

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, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T36-15-18)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T36-15-18, filed on August 8, 1997.

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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August 22, 1997

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OCA/USPS-T36-15. Please confirm that, under the rates you propose, a Standard A Regular Presort non-letter size piece subject to the 10-cent residual shape surcharge will experience the following percentage increase in rates currently paid:

- a. for piece-rated mail, basic presort, a 31% increase (calculated as follows: current rate paid is 30.6 cents; proposed rate applicable to surcharged mail is 30 cents plus 10-cent surcharge = proposed rate of 40 cents; $40 - 30.6 = 9.4$; $9.4/30.6 \approx 31\%$).
- b. for piece-rated mail, 3/5-digit presort, a 51% increase (calculated as follows: current rate paid is 22.5 cents; proposed rate applicable to surcharged mail is 24 cents plus 10-cent surcharge = proposed rate of 34 cents; $34 - 22.5 = 11.5$; $11.5/22.5 \approx 51\%$).
- c. for pound-rated mail, basic presort piece rate, a 60% increase (calculated as follows: current rate paid is 16.6 cents; proposed rate applicable to surcharged mail is 16.6 cents plus 10-cent surcharge = proposed rate of 26.6 cents; $26.6 - 16.6 = 10$; $10/16.6 \approx 60\%$).
- d. for pound-rated mail, 3/5-digit presort piece rate, a 142% increase (calculated as follows: current rate paid is 8.5 cents; proposed rate applicable to surcharged mail is 10.6 cents plus 10-cent surcharge = proposed rate of 20.6 cents; $20.6 - 8.5 = 12.1$; $12.1/8.5 \approx 142\%$).
- e. Please reconcile the proposed rate increases listed in subparts a.- d., i.e., increases ranging from 31% to 142%, with your decision to "keep individual proposed rate increases below 10 percent in the Regular and Enhanced Carrier Route subclasses in order to mitigate the impact of the increases." USPS-T-36 at 17.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. There is a 60 percent increase in the *piece rate element*, but this is not the total rate paid, so mailers of pound-rated pieces will

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not experience this rate increase. A piece weighing just under 16-ounces, for example, would experience an 8.7 percent increase.

- d. Not confirmed. There is a 142 percent increase in the *piece rate element*, but this is not the total rate paid, so mailers of pound-rated pieces will not experience this rate increase. A piece weighing just under 16-ounces, for example, would experience a 12.2 percent increase.
- e. As described in response to subparts (c) and (d), the proposed increases do not range as high as 142 percent for Regular pieces. Some effective rate changes, however, exceed the maximum 10 percent increase guideline. This 10 percent figure was intended as a guideline, not a constraint, and was primarily intended to apply to existing rate categories. The introduction of a new rate element, the residual shape surcharge, results in rate increases beyond the 10 percent figure, even though, as noted in OCA/USPS-T36-10, the passthrough for the surcharge is less than 1/3 of the cost difference. The effective rate increases are a result of a classification change which responds to the PRC's Opinion and Recommended Decision in Docket No. MC95-1 and should not be viewed as "pure" rate increases such as those which are proposed for existing rate categories.

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OCA/USPS-T36-16. Please confirm that the proposed rate of 18.9 cents for Standard A Regular Automation letters, basic presort, was developed by applying a discount of 5.8 cents to the proposed rate of 24.7 cents for non-automation basic presort letters.

- a. Also confirm that the 5.8-cent discount reflects your election of a 140-percent passthrough of the 4.1-cent cost differential between basic presort letters and basic automation letters. (WP1, page 12).
- b. Please confirm that if you had passed through only 100 percent of the 4.1 cent cost differential, a basic automation letter rate of 20.6 cents would result.
- c. Please confirm that a 20.6-cent rate for basic automation letters would be a 12.6 percent increase from the current rate of 18.3 cents.
- d. Please confirm that in PRC Op. MC95-1 at V-264, Table V-4, the Commission recommended a 100-percent passthrough for basic automation letters and rejected the Postal Service's proposal to pass through 118.2-percent of the cost differential.
- e. Please confirm that the 80-percent figure discussed at USPS-T-36, page 18, line 11, refers to the determination to retain 80 percent of the current discount of 7.3 cents (i.e., the 25.6-cent basic presort letter rate minus the basic automation rate for letters of 18.3 cents), yielding a proposed discount in this case of 5.8 cents (your WP1, page 12).

RESPONSE:

Initial question and a. Confirmed.

- b. I cannot confirm. If the discount were reduced, the "leakage" due to the discounts would be reduced, which could result in a reduced basic rate from the formula. In other words, the 24.7 cent rate would probably be lower. The differential between basic nonautomation and basic automation letters would, however, be 4.1 cents.
- c. As described in subpart (b), the rate would probably not be 20.6 cents. If it were, however, that would represent a 12.6 percent increase.

