

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

**UNITED STATES POSTAL SERVICE  
NOTICE OF FILING ERRATA TO THE TESTIMONY OF USPS  
WITNESS LARAIN B. HOPE (USPS-T-31)**

The Postal Service hereby gives notice of the filing of errata to the testimony of witness Hope (USPS-T-31). These are summarized below.

The errata on page 13 reflect the filing of errata to USPS LR-J-58 on November 20, 2001.

The errata on pages 1 and 28 correct the attribution of dropship savings to witness Mayes (USPS-T-23).

The errata on pages 37 and 38 show the implicit passthroughs resulting from the use of parallel cost data in commercial ECR and NECR. Discussion of the implicit passthroughs for NECR and comparison to the original passthroughs filed can be found on page 41.

The errata on page 38 also provide the correct attribution to witness Mayes (USPS-T-23).

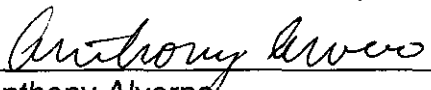
Copies of pages 1, 13, 28, 37, 38, and 41 to witness Hope's testimony are attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

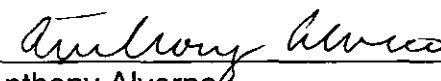
By its attorneys:

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#### 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

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December 28, 2001

1     **I.     PURPOSE OF TESTIMONY**

2  
3           The purpose of my testimony is to present the proposed classification  
4 changes and rates for Standard Mail Enhanced Carrier Route and Nonprofit  
5 Enhanced Carrier Route subclasses. Rates for Standard Mail Regular and  
6 Nonprofit subclasses are presented by witness Moeller (USPS-T-32). Library  
7 Reference USPS-LR-J-131 contains workpapers cited throughout my testimony.  
8 This library reference is incorporated by reference into my testimony.<sup>1</sup>

9           Rates for the commercial subclass, Enhanced Carrier Route (ECR), are  
10 developed using cost data from various cost witnesses, including witnesses  
11 Schenk (USPS-T-43) and ~~Mayes (USPS-T-23)~~. Rate level requirements have  
12 been submitted by witness Moeller (USPS-T-28).

13           Rates for the preferred subclass, Nonprofit Enhanced Carrier Route  
14 (NECR), also are developed from cost data provided by cost witnesses, in  
15 accordance with the Revenue Forgone Reform Act (RFRA), as amended by  
16 Public Law No. 106-384, 114 Stat. 1460, which was enacted in October, 2000.

17           The ECR subclass was created in July 1996, consistent with the  
18 Commission's Recommended Decision in Docket No. MC95-1, when the former  
19 Third-Class Mail Bulk Rate Regular subclass was divided into two commercial  
20 subclasses, Regular and Enhanced Carrier Route. Rate changes for both  
21

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<sup>1</sup> For convenience and ease of reference, the workpapers in the library reference are cited using the acronym "WP" in lieu of the library reference number.

Table #3 - Revised

**COMPARISON OF ECR COST COVERAGES  
FOR PIECE-RATED PIECES VS. POUND-RATED PIECES**

	<b>BEFORE RATES</b>				<b>AFTER RATES</b>		
	Unit Revenue	Unit Cost	Implicit Coverage		Unit Revenue	Unit Cost	Implicit Coverage
<b>3.0 ounce Dividing Line for Costs</b>							
Piece-rated	.14245	.0675	211.0%		.15074	.0675	223.3%
Pound-rated	.20655	.0826	250.1%		.20887	.0826	252.9%
<b>3.5 ounce Dividing Line for Costs</b>							
Piece-rated	.14245	.0683	208.6%		.15074	.0683	220.7%
Pound-rated	.20655	.0838	246.5%		.20887	.0838	249.2%

Source: WP1, page Y for Revenue and **USPS LR J-58 for Estimated Test Year Costs**.  
Implicit Coverage equals Unit Revenue/Unit Cost.

1           The "Before Rates" information shows that the implicit coverage for  
2   pound-rated pieces exceeds that for piece-rated pieces. While equalizing cost  
3   coverage of the two groupings is not strictly necessary, the information suggests  
4   that a reduction in the pound rate can be made without distorting the relative  
5   implicit coverage of the two groupings. The gap in the difference in coverage  
6   between piece- and pound-rated pieces narrows *somewhat* in the "After Rates"  
7   scheme with a lower pound rate (by approximately 10 percentage points under  
8   both the 3.0 and 3.5 ounce dividing lines); however, *the implicit coverage for*  
9   *pound-rated pieces is still significantly higher.* It is **29.6** percentage points higher  
10   than piece-rated pieces under the 3.0 ounce dividing line, and **28.5** percentage  
11   points higher under the 3.5 ounce dividing line. If a goal of rate design were to  
12   have equal implicit coverage, and the pound rate were the only variable under

entry are presented by witness Mayes (USPS-T-23). The following chart compares the current measured cost savings in dollars presented by Mayes with those presented in Docket No. R2000-1 by witness Crum (USPS-T-27).

