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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA (NAA/USPS-T31—1-13)

The United States Postal Service hereby provides the responses of witness Hope to the following interrogatories of the Newspaper Association of America: NAA/USPS-T31—1-13, filed on October 26, 2001.

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

Anthony Alverno
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax –6187
November 9, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-1:

Please refer to Page 9, lines 6 to 8, of your testimony. Were data available from the Base Year in this case that would allow you to determine the cost shares of the commercial and nonprofit subclasses? If so, please explain why you did not use such data.

RESPONSE:

Costs for these groupings were not available. This is discussed in my testimony on page 8, line 19 to page 9, line 12. The description by witness Moeller of the role of volume variable costs as applied to Standard Regular and Nonprofit also applies to Enhanced Carrier Route and Nonprofit Enhanced Carrier Route. (USPS-T-32, page 7, lines 11 – 15). The allocation methodology described in response to NAA/USPS-T31-2, below, was not intended to determine the precise volume variable cost of the commercial and nonprofit subclasses in isolation. The allocation assisted in executing the rate design formula and producing the statutory revenue-per-piece relationship between commercial and nonprofit subclasses, which is described in my testimony on page 35, lines 1 – 7.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-2:

Please explain how the estimate for allocating the combined NECR and ECR costs to each subclass was developed. Please provide all calculations.

RESPONSE:

See page 9 of my testimony, lines 6 to 8 for a description of the method used to allocate the combined ECR and NECR costs to each subclass.

The calculations that follow are in millions of dollars.

USPS LR-I-166	ECR Costs from WP1, page 16	$2,466.132
	NECR Costs from WP2, page 16	$ 207.208
	TOTAL	**$2,673.340**

The ECR cost ratio, using information from Docket No. R2000-1, is $2,466.132 divided by $2,673.340, or 92.25 percent. The NECR cost ratio is $207.208 divided by $2,673.340, or 7.75 percent.

These ratios were applied to the combined volume variable cost with contingency of $2,749.941 in this docket provided by witness Patalunas in his testimony (USPS-T-12, WP F, Table E). The calculation used for ECR is $2,749.941 x 0.9225 = $2,536.82, as shown in USPS-LR-J-131, WP1, page L, column E, row 8. The calculation used for NECR is $2,749.941 x 0.0775 = $213.12, as shown in USPS-LR-J-131, WP2, page L, column E, row 9. This

allocation was made merely to facilitate the use of the rate design formula. See response to NAA/USPS-T31-1, above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-3:

Please refer to footnote 11 of your testimony. What is it that makes a discussion of implicit cost coverages for piece-rated and pound-rated mail enlightening "in this instance" of Standard Enhanced Carrier Route mail as opposed to other subclasses of mail?

RESPONSE:

Examination of the implicit cost coverages for piece-rated and pound-rated pieces helps to illustrate and support the Postal Service's proposal for lowering the pound rate. It also shows the reasonableness of the proposal.

My testimony is limited to the Standard Enhanced Carrier Route and Nonprofit Enhanced Carrier Route subclasses. I have not studied whether it would be beneficial to introduce implicit coverage analyses to other classes of mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-4:

If, as you mention at Page 13 of your testimony, one goal in rate design is to bring the piece and pound rated implicit coverages for ECR closer together, why was the pound rate reduced instead of the piece rate being increased above the proposed increase?

RESPONSE:

Increasing the piece rate further than the increases in the Postal Service's proposal would likely disrupt current rate relationships and could increase some individual rate cells by more than 10 percent. Incidentally, I did not state that implicit coverage relationships were a goal of the rate design; in my testimony, I noted that:

> While equalizing cost coverage of the two groupings is not strictly necessary, the information suggests that a reduction in the pound rate can be made without distorting the relative implicit coverage of the two groupings. (USPS-T-31, page 13, lines 2 – 5).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-5:

Please refer to tables 5A, 5 B, and 5C of your testimony.

a. Please quantify the amount by which the revenue received from the Standard commercial ECR mail at the weight increments that face a rate reduction under your proposed rates is less than the revenue that would be received from the same weight increments if the current charges for pound-rated mail were unchanged, at Test Year Before Rates volumes.

b. Please provide the change in implicit cost coverage between the current and proposed ECR pound rates.

RESPONSE:

a. 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. 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." Furthermore, the analysis requested requires a simplifying assumption about the precise weight of pieces within each ounce increment.

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. These steps are also described in my response to interrogatory AAPS/USPS-T31-2.

1) Show the volume by destination entry and ounce increment for each density tier. This information is taken directly from Exhibit USPS-31A 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. 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 for each tier.

