

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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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 NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T36-1-16, 28, 32-40)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of the Newspaper Association of America: NAA/USPS-T36-1-16, 28, 32-40, filed on August 21, 1997. Interrogatories NAA/USPS-T36-17-27, 29-31 were redirected to the Postal Service.

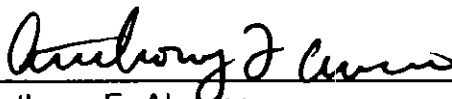
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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NAA/USPS-T36-1. Please refer to your testimony at page 4, lines 14-15.

- a. Please explain why all customers of Single-Piece Standard A Mail have not elected to use First-Class Mail already?
- b. Are there any unique features to Single-Piece Standard A Mail that are not available in First-Class Mail? If yes, please describe these features.

RESPONSE:

- a. For those weight increments where there is rate parity between First-Class Mail and Single-Piece Standard Mail (A), it is possible that some customers are not aware of the rate parity and choose the latter. Also, some mail, such as returned parcels, must travel by Single-Piece Standard Mail (A) by regulation, and I understand that some Single-Piece mail consists of residual pieces from automation rate mailings.
- b. It is unclear what the question intends by "unique features," but I note that Single Piece Standard Mail (A) includes a service for the return of keys and identification devices.

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NAA/USPS-T36-2. Please refer to your testimony at page 4, lines 15-17.
Please explain why Single-Piece Standard A Mail has unit costs in excess of
First-Class Mail. Why is Single-Piece Standard A Mail more expensive to handle
than First-Class Mail of comparable weight?

RESPONSE:

Please see my response to UPS/USPS-T34-1 which was redirected from witness
Taufique.

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NAA/USPS-T36-3. Please refer to your testimony at page 10, lines 14-15. Please explain why more of the "revenue benefit" of the residual surcharge should be directed to flats, when letters are already contributing more to institutional costs on average compared to flats.

RESPONSE:

The paragraph which includes the citation noted in this question explains that some observers might argue that the residual shape surcharge should be viewed solely as a deaveraging of nonletters. The rate design formula, however, spreads the added revenue from the surcharge to all pieces within the subclass, not just flats. The cited passage observes that nonletters, including flats, are benefiting from a relatively low shape passthrough, so to the extent the rate design formula benefits letters through its treatment of the revenue from the residual shape surcharge, it should be viewed as an offset to the lower letter/nonletter passthrough.

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NAA/USPS-T36-4. Please refer to your testimony at page 10, lines 20-21 and page 11, lines 1-2.

- a. What is the highest percentage rate increase proposed for an existing category of Standard A Regular mail?
- b. What is the highest percentage rate increase proposed for an existing category of Standard A Nonprofit mail?
- c. What is the highest percentage rate increase proposed for an existing category of First-Class letter mail?
- d. Please refer to footnote 19 at page 11. What is the highest percentage increase in the proposed rate for a parcel entered in Standard Regular mail?

RESPONSE:

- a. The proposed increase for non-destination entry rate for minimum-per-piece 3/5-digit automation flats is 9.5 percent. If DSCF-entered minimum-per-piece 3/5-digit automation flats is considered a separate rate category, then its proposed increase is the highest at 10.5 percent.
- b. *For full rates (Step 6), the proposed increase for non-destination entry rate for minimum-per-piece 3/5-digit automation flats is 24.0 percent. If DSCF-entered minimum-per-piece 3/5-digit automation flats is considered a separate rate category, then its proposed increase is the highest at 28.0 percent.*
- c. Carrier Route cards are proposed to increase 11.4 percent. Also, to the extent it is considered a rate category, a one-ounce nonstandard presort piece is proposed to increase 21.7 percent.
- d. The proposed increase for non-destination entry rate for minimum-per-piece 3/5-digit residual shape pieces is 51.1 percent. If DSCF-entered minimum-per-piece 3/5-digit residual shape is considered a separate rate category, then the proposed increase for this category is the highest at 55.6 percent.

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NAA/USPS-T36-5. Please refer to your testimony at page 13, lines 17-20 and page 14, lines 1-5.