Table #9

**COMPARISON OF DESTINATION ENTRY  
COST SAVINGS IN R2000-1 and R2001-1**

	Cost Savings Per Pound		Difference	
	R2000-1	R2001-1	(Cents)	(Percentage)
<b>DBMC</b>	0.114	0.117	0.003	2.6%
<b>DSCF</b>	0.140	0.147	0.007	5.0%
<b>DDU</b>	0.173	0.185	0.012	6.9%

Source for R2000-1: Moeller, WP 1at 7

Source for R2001-1: USPS LR-J-68, "Results," Table 9

To maintain the integrity of the rate design, and to facilitate a smooth transition from minimum-per-piece-rated rates to piece-pound-rated pieces, there must be uniform destination delivery passthroughs for pound- and piece-rated pieces at each of the respective destination entries. Also, a standardized breakpoint, 3.3 ounces, must be used as the weight for calculating the piece-rated discounts. In other words, if the per pound passthrough at destination BMCs is *x* percent, then the per piece passthrough at destination BMCs must also be *x* percent, and the discount must assume a 3.3 ounce piece. In this docket, the Postal Service proposes an 85 percent destination entry passthrough for all subclasses of Standard Mail. This percentage is applied to witness Mayes' cost savings analysis and results in *increased savings for mailers at all destination entry points*.

It is difficult to compare the passthrough *percentages* proposed by the Postal Service in Docket No. R2000-1 with those recommended by the

**b. Letter/Nonletter Differential**

As in its commercial counterpart, in NECR the Basic tier rate design helps to establish a rate relationship between the Basic and 5-digit automation rates that favors 5-digit automation. Thus, following the recommendation of the Commission in Docket No. R2000-1, a zero percent letter-flat passthrough is proposed.

The High Density and Saturation shape passthroughs are proposed at 115 percent (0.8 cent) and 80 percent (0.9 cent), respectively. Although these percentages are lower than the Commission's recommendation in Docket No. R2000-1, the measured cost passthroughs are each 0.1 cent higher, because the Commission calculated its passthroughs from a different base. These proposed shape passthroughs illustrate a basic tenet of the proposed rate design in this docket: to preserve or increase the measured cost passthroughs wherever feasible, without unduly raising the overall rate increases or changing established rate relationships.

**4. Automation**

The proposed passthrough for the Automation discount is 50 percent. This results in a discount of 1.5 cents, an increase from the current level of 1.3 cents. (In Docket No. R2000-1, the Commission recommended a 24 percent automation passthrough, which translated to a discount of 1.3 cents.)

1                   **5.     Density Tiers**

2           Given the shape passthroughs described above, the resulting density  
3   passthroughs for nonletters are 47.2 percent between Basic and High Density,  
4   and 72.2 percent between High Density and Saturation.

5           This translates into measured cost passthroughs for nonletters of 1.6  
6   cents for the High Density tier and 0.6 cent for the Saturation tier. (These figures  
7   can be compared to the Commission's recommendations in Docket No. R2000-  
8   1, of 44.1 percent, or 1.6 cents, for the High Density tier, and 118.2 percent, or  
9   0.5 cent, for the Saturation tier.)

10  
11                   **6.     Destination Entry**

12           Destination entry discounts are determined for this subclass in the same  
13   manner as the other standard subclasses. The cost study presented by Witness  
14   Mayes (USPS-T-23), which was discussed above in the Section III.D.7,  
15   measures savings for all subclasses combined. Discounts do not vary by  
16   subclass, since the passthroughs selected are the same for each: 85 percent.<sup>27</sup>

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<sup>27</sup> See discussion of Destination Entry discounts in ECR, Section III.D.7.

## VI. SUBSEQUENT COST REVISIONS FOR NECR

The costs used in calculating the Nonprofit Enhanced Carrier Route (NECR) rates in USPS LR-J-131 WP 2, page H ("NCOST") should parallel the commercial Enhanced Carrier Route (ECR) costs specified in USPS LR-J-131 WP1, page H ("COST"). The implicit passthroughs reflect the revised cost inputs; the NECR rates themselves have not changed.

The following is a comparison of the passthroughs as originally proposed and the implicit passthroughs that result from comparing the revised costs to the proposed rates. (These are the passthroughs that, if entered into the rate design workpapers for NECR, along with the correct cost data, would generate the rates as proposed.)

### NECR passthroughs:

	As filed	Implicit
Presort Letters (WP2, page M)		
Basic to High Density	70%	62%
High Density to Saturation	90%	50%
Letter Flat (WP2, page M)		
High Density	110%	115%
Saturation	100%	80%
Automation (WP2, page N)	65%	50%

The proposed NECR rates, which are unchanged from the original filing, meet the revenue requirement mandated by Public Law No. 106-384, 114 Stat. 1460.