In order to answer the question above, using the series of steps described above, this analysis was performed for the Basic and High Density tiers (see Attachment for details). Analysis of the Saturation tier using the same methodology was described in the response to interrogatory AAPS/USPS-T31-2 (see Attachment to the response to interrogatory AAPS/USPS-T31-2 for details). Results for all three tiers are recapped below.

Basic	$ 2,890,899
High Density	$ 1,356,261
Saturation	$ 2,427,336
TOTAL DIFFERENCE	**$ 6,674,496**

Given the caveats, which are discussed above, the figure requested rounds to $6.6 million. This is minimal, which is not surprising, because, as shown in Exhibit USPS-31A, the total ECR volume affected is small: 5.69 percent.

b. See Table #3 on page 13 of my testimony, which shows the implicit coverage for piece-rated and pound-rated pieces at both the 3.0 and 3.5 ounce dividing lines. Before rates, the implicit coverage for pound-rated pieces at the 3.0 ounce dividing line is 249.8 percent, and the implicit coverage for pound-rated pieces at the 3.5 ounce dividing line is 246.2 percent. After rates, the implicit coverage for pound-rated pieces at the 3.0 ounce dividing line is 252.6

percent; the implicit coverage at the 3.5 ounce dividing line is 249.0 percent. The implicit coverage for both piece-rated and pound-rated pieces increases slightly after rates, but the gap between piece-rated and pound-rated pieces narrows, as discussed in my testimony on page 13, lines 5 to 11.

NAA/USPS-T31-5
BASIC TIER

STEP #1 **BASIC 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	62,947,178	42,860,604	40,372,902	15,626,310	5,926,242	4,416,590	2,675,955	2,534,023	1,832,079	1,357,595	1,429,404	901,882
DBMC	304,562,198	120,119,789	63,075,825	27,138,430	22,021,579	10,774,357	6,329,973	7,702,567	2,799,798	3,022,902	2,017,309	1,584,313
DSCF	1,393,019,957	687,126,369	347,200,787	176,319,894	146,814,454	72,353,137	36,414,942	50,964,651	21,368,004	11,172,024	3,382,548	6,673,169
DDU	37,396,881	25,043,536	15,959,875	10,903,164	7,860,762	4,209,715	2,063,488	1,574,426	845,287	493,026	303,305	382,187
				10,903,164	156,875,216	87,337,209	47,484,357	62,775,667	26,845,168	16,045,548	7,132,566	9,541,552

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	0.046	0.638	0.2254	0.2653	0.3052	0.3451	0.3849	0.4248	0.4647	0.5046	0.5444	0.5843	0.6242	0.6641
DBMC	0.046	0.545	0.1993	0.2339	0.2674	0.3015	0.3356	0.3696	0.4037	0.4377	0.4718	0.5058	0.5399	0.5740
DSCF	0.046	0.524	0.1934	0.2261	0.2589	0.2916	0.3244	0.3571	0.3899	0.4226	0.4554	0.4881	0.5209	0.5536
DDU	0.046	0.498	0.1861	0.2172	0.2483	0.2794	0.3106	0.3417	0.3728	0.4039	0.4351	0.4662	0.4973	0.5284

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	0.071	0.598	0.2392	0.2766	0.3139	0.3513	0.3887	0.4261	0.4634	0.5008	0.5382	0.5756	0.6129	0.6503
DBMC	0.071	0.498	0.2111	0.2422	0.2733	0.3044	0.3356	0.3667	0.3978	0.4289	0.4601	0.4912	0.5223	0.5534
DSCF	0.071	0.473	0.2040	0.2336	0.2632	0.2927	0.3223	0.3518	0.3814	0.4110	0.4405	0.4701	0.4997	0.5292
DDU	0.071	0.441	0.1950	0.2226	0.2502	0.2777	0.3053	0.3328	0.3604	0.3880	0.4155	0.4431	0.4707	0.4982

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	-0.0113	-0.0087	-0.0062	-0.0038	-0.0013	0.0012	0.0036	0.0063	0.0088	0.0113	0.0138
DBMC	-0.0068	-0.0059	-0.0030	0.0000	0.0029	0.0058	0.0088	0.0117	0.0147	0.0176	0.0205
DSCF	-0.0075	-0.0043	-0.0011	0.0021	0.0053	0.0085	0.0117	0.0148	0.0180	0.0212	0.0244
DDU	-0.0064	-0.0018	0.0017	0.0053	0.0088	0.0124	0.0160	0.0195	0.0231	0.0267	0.0302