- a. Please describe the characteristics of the different types of parcels in Standard A mail.
- b. Please explain why some parcels have cost characteristics similar to flats, while other parcels are more costly to handle than flats.
- c. For those parcels with the same or similar cost characteristics as flats, please explain why you propose applying the surcharge to these parcels.
- d. Would it be possible to define "parcel" in such a manner as to exempt parcels with flat-like cost characteristics from the surcharge? If no, why not?

RESPONSE:

- a. See my response to PSA/USPS-T36-3. As described in my testimony at page 14, lines 6-16, a wide variety of piece types populate Standard Mail (A). Rather than attempt to describe all of these types, it is proposed that Standard Mail (A) be viewed as consisting of letters, flats, and pieces which meet neither the definition of a letter nor a flat. The proposal, therefore, does not deal with the definition of a parcel or attempt to describe the characteristics of a parcel.
- b. I do not contend that there are parcels with cost characteristics similar to flats. The passage cited in my testimony attributes this argument to mailers.
- c. See response to subpart b.
- d. A piece with "flat-like" costs will likely meet the definition of a flat, in which case it would be exempt from the surcharge, as long as it is prepared in accordance with flat preparation requirements.

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NAA/USPS-T36-6. Please refer to your testimony at page 15, lines 8-10 and page 24, lines 3-5.

- a. Please confirm that the proposed reduction in the pound rate for Regular Rate Other is 4 percent. If you cannot confirm this figure, please provide the correct figure.
- b. Please confirm that the proposed reduction in the pound rate for Regular ECR mail is 20 percent. If you cannot confirm this figure, please provide the correct figure.
- c. Please explain why the proposed reductions in the pound rate differ for the two subclasses.
- d. Please refer to footnote 26 at page 13. Please confirm that less than 8 percent of Regular Rate Other non-letters are parcels while less than one percent of ECR non-letters are parcel shaped.
- e. Please explain why the higher percentage of parcels in Regular Rate Other does not cause a greater reduction in the pound rate in Regular Rate Other mail compared to ECR given that "the surcharge reduces the need for the pound rate to act as a proxy for the changing shape mix as weight increases."

RESPONSE:

- a. For this subpart, and all other subparts of this interrogatory, I assume that "Regular Rate Other" means the Regular subclass, and "Regular ECR" means the ECR subclass. The reduction in the pound rate element for non-destination entry pound-rated Regular mail is 4 percent.
- b. The reduction in the pound rate element for non-destination entry pound-rated ECR mail is 20 percent.
- c. The rationale for the reductions in the pound rate is explained in my testimony at pages 15 and 16 for Regular, and pages 24-26 for ECR. Several factors cause the pound rate to be higher for Regular. For instance, due to the low passthrough for the residual shape surcharge, the pound rate

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still has a role as a proxy for shape as described at page 15, lines 15-19. In ECR, the pound rate does not act as a proxy for shape even without the residual shape surcharge, as described at page 25, lines 9-11. Also, as described at page 16, lines 1-6, a lower pound rate in Regular would require a greater push up on piece rates, some of which are close to the 10 percent maximum increase guideline. In ECR, the guideline is met even with the lower pound rate. Also, the weight study in USPS LR-H-182 shows that weight likely plays a greater cost-causative role in Regular than in ECR.

- d. Confirmed.
- e. The current Regular pound rate may be viewed as a proxy for changing shape mix as weight increases, and implementation of the residual surcharge lessens the need for the pound rate to play that role. The current ECR pound rate, although it is very similar in magnitude to the Regular pound rate, plays no such role since, as described in my testimony at page 25, lines 9-11, the weight per piece for flats and parcels in ECR is about the same. The ECR pound rate should be reduced even in the absence of a residual piece surcharge. See response to subpart c.

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NAA/USPS-T36-7. Please refer to your testimony at page 16, lines 7-8 and page 27, lines 1-2.

