

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
AUG 10 4 45 PM '98

POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

MAILING ONLINE SERVICE

Docket No. MC98-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PLUNKETT TO INTERROGATORIES OF
DAVID B. POPKIN
(DBP/USPS-T5-1-3)

The United States Postal Service hereby provides responses of witness Plunkett to the following interrogatories of David B. Popkin: DBP/USPS-T5-1-3, filed on July 30, 1998. Interrogatory DBP/USPS-T5-4 was redirected to witness Garvey.


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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

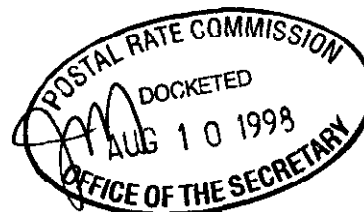
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -5402
August 10, 1998



**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF DAVID B. POPKIN**

DBP/USPS-T5-1

- a. Confirm that you are proposing to utilize different rates for this service depending on the printing costs for the contractor that will be utilized.
- b. Confirm that there will be a 25% markup on whatever the contract calls for.
- c. Confirm that the higher the contract value, the greater the markup for the Postal Service.
- d. Explain any items that you are not able to confirm.

DBP/USPS-T5-1 Response.

- a. Confirmed that, during experimental Mailing Online service, pre-mailing service fees charged to a customer will depend on the specific printing contractor used. Postage rates will be the same for all customers.
- b. Confirmed that the Postal Service proposes a 25 percent markup on the printing and finishing charges established by contract.
- c-d. Not confirmed. The markup on printing costs is a constant 25 percent of actual printer costs.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF DAVID B. POPKIN**

DBP/USPS-T5-2

- a. Are there any other instances in the many categories of mail that may be utilized where the rates are different for different parts of the country or different category of mailer for the same item mailed in the same manner?
- b. If so, provide a complete listing.
- c. Confirm that your explanation for the justification of this cost plus markup concept in the proposed Docket on page 3 of your testimony could also apply to all of those various postal rates which are the same throughout the country.
- d. Fully explain if you are unable to confirm.
- e. Why do you feel that this Docket, and this Docket alone, requires such a deviation from standard countrywide pricing?

DBP/USPS-T5-2 Response.

a-b. Yes. Postage prices which vary by the level of service sought, or by geography are not unusual. While I am not an expert on the entire mail classification system, some examples are:

Rates which differ by the number of postal zones crossed or the distance from origin to destination. Zoned rates currently exist for (1) Priority Mail weighing more than five pounds; (2) Periodicals; (3) parcel post; and (4) bound printed matter.

Rates which differ by the type of mailer. In both the Periodicals and Standard Mail (A) rate schedules, qualified nonprofit organizations pay a lower rate for mailing a given item than mailers not eligible for the nonprofit designation.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF DAVID B. POPKIN**

c-e. Not confirmed. I am not proposing any changes in established ratemaking methods for the existing rate classes. In general, other postal rates are not based directly on contract costs, and do not vary much based on costs at the destination location (as opposed to transportation costs to the destination). As described in my testimony at pages 2-3, Mailing Online printer costs will vary across regions, and the flexibility provided by a preset markup will allow the Postal Service to signal customers correctly regarding the cost of printing and preparing the mailing. The use of a markup will also help fees reflect volatile paper costs. I am not aware of other postal services with costs that can be so closely tied to specific contracts and whose costs are so demonstrably volatile. The primary cost driver for other postal products generally is the Postal Service's own labor costs. Mailing Online is different because it is a limited program with clearly identifiable costs (specific printer contracts) which are readily separable from costs of other products, are expected to vary significantly by region, and are subject to change in ways that are different from other postal products. These features make the proposed pricing system appropriate for Mailing Online.

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF DAVID B. POPKIN**

DBP/USPS-T5-3

- a. Confirm that the higher the contract price, the greater the markup of 25% will be to the Postal Service.
- b. If not, fully explain.
- c. What incentive does the Postal Service have to negotiate the lowest prices with the various printers?

DBP/USPS-T5-3 Response.

a-b. Not confirmed. The markup on printing costs is a constant 25 percent of actual printer costs. However, if the contract price is higher, the number of dollars collected by the Postal Service through the fixed 25 percent markup will be greater.

- c. Each of the Mailing Online printing contracts will be awarded in compliance with the Postal Service's established procurement practices. These practices encourage the awarding of a contract to the offeror whose proposal offers the best value to the Postal Service, considering both the technical requirements of the contract and price. Part of the best value decision process includes ensuring that prices offered are fair and reasonable to the Postal Service, and ultimately, to its customers.

The implication of your question, that the Postal Service stands to gain by selecting a high cost provider, might have some validity for a company seeking to maximize short-term profit. However, that presumption is wrong for the Postal Service in at least two respects. First, the Postal Service

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT TO
INTERROGATORIES OF DAVID B. POPKIN**

operates under a break-even constraint. For a permanent service, this means any unanticipated "profits" or contributions to institutional costs from one classification would reduce contributions from other classifications at the time of the next rate adjustment. Therefore, any "profits" from markups on extra costs would be relatively short-lived. Second, driving up costs to yield a higher short-term "profit" may jeopardize the growth potential of the new product by producing an artificially high price.

DECLARATION

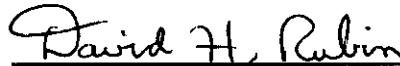
I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


MICHAEL K. PLUNKETT

Dated: August 10, 1998

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.



David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
August 10, 1998