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 ASSOCIATION OF ALTERNATE POSTAL SYSTEMS (AAPS/USPS-T31—1-2)

The United States Postal Service hereby provides the responses of witness Hope to the following interrogatories of Association of Alternate Postal Systems: AAPS/USPS-T31—1-2, filed on October 17, 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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October 31, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS (AAPS)

AAPS/USPS-T31-1:

Please provide a table equivalent to that presented on page 15 of your testimony for ECR Saturation mail volumes.

RESPONSE:

The following is the requested table, which was calculated from data referenced by witness Schenk (USPS-T-43) in USPS-LR-J-58 and USPS-LR-J-112.

SUMMARY OF ECR SATURATION VOLUME BY OUNCE INCREMENT

Ounce Increment	*Percentage of Total Volume*
Under 4.0	82.64%
04-05	8.51%
05-06	5.29%
06-07	1.98%
07-08	0.93%
08-09	0.34%
09-10	0.16%
10-11	0.07%
11-12	0.04%
12-13	0.02%
13-14	0.01%
14-15	0.01%
15-16	0.01%
TOTAL	**100.0%**

Figures are rounded.

The above data illustrate a similar pattern to that shown in Table #4, page 15 of my testimony, with a sharper drop-off. The percentage of total saturation volume under 4.0 ounces is 82.64, as compared to the percentage of total ECR

volume under 4.0 ounces, which is 79.84, as indicated in my testimony. For ease of reference, the following table presents the data side-by-side:

**TOTAL ECR SATURATION VOLUME AND
TOTAL ECR VOLUME AT ALL DENSITY TIERS
BY OUNCE INCREMENT**

Ounce Increment	*Percentage of Total Saturation Volume*	*Percentage of Total ECR Volume*
Under 4.0	82.64%	79.84%
04-05	8.51%	9.30%
05-06	5.29%	5.21%
06-07	1.98%	2.51%
07-08	0.93%	1.26%
08-09	0.34%	0.80%
09-10	0.16%	0.41%
10-11	0.07%	0.21%
11-12	0.04%	0.23%
12-13	0.02%	0.10%
13-14	0.01%	0.06%
14-15	0.01%	0.03%
15-16	0.01%	0.03%
TOTAL	**100.0%**	**100.0%**

Figures are rounded.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS (AAPS)

AAPS/USPS-T31-2:

At pages 17 – 19 of your testimony, you show the weight points at which the Postal Service is proposing rate reductions for basic, high density, and saturation Standard mail. If the Postal Service were to freeze all of those rates for which a rate reduction is requested, by how much would its test year revenues increase?

RESPONSE:

The analysis requested is provided below, with the following caveats. First, this is a hypothetical question that is not consistent with the current rate design, which is based on precedents set in rate cases dating from the creation of the ECR subclass in Docket No. MC95-1. The rate design assumes a steady pound rate above the breakpoint, without exception.

More significantly, "freezing" some of the rates, while raising others, defeats the main objective in lowering the pound rate, which is to treat ECR mail more equitably across-the-board. The question also does not allow for consideration of own-price elasticity for ECR saturation mail and the consequent change in projected volume by density tier that would occur due to a projected change in the quantity demanded. Although the volume affected is small, the ECR rate design formula is very sensitive, and if this change were incorporated into the rate design, it would have an impact on rates beyond those "frozen" in the saturation tier. Furthermore, the analysis requested requires a simplifying assumption about the precise weight of pieces within each ounce increment.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS (AAPS)

Keeping the above cautions in mind, the information requested can be derived from Exhibit USPS-31A, which accompanies my testimony, USPS-LR-J-131, WP1, pages T and U ("SUM"), and USPS-LR-J-58.

For clarity and the convenience of the reader, the following is an outline of the series of steps taken to arrive at the data requested:

1.) Show the volume by destination entry and ounce increment for the Saturation tier. This information is taken directly from Exhibit USPS-31A of my testimony and USPS-LR-J-58.

