

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 PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T36-1-4 AND
PSA/USPS-T26-1 REDIRECTED FROM WITNESSES SECKAR AND
PSA/USPS-T37-2 AND T37-6 REDIRECTED FROM WITNESS MAYES)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of the Parcel Shippers Association: PSA/USPS-T36-1-4, filed on August 18, 1997, and redirected from witness Seckar, and PSA/USPS-T26-1 and T37-2 and T37-6, filed on August 18, 1997, and redirected from witness Mayes.

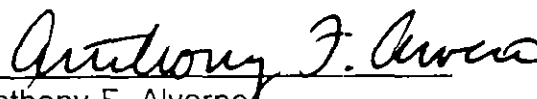
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 2, 1997

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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PSA/USPS-T36-1. With respect to your testimony on page 10, you seem to be saying that flats recoup some of the benefit of the residual surcharge which accrues to letters by reason of the fact that the letter/nonletter cost differential pass-through is smaller, and conversely that while letters do share the benefits of the surcharge, the amount of that benefit is offset by virtue of the lower shape differential than would otherwise be proposed between letters and non-letters. Please supply the pass-through you believe would be appropriate to reflect the difference in letters/non-letters, and the corresponding rates that would result, were you not to propose nor the Commission recommend a surcharge for Standard A parcels.

RESPONSE:

If the Postal Service were not to propose a residual shape surcharge, there might be a number of changes in the rate design, including the letter/nonletter passthrough. Given the complexity of the analysis involved, and in the absence of a Board of Governors' vote on such a proposal, it is not possible to present an alternative set of rates (or specific passthroughs that would generate the rates).

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PSA/USPS-T36-2. Without a Standard (A) parcel surcharge, is it not the case that you would not increase the letter/flat cost differential pass-through in any event, because the percentage increase for the category already receiving the highest increase in the proposed rates, minimum per piece 3/5 digit presorted automation flats, as you say at pp. 10 and 11, would be even higher?

RESPONSE:

Not necessarily. If the Postal Service were not proposing a residual shape surcharge, the guideline governing the percentage increase would likely have been reevaluated in light of the revenue foregone from the surcharge. Even if the 10 percent guideline were to remain intact, it may be possible to design rates that do not include a residual shape surcharge, yet have a wider letter/nonletter passthrough. As stated in my response to PSA/USPS-T36-1, it is not possible to present alternative rate designs; however, one can perform a rough calculation of rates to see whether it would be possible to widen the letter/nonletter differential in the absence of a residual shape surcharge, while keeping rate increases within the 10 percent guideline. The spreadsheet underlying WP1 (USPS LR-H-202) allows for entry of various changes to the proposed rate design. As an illustration, if one were to enter zero cents for the residual shape surcharge, and 65 percent instead of 40 percent for the letter/nonletter differential at the Basic tier in the Regular subclass, the result would be a rate of 20.8 cents for the minimum-per-piece 3/5-digit automation flats. This would represent a 10.05 percent increase, which is very close to the 10 percent guideline. If it were desired to keep the increase under 10 percent, an entry of 67.9 cents (instead of 65 cents) for the pound rate (an increase which, in the

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Regular subclass, would be consistent with elimination of the residual shape surcharge) would result in the proposed 9.5 percent increase for minimum-per-piece 3/5-digit automation flats.

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PSA/USPS-T36-3. You state that the surcharge applies to pieces "that are not letter or flat-shaped. It is expected that most pieces subject to the surcharge would be parcel-shaped." (page 11) "Most" implies "some" are not parcel-shaped. If the pieces are not letter-shaped, nor flat-shaped, nor parcel-shaped, what kind of shape would they have?

RESPONSE:

As mentioned in my testimony at page 14, the issue of the definition of a parcel arose in Docket No. MC95-1. See also my response to OCA/USPS-T36-9. The term "residual-shape" was chosen because, to paraphrase Commissioner LeBlanc, pieces which are not letters or flats are a residual element of third class. (See Dissenting Opinion of Vice Chairman LeBlanc, Docket No. MC95-1, at 1-2). Many of these residual pieces may not look like what is traditionally thought of as a "parcel", yet they fall outside of the definition of the letters and flats, which are the primary processing shapes in Standard Mail (A).

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PSA/USPS-T36-4. With respect to the table you present on page 46, Test Year 1998 Financial Summary, please further break down the categories of regular and ECR mail to show separately the information for regular letters, regular flats, and regular residual shape, regular ECR, regular ECR flats, and regular ECR residual shape.