- a. Please explain why you propose to maintain a breakpoint weight of 3.3 ounces for Standard Regular Other Mail.
- b. Other than the fact that this is "very near" the current breakpoint, is there any reason why 3.3 ounces is preferred compared to, for example, 3.0 ounces?
- c. Please explain why you propose to maintain a breakpoint weight of 3.3 ounces for Standard ECR mail?
- d. Other than the fact that this is "very near" the current breakpoint, is there any reason why 3.3 ounces is preferred compared to, for example, 3.0 ounces?
- e. What criteria are important when determining the breakpoint weight? Please list these criteria in order of importance and explain why they are important when selecting the proposed breakpoint weight.

RESPONSE:

- a. The Postal Service is not proposing a major change to the established minimum-per-piece, per pound, rate structure. In absence of such a change, there was no need to depart from the current breakpoint.
- b. See response to subpart a. Also, proposing a breakpoint near the existing breakpoint is advantageous in that it avoids disruption to mailers that have *established mailing practices based on the current breakpoint*.
- c. The Postal Service is not proposing a major change to the established minimum-per-piece, per pound, rate structure. In absence of such a change, there was no need to depart from the current breakpoint.
- d. See response to subpart c. Also, proposing a breakpoint near the existing breakpoint is advantageous in that it avoids disruption to mailers that have *established mailing practices based on the current breakpoint*.
- e. In absence of a compelling reason to change the breakpoint, the existing breakpoint is generally retained. See response to subparts b and d.

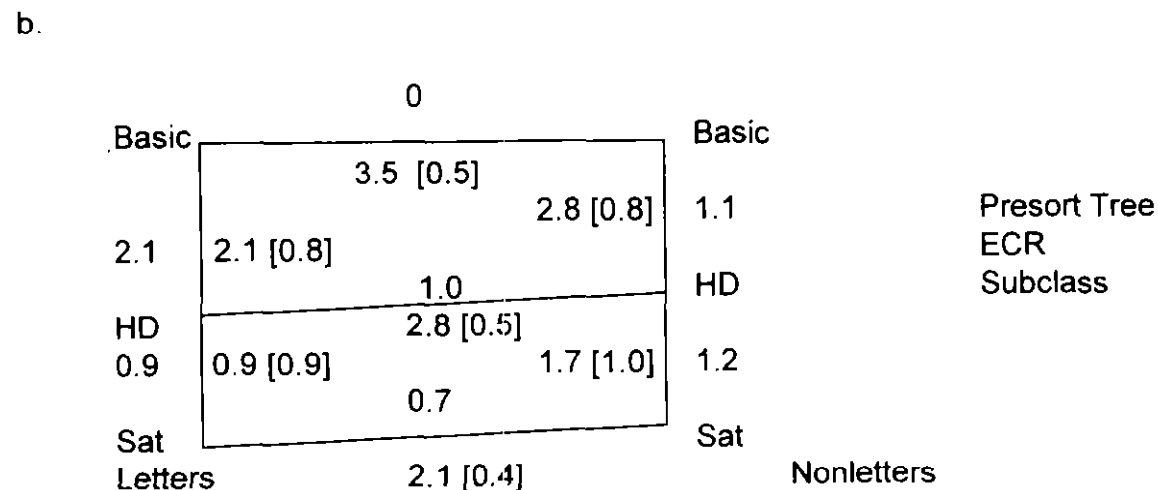
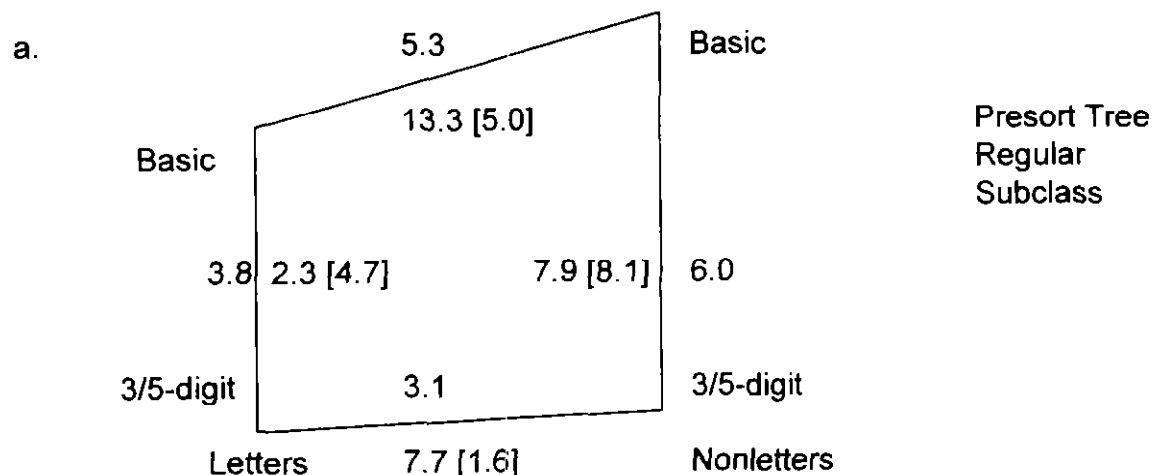
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NAA/USPS-T36-8. Please refer to your testimony at page 16, lines 11-13 and page 29, lines 15-18.

