

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF VAL-PAK
(VP/USPS-T28-9 THROUGH 12)

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of Val-Pak: VP/USPS-T28-9 through 12, filed on November 26, 2001.

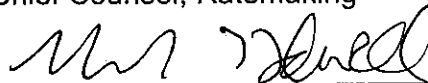
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

December 10, 2001

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
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VP/USPS-T28-9.

In your response to VP/USPS-T28-3, you stated:

Although my testimony includes many comparisons between ECR and Regular with regard to the noncost criteria, the primary driver for the relative cost coverages for ECR and Regular is consideration of Criterion 4. As stated in my testimony with regard to the ECR coverage, "many of the factors considered above indicate a cost coverage lower than that actually proposed." (USPS-T-28 at 38, lines 12-13)

Your answer did not directly respond to the following questions. Please respond to them at this time.

- a. Which of the noncost criteria in 39 U.S.C. § 3622(b) support a higher cost coverage for Standard ECR when compared to Standard Regular?
- b. Which of the noncost criteria in 39 U.S.C. § 3622(b) support a lower cost coverage for Standard ECR when compared to Standard Regular?

RESPONSE:

- a. Again, the cost coverages were proposed based on the analysis presented in my testimony. While I do not perform a side-by-side assessment, by criterion, for each subclass pair in the Domestic Mail Classification Schedule, a comparison of Regular and ECR might show the following:

As stated in my testimony, the "Fairness and Equity" criterion provides a basis upon which to properly balance the sometimes-conflicting factors indicated by the other criteria. With regard to Regular and ECR, the proposed coverages are deemed fair and equitable in that they produce reasonable percentage changes and properly balance the other criteria. Since the resulting coverage is higher for ECR, then, if anything, this criterion supports a higher coverage for ECR than Regular.

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RESPONSE to VP/USPS-T28-9 (continued):

The "Available Alternatives" criterion, when viewed in isolation, supports a higher coverage for ECR than Regular. Materials sent as Regular mail have fewer alternatives, and, to the extent this criterion is intended to protect users of classifications with limited alternatives, suggests a lower coverage for Regular.

The "Effect of Rate Increases" criterion supports a higher coverage for ECR than Regular. If not, then the proposed rates would include a much higher increase for Regular, or a large decrease for ECR rates, or both.

The "Educational, Cultural, Scientific, and Informational" (ECSI) criterion is most often considered with respect to Periodicals, First-Class Mail Letters, Media Mail, and, to some degree, Bound Printed Matter. If ECR and Regular were viewed in isolation, the ECSI criterion might support a slightly lower coverage for Regular, and therefore a higher coverage for ECR, since Regular includes books and recordings.

To the extent "Other Factors" includes the means to avoid sudden shifts in institutional cost burden as discussed in my testimony, then it, too, would tilt, in this instance, toward a higher cost coverage for ECR.

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RESPONSE to VP/USPS-T28-9 (continued):

- b. The "Value of Service" criterion supports a lower coverage for ECR than Regular.

As described in my testimony, the own-price elasticity is often used as an indicator of value of service, and, in this instance, suggests a lower value of service for ECR since its elasticity is higher than that of Regular.

While the "Degree of Preparation" criterion is often considered through workshare discounts that are offered for that preparation, ECR clearly requires greater mail preparation than Regular. To the extent that is to be reflected in the proposed coverage, that would support a lower coverage for ECR.

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VP/USPS-T28-10.

In your response to VP/USPS-T28-3(f), you stated that your "statement regarding the relative 'deferrability' of ECR mail [vis-a-vis Regular Mail] was not intended to make any conclusions regarding service performance. Even if ECR mail is deferred, that does not necessarily mean it does not meet service expectations."

- a. Please confirm that Standard Regular and Standard ECR have identical service standards. If you do not confirm, please (i) identify how the service standards of the two subclasses differ, and (ii) provide documentation wherein the Postal Service has advised mailers that the service standards for these two subclasses differ.
- b. Do you use the term "service expectations" synonymously with "service standards"? If not, what "service expectations" should Standard ECR mailers have that differ from Standard Regular "service standards"?
- c. If Standard ECR is subject to higher "deferrability" than Standard Regular, would you agree that Standard Regular receives higher priority or preference in handling and/or delivery? If you do not agree, please explain why higher "deferrability" does not indicate lower priority or preference in handling and/or delivery.

RESPONSE:

- a. Confirmed.
- b. In the cited sentence, "service standards" can be substituted for "service expectations," however "service expectations" is a more general relating to what a mailer has come to expect based on experience with particular mailing patterns. At the same time, relative service standards are generally a means of assessing relative service expectations.
- c. No, the cited statement from my testimony merely acknowledged the fact that, at the delivery unit, Regular mail might be more likely (than ECR) to have been merged with other non-deferrable mail and therefore not easily identifiable as deferrable. That is not to say that it was not recognized as deferrable upstream from the delivery unit.

