

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, 2000

Docket No. R2000-1

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF THE MAIL ORDER
ASSOCIATION OF AMERICA
(MOAA/USPS-T35—1-4)**

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of the Mail Order Association of America: MOAA/USPS-T35—1-4, filed on March 7, 2000.

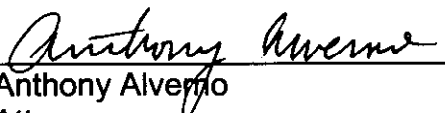
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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March 21, 2000

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE MAIL ORDER ASSOCIATION OF AMERICA**

MOAA/USPS-T35-1. Do you agree that a failure to pass through to mailers 100 percent of cost savings resulting from destination entry inevitably results in rates that are less economically sound? If you disagree please explain your answer fully.

RESPONSE:

No; if "economically sound" is intended to relate to the minimization of total cost by providing incentive for the party with the lowest cost of performing the workshare activity to perform the activity. It is possible that a 100 percent passthrough would send less economically sound signals to some minimum-per-piece mailers to dropship since, by virtue of the rate structure, the discounts are based on a weight of 3.3 ounces even though the piece may weigh only 0.5 ounces. Also, it depends on where the dropshipped piece would have been otherwise entered. To the extent the actual transportation (and handlings) incurred would have been less than the average which underlies the discount, it is possible that the Postal Service may have been able to perform the activities at lower cost.

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MOAA/USPS-T35-2. Is it not also true that anything other than a complete pass through of Postal Service cost savings resulting from destination entry results in a false price signal to mailers? If your answer is anything other than a unqualified yes, would you please explain fully?

RESPONSE:

No. See response to interrogatory MOAA/USPS-T35-1. Another factor that might suggest that there is not a false price signal if the passthrough is less than 100 percent is that the quantification of the cost differences does not necessarily represent the cost avoidance due to the dropshipping of a typical piece. For example, the differential between non-dropshipped pieces and pieces entered at the destination BMC (DBMC) is based on the costs of non-dropshipped mail versus DBMC-entered mail. The non-dropshipped cost, therefore, excludes all mail that has already availed itself of the DBMC discount. If the discount is increased, more of this "non-dropshipped" mail (presumably the below average cost pieces in the "non-dropshipped" grouping) would find it desirable to migrate to the dropship category, thereby leaving the above-average cost pieces in the non-dropshipped grouping. Subsequent measurements of this grouping would then reflect an escalating cost benchmark, and could result in an ever-increasing discount that may be much higher than the savings that result from the typical dropshipped piece. In the extreme, the discount would increase to a level that would entice the last non-dropshipped piece to dropship, and, accordingly, over-reward those mailers who had already chosen to dropship.

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MOAA/USPS-T35-3. Is it a correct reading of your testimony as found on pages 19-23 that the pound rates proposed by the Postal Service are still too high, i.e. that the increase in costs resulting from increased weight are less than the increase in rates resulting from increased weight?

RESPONSE:

Yes.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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MOAA/USPS-T35-4. Please provide the Postal Services after rates volume estimates for both piece rated and pound rated nonletters, respectively, entered at the basic, high density and saturation levels.

**RESPONSE: See table below. Volume in millions. From USPS-T-35, WP1,
page 21.**

	<u>Piece-Rated</u>	<u>Pound-Rated</u>
Basic	6491.447	5303.401
High-Density	888.114	591.144
Saturation	6340.858	2826.637

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: 3/21/00

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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