

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

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POSTAL RATE AND FEE CHANGES, 1997)

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Docket No. R97-87

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC
SECOND INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS
TO POSTAL SERVICE WITNESS JOSEPH D. MOELLER (VP-CW/USPS-T36-11-19)
(August 21, 1997)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc., d/b/a "Cox Direct," hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,



William J. Olson

John S. Miles

Alan Woll

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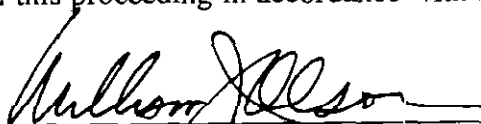
McLean, Virginia 22102-3823

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Counsel for Val-Pak Direct Marketing Systems, Inc.,
Val-Pak Dealers' Association, Inc., and
Carol Wright Promotions, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served by hand delivery or mail the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



William J. Olson

August 21, 1997

VP-CW/USPS-T36-11.

The following table compares test year transportation costs for Standard A mail as found in LR-H-111 and USPS-15J. Please reconcile the different figures shown on row 2 and labeled here as "Other (purchased) transportation cost."

	(1)	(2)
	LR-H-111 App B Table 8	USPS-15J Page 4
1. Postal-Owned Vehicle Cost	128,899	n.a.
2. Other (purchased) transportation cost	<u>429,422</u>	<u>468,693*</u>
3. Total-all modes	558,321	468,693

* Excludes Single Piece Standard A

VP-CW/USPS-T36-12.

According to LR-H-145, G-2, pp. 1-2, the total pounds of bulk Standard A Regular Mail was:

	<u>Pounds</u>
Total Regular (basic + 3/5)	4,048,844,175
Total Carrier Route	<u>4,111,416,346</u>
	8,160,260,521

Total pounds entered at DDUs were as follows:

(see USPS-29D, p. 3)

<u>Letters</u>	<u>Pounds</u>
Non-Saturation	8,436,165
Saturation	22,714,978
<u>Nonletters</u>	
Non-Saturation	43,016,825
Saturation	<u>980,008,342</u>
	1,054,176,310

In other words, the billing determinants indicate that 12.9 percent were dropshipped to DDUs. LR-H-111, Appendix A, Table 1 indicates that only 1.11 percent of Bulk Standard A Mail (in pounds) is entered at DDUs.

- a. Please reconcile the difference between billing determinant data and LR-H-111 with respect to DDU entry.
- b. Please explain why LR-H-111, App. A, Table 1 was based on LR-H-105 instead of billing determinants.

VP-CW/USPS-T36-13.

Please refer to LR-H-111, pp. 5-6, and pp. 13-15, which gives the nontransportation costs avoided for Standard A Mail.

- a. Within the CRA, are these nontransportation costs recorded as direct or indirect costs? If they are indirect costs, are they included in the piggybacks for mail processing costs, delivery costs, or something else? Please explain.

- b. Please refer to USPS-29C, p. 3. For mail that is not dropshipped, are the nontransportation costs that could be avoided by dropshipment included under (i) Mail Processing Costs, (ii) Other Costs, or (iii) somewhere else?

VP-CW/USPS-T36-14.

LR-H-111, Appendix B, Table 6 shows the transportation costs for Standard A Regular Mail as including some \$139 million for Postal-Owned Vehicle Costs.

- a. What cost segment(s) contain this \$139 million of Postal Owned Vehicle Costs?
- b. Are these Postal Owned Vehicle Costs direct costs, or are they included in the indirect costs, or piggybacks, of other direct costs?
- c. If they are included in the indirect costs or piggybacks or other direct costs, are they part of the piggybacks for (i) mail processing costs, (ii) delivery cost, or (iii) both?

VP-CW/USPS-T36-15.

In your opinion, do the principles of Ramsey pricing have any relevance to rate design within the Standard A subclasses? Please explain your answer, regardless of whether it is affirmative or negative.

VP-CW/USPS-T36-16.

- a. Please explain your familiarity with and understanding of the concept of efficient component pricing.

- b. In your opinion, is efficient component pricing an important principle for design of rates in the Standard A subclass?
- c. When determining the various passthroughs that you recommend within the Standard A subclass, what effort, if any, did you make to incorporate the principle of efficient component pricing?

VP-CW/USPS-T36-17.

- a. For cost savings that arise from dropshipment of Standard A mail, you recommend an 80 percent passthrough in this docket. Is 80 percent what you consider to be an “optimal” passthrough for Standard A mail, or is your recommendation for an 80 percent passthrough constrained in this case by other considerations? If the latter, please describe all other considerations that you consider significant.
- b. Under what conditions would you consider a 100 percent passthrough for dropship discounts to be appropriate?
- c. Under what conditions would you consider a passthrough of more than 100 percent (*e.g.*, including a markup) for dropship discounts to be appropriate?

VP-CW/USPS-T36-18.

Transportation costs represent a significant portion of the costs avoided from dropshipment to destinating facilities. In your opinion, is it most desirable to reflect transportation cost differences in rate design at (i) less than 100 percent, or (ii) 100 percent, or (iii) more than 100 percent (*e.g.*, the full cost difference times the subclass coverage factor).

Regardless of your answer, please explain all rate design principles upon which you rely to support your position.

VP-CW/USPS-T36-19.

In your rate design for Standard A Mail, you have stated a desire to avoid large percentage rate increases in individual rate cells.

- a. At p. 10 of your testimony you state that the Postal Service has a "desire to moderate rate increases for individual categories." Please explain (i) the basis or reason why individual rate cells, or categories, should have their increases moderated, and (ii) whether such moderation is inconsistent with having rates that reflect costs.
- b. Assume that the Standard A Regular or ECR subclass as a whole has an average rate increase of X percent. What is the maximum increase in any given rate cell, stated as a multiple of X, that you consider desirable. Please explain the basis for your answer.