- a. Please provide the "presort tree" for Standard A Regular Other Mail.
- b. Please provide the "presort tree" for Standard A ECR Mail.

RESPONSE:

Numbers in brackets are current rate differences; other numbers inside box are cost differences as calculated in this proposal. Numbers outside of box, or above non-vertical lines are proposed rate differences. All figures are in cents.



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NAA/USPS-T36-9. Please refer to page 17, lines 10-11 of your testimony, where you state that "the proposed rates maintain discounts at or above 80 percent of their current level."

- a. To which specific discounts are you referring?
- b. Please clarify whether your comparison is between the absolute value of the discounts, or to the total discounted rate, or some other comparison.

RESPONSE:

- a. The statement refers to the guideline for all of the discounts.
- b. This specific passage refers to the absolute value of the discounts.

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NAA/USPS-T36-10. As a general matter, would the presort discounts have been larger if the Postal Service were not sponsoring a cost study that tends to attribute fewer mail processing costs than the methodology that underlies current rates?

RESPONSE:

There are a number of factors that cause the cost differentials underlying the discounts to differ from the cost differentials presented in Docket No. MC95-1.

All else equal, though, it would not be unreasonable to expect that the cost study referred to in this question would tend to reduce presort-related cost differentials.

I cannot confirm, however, that the discounts themselves would be larger since I do not know what passthroughs would have been applied to those cost differentials.

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NAA/USPS-T36-11. Please refer to your testimony at page 17, lines 15-20. Could the reduction in the passthroughs of the presort cost differentials for non-letter mail be avoided by increasing the shape passthroughs at some presort levels? If yes, please explain how. If no, please explain why not.

RESPONSE:

Yes. The spreadsheet underlying WP1 (USPS LR-H-202) allows for entry of various changes to the proposed rate design to determine, roughly, if such changes would result in a particular outcome. As an illustration, by entering 50 percent instead of 40 percent for the letter/nonletter passthrough at the Basic tier, one can see that the passthrough of the presort cost differential for non-letter mail in the Regular subclass would increase from the proposed passthrough.

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NAA/USPS-T36-12. Please refer to your testimony at page 17, lines 2-5.
Please explain why 10 percent was chosen as a general guideline for mitigating
rate increases.

RESPONSE:

I received general direction from management that an upper limit of 10 percent
was appropriate for commercial Standard Mail (A) given the overall increase
proposed for that general classification.

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NAA/USPS-T36-13. Please refer to the Summary of Proposed Regular Rates at page 21.

- a. Please confirm that the proposed rate for a 4 ounce 3/5-digit presorted, non-barcoded flat entered at the SCF is 24.65 cents.
- b. Please confirm that the proposed rate for a 8 ounce 3/5-digit presorted, non-barcoded flat entered at the SCF is 38.7 cents.
- c. Please confirm that the proposed rate for the 8 ounce piece is 57 percent higher than the rate for the 4 ounce piece.
- d. Please confirm that the proposed rate for a 12 ounce 3/5 digit presorted , non-barcoded flat entered at the SCF is 52.75 cents.
- e. Please confirm that the proposed rate for the 12 ounce piece is 114 percent higher than the rate for the 4 ounce piece.
- f. Please confirm that the proposed rate for a 16 ounce 3/5 digit presorted , non-barcoded flat entered at the SCF is 66.8 cents.
- g. Please confirm that the proposed rate for the 16 ounce piece is 171 percent higher than the rate for the 4 ounce piece.

