

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—39(A-D, I), 40-41, 42(B), AND 43)**

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—39(a-d, i), 40-41, 42(b) and 43, filed on November 26, 2001. Interrogatory VP/USPS-T31-39(e-h) was redirected to witness Schenk, and interrogatory VP/USPS-T31-42(a, c) was redirected to witness Kingsley.

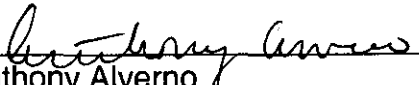
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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VP/USPS-T31-39:

Please refer to your response to VP/USPS-T31-8. In part d, you indicated that you computed the implicit coverages for letters and nonletters "using test year after rates revenue and test year unit costs."

- a. What were (i) the amounts, and (ii) the source of the test year after rates ("TYAR") revenues for letters and nonletters which you used to compute the implicit coverages in your response?
- b. Did you compute unit revenues to compare with unit costs, or did you compare total revenues with total costs for letters and nonletters, respectively? If you computed unit revenues to compare with unit costs, please answer questions c. through i.
- c. When computing unit revenues, please specify the volumes that you used for letters and nonletters, and state whether the volume which you used for nonletters either (i) counted and included both detached address labels ("DALs") and the accompanying nonletter (i.e., covers or parcels), or (ii) omitted DALs from the volume used to compute unit revenues.
- d. If DALs were counted as part of the volume used to compute unit revenues:
 - (i) Were they counted as letters or nonletters?
 - (ii) How much of the revenue was attributed to the DALs?
- e. In your computation of TYAR unit cost for letters, did you include any costs, including but not limited to city carrier and rural carrier costs, that were attributable to the handling of DALs?
 - (i) If not, please indicate how you excluded the volumes of DALs, and the associated costs thereof, from the city carrier and rural carrier database.
 - (ii) If your computation of unit costs did include any costs that were attributable to DALs, please explain whether in your opinion the revenues in the denominator of your implicit coverage calculation for letters is fully consistent with the costs used in the denominator. That is, if the revenues from DAL mailings are never recorded as being from letters, why should any costs attributable to such mailings be distributed to and included in the unit cost of letters?
- f. In your computation of TYAR unit cost for letters, did the mail processing costs, and/or city carrier costs, and/or rural carrier costs include or exclude any costs from letter-shaped pieces that weighed more than 3.3 ounces?
- g. If your response to the preceding interrogatory is to the effect that you included any costs attributable to letter-shaped pieces that weighed more than 3.3 ounces, then please explain whether you consider the inclusion of such costs to be consistent with revenues in the numerator of your

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- implicit coverage calculation; i.e., with revenues based only on letters that weighed less than 3.3 ounces.
- h. When you computed the TYAR unit cost for nonletters, did you include in those costs all mail processing costs, and/or all city carrier costs, and/or all rural carrier costs that were recorded as being attributable to the cost of handling DALs?
- (i) If so, please indicate how you estimated the volumes of DALs, and the associated costs thereof, in the city carrier and rural carrier database, and transferred those costs from letters to nonletters. Also, please indicate the amount of the costs of DALs that you transferred from letters to nonletters.
- (ii) If your computation of unit costs for nonletters did not include any costs that were attributable to handling of DALs, please explain whether in your opinion the revenues in the numerator of your implicit coverage calculation for nonletters is fully consistent with the costs used in the denominator. That is, if all revenues derived from DAL mailings are recorded as being from nonletters, shouldn't all of the costs attributable to such mailings - including the costs of DALs - be distributed to nonletters?
- i. If you consider your calculations of implicit coverages for letters and nonletters to contain any inconsistencies as between your revenue figure in the numerator and your costs in the denominator, please provide recomputed implicit coverages which eliminate all such inconsistencies. If the data are insufficient to eliminate all such inconsistencies, please recompute and provide improved implicit coverages eliminating or reducing inconsistencies to the extent that the available data allow, and indicate what additional data or information you would need to develop implicit coverages for letters and nonletters on a fully consistent basis.