2) Calculate the current rate by destination entry cell. Each ounce increment includes a range of fractional values, as discussed in my testimony on page 16, lines 11 – 16. In an attempt to be as fair as possible, rather than choosing the lowest or highest end, I have selected the midpoint of each range to calculate the rate. For example, in the range of 9.0 to 10.0 ounces, the analysis assumes a weight of 9.5 ounces.

3) Calculate the proposed rate by destination entry cell in each ounce increment, using the midpoint as in Step #2.

4) Determine the difference by subtracting the proposed rate from the current rate by destination entry cell for each ounce increment.

5) Multiply the difference in rates as calculated in step #4 for each cell by the volumes in step #1 for each ounce increment and total to arrive at the difference in revenue.

The difference in test year revenue to the Postal Service, if rates were "frozen" in the Saturation tier as explained above would be $2,427,000. This is very minimal: under 0.05 percent of both current and projected total ECR revenues. It also is a very small percentage of overall saturation tier revenues: 0.13 percent.[1]

The electronic spreadsheet, which includes all calculations, is attached. The summary table is recapped below.

[1] See USPS-LR-J-131, WP1, page W (TYBR VOL CAT). Total estimated revenues in the Saturation tier under current rates are: $1,836,550,000 (which is the sum of cells AA13+AA17+AA21). $2,427,000/$1,836,550,000 is 0.13 percent. The same proportion applies if the proposed rates are used; see WP1, page X (same cell references). Total estimated revenues in the Saturation tier under proposed rates are $1,882,125,000. $2,427,000/$1,882,125,000 is 0.13 percent.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS (AAPS)

SUMMARY OF HYPOTHETICAL ANALYSIS
INCREASE IN TEST YEAR REVENUES
ASSUMING SOME ECR SATURATION RATES ARE 'FROZEN' *
(In Dollars)

Ounce Increment

	6.0-7.0	7.0-8.0	8.0-9.0	9.0-10.0	10.0-11.0
None			$2,380	$4,503	$4,632
DBMC		$235	292	619	765
DSCF	$34,202	69,031	56,730	38,459	28,555
DDU	627,547	655,738	342,329	212,040	103,814
TOTAL	**$661,748**	**$725,004**	**$401,732**	**$255,622**	**$137,767**

Ounce Increment

	11.0-12.0	12.0-13.0	13.0-14.0	14.0-15.0	15.0-16.0	GRAND TOTAL
None	$4,943	$4,412	$3,727	$2,686	$3,773	**$31,056**
DBMC	2,334	1,335	1,233	1,609	1,890	**10,313**
DSCF	13,642	10,332	7,131	8,330	4,003	**270,415**
DDU	68,442	47,182	28,937	15,546	13,976	**2,115,552**
TOTAL	**$89,362**	**$63,260**	**$41,028**	**$28,171**	**$23,642**	**$2,427,336**

* Assumes that current rates would be in effect if the rates proposed in Docket No. R2001-1 are negative; see USPS-T-31, page 19. Also see above for caveats to this hypothetical analysis.

ATTACHMENT TO RESPONSE TO
AAPS/USPS-T31-2

AAPS/USPS-T31-2

STEP #1 **SATURATION TIER VOLUME WITH RATE DECREASE UNDER R2001-1 PROPOSAL**

Destination Entry	Ounce Increment 4.0-5.0	5.0-6.0	6.0-7.0	7.0-8.0	8.0-9.0	9.0-10.0	10.0-11.0	11.0-12.0	12.0-13.0	13.0-14.0	14.0-15.0	15.0-16.0
None		8,600,673	4,984,591	3,250,802	1,904,023	1,200,862	741,149	564,954	392,133	271,079	165,269	201,224
DBMC		338,296	140,830	115,936	58,777	78,336	70,563	169,358	79,829	62,743	71,212	74,034
DSCF		123,337,983	47,564,828	17,671,858	7,997,248	3,740,679	2,120,129	819,056	520,678	309,605	317,701	136,121
DDU		540,959,107	196,826,692	97,598,246	33,296,442	15,316,674	5,964,206	3,263,994	1,923,344	1,030,001	491,103	396,843
			246,411,520	118,386,041	43,256,480	20,336,572	8,896,047	4,817,363	2,915,985	1,673,429	1,045,285	808,222

