

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  
TO INTERROGATORIES OF  
VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS'  
ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC.  
REDIRECTED FROM WITNESS MOELLER  
(VP-CW/USPS-T36-11-14)

The United States Postal Service hereby provides responses to the following interrogatories of Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc.: VP-CW/USPS-T36-11-14, filed on August 21, 1997, and redirected from witness Moeller.

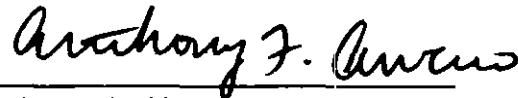
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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September 4, 1997

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

\* Excludes Single Piece Standard A

**RESPONSE:**

There are three reasons that explain why the figures shown on row 2 are different:

1. As stated above, the figure \$468,693 is from USPS-15J, or the Cost and Revenue Analysis, TY 1998 at Proposed Rates. USPS LR-H-111 uses the transportation costs from USPS-15G, or the Cost and Revenue Analysis, TY 1998 at Current Rates. (See USPS LR-H-111, Appendix B, Table 5.)
2. In USPS LR-H-111, Intra-SCF highway costs are adjusted in order to eliminate non-inter-facility transportation costs. (See USPS LR-H-111 p. 10 and Appendix B, Table 7.)
3. Inland water transportation costs are not included in USPS LR-H-111. (See USPS LR-H-111, p.12.)

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**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> | <u>Pounds</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.

**RESPONSE:**

- a. The difference between billing determinants data and USPS LR-H-111 with respect to DDU entry is explained by several reasons. First, Table 1 in USPS-LR-H-111 represents the sum of both regular and nonprofit mail. Next, Table 1 is based upon data collected during the Standard (A) mail characteristics survey (USPS-LR-H-105) This survey relied upon data collected from a sample of randomly selected offices, whose billing determinants when compared to the nation as a whole have less DDU mail (approximately 6 percent of sample office mail was DDU entry). Next, some offices in the survey reported less frequently than

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they were asked to do in the survey. These offices tended to have more DDU mail than the sample offices in general. Since there was no office specific factor used in the control process, the amount of DDU mail reflected in the survey data was further reduced. Finally, when the data for Table 1 were prepared, no control to billing determinants at the destination entry level was used, so Table 1 reflects the DDU mail sampled during the mail characteristics survey.

- b. Billing determinants can only determine the amount of mail dropshipped to BMCS, SCFs and DDUs. To estimate the amount of mail entered at the remaining entry locations represented in Table 1, the data in USPS LR-H-105 and H-145 are needed.

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**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?

**RESPONSE:**

- a. Within the CRA, the nontransportation costs avoided for Standard (A) are recorded as both direct and indirect costs. The indirect cost portions are included in the mail processing piggyback factors.
- b. (i) Mail Processing Costs.

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**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.

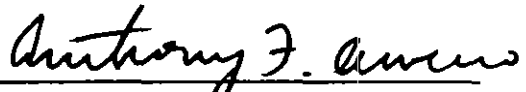
- a. What cost segment(s) contain this \$139 million of Postal-Owned Vehicle Costs?
- b. Are these Postal-Owned Vehicle Costs direct costs, or are they included in the indirect costs, or piggybacks, of other direct costs?
- c. If they are included in the indirect costs or piggybacks or other direct costs,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

**RESPONSE:**

- a. Cost segment 8 contains the direct postal-owned vehicle costs, which account for all labor costs associated with vehicle service drivers. The vehicle service driver piggyback factors can be found in USPS LR-H-77, pp.103-119. (See USPS LR-H-111, Appendix B, Table 6.) The costs from segment 8, in addition to the indirect costs associated with the vehicle service driver piggyback factors, account for the aforementioned Standard Mail (A) Regular Rate postal-owned vehicle costs of approximately \$139 million.
- b. A portion of the postal-owned vehicle costs are direct costs which include the labor costs associated with vehicle service drivers, and a portion are indirect costs. For Standard Mail (A) Regular Rate, approximately \$90 million of the \$139 million are direct labor costs from segment 8, and \$49 million are indirect costs associated with the vehicle service driver piggyback factors.
- c. The indirect costs for postal-owned vehicles are not included in mail processing or delivery piggyback factors. These costs are captured in piggyback factors that are specific to vehicle service driver costs, such as supervisory costs, administrative costs, vehicle depreciation, and interest expenses. (See USPS LR-H-77, pp. 103-119, for a complete listing of costs that make up the vehicle service driver piggyback factors.)

**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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