

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

**SUPPLEMENTAL RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS HOPE TO INTERROGATORY OF VAL-PAK DIRECT MARKETING  
SYSTEMS, INC. AND VAL-PAK DEALERS' ASSOCIATION, INC.  
(VP/USPS-T31—8(D) & (G))**

The United States Postal Service hereby provides the supplemental response of witness Hope to the following interrogatory of Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association: VP/USPS-T31—8(d) & (g), filed on October 2, 2001. This supplements witness Hope's initial response to this interrogatory, filed on October 16, 2001, as revised on December 28, 2001.

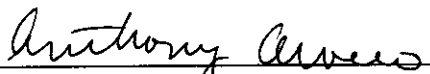
The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**VP/USPS-T31-8:**

Your testimony at page 13 states that “[i]f a goal of rate design were to have equal implicit coverage...”

- d. Within the Standard ECR subclass, for your proposed rates, what is the implicit coverage for (i) letters, (ii) flats and (iii) parcels?
- g. Within the Standard ECR flat-shaped mailstream, for your proposed rates, what is the implicit coverage for (i) piece-rated flats and (ii) pound-rated flats?

**SUPPLEMENTAL RESPONSE TO SUBPARTS (d) and (g):**

The issue of consistency in the figures used to calculate implicit coverages has been raised in several interrogatories, including VP/USPS-T31-32, VP/USPS-T31-39, and VP/USPS-T31- 40. (Implicit coverages are calculated by dividing unit revenue by unit cost.) VP/USPS-T31-8(d) and 8(g) requested implicit coverages using the proposed rates, beyond those provided in my testimony in Table #3 on page 13, which were for piece-rated pieces and pound-rated pieces. Before providing those figures, in response to VP/USPS-T31-8(b), I stated that:

In some instances, implicit coverage can be an indicator of a potential misalignment of costs and rate...often an analysis of implicit coverage requires making some simplifying assumptions. Therefore, when used, it can be a guide, or tool, in the ratemaking process.

In my response to VP/USPS-T31-8(d), above, implicit coverages were presented for letters and nonletters, using the best available information. (For example, although the revenues are projected on a Test Year After Rates basis, as requested in the interrogatory, the only cost estimates available are Test Year

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Before Rates costs.) Likewise, in my response to VP/USPS-T31-8(g), implicit coverages were calculated for piece-rated and pound-rated nonletters, at both the 3.0 ounce and 3.5 ounce breakpoints, because data are not available at the actual 3.3 ounce breakpoint. In both responses, the categories of "letters" and "nonletters" used in the costs provided by witness Schenk (USPS-T-41) were based on the DMM-definitions of letters and nonletters – *i.e.*, based on shape. For revenues, the categories of "letters" and "nonletters" were based on rate category, and derived from USPS-LR-J-131, WP1. (For further discussion of the shape versus rate definitions of letters and nonletters, see my response to NAA/USPS-T31-20.)

The issue of determining implicit coverages for both letters and nonletters is complicated by the breakpoint of 3.3 ounces. This is why, in Table #3 of my testimony, and in response to VP/USPS-T31-8(g), implicit coverages were provided at both the 3.0 and 3.5 ounce dividing lines. The pattern demonstrated at each was consistent and supported the proposed reduction of 4.0 cents in the ECR pound rate.

The following is a comparison of the implicit coverages presented in my revised response to VP/USPS-T-31-8(d) – which reflect the minimal cost changes filed on November 20, 2001 by witness Schenk in her errata to USPS-LR-J-58 and under the alternative method, which defines letter-shaped pieces

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above the breakpoint as nonletters, along with flat-shaped and parcel-shaped pieces.

