

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

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POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF
VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS'
ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC.
(VP-CW/USPS-T36-1-10)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc.: VP-CW/USPS-T36-1-10, filed on August 13, 1997.

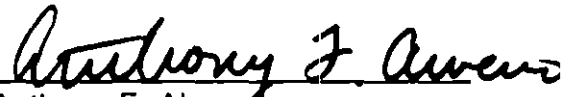
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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August 27, 1997

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-1. 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.

RESPONSE:

The issue of the appropriate allocation of institutional costs is one that customarily has been handled at the subclass level, and that is not the subject of my testimony. I understand, however, that many of the types of issues that would need to be addressed to respond fully to this question are discussed in Chapter 7 of the testimony of Peter Bernstein, USPS-T-31.

The principles of Ramsey pricing are useful guideposts in the setting of rate levels for the subclasses. (See witness O'Hara's response to OCA/USPS-T30-6). The relevant guidelines to be followed within the Standard Mail (A) subclasses are described throughout my testimony.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-2.

- 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 did you make, if any, to incorporate the principle of efficient component pricing?

RESPONSE:

- a. Witness Bernstein (USPS-T-31) describes the principle at page 72, line 18:
"Any activity that can be performed by more than one agent should be performed by the most efficient (least cost) agent."
- b. Yes. There are a number of worksharing discounts in Standard Mail (A) that encourage mailers to perform certain activities.
- c. My testimony recognizes the cost savings due to worksharing to the greatest extent possible while meeting the other rate design constraints and guidelines described throughout my testimony.

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VP-CW/USPS-T36-3. For cost savings that arise from dropshipment of Standard A mail, you recommend an 80 percent passthrough in this case. 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.

RESPONSE:

The 80 percent passthrough was selected as described in my testimony at page 20. It is "optimal" in that it meets the rate design objectives discussed in my testimony. Although it was not a consideration in my passthrough selection, the 80 percent passthrough should allay the concerns of parties who contend that setting the discount for all minimum-per-piece rated pieces by using a weight of 3.3 ounces "over-rewards" destination entry.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-4. Transportation costs represent a significant portion of the costs avoided by 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, (ii) 100 percent, or (iii) somewhat 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.

RESPONSE:

When proposing discounts in the rate design, I believe it is appropriate to reflect as much of the cost avoidance that is practical, given the other rate design considerations. See response to VP-CW/USPS-T36-2 and VP-CW/USPS-T36-3.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-5. In your rate design for Standard A Mail, you have stated a desire to avoid large percentage increases for individual rate cells.

- a. At page 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 categories should have their rate 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.

RESPONSE:

- a. Factor 4 in section 3622(b) of Title 39 calls for consideration of the effect of rate increases on the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters. Consideration of this factor is not inconsistent with having rates that reflect costs. Ratesetting involves balancing this factor with the other criteria of the Act, including cost considerations.
- b. I do not believe that a rule involving a multiple of the average increase is the best way to consider the effect of rate increases on mailers. For example, in this proceeding, the 10 percent figure, which serves as the upper bound guideline on proposed rate increases for commercial Standard Mail (A), happens to be a multiple of about 2 or 3 of the average increase for the Regular and ECR subclasses. That is not to say, however, that if the average increase were 20 percent, then increases of 40 to 60 percent would be acceptable. Each situation needs to be considered separately.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-6. Provide the Postal Service's standards for delivery of ECR mail.

RESPONSE:

Attached is a table depicting Service Commitments which appears in Publication 65. It is my understanding that the row identified as "Standard Mail (A)" is applicable.

UNITED STATES POSTAL SERVICE

Service Commitments

(ZIP Coded mail only)

Mall Class	Over-night	2nd Day	3rd Day	4th Day	5th Day	6th Day	7th Day	8th Day	9th Day	10th Day	Notes
Express Mail											Directories available at your local post offices.
Priority Mail											Primarily a two-day product.
First-Class Mail											11 ounces or less.
Periodicals											Surface preferential
Standard Mail (B)											See local BMC Manager for Parcel Post Commitments.
Standard Mail (A)											Mall entered at the Destination P&DC has a 2 & 3 day commitment.

VP-CW/USPS-T36-6 (Attachment)

For additional information contact the **MANAGER, SERVICE POLICIES AND PROGRAMS, POSTAL HEADQUARTERS,**
475 L'ENFANT PLAZA SW, WASHINGTON DC 20260-2806.

U S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-7. Please provide all data in the possession or control of the Postal Service that show actual performance in the delivery of (i) ECR mail since reclassification in Docket No. MC95-1, and (ii) third-class carrier Route mail from Docket No. R94-1 until the effective date of reclassification.

RESPONSE:

It is my understanding that there are no nationally representative performance data for these categories for either of these time periods.

U S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-8. For ECR mail, what performance data does the Postal Service plan to have available by the end of the Test Year?

RESPONSE:

It is my understanding that there is no plan to have any performance data for ECR mail available by the end of the Test Year.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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VP-CW/USPS-T36-9. Since the Postal Reorganization Act became effective, please identify each occasion when the Postal Service attempted to develop a performance measurement system for third-class or Standard A Mail.

RESPONSE:

Although I am not familiar with the history of performance measurement since postal reorganization, I am aware that there have been a number of efforts (e.g., EX3C, ADVANCE/DAR, TCMAS) to measure performance of individual mailers' mail, with the goal of developing nationally representative performance figures; however, it is my understanding none of these efforts culminated in a performance measurement system.

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VP-CW/USPS-T36-10. Has the Postal Service ever attempted to develop an external performance measurement system for monitoring the service given to third-class mail? Please explain any affirmative answer.

RESPONSE:

It is my understanding that the Postal Service developed EX3C; however, it did not culminate in a performance measurement system. See response to VP-CW/USPS-T36-9.

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: August 27, 1997

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.


Anthony F. Alverno

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