RESPONSE:

The information presented in the table on page 46 of my testimony is made possible by the subclass level quantification of total volume variable costs.

These cost data are not available in the level of detail requested in this interrogatory, so a further break down is not possible.

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FROM WITNESS SECKAR

PSA/USPS-T26-1. In your testimony you develop volume variable mail processing costs for each rate category of flats, among others, within Standard Mail (A). Please provide for the record the following:

- a. The estimated volume and attributable costs TYAR, and the *corresponding estimated revenues per piece TYAR for Regular Standard Mail (A) flats*, and confirm whether you are able to segregate the non-flat, so-called residual pieces from the cost, volume, and revenues.
- b. Please provide the volume, revenues, and estimated attributable costs TYAR for Regular (A) non-flat residual pieces, and for Regular ECR non-flat residual pieces.

RESPONSE:

- a-b. *The requested costs are not available separately for flats, nor separately for residual shape pieces, since total volume variable costs are not available in finer detail than the subclass level for Standard Mail (A).*
- Regarding volumes, USPS-T-36 WP1, page 20, depicts the volume for nonletters, including automation flats. The estimated volume of residual shape pieces is on page 13 of WP1. These two sources allow one to estimate the TYAR volume of flats and residual shape pieces.
- Regarding revenues, the volume detail presented on page 20 of WP1 can be applied to the proposed rates and discounts to calculate the total revenue from nonletters prior to the application of the residual piece surcharge. The amount of estimated revenue from the surcharge is available on page 13 of WP1. Revenue for flats only, or residual shape only, cannot be calculated since the weight profile and destination entry profile is not available for these two groupings.

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PSA/USPS-T37-2. Will Standard A parcels be sorted on BMC parcel sorters equipped with barcode readers? If the answer is in the affirmative, please explain why those parcels will not be eligible to receive the 4 cents per piece discount offered to parcel post parcels

RESPONSE:

Some Standard Mail (A) parcels will be processed on sorters equipped with barcode readers. For the response to the remaining question, see my response to DMA/USPS-T4-23b.

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PSA/USPS-T37-6.

- (a) Please provide the estimated cost coverage TYAR for Standard (A) non-flat residual pieces in the absence of the proposed 10 cents surcharge.
- (b) Please provide the cost coverage TYAR for Standard (A) flats, excluding non-flat residual shape pieces.
- (c) USPS Witness Moeller concedes that, in this case, it is proposed that only 40% of the cost differential between letters and flats is being passed through in the form of higher flat rates (page 9). Please compare the average per piece Standard (A) flat cost being borne by Standard (A) letters because of the failure to pass through 100% of the letter/nonletter cost differential with the TYBR per piece Standard (A) residual shape cost being borne by Standard (A) flats because of the current failure to pass through the alleged flat/residual shape cost differential. Please express these costs on an average per piece basis and in gross amounts for all Standard (A) letter, all Standard (A) flats, and all Standard (A) residual shape pieces, and document the sources of your data.

RESPONSE:

- (a) The absence of a residual shape surcharge would require a re-designing of the rates. Given the complexity of the analysis involved, and in the absence of a Board of Governors' vote on such a proposal, it is not possible to state as to what those re-designed rates would be, and, therefore, also impossible to determine resulting cost coverages. In any event, cost coverages for Standard Mail (A) are not calculated by shape. See response to PSA/USPS-T36-4.
- (b) See response to PSA/USPS-T36-4.
- (c) First of all, I would not characterize the passage of my testimony cited in this question as a concession.

It is not possible to determine the per-piece cost of Standard Mail (A) flats that is "being borne" by letters. Likewise, it is not possible to determine the

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cost of residual pieces "being borne" by flats. The implication of this question is that there is averaging between letters and nonletters, and between nonletters and flats, due to the fact that the passthroughs are 40 percent, and 29 percent, respectively. There is indeed averaging, and residual shape pieces are beneficiaries of *both* of these low passthroughs. Another implication is that the gross amount of costs which are "averaged" is greater between letters and nonletters than between flats and residual shape pieces. Although I cannot quantify these gross amounts, such a relationship would not be surprising due to the relative volumes of letters, flats, and residual pieces.

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.

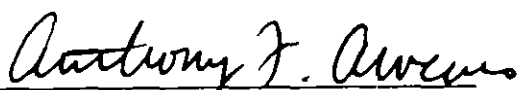


JOSEPH D. MOELLER

Dated: September 2, 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.


Anthony F. Alverno

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