	<b>Revised Response to VP/USPS-T31- 8(d)*</b>	<b>Alternative Method**</b>
<b>Total ECR Letters</b>	226.0%	
<b>Total ECR Nonletters</b>	232.7%	
<b>Total ECR Letters Below 3.0 ounces (piece-rated)</b>		230.7%
<b>Total ECR Nonletters Above or equal to 3.0 ounces (piece-and pound-rated) <b>OR</b></b>		230.6%  <b>OR</b>
<b>Total ECR Letters Below 3.5 ounces (piece-and pound-rated)</b>		229.3%
<b>Total ECR Nonletters Above or equal to 3.5 ounces (piece-and pound-rated)</b>		231.3%

\* In the initial response to 8(d), the costs in the implicit coverage calculation for total ECR letters includes all letter-shaped pieces regardless of weight; the costs in the implicit coverage calculation for total ECR nonletters exclude letter-shaped pieces exceeding the maximum weight limit for letters, regardless of weight.

\*\* In the alternative method presented in this supplemental response, the term "letters" for purposes of the costs in the cost coverage calculation includes letters defined by shape and also letters below the specified weight threshold; letters above the specified weight threshold are included within nonletters.

Under the alternative method, the gap between ECR letters and nonletters is smaller when presented in these categories, which combine piece-rated and pound-rated pieces.

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When the response to VP/USPS-T31-8(g), which asked for the implicit coverage for piece-rated and pound-rated flats, is compared to the results from using the alternative method, a gap between piece-rated and pound-rated pieces is still very evident, even under the proposed rates, at both the 3.0 ounce and 3.5 ounce breakpoints. (Note that the figures for the response to VP/USPS-T31-8(g)) include the minimal cost changes presented in the errata to USPS-LR-J-58.) In fact, the gap increases somewhat, although not materially, further illustrating the point that pound-rated pieces have a higher implicit coverage than piece-rated pieces, providing additional support for a decreased ECR pound rate.

	<b>Revised Response to VP/USPS-T31-8(g)</b>	<b>Alternative Method</b>
<b>ECR Nonletters</b>		
Below 3.0 ounces* ( <i>piece-rated</i> )	217.2%	217.2%
Above or equal to 3.0 ounces**, *** ( <i>pound-rated</i> )	256.6%	252.9%
<b>OR</b>	<b>OR</b>	<b>OR</b>
<b>ECR Nonletters</b>		
Below 3.5 ounces* ( <i>piece-rated</i> )	214.4%	214.4%
Above or equal to 3.5 ounces**, *** ( <i>pound-rated</i> )	252.8%	249.3%

\* In both the initial response to VP/USPS-T31-8(g) and the alternative method presented in this supplemental response, the costs in the implicit coverage calculation for "ECR Nonletters below 3.0 or 3.5 ounces" include flat-shaped and parcel-shaped pieces below the two respective weight dividing lines.

\*\* In the initial response to VP/USPS-T31-8(g), the costs in the implicit coverage calculation for "ECR Nonletters above 3.0 or 3.5 ounces" include flat-shaped and parcel-shaped pieces above or equal to each weight dividing line.

\*\*\* In the alternative method, the costs in the implicit coverage calculation for "ECR Nonletters above 3.0 or 3.5 ounces" include flat-shaped and parcel-shaped

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pieces above or equal to each weight dividing line, **plus** letter-shaped pieces above or equal to each weight dividing line.

Cost data supporting the alternative method coverages are detailed in a supplemental response to witness Schenk's response to VP/USPS-T43-10.


It may be helpful to briefly review the role of implicit coverage analysis in rate design. My response to VP/USPS-T31-8(a) and (b) clarifies the purpose of calculating implicit coverages at the subclass level. Specifically, I explained:

At the subcategory of subclass level, estimates of implicit coverage can on occasion be used for illustrative purposes, as in the reference cited in the interrogatory [*i.e.*, testimony, page 13]....often an analysis of implicit coverage requires making some simplifying assumptions.

Rates are not designed on implicit cost coverages. Instead, the coverages can be used as a tool, among several, to evaluate rate design. As I have pointed out in the calculation of these implicit coverages – in Table #3 of my testimony, in response to VP/USPS-T31-8, and in the alternate coverages discussed above – a variety of assumptions must be made. These necessary assumptions could lead to a lack of precision, in some instances. As such, I have emphasized that implicit coverages can be a useful evaluation tool, rather than the prime determinant of rate design.

## 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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