RESPONSE:

- a. See response to VP/USPS-T31-32a.
- b. See response to VP/USPS-T31-32a.
- c. Regarding volumes, as indicated in my workpapers (USPS-LR-J-131), the source for the volumes used in the ECR rate design is USPS-LR-J-125.
- Regarding the counting of DALs, it is my understanding that a piece with a

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detached address label (DAL) is counted as either a flat or a parcel. The DAL is not counted separately.

- d. Not applicable.
- e-h. Redirected to witness Schenk (USPS-T-43).
- i. I used the best available data in my calculations of implicit coverages in two instances: Table #3 in my testimony, and in response to VP/USPS-T31-8.

The figures in Table #3 of my testimony make use of available data to provide the implicit coverages for piece-rated pieces and pound-rated pieces. While, as discussed in my testimony on page 12 in footnote 12, the fact that the breakpoint weight of 3.3 ounces is not clearly delineated in the cost data, certain assumptions are made regarding the cost and revenue data. I would not describe the effect of such assumptions as "inconsistencies." The patterns demonstrated in table #3 are remarkably similar, at both the 3.0 and 3.5 ounce breakpoints, which are the closest cost demarcations that can be used in lieu of the actual breakpoint of 3.3 ounces.

The figures provided in response to VP/USPS-T31-8 made use of available data to provide the implicit coverages requested for letters and nonletters. The question above refers to the implicit coverages provided in response to that interrogatory, and presumably, by "*your* calculations of

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implicit coverages for letters and nonletters” [emphasis added], the question posed in this interrogatory is referring solely to that interrogatory (i.e., VP/USPS-T31—8). As discussed in my response to NAA/USPS-T31-20, for cost purposes, some letter-shaped pieces above the breakpoint of 3.3 ounces may be categorized as letters, while in the revenue calculation, categories are defined solely by rate. My response to subpart (b) of VP/USPS-T31-8 cautioned that “often an analysis of implicit coverages *requires making some simplifying assumptions*” [emphasis added]. In subpart (d) to VP/USPS-T31—8, in specifically discussing the implicit coverages requested, I stated that:

analyses of implicit coverages may be useful under certain circumstances when performed with a specific illustrative purpose. While some of the particular data requested here may be calculated, their value as an illustrative tool may be limited.

Fortunately, the analysis I use in my testimony compares piece-rated pieces vs. pound-rated pieces, *regardless of shape*, so it is not limited in this regard. Also see response to VP/USPS-T31-40, below.

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VP/USPS-T31-40:

Would you agree that, when computing implicit coverages, the revenue data used in the numerator and the cost data used in denominator should be as fully consistent as possible if the Commission is to rely on such implicit coverages for rate design purposes? If you do not agree fully, please explain any reservations or disagreement that you might have concerning the desirability of such consistency.

RESPONSE:

Yes, and in the implicit coverages cited in my testimony, the numerators and denominators are consistent. Consistency is desirable, if possible; in any event, the best available data should be used.

It should be noted that implicit coverages as described in my testimony in Table #3 are merely one tool in the ECR rate design, and deal with all piece-rated and all pound-rated pieces, *regardless of shape*. Because cost data are not available at precisely 3.3 ounces, the coverages are given at two distinct breakpoints: 3.0 and 3.5 ounces. The pattern in Table #3 was consistent at both the 3.0 and 3.5 breakpoints, which helps to illustrate that even under the proposed pound rate decrease, the implicit coverage of pound-rated pieces would still be higher than that of piece-rated pieces. It supports the proposal to lower the ECR pound rate to \$0.598 by showing that the proposal is reasonable and moderate. (USPS-T-31, page 13 line 1 to page 14, line 5.)

