

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

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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF PARCEL SHIPPERS
ASSOCIATION
(PSA/USPS-T35—1-2)**

The United States Postal Service hereby provides the responses of
witness Moeller to the following interrogatories of Parcel Shippers Association:
PSA/USPS-T35—1-2, filed on February 4, 2000.

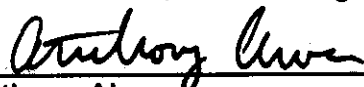
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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February 18, 2000

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE PARCEL SHIPPERS ASSOCIATION**

PSA/USPS-T35-1. On pages 6 through 8 of your testimony you discuss the proposed 18 cent shape surcharge and state that it equates to a 27.5% pass-through. This is based upon your calculation that the cost difference between flats and parcels is estimated to be 65.5 cents, and that the 18 cent surcharge is only 27.5% of that number. You further state that: "Ideally, a greater pass-through would be proposed. However, in order to moderate the impact on mailers, and even greater per piece increase in the surcharge is not proposed at this time."

- a. Is it not the case that your methodology and your quoted language imply that you have assumed that the amount of revenue produced per piece for flat-shaped pieces and parcels in the non-letter category are equal?**
- b. Is it not a distortion to imply that the flat-parcel cost differential should be equal to the surcharge without taking into account the fact that the revenue produced per unit may suggest that no surcharge is required?**
- c. If the response to (b) is in the negative, please confirm that theoretically it is possible that, even though the cost differences between flats and parcels is 65.5 cents, the amount of revenue generated by parcels could be so much greater than the revenue generated by flats that, despite the cost differences, parcels have a greater cost coverage than flats?**

RESPONSE:

- a. No. There is no assumption that the revenue-per-piece for flat-shaped pieces and parcels are equal. As stated in my testimony, the passthrough methodology is the same as that cited by the Commission in its Docket No. R97-1 Recommended Decision. The quoted language simply states that a higher surcharge could be justified if not for rate impact concerns. As a point of clarification, witness Crum calculates the cost difference.**
- b. My testimony does not imply that the cost differential should be equal to the surcharge. I state that a passthrough greater than 27.5 percent would be better (if not for concerns of rate impact), but I do not state that the passthrough should be 100 percent, a condition that would be necessary for the surcharge to equal the cost difference.**

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- c. It is theoretically possible for parcels to have a higher contribution than flats; however, data indicate that that is not the case with a surcharge of 18 cents. For example, in the Regular subclass, if the cost coverage for flats is 109.5 percent (23 cents divided by 21 cents), the surcharge on parcels would have to be 36 cents for parcels to have a similar coverage. (See USPS-T-27, Attachment F, Table 6.1. Since the cost of parcels is 77 cents, revenue for parcels would have to be 84 cents to generate a 109.5 percent implicit coverage. The revenue without the surcharge is 48 cents; with an additional 36 cents, the total revenue would be 84 cents. Other rate changes such as a lower pound rate or implementation of a parcel barcode discount might result in a lower revenue per piece, however, which might necessitate a higher surcharge to maintain the cost coverage.)

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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PSA/USPS-T35-2. On page 41 of your testimony you provide the Test Year After Rates Financial Summary including the revenues, costs, and coverages for the Regular, ECR, Nonprofit, and Nonprofit-ECR sub-classes. Please provide the same data separately for flats, and for IPPs and parcels, that are a part of these four sub-classes

RESPONSE:

The data presented in the table on page 41 of my testimony is made possible by the subclass level quantification of total volume variable costs. These data are not available in the finer detail requested, so a further break down is not possible. Although the costs and revenues are not projected to the test year, Table 6.1 of Attachment F to witness Crum's testimony offers insight into the relative cost, revenue, and contribution for various shapes.

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: 2/18/00

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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