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- d. I cannot confirm. The Commission did recommend a 100 percent passthrough; however, the Postal Service had proposed an Automation subclass. As such, the rates for automation letters were not proposed as discounts off of nonautomation pieces, and therefore, the "passthrough" referred to in the question was not proposed.
- e. Confirmed.

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OCA/USPS-T36-17. Please confirm that the proposed rate of 17.8 cents for Standard A Regular Automation letters, 3-digit presort, was developed by applying a discount of 3.1 cents to the proposed rate of 20.9 cents for non-automation 3/5-digit presort letters.

- a. Also confirm that the 3.1-cent discount reflects your election of a 130-percent passthrough of the 2.384-cent cost differential between 3/5-digit presort letters and 3-digit automation letters. (WP1, page 12).
- b. Please confirm that if you had passed through only 100 percent of the 2.384-cent cost differential, a 3-digit automation letter rate of 18.5 cents would result.
- c. Please confirm that an 18.5-cent rate for basic automation letters would be a 5.7-percent increase from the current rate of 17.5 cents.
- d. Please confirm that in PRC Op. MC95-1 at V-264, Table V-4, the Commission recommended a 100-percent passthrough for 3-digit automation letters and rejected the Postal Service's proposal to pass through 150.7-percent of the cost differential.
- e. Please confirm that the 90-percent figure discussed at USPS-T-36, page 18, line 12, refers to the determination to retain 90 (actually 91) percent of the current discount of 3.4 cents (i.e., the 20.9-cent 3/5-digit presort letter rate minus the 3-digit automation letter rate of 17.5 cents), yielding a proposed discount in this case of 3.1 cents (your WP1, page 12).

RESPONSE:

- a. Initial question and a. Confirmed.
- b. I cannot confirm. If the discount were reduced, the "leakage" due to the discounts would be reduced, which could result in a reduced basic rate from the formula. In other words, the 20.9 cent rate would probably be lower. The differential between 3/5-digit nonautomation and 3-digit automation letters would, however, be 2.4 cents.
- c. As described in subpart (b), the rate would probably not be 18.5 cents. If it were, however, that would represent a 5.7 percent increase.

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- d. I cannot confirm. The Commission did recommend a 100 percent passthrough; however, the Postal Service had proposed an Automation subclass. As such, the rates for automation letters were not proposed *as discounts off of nonautomation pieces, and therefore, the "passthrough" to which the question refers was not proposed.*
- e. Applying 90 percent to the existing discount of 3.4 cents results in 3.06 cents, which is rounded to 3.1 cents.

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OCA/USPS-T36-18. Please confirm that the proposed rate of 16.0 cents for Standard A Regular Automation letters, 5-digit presort, was developed by applying a discount of 1.8 cents to the proposed rate of 17.8 cents for 3-digit automation letters.

- a. Also confirm that the 1.8-cent discount reflects your election of a 130-percent passthrough of the 1.361-cent cost differential between 3-digit automation letters and 5-digit automation letters. (WP1, page 12).
- b. Please confirm that if you had passed through only 100 percent of the 1.361-cent cost differential, a 5-digit automation letter rate of approximately 16.4 cents would result.
- c. Please confirm that a 16.4-cent rate for 5-digit automation letters would be a 5.8-percent increase from the current rate of 15.5 cents.
- d. Please confirm that In PRC Op. MC95-1 at V-264, Table V-4, the Commission recommended a 100-percent passthrough for 5-digit automation letters.
- e. Please confirm that the 90-percent figure discussed at USPS-T-36, page 18, line 13, refers to the determination to retain 90 percent of the current discount of 2.0 cents (i.e., the 17.5-cent 3-digit automation letter rate minus the 5-digit automation letter rate of 15.5 cents), yielding a proposed discount in this case of 1.8 cents (your WP1, page 12).

RESPONSE:

Initial question and a. Confirmed.

b. I cannot confirm. If the discount were reduced, the "leakage" due to the discounts would be reduced, which could result in a reduced basic rate from the formula. In other words, the 17.8 cent rate would probably be lower. The differential between 5-digit automation and 3-digit automation letters would, however, be 1.4 cents.

c. As described in subpart (b), the rate would probably not be 16.4 cents. If it were, however, that would represent a 5.8 percent increase.

d. Confirmed.

e. Confirmed.

DECLARATION

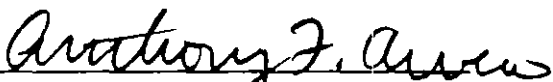
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


JOSEPH D. MOELLER

Dated: August 22, 1997

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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