

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

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER  
TO INTERROGATORIES OF ASSOCIATION OF ALTERNATIVE POSTAL SYSTEMS  
(AAPS/USPS-T28-1, 3, 4, 5, AND 7)

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of the Association of Alternative Postal Systems: AAPS/USPS-T28-1, 3, 4, 5 and 7, filed on October 17, 2001.

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

Interrogatories OCA/USPS-T28-2 and 6 have been redirected to Postal Service witness Hope for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 31, 2001

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AAPS/USPS-T28-1. You state at page 8, lines 13-16, that criterion 4 (the effect on mail users and competitors) is especially important given the relatively short time between the most recent changes in rates and this case, in light of the "relatively large proposed rate increases." Wouldn't the portion of criterion 4 calling for consideration of the effects on competitors also take on heightened importance with the respect to the rate *decreases* you propose for much saturation ECR mail above the break point, in light of the recent rate decreases for this mail?

RESPONSE:

First, it is important to keep in mind that the 3622(b)(4) criterion directs Commission to consider the impact on competition. As witness O'Hara noted in Docket No. R2000-1, this factor actually favored the proposed change in the ECR pound rate:

Simply put, the 3622(b)(4) requirement that the Commission consider the effect on competition weighs in favor of the Postal Service's proposal, for it will enable competition to flourish in the market for high circulation advertising, to the benefit of advertisers. (Docket No. R2000-1, USPS-RT-19 at 4.)

It is also important to put the proposed change in the ECR pound rate in the proper perspective. While my consideration of criterion 4 is at the subclass level, it is my understanding that within the ECR subclass, only 5.69 percent of the pieces would experience a rate decrease under witness Hope's proposed rates, and that she explicitly considers the effect of her proposed rates on alternative providers. (See USPS-T-31 at 21; Exhibit USPS-31A).

The issue of the effect on competition is an important one and all too often addressed in too simplistic of terms. The Postal Service and the Postal Rate Commission are directed to consider the effect on "enterprises in the private sector of the economy...". That consideration does not consist of merely

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Response to AAPS/USPS-T28-1 (continued):

looking at isolated rate elements to ensure that rates may never go down, or that certain rate cells never go down twice in a row. In fact, such an implicit criterion (against two reductions in a row) would mean that the Commission could not set about any long-term changes over a period of time with the goal of mitigating the impact, but instead would have to have more substantial decreases initially in order to avoid the prospects of a second reduction.

In addition, my understanding is that many private enterprises compete in more than a few isolated rate elements. For instance, delivery firms may also compete for much of the 94 percent of commercial ECR where rates are not declining. (See Exhibit USPS-31A). Arguably, the Postal Service could have met the rule for competitor impact implied in the question by holding the pound rate constant and substantially reducing the overall rate increase for ECR classification as a whole. I am not convinced that the interests of competitors would be served by such a proposal. I believe that a balanced approach which entails an examination of the individual rates (by the rate design witness) and the overall rate change for a product line provide a more complete assessment.

At the same time, the effect on competition can not be considered in isolation.

The same criterion calls for consideration of the effect on customers. I do not believe customers are served by a structure where the rates are not reasonably aligned with costs. As witness Hope notes in her comparison of implicit cost

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Response to AAPS/USPS-T28-1 (continued)

coverages, the proposed pound rate better aligns rates with costs. (See USPS-T-31 at 13).

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**AAPS/USPS-T28-2. Please provide an estimate of the number of Saturation ECR pieces for which a rate decrease is being proposed in this docket, broken down by entry level (e.g., SCF entry, DDU entry).**

**RESPONSE:**

**Redirected to witness Hope (USPS-T-31).**

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AAPS/USPS-T28-3. You state at page 9, lines 3-6, that you considered the impact of the proposed rates on "competitors." With respect to this statement and the ECR rates in particular, please:

- (a) Identify the competitors by name or description that you specifically considered.
- (b) Specify the manner in which you considered the impact of, especially, the proposed ECR Saturation rate decreases on alternate delivery companies of the type represented by AAPS.
- (c) List all sources of information that were or could have been available to you that contain information about the alternate delivery business and that would have assisted with an analysis of the impact on such business of postal rate reductions for ECR Saturation mail.
- (d) List all of the sources listed in part (c) above that you actually consulted.
- (e) Do you believe that there is price competition between companies like ADVO and members of AAPS for the delivery of saturation advertising material? Please provide an explanation of the basis for your answer.
- (f) Do postal rates affect the costs of companies like ADVO?