If you cannot confirm any of these figures, please provide the correct figures.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed; although Standard Mail (A) must weigh less than 16 ounces.
- g. Confirmed; although Standard Mail (A) must weigh less than 16 ounces.

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NAA/USPS-T36-14. Please refer to your testimony at page 24, lines 3-4 and page 25, lines 16-17. Please explain how you arrived at a proposed rate of 53 cents for ECR mail based upon the "new" cost information provided in Library Reference H-182.

RESPONSE:

As described on pages 24-27 of my testimony, the selection of the pound rate was based on a number of factors, only one of which was the USPS Library Reference H-182. As far as the Library Reference is concerned, it shows generally that weight plays a very minor role in the cost of Enhanced Carrier Route mail. It was not used in any type of calculation of the proposed 53 cent rate.

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NAA/USPS-T36-15. With regard to Library Reference USPS-LR-H-182 as part of your testimony? If not, please state whether any witness is sponsoring USPS-LR-H-182.

RESPONSE:

No witness is sponsoring the Library Reference as part of his or her testimony; however, I rely on the study and can field questions about my use of its results; to the extent further information is required, the Postal Service is providing responses to interrogatories regarding the Library Reference.

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NAA/USPS-T36-16. Please provide the following information regarding Library Reference USPS-LR-H-182.

- a. Was this document prepared by you or under your direction?
- b. Did you participate in any way in, the preparation of LR-H-182?
- c. Unless your answer to the preceding part (b) is an unqualified negative, please describe your role with respect to LR-H-182.
- d. When was the material prepared?
- e. What was the purpose of the document?
- f. What were the data sources used in preparing this material?

RESPONSE:

- a. No.
- b. I suggested that a refinement and update of the study provided in Docket No. MC95-1 would assist in the rate development for this proceeding. Also, I reviewed a near-final draft.
- c. See response to b.
- d. The material was prepared in the spring and early summer of 1997.
- f. It is my understanding that the Library Reference documents the data sources on pages 10 and 11.

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NAA/USPS-T36-17. Please refer to USPS LR-H-182, page 3.

- a. Please explain why city carrier street costs are distributed to weight increment in proportion to mail volume.
- b. Is it your opinion that weight has no effect on city carrier street costs?
- c. Please refer to the testimony of Postal Service Witness Nelson (USPS-T-19) at page 6, lines 15-17. Please confirm that witness Nelson asserts that the weight of the mail has an impact on letter route driving time. If you cannot confirm this statement, please explain why.
- d. Does this analysis of carrier costs by weight increment assume any difference in carrier street costs by shape of mail? If yes, please explain how this is factored into the analysis. If not, please explain why not.
- e. Does the shape of the mail affect the city carrier load time costs? If no, please provide all support for your position. If yes, please explain what affect shape has on city carrier load time costs.

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-18. Please refer to Table 2 at page 6 of USPS LR-H-182. Does Table 2 include flats and other non-letter pieces such as parcels? If so, please provide the data in Table 2 for flats only.

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-19. Please refer to Table 2 at page 6 of USPS LR-H-182.
Please provide the standard errors of the estimates of unit costs.

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-20. Please refer to Tables 1 and 2 of USPS LR-H-182. Do these tables include data for both Standard Regular (commercial) and Nonprofit mail? If so, please provide separate tables with the unit costs by weight for Standard Regular and Standard Nonprofit mail.

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-21. Please refer to page 3 of USPS LR-H-182.

- a. Do dropshipping levels vary by weight increment? Please provide all available data to support your response.
- b. If your response to part (a) is yes, was any adjustment made to remove the effects on mail processing costs of the different levels of dropshipping from the data? If no, please explain why not. If yes, please explain what adjustments were made to the data.

