

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF VAL-PAK
(VP/USPS-T28-1 through 8)

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of Val-Pak: VP/USPS-T28-1 through 8, filed on October 19, 2001.

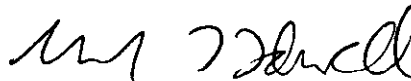
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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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-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?

RESPONSE:

- a. Test Year cost coverages for these two groupings would require Test Year costs for these two groupings. The costs are not available. See the response of witness Patelunas to POIR #3, Question 4.
- b. Yes. P.L. 106-384 includes a provision that the factors of section 3622(b) be applied to the combined cost of the regular rate mail and the corresponding special rate mail.
- c. I do not have a position on the "appropriateness" of providing distinct cost and coverage data for the nonprofit grouping, yet the combination of the costs for the commercial and nonprofit groupings is an important feature of the new law.

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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?

RESPONSE:

- a-c. See response to VP/USPS-T28-1.

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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. Section 3622(b) support a higher cost coverage for ECR when compared to Regular?
- b. Which of the noncost criteria in 39 U.S.C. Section 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?

RESPONSE:

- a-e. The basis for the proposed cost coverages for Regular and ECR is discussed in my testimony at pages 33-38. The outcomes discussed in subparts (c)-(e) are a result of the proposed cost coverages. Although my testimony includes many comparisons

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between ECR and Regular with regard to the noncost criteria, the primary driver for the relative cost coverages for ECR and Regular is consideration of Criterion 4. As stated in my testimony with regard to the ECR coverage, "many of the factors considered above indicate a cost coverage lower than that actually proposed." (USPS-T-28 at 38, lines 12-13)

- f. My statement regarding the relative "deferrability" of ECR mail was not intended to make any conclusions regarding service performance. Even if ECR mail is deferred, that does not necessarily mean it does not meet service expectations.

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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?

RESPONSE:

- a. I would suspect that to many users of ECR, six-days-per-week delivery is important, especially if they have marketing efforts geared toward particular days of the week.
- b. The proposed cost coverages for each of the subclasses referred to in this question are a result of careful consideration of the criteria.

On balance, the criteria point to the coverages as proposed.

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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. 3205807. 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.

RESPONSE:

- a. No. As stated in my testimony, I considered the nine criteria when developing the proposed rate levels. In the discussion of ECR, I noted (as did witness Mayes in Docket No. R2000-1) that many of the factors point to a lower cost coverage, yet a lower coverage would shift more of the institutional cost burden to other subclasses.
- b. As implied in the cited portion of the Postal Service's Reply Brief from Docket No. R2000-1, such comparisons can certainly be performed. With regard to Regular and ECR, such a comparison, in

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isolation, would point to a lower coverage for ECR than that which is
proposed.

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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.

RESPONSE:

See my testimony at page 38, lines 11-14.

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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-I? 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.

RESPONSE:

- a. The figures are correct.
- b. The figures are correct.
- c. I did not explicitly attempt to isolate the effect of the January 2001 rate change on the cited volume change. I did consider the relative price elasticities of the subclasses in both the value of service

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assessment, and the assessment of the effect on contribution from prospective rate changes.

- d. See my response to subpart (c).
- e. I have not made an assessment of the isolated effect of the 1.3 percent increase for ECR that occurred on July 1, 2001. I would not expect it, however, to cause a "precipitous" decrease in ECR volume.
- f. The volume forecast, and the resulting revenue and contribution calculations, reflect the proposed rate increase for ECR.

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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?

RESPONSE:

- a. Yes.
- b. Yes.
- c. Yes.
- d. No, I did not consider these particular calculations.
- e. I did not "ignore totally" witness Bernstein's testimony in that I am aware of the general direction of the relationships between markups that would

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occur in a Ramsey-type pricing exercise (e.g., the ECR markup is materially lower). Yet, as stated in my testimony, I made no formal use of the prices developed by witness Bernstein. (USPS-T-31 at 13)

- f. As stated in response to subpart (e), no formal use was made of the Ramsey-type prices developed by witness Bernstein. Therefore, any precise markup ratio, and its relationship to a ratio of proposed markups, would be coincidental.

DECLARATION

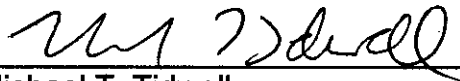
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


JOSEPH D. MOELLER

Dated: November 2, 2001

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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