs in USPS-LR-131, WP1, Page H do not include detail by different entry points. In WP1, mail processing and delivery savings due to dropship are shown on page G, and derived from USPS-LR-J-68.

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VP/USPS-T31-24:

Please refer to USPS-LR-J-131, WP1, Pages P and W, TYAR VOL and TYAR VOL CAT, respectively. For ECR pound-rated non-letters, Page P shows total TYAR pounds equal to 3,010.225 (col F, row 53), and Page W shows total TYAR pounds equal to 3,074.348 (col G, row 22). Please explain the difference between the total TYAR pounds for ECR pound-rated non-letters, and indicate which of the two figures is the final, correct figure.

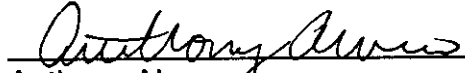
RESPONSE:

The worksheet TYAR VOL (Page P) uses the Test Year After Rates volume forecast. The worksheet TYAR VOL CAT (Page X), applies the before rates volume forecast to the proposed rates. This parallels TYBR VOL CAT (Page W), which applies the before rates volume forecast to current rates. Both TYBR VOL CAT and TYAR VOL CAT feed into ECR TYBR TYAR REV (Page Y), which is the basis for computing the average revenue per piece before and after rates.

The total ECR pound-rated pounds are calculated correctly in both TYAR VOL (Page P) and (TYAR VOL CAT Page X). For example, if one wishes to project the total TYAR pounds for ECR pound-rated non-letters, using the after rates volume forecast and proposed rates, TYAR VOL (Page P) would be the appropriate reference.

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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