RESPONSE:

- a. The competitors considered include alternative providers of high-density advertising, particularly alternate delivery companies. I note that in Docket No. R2000-1, Newspaper Association of America witness White (NAA-RT-1) stated that "newspapers are not in direct competition with the Postal Service, but are in direct competition with companies that distribute local retail advertising—commonly on a saturation basis in either a shopper or shared mail format. The direct competition to the Postal Service is from alternate delivery. Newspapers should be viewed as postal competitors only when they run an alternate delivery of their own to deliver the [total market coverage] product.
- b. See my response to AAPS/USPS-T28-1.

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Response to AAPS/USPS-T28-3 (continued)

- c. I am not aware of any sources that would explicitly address the impact of postal rate reductions for ECR Saturation mail. I am aware, however, of testimony in previous dockets that speaks generally of the alternate delivery industry and its concerns about changes in postal rates.
- d. I reviewed the testimony from Docket No. R2000-1.
- e. While I have not studied this issue in detail, I note that witness White in Docket No. R2000-1 seems to believe that to be the case. See my response to subpart (a).
- f. Postage is a cost for companies like ADVO, and postal rates presumably have an impact on their costs.

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AAPS/USPS-T28-4. You testify at page 35, lines 3-7, that because the proposed increase is near the system-wide average (and citing the cost coverage), competitors are not unfairly targeted.

- (a) Do you agree that the extent of competition is not the same for all types of Standard mail?
- (b) If you were to determine that the average Postal Service headquarters employee is five feet, eight inches tall, would you conclude that all headquarters doorways could be reduced to six feet in height and that all employees would be safe from injury?

RESPONSE:

- a. Yes; in Classification Reform, Standard Mail was split into two subclasses, Regular and ECR, in part to recognize the market (and presumably competition) differences within what had been the Bulk Rate Regular subclass.
- b. No, but even if all postal employees were shorter than six feet in height, there is no guarantee that they would be safe from injury from causes other than the doorway height. For example, the employees could be victims of their own lack of coordination as they pass through the doorway. Thus, if they suffer injury while passing through the doorway, it may not be reasonable to attribute it to a Postal Service decision to alter the doorway height. The same is true for the alternate delivery industry. A myriad of factors could affect the health of the industry, and these may not be attributable to the Postal Service's prices for ECR saturation products.



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AAPS/USPS-T28-5. At page 37, lines 6-8, you state that the Postal Service "may be able to accommodate mailer requests for delivery within a specific time frame" for ECR mail. For approximately what percentage of ECR mail is an in-home date range requested, and in approximately what percentage of the time are such requests met?

RESPONSE:

I am not aware of any quantification of in-home date requests, or the ability to meet those requests.

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AAPS/USPS-T28-6. At page 37, line 16, you refer to the "above inflation increase" for the ECR subclass. (a) Please compare the proposed rate change with the inflation rate for an eight-ounce piece of ECR Saturation mail entered at the SCF and for an eight ounce piece entered at the DDU. (b) Please provide the same comparison for the rates for such pieces proposed in the two most recent rate cases and for the rates recommended in the two most recent rate cases.

**RESPONSE:**

Redirected to witness Hope (USPS-T-31).

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AAPS/USPS-T28-7. Since you conclude that an above-inflation increase demonstrates a lack of unfair competition, would you also conclude that a below inflation increase, or even a rate decrease, demonstrates the existence of unfair competition? If not, would you agree that heightened scrutiny is called for in such situations?

RESPONSE:

No. Comparisons to the inflation level simply assist in the evaluation of the effect of rate increases on competition. All else equal, a higher-than-inflation rate increase seems less likely to be vulnerable to charges that the rates are unfair to competition. However, lower-than-inflation increases, or rate decreases, do not, in isolation, indicate "unfair competition," especially if those rates are intended to better reflect the underlying cost of the service.

**DECLARATION**

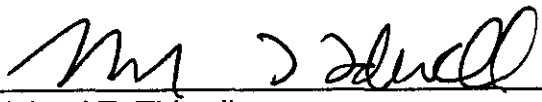
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
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JOSEPH D. MOELLER

Dated: October 31, 2001

## 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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October 31, 2001