TOTAL BY OZ. INCREMENT; In pieces
Source: USPS-T-31; Exhibit 31A and USPS-LR-J-58

STEP #2 **CURRENT RATES**

Destination Entry	Per Piece	Per Pound	Ounce Increment 4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5	15.5
None	0.017	0.638		0.2363	0.2762	0.3161	0.3559	0.3958	0.4357	0.4756	0.5154	0.5553	0.5952	0.6351
DBMC	0.017	0.545		0.2043	0.2384	0.2725	0.3065	0.3406	0.3747	0.4087	0.4428	0.4768	0.5109	0.5450
DSCF	0.017	0.524		0.1971	0.2299	0.2626	0.2954	0.3281	0.3609	0.3936	0.4264	0.4591	0.4919	0.5246
DDU	0.017	0.498		0.1882	0.2193	0.2504	0.2816	0.3127	0.3438	0.3749	0.4061	0.4372	0.4683	0.4994

Source: WP1, page U; In dollars

STEP #3 **PROPOSED RATES**

Destination Entry	Per Piece	Per Pound	Ounce Increment 4.5	5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5	15.5
None	0.037	0.598		0.2426	0.2799	0.3173	0.3547	0.3921	0.4294	0.4668	0.5042	0.5416	0.5789	0.6163
DBMC	0.037	0.498		0.2062	0.2383	0.2704	0.3016	0.3327	0.3638	0.3949	0.4261	0.4572	0.4883	0.5194
DSCF	0.037	0.473		0.1996	0.2292	0.2587	0.2883	0.3178	0.3474	0.3770	0.4065	0.4361	0.4657	0.4952
DDU	0.037	0.441		0.1866	0.2162	0.2437	0.2713	0.2988	0.3264	0.3540	0.3815	0.4091	0.4367	0.4642

Source: WP1, page T; In dollars

STEP #4 **RATE DIFFERENCE**

Destination Entry	Ounce Increment 5.5	6.5	7.5	8.5	9.5	10.5	11.5	12.5	13.5	14.5	15.5
None	-0.0063	-0.0037	-0.0012	0.0013	0.0038	0.0063	0.0088	0.0113	0.0137	0.0163	0.0187
DBMC	-0.0038	-0.0009	0.0020	0.0050	0.0079	0.0108	0.0138	0.0167	0.0197	0.0226	0.0255
DSCF	-0.0025	0.0007	0.0039	0.0071	0.0103	0.0135	0.0167	0.0198	0.0230	0.0262	0.0294
DDU	-0.0004	0.0032	0.0067	0.0103	0.0138	0.0174	0.0210	0.0245	0.0281	0.0317	0.0352

Source: Current - Proposed Rates; In dollars

STEP #5 **REVENUE IMPACT**

Destination Entry	Ounce Increment 5.5	6.0-7.0	7.0-8.0	8.0-9.0	9.0-10.0	10.0-11.0	11.0-12.0	12.0-13.0	13.0-14.0	14.0-15.0	15.0-16.0	TOTAL
None			$	2,360	$ 4,503	$ 4,632	$ 4,943	$ 4,412	$ 3,727	$ 2,686	$ 3,773	$ 31,056
DBMC			$ 235	$ 292	$ 619	$ 765	$ 2,334	$ 1,335	$ 1,233	$ 1,609	$ 1,890	$ 10,313
DSCF		$ 34,202	$ 69,031	$ 56,730	$ 38,459	$ 28,555	$ 13,642	$ 10,332	$ 7,131	$ 8,330	$ 4,003	$ 270,415
DDU		$ 627,547	$ 655,736	$ 342,329	$ 212,040	$ 103,814	$ 68,442	$ 47,182	$ 28,937	$ 15,546	$ 13,976	$2,115,552
TOTAL		$ 661,748	$ 725,004	$ 401,732	$ 255,622	$ 137,767	$ 88,362	$ 63,260	$ 41,028	$ 28,171	$ 23,642	$2,427,336

Source: Volume from Step #1 * Rate Difference from Step #4; In dollars

NOTE: THE SHADED AREAS IN RED SHOW A POSITIVE RATE DIFFERENCE

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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