As noted above, my response to interrogatory VP/USPS-T31-8 used the best available data for determining implicit coverages by shape and gave several

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caveats in the response. This interrogatory appears to be highlighting the limitations mentioned in my response to VP/USPS-T31-8, which are not limitations in Table #3 of my testimony.

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VP/USPS-T31-41:

In your response to VP/USPS/T31-10, you stated that "Standard ECR parcels must bear detached address labels (DALs), which renders them ineligible for special services, as specified in DMM E610.9.2." What is there about DALs which renders Standard ECR parcels ineligible for special services?

RESPONSE:

As noted in my earlier response, DMM E610.9.2 outlines the types of Standard Mail that are not eligible for any special services. This includes pieces mailed with detached address labels (DALs), as outlined in DMM A060. Given that the contents of ECR parcels consist of merchandise samples, the contents are generally not that valuable, and hence there has been no groundswell of interest among mailers for the provision of special services with this category of mail.

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VP/USPS-T31-42:

In your response to VP/USPS-T31-12c, you stated that the ECR parcel rate category "is shape-based, and thus is consistent with the way the Postal Service sorts and delivers mail. Parcels are a separate component of the mail stream; thus, a rate design that recognizes ECR parcels as a separate mail stream, with a distinct rate, is very reasonable and logical."

- a. Please describe all differences between "the way the Postal Service sorts and delivers" ECR flats accompanied by DALs, and "the way the Postal Service sorts and delivers" ECR parcels, which are always accompanied by DALs.
- b. Please refer to the response to VP/USPS-T39-42. Would you agree that any unaddressed ECR flats accompanied by DALs are almost always handled separately from other flat-shaped mail that carriers case in DDU's? Please explain any disagreement.
- c. Please describe why ECR flats accompanied by DALs would not also constitute a separate component of the mailstream, similar to ECR parcels, which are always accompanied by DALs.

RESPONSE:

- a. Redirected to witness Kingsley (USPS-T-39).
- b. I have no basis to conclude otherwise.
- c. Redirected to witness Kingsley (USPS-T-39).

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VP/USPS-T31-43:

In your response to VP/USPS-T31-22b, you stated that “[a] change in the passthroughs to increase the Saturation nonletter average rate by 0.2 cent and decrease the Saturation letter average rate by 0.2 cent would impact other rates as well as the overall ECR average per piece increase.”

- a. What “other rates” would such a change impact, and by how much?
- b. How would such a change affect the “overall ECR average per piece increase”?
- c. How would such a change affect the contribution to institutional costs from Standard ECR?

RESPONSE:

- a. One can use the rate design spreadsheet to test various rate designs. In this instance, there are different ways to achieve the average rate changes mentioned in the above interrogatory. For example, one could change the passthroughs in USPS-LR-J-131, WP1 (“ECR PASS”), Worktable C, cell C34, from 85 percent to 90 percent and cell E35 from 65 percent to 95 percent.

Since the rate design formula is designed to meet the given revenue requirement, regardless of the specific approach taken to achieve the rate relationship specified in this interrogatory, other rate changes may occur. The results from the new passthroughs – or any other rate design changes – would have to be evaluated to determine if the resulting rates meet specific rate design objectives. After an analysis of ECR rate changes, to reflect the change in the commercial ECR average revenue per piece, some minor adjustments would have to be made in the rate

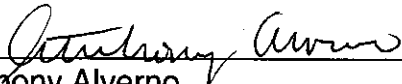
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design for the Nonprofit ECR subclass. (This is because the average revenue per piece in NECR is mandated to be as close to 60 percent as possible to the average revenue per piece in commercial ECR, which would change.) The resulting ECR and NECR rates would then have to be evaluated along with the proposed rates for other subclasses to determine if, together, they would generate volumes that meet the revenue requirement.

- b-c. The average revenue per piece and the contribution would change somewhat with different rates, although the rate design formula is geared to meet the desired revenue requirement. The precise change would not be known without a revised volume forecast and cost roll-forward.

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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