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					$	$ 3,345	$ 9,503	$ 11,450	$ 11,879	$ 16,081	$ 12,401	$ 64,659
DBMC				$	$ 31,313	$ 36,991	$ 67,636	$ 32,810	$ 44,304	$ 35,492	$ 32,528	$ 281,876
DSCF			$	$ 311,580	$ 382,115	$ 308,389	$ 594,057	$ 317,181	$ 201,446	$ 71,773	$ 162,867	$ 2,349,408
DDU		$	16,740	$ 41,515	$ 37,230	$ 25,600	$ 25,142	$ 16,510	$ 11,386	$ 8,065	$ 11,549	$ 195,755
TOTAL		$	16,740	$ 353,095	$ 450,658	$ 374,325	$ 696,339	$ 377,951	$ 269,015	$ 131,431	$ 219,346	$ 2,890,698

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

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

NAA/USPS-T31-5
HIGH DENSITY TIER

STEP #1 **HIGH DENSITY 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	1,636,835	850,113	569,956	298,979	178,928	109,479	40,879	38,142	32,767	14,232	12,589	12,137
DBMC	126,873	121,490	16,515	59,319	4,802	14,802	972	0	5,865	0	23,327	0
DSCF	60,795,091	72,710,377	40,217,767	21,260,749	8,542,132	4,873,267	1,894,657	1,173,116	696,705	384,835	249,103	133,647
DDU	102,934,800	84,469,856	65,354,650	42,426,628	26,980,279	17,831,244	9,869,784	6,391,892	3,224,312	2,101,482	1,087,436	506,828
			65,354,650	63,687,377	35,527,213	22,828,791	11,826,291	7,603,150	3,959,649	2,500,549	1,372,555	652,612

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	0.024	0.638	0.2004	0.2493	0.2832	0.3231	0.3629	0.4028	0.4427	0.4826	0.5224	0.5623	0.6022	0.6421
DBMC	0.024	0.545	0.1773	0.2113	0.2454	0.2795	0.3135	0.3476	0.3817	0.4157	0.4498	0.4838	0.5179	0.5520
DSCF	0.024	0.524	0.1714	0.2041	0.2368	0.2696	0.3024	0.3351	0.3679	0.4006	0.4334	0.4661	0.4989	0.5316
DDU	0.024	0.498	0.1641	0.1962	0.2263	0.2574	0.2886	0.3197	0.3508	0.3819	0.4131	0.4442	0.4753	0.5064

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	0.046	0.598	0.2142	0.2516	0.2889	0.3263	0.3637	0.4011	0.4384	0.4758	0.5132	0.5506	0.5879	0.6253
DBMC	0.046	0.498	0.1861	0.2172	0.2483	0.2794	0.3106	0.3417	0.3728	0.4039	0.4351	0.4662	0.4973	0.5284
DSCF	0.046	0.473	0.1790	0.2086	0.2382	0.2677	0.2973	0.3268	0.3564	0.3860	0.4155	0.4451	0.4747	0.5042
DDU	0.046	0.441	0.1700	0.1976	0.2252	0.2527	0.2803	0.3078	0.3354	0.3630	0.3906	0.4181	0.4457	0.4732

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	-0.0062	-0.0057	-0.0032	-0.0007	0.0018	0.0043	0.0068	0.0092	0.0117	0.0143	0.0167
DBMC	-0.0058	-0.0029	0.0000	0.0030	0.0059	0.0088	0.0118	0.0147	0.0177	0.0205	0.0235
DSCF	-0.0045	-0.0019	0.0019	0.0051	0.0083	0.0115	0.0147	0.0178	0.0210	0.0242	0.0274
DDU	-0.0024	0.0012	0.0047	0.0083	0.0118	0.0154	0.0190	0.0225	0.0261	0.0297	0.0332

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				$ 14	$ 192	$ 174	$ 257	$ 303	$ 167	$ 181	$ 203	$ 1,477
DBMC				$ 14	$ 87	$ 9	$ -	$ 87	$ -	$ 460	$ -	$ 677
DSCF		$ -	$ 40,528	$ 43,511	$ 40,357	$ 21,729	$ 17,193	$ 12,432	$ 8,094	$ 6,033	$ 3,863	$ 193,546
DDU		$ 75,566	$ 200,201	$ 223,430	$ 211,169	$ 152,364	$ 121,246	$ 72,848	$ 54,836	$ 32,249	$ 16,836	$ 1,160,566
TOTAL		$ 75,566	$ 240,729	$ 266,956	$ 251,825	$ 174,276	$ 138,697	$ 85,670	$ 63,098	$ 38,943	$ 20,702	$ 1,356,261

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

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

FOR SATURATION TIER, SEE ATTACHMENT TO RESPONSE TO AAPS-USPS-T31-2

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-6:

Please confirm that an advertiser that participates in a shared Standard ECR pound-rated mailing does not pay the pound rate to the Postal Service, but rather pays a price set by the shared mailer. If you cannot confirm, please explain why not.