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VP/USPS-T28-11

- a. When asked in VP/USPS-T28-4b "what factors did you find in common among First-Class letters, Express Mail, and Standard ECR," you answered:

The proposed cost coverages for each of the subclasses referred to in this question are a result of careful consideration of the criteria. On balance, the criteria point to the coverages as proposed.

Is it your view that it is a sheer coincidence that First-Class letters, Express Mail, and Standard ECR all have similar cost coverages — the highest in this docket?

- b. Do First-Class letters, Express Mail, and Standard ECR have features in common which distinguish them from the other classes and subclasses of mail? If so, please describe each feature which you believe is common to all three.
- c. Do you agree that First-Class letters and Express Mail receive very high priority in processing, delivery, and transportation, including air transportation for longer distances? If not, please identify which classes and subclasses receive higher priority in transportation, processing, and delivery.
- d. Do you agree that Standard ECR shares with Standard Regular the lowest priority in processing, delivery, and transportation, including being limited to surface transportation except for those situations where it is not a practical alternative? If not, please identify which classes and subclasses receive lower priority in transportation, processing, and delivery.
- e. Are service standards an important consideration in the process of assigning a cost coverage? Please explain any negative response.
- f. Is service performance — both absolute and compared to service standards — an important consideration in the process of assigning a cost coverage? Please explain any negative response.
- g. Is consistency in performance and in meeting service standards an important consideration in assigning a cost coverage to a subclass of mail? Please explain any negative response.
- h. To the best of your knowledge, is a subclass' consistency in meeting its service standards an important consideration to a mailer in deciding whether to choose a Postal Service product or that of a competitor? Please explain your answer.
- i. How much did the Postal Service spend on administering the EXFC program in BY 2000?

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VP/USPS-T29-11 (continued):

- j. How much did the Postal Service spend to assess Standard ECR service performance in BY 2000?

RESPONSE:

- a. It is not a coincidence in that the determination of the cost coverages was not an accident. (One definition of "coincidence" is "a seemingly planned sequence of accidentally occurring events.") However, there was not a "plan" to have the cost coverages be of similar magnitude.
- b. There are no prominent features of the three that differentiate them, as a group, from other groupings of classes and subclasses. However, similar cost coverages can be arrived at without necessarily identifying common prominent characteristics.
- c. Yes.
- d. Yes.
- e. "Value of service" is one of the criteria considered when assigning cost coverage, as are "fairness and equity" and "effect of rate increases." Service standards are considered one measure of value of service.
- f. "Value of service" is one of the criteria considered when assigning cost coverage, as are "fairness and equity" and "effect of rate increases." Service performance is considered one measure of value of service.
- g. "Value of service" is one of the criteria considered when assigning cost coverage, as are "fairness and equity" and "effect of rate increases." Consistency in performance is considered one measure of value of service.

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RESPONSE to VP/USPS-T28-11 (continued):

- h. Consistency of service is certainly a consideration when choosing whether to use a Postal Service product or that of a competitor.
- i. \$17.6 million.
- j. There is no end-to-end service performance measurement system like EXFC in place for Standard Mail for which a comparable, specific cost figure can be provided. Nevertheless, postal managers at all levels of the organization expend time and effort assessing the service provided to Standard Mail, responding to the concerns of Standard Mail users and their various trade associations, reviewing operational changes that might improve service, and implementing such changes. Cost data related to such activity are not routinely recorded or aggregated.

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VP/USPS-T28-12.

- a. Is it appropriate or useful to examine unit contributions from subclasses within the same class when setting cost coverages? If not, why not?
- b. If it is appropriate or useful to examine unit contributions from subclasses within the same class when setting cost coverages, did you conduct such an examination of the unit contributions by Standard Regular and ECR? If so, what were the results? If not, why not?

RESPONSE:

- a. It is not necessarily inappropriate since the level of per-piece contribution is related to the percentage cost coverage, however, consideration of the nine pricing criteria provides ample support for proposing cost coverages.
- b. Whether it is deemed appropriate or not, I did not conduct such an examination, as stated in my response to VP/USPS-T28-5a.

DECLARATION

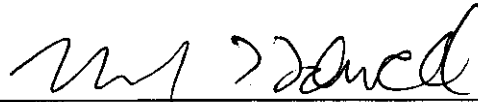
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


JOSEPH D. MOELLER

Dated: December 10, 2001

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.

A handwritten signature in black ink, appearing to read "M. Tidwell", written over a horizontal line.

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
December 10, 2001