

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

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS HOPE TO INTERROGATORIES OF VAL-PAK DIRECT
MARKETING SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC.
(VP/USPS-T31—32(A-D & F), 33, AND 35)**

The United States Postal Service hereby provides the responses of witness Hope to the following interrogatories of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association: VP/USPS-T31—32(a-d & f), 33, and 35, filed on October 31, 2001. Interrogatories VP/USPS-T31-33(e) and 34 were redirected to witness Schenk.

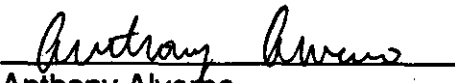
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 14, 2001

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VP/USPS-T31-32:

Please refer to your response to VP/USPS-T31-8, part d.

- a. Please provide the cost and revenue data which you used to compute the implicit coverages for letters and nonletters.
- b. Please indicate the sources from which you obtained the cost and revenue data.
- c. Please confirm that you computed the implicit coverages by dividing each category's revenues by its respective costs. If you do not confirm, please explain.
- d. Do the revenue data which you used to compute your implicit coverages include all revenues derived from Standard ECR letters and nonletters, respectively? If not, please explain in full.
- e. Do the cost data which you used to compute your implicit coverages include all volume variable costs attributed to Standard ECR letters and nonletters, respectively, or just some portion of total costs? If just some portion, please list which costs and explain.
- f. Please assume that some of the costs attributed to letters were in fact caused by items whose revenues were attributed to nonletters. Would such a circumstance reduce whatever value implicit coverages may have as an "illustrative" tool? Please explain any negative answer.

RESPONSE:

- a. The average unit cost for letters is \$0.0669; the average unit cost for nonletters is \$0.0748. The average unit revenue for letters is \$0.1511; the average unit revenue for nonletters is \$0.1739.
- b. I understand from witness Schenk that the unit cost data are in cells E12 and E30 of Spreadsheet 'Table 3' in Workbook LR58AECD(revised).xls, which she has indicated will be filed shortly as errata to USPS-LR-J-58. The source for the unit revenue data for letters is USPS-LR-J-131, page Y, column L, row 22. The source for the unit revenue data for nonletters is USPS-LR-J-131, Page Y ("ECR TYBR TYAR REV"), and is the sum of

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cells K13 to K19 divided by the sum of cells F13 to F19. It can also be derived from page W ("TYAR VOL CAT").

- c. Confirmed.
- d. An estimate of revenue from the residual shape surcharge and fees is not included in this calculation. Revenue derived from fees is only 0.25 percent of total Test Year Before Rates revenue and revenue derived from the residual shape surcharge is 0.04 percent of total revenue. If this relatively small amount of revenue were included, it would accrue primarily to nonletters, because only nonletters pay the residual shape surcharge, and fees would be apportioned by volume (nonletter volume is greater than letter volume).
- e. Redirected to witness Schenk (USPS-T-43).
- f. This may generally be the case, although the impact could be minimal, depending on the degree of misattribution.

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VP/USPS-T31-33:

Please refer to your response to VP/USPS-T31-15.

- a. Please define the phrase "preserve current rate relationships" as you use it in response to part a of the above-referenced interrogatory. In your response, please indicate whether you intended the phrase to have any quantitative or quantifiable meaning. For instance, should the relationship of one rate cell to another fall within some pre-specified range? If your definition of "preserving current rate relationships" has quantitative implications, please be as explicit and precise as possible concerning what you intended.
- b. Please define the phrase "disproportionate increases" as you use it in response to part a of the above-referenced interrogatory. Please indicate whether you intend this phrase to have any quantitative interpretation or meaning.
 - (i) Please indicate the rate cell or cells in your proposed rate design for Standard ECR Mail that have the highest percentage rate increases, and specify what those percentage rate increases are.
 - (ii) Please indicate what, in your opinion, the rate cell (or cells) with the highest percentage increase(s) should be compared to as a basis for judging whether the proposed increase represents a "disproportionate" increase.
 - (iii) Regardless of how you respond to preceding part (ii), please comment on the appropriateness of comparing the rate cell (or cells) with the highest proposed percentage increase(s) to the average percentage increase proposed for the entire subclass as a basis for judging whether the highest percentage increases are "disproportionate." With respect to this benchmark, please indicate whether you perceive any threshold as indicative of "disproportionate."
 - (iv) Regardless of how you respond to preceding part (ii), please comment on the appropriateness of comparing the rate cell (or cells) with the highest proposed percentage increases to the rate cell (or cells) with the lowest percentage rate change proposed for the entire subclass as a basis for judging whether the highest percentage increases are "disproportionate." With respect to this benchmark, please indicate whether you perceive any threshold as indicative of "disproportionate."