RESPONSE:

An advertiser that participates in a shared-mailing program does not pay postage directly to the Postal Service; however, one of the factors that the shared mailer takes into account in setting the price is the rate charged by the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-7:

Please confirm that an advertiser that participates in a shared Standard ECR piece-rated mailing does not pay the piece rate to the Postal Service, but rather pays a price set by the shared mailer. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed. It should be noted that one of the factors that the shared mailer takes into account in setting the price is the rate charged by the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-8:

Please confirm that your testimony does not discuss and does not rely on any contentions regarding the prices charged by shared mailers to the advertising participants in their mailings. If you cannot confirm, please explain why not.

RESPONSE:

My testimony does not discuss prices charged by shared mailers to advertising participants in their mailings; however, my testimony notes that "the concerns of alternative providers of saturation advertising services were taken into account and balanced with the concerns of businesses that would prefer a lower pound rate." (USPS-T-31, page 21, lines 6 – 9).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-9:

Please confirm that your testimony does not discuss and does not rely on any contentions regarding the prices charged by newspapers to their advertisers for inclusion in newspaper Total Market Coverage programs. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-10:

Please refer to Page 23, line 18. to Page 24, line 9, where you allude to the concern about "cross-over" to Standard Regular Automation letter rates as a justification for a zero percent passthrough of the letter/flat differential at the Basic ECR tier. Please identify the Standard Regular rate category that is most relevant to this concern, and state the rate for that rate category proposed by witness Moeller.

RESPONSE:

I was referring to the Standard Mail 5-digit automation letter rate. The rate proposed for this category in witness Moeller's testmony (USPS-T-32, page 19) is 19.0 cents, which is 0.4 cent less than the 19.4 cents proposed for ECR basic letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-11:

Has the Postal Service conducted any study of the cost savings associated with walk sequencing since the Shipe study that was in evidence in Docket No. R90-1? If so please provide copies of all such studies.

RESPONSE:

Although the methodology used in the Shipe study has not been replicated, the cost savings associated with high-density and saturation walk-sequenced mail have been quantified in subsequent rate cases, including this one, as presented by witness Schenk in USPS-LR-J-59 and 117.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-12:

Did you consider proposing a new density tier Standard ECR mail between the High Density and Saturation tiers? If so, please state why you do not propose such a new tier.

RESPONSE:

No. I have not studied this; the concept may have merit and could be considered in the context of future ECR rate design.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HOPE TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T31-13:

Please refer to Page 26 of your testimony at Table # 7 and lines 11 to 15. Did you consider any alternative rate designs that would have limited the density passthrough between high density and saturation nonletters to 100 percent instead of the 108.3 percent that you propose? If so, please explain what alternatives you considered and why you rejected them. If not, please explain why the passthrough between high density and saturation nonletters in excess of 100 percent did not cause you to consider alternatives.

RESPONSE:

The rate design for Standard ECR is an iterative process and I considered many alternatives before finalizing my proposal. Some of them involved different passthrough percentages and different rate differentials. I sought a combination of inputs that met the various criteria for rate design, as discussed in my testimony on page 2, lines 8 – 15. In addition, as discussed in my testimony, the proposal to require that high-density and saturation letters bear mailer-applied barcodes was considered in determining the Letter-Nonletter passthroughs in the High Density and Saturation tiers:

> The rate gap between High Density letters and nonletters, measured in cents, was widened, from the current 0.3 cent to 0.5 cent, a 66.6 percent increase. At the Saturation tier, the gap was widened from 0.4 cent to 0.7 cent, a 75.0 percent increase. These figures represent significant savings to mailers who barcode their High Density and Saturation letters. (USPS-T-31, page 10, lines 18 to 23.)

As noted in my response to VP/USPS-T31-22, the passthroughs cannot be viewed as isolated inputs, because the Standard Mail ECR formula is dynamic. There are several variables in the rate design formula which work

interactively and with other inputs in the spreadsheet model in USPS-LR-J-131. (For more detail on the relationship of the shape and density passthroughs, see Appendix #1 of my testimony, which is a description of the ECR Presort Tree.) A change in the passthroughs to decrease the High Density-Saturation nonletter passthrough would impact other rates. In addition, this change could impact the projected Test Year After Rates volumes; commensurate changes in the passthroughs or other "soft" inputs might have to be made to meet the ECR revenue requirement as set by the rate level witness. Passthroughs are only a part of rate design and they are not the only consideration in setting rates; they are not set independently of these other considerations.

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 Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax –6187
November 9, 2001