

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 (USPS-T-35) TO QUESTION POSED BY
THE OFFICE OF THE CONSUMER ADVOCATE
AT APRIL 24, 2000 HEARING**


The United States Postal Service hereby provides the response of witness Moeller (USPS-T-35) to a question posed by the Office of the Consumer Advocate at the hearing for witness Moeller on April 24, 2000 (Tr. 10/4045-47). The question is paraphrased and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 28, 2000

RESPONSE OF WITNESS MOELLER TO QUESTIONS POSED DURING HEARINGS

Question: Witness Moeller was asked to provide information regarding migration of residual shape pieces to flat automation pieces in FY 99, as well as general information regarding the percentage of nonletters that are parcel shaped and their weight per piece (Tr.10/4045-47).

RESPONSE:

In the filing, the projection of pieces paying the residual shape surcharge is derived as follows (USPS-T-35, WP1, page 14):

1. Within a subclass, begin with the volume of nonletters.
2. Using available shape-mix data from FY98, assume the percentage of nonletters that are parcel shaped remains constant. In the Regular subclass, the FY98 percentage was 5.9%.
3. Since the Residual Shape Surcharge was not in effect in FY98, the volume from step 2 would not incorporate any migration that might have occurred as a result of the implementation of the surcharge. The implementation of the surcharge and the relaxation of eligibility rules for automation flats may have caused some migration of parcels to automation flats.¹ In recognition of this possibility and its potential impact on the revenue derived from the surcharge in the Test Year, witness Moeller applied a 25% reduction to the parcel-shaped volume estimate in step 2. At the time of the preparation of the filing, sufficient data were not available regarding the volume of surcharged pieces.

The 25% figure was based on the level of interest exhibited by mailers in understanding the FSM 1000 preparation requirements.

¹ Pieces of identical shape can qualify as either automation flats under the FSM 1000 preparation rules, or machinable parcels. By preparing otherwise parcel-shaped pieces as automation flats, mailers can avoid the surcharge and claim an

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As FY99 figures become available, there may be insight into how many pieces are paying the surcharge. It is important to note several factors:

- Although it is possible to determine how many parcel-shaped pieces there were in FY99, it is not possible to know how many there *would have been* absent the surcharge. In other words, it is not possible to determine how many pieces migrated to FSM1000 preparation.
- Had the surcharge been in effect for the entire fiscal year (and if mailers had had time to react to the new rates and regulations), an annual volume of pieces paying the surcharge could potentially be derived without the interim step of applying the percentage of parcel-shaped nonletter pieces (as is done in step 2.) The "25%" adjustment factor would also not be required, as the volume would incorporate whatever migration occurred.²
- The surcharge was not in effect for the entire fiscal year, but data regarding shape mix for the entire year may be illuminating, and are provided below in response to the request made at the hearing (Tr. 10/4045).

(..continued)

automation flat discount.

² Although not needed, a comparable "25%" figure would not necessarily be derivable in any event, since it is not known how much volume *migrated*. The resulting volume of pieces paying the surcharge is affected by a number of factors, migration being only one. The percentage of, and number of, parcel-shaped pieces fluctuates from year to year absent the surcharge. Although a lower FY99 volume (versus FY98) might have been caused in part by the surcharge and the resulting migration, it is not ascertainable how much of the volume reduction is due to the surcharge, or how much of it was offset by general growth in parcel volumes that would have occurred regardless of rate changes.

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The FY99 figures regarding shape mix in Standard Mail (A) nonletters, as compared to FY98, are as follows:

	FY 98				FY 99			
	Volume	Vol. Mix %	Pounds	Lbs/pc	Volume	Vol. Mix %	Pounds	Lbs/pc
Regular								
Flats	13,051,486	94.1	3,006,204	.23	13,607,812	94.7	3,152,416	.23
Parcels	811,593	5.9	449,365	.55	766,487	5.3	431,706	.56
ECR								
Flats	20,715,771	99.8	4,175,440	.20	20,929,401	99.9	4,238,439	.20
Parcels	48,083	0.2	9,457	.20	22,747	0.1	5,093	.22
Nonprofit								
Flats	1,663,490	97.5	269,950	.16	1,813,461	98.2	288,330	.16
Parcels	42,500	2.5	15,523	.37	33,352	1.8	12,421	.37
NECR								
Flats	848,473	99.8	112,325	.13	1,189,195	99.9	137,286	.12
Parcels	1,914	0.2	722	.38	927	0.1	228	.25

Source: PERMIT volume data tied to official RPW totals. FY 1998 is from USPS-T-27 Attachment F, Tables 1 and 2.

Although the surcharge was not in effect for the entire fiscal year, the FY99 weight per piece for Standard Mail (A) Regular flats and parcels did not change significantly from FY98 levels.

The Postal Service hopes to file revenue, pieces, and weight data specifically for pieces paying the surcharge for that portion of FY 99 when the R97-1 rates were in effect, by subclass, in two weeks.³ The GFY 99 billing determinants include the revenue from the surcharge in the nonletter categories.

³ These figures were discussed at Tr. 10/4079.

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: 4/28/00

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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