RESPONSE:

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- a. Rate relationships within the Standard Mail ECR subclass are complex, involving links among density tiers, shape, and destination entries. The phrase "preserve current rate relationships" is primarily a qualitative, rather than quantitative, guideline, although some general quantitative rate relationships are inherent in the structure of ECR rates. As witness Moeller stated in Docket No. R2000-1:

Some rate relationships, such as saturation being at least as low-priced as high-density, are relationships that should be maintained. Absolute relationships, in terms of cents-per-piece or comparable percentage increases need not be maintained, however. Tr. 10/3972-73.

In essence, logical rate relationships should be preserved. For instance, all other things being equal, items that are dropshipped closer to their destination should have lower rates than those that are not. Shapes that are more costly to process should pay more. The relative differences may change based on costs and other factors. At the same time, the basic rate design hierarchy is preserved.

See also response to subpart (b), below.

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b. As noted in my testimony:

The [ECR and NECR] proposals build on current rate design elements and maintain current rate relationships, while limiting individual cell increases to less than 10 percent. Limiting rate cell increases to less than 10 percent allows the rates to vary around the average cost coverage in a manner that reflects costs and maintains current rate relationships, while not disproportionately affecting any single category. (USPS-T-31, page 2, lines 10 to 15).

- (i) See USPS-LR-J-131, Page T ("SUM") for "Percentage Change by Rate Cell."
- (ii) Several factors can be considered. For instance, the cells with the greatest change can be compared with the average for the classification. These cells can also be compared to the changes with other rate cells to see if they are unique in their impact.
- (iii) In general, these issues are resolved on a case-by-case basis. As stated in subpart (ii), above, comparing the percentage increase of a given cell to the subclass average is one way to evaluate whether the cell is incurring a disproportionate increase. There is no rigid threshold that would be indicative of what is disproportionate, since such an evaluation is made on a case-by-case basis. For example, if the proposal includes classification changes (such as when the residual shape surcharge was introduced), a higher "threshold" may be appropriate.

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- (iv) As stated in subpart (ii), above, individual rate changes can be compared to changes in other rate cells. In general, efforts to temper increases for some cells will limit how low the lowest percentage changes can be for other cells. Also, as stated in subpart (iii), each evaluation should be made on a case-by-case basis. For example, if a long-standing misalignment of costs is being addressed, a change significantly different from the average might be more appropriate than it would be if there were not a misalignment of costs.

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VP/USPS-T31-34:

Please refer to your response to VP/USPS-T31-13.

- a. For each of the rate categories shown in USPS-LR-J-131, WP1, Page H, COST, please provide the Postal Service's best estimate of the other volume variable Test Year unit costs, including associated indirect costs, specified in your response to part a of that interrogatory. If estimates are not available for all of those unit costs, please provide such estimates as are available.
- b. Your response to part b of the above-referenced interrogatory states that although the Test Year mail processing and unit costs shown in your work paper have not been reconciled to estimated total CRA costs for the Test Year, they "should" roll up for those cost segments. The last sentence in your response, which is somewhat conclusory, states that no reconciliation is needed.
 - (i) Please state what cost segments are encompassed in your estimated mail processing and delivery unit costs.
 - (ii) Please provide an explanation as to why you have confidence that the estimated unit costs would in fact roll up to and reconcile with the CRA total rollforward costs for those cost segments if you or the Postal Service were to make the requisite effort. Should you opt to do such reconciliation, please provide the results.

RESPONSE:

Redirected to witness Schenk (USPS-T-43).

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VP/USPS-T31-35:

Please refer to your response to VP/USPS-T31-14, especially part d.

- a. From what witness did you obtain the revenue data included in your Table #3?
- b. Do the revenues reflect all revenues derived from items above and below the indicated breakpoints?
- c. Do the costs reflect all costs attributed to items above and below the indicated breakpoints? Please explain any answer that is not an unqualified affirmative.

RESPONSE:

- a. The revenue data were derived from USPS-LR-J-131, WP1, page Y ("ECR TYAR VOL REV"), column 3 for Before Rates revenue and column 5 for After Rates revenue.
- b. An estimate of revenue from the residual shape surcharge and fees is not included in this calculation. This is a relatively insignificant amount; see response to USPS/VP-T31-32(d).
- c. See response to VP/USPS-T31-32(e), redirected to witness Schenk (USPS-T-43).

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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