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-22. Please refer to Table 1 at page 4 of USPS LR-H-182.

- a. Please explain how a 13 ounce carrier-route piece can have a unit cost of 6.6 cents while a 12 ounce piece carrier-route piece has a unit cost of 9.0 cents and a 14 ounce carrier-route piece has a unit cost of 13.0 cents.
- b. *Does this pattern cause you to doubt the accuracy of the underlying data? If not, why not?*

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-23. Please refer to page 2 of USPS LR-H-182. Was any attempt made to estimate unit volume variable costs for the Test Year?

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-24. Please refer to page 3 of USPS LR-H-182. With respect to the distribution of mail processing costs, were these costs distributed using the MODS cost pools? If no, why not?

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-25. Please refer to Table 2 at page 6 of USPS LR-H-182.

- a. Please explain all possible reasons why the unit costs for one ounce flats are significantly higher than the unit costs for three ounce flats.
- b. Does the relationship of costs for the one ounce piece compared to the three ounce piece cause you to doubt the accuracy of the underlying data? If not, why not?

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-26. Please refer to Table 3 of USPS LR-H-182.

- a. Please confirm that the unit mail processing cost (cost segment 3.1) is 1.76 cents for a one-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.
- b. Please confirm that the unit mail processing cost (cost segment 3.1) is 1.40 cents for a two-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.
- c. Please confirm that the unit mail processing cost (cost segment 3.1) is 0.85 cents for a three-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.
- d. Please explain all possible reasons for the declining unit costs in this cost segment.
- e. When IOCS tally takers record the weight of a piece, is there any tendency simply to record a piece as one ounce if the piece is below the breakpoint rather than recording the actual weight of the piece? What steps does the Postal Service take to ensure that this does not happen?

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-27. Please refer to Table 3 of USPS LR-H-182.

- a. Please confirm that the unit city carrier casing (cost segment 6) is 2.26 cents for a one-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.
- b. Please confirm that the unit city carrier casing (cost segment 6) is 1.38 cents for a two-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.
- c. Please confirm that the unit city carrier casing (cost segment 6) is 0.88 cents for a three-ounce piece of Standard Regular Carrier-Route Mail. If you cannot confirm this figure, please provide the correct figure.
- d. Please provide all possible reasons for the declining unit costs of city carrier casing.
- e. Is there a possibility of error when recording the weight of the piece when the tally is recorded? If so, please explain.
- f. Was any attempt made to adjust the cost data for the density of the mailings within each weight increment? If so, what adjustments were made in the cost data to reflect the different densities of the mailings? If no, why not?
- g. Was any attempt made to adjust the cost data for the degree of walk-sequencing of the mailings within each weight increment? If so, what adjustments were made in the cost data to reflect the differing amounts of walk-sequencing? If no, why not?

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-28. Please refer to your testimony at page 26, lines 5-7.
Please provide all studies and analyses of the rates for other advertising media that, in your mind, justify the lower pound rate.

RESPONSE:

As described in my testimony at pages 24-27, the rates for other advertising media were an additional consideration in the pound rate proposal. This is not to say that postal rates must mirror non-postal alternatives; however it useful to note the price structures of other media.

In addition to the testimony cited in the footnote to the passage cited in this question, I reviewed, in preparation for Docket No. MC95-1, the pricing schedules of several major newspapers for preprinted inserts in order to get a general impression of how rates increase with weight. Although the rates varied widely from paper to paper, and the rates were by pages, not ounces, I recall that a doubling of pages resulted in rate increases of about 20-40 percent – and never resulted in anything near a doubling of the rate.

Also, in reaction to the Docket No. MC95-1 filing, the April 17, 1995 issue of

Optimum Delivery, a trade publication for the alternate delivery industry, stated:

For alternate delivery companies the case as filed would *slightly* reduce competitive rates, making the economies of scale better for mail at low package weights. However, the real opportunity in alternate delivery has always been heavier packages and the new classifications *will do nothing to change that* even though the pound rate has been reduced. The pound rate reduction will reduce the savings at higher weights, but *will not eliminate the significant advantages alternate delivery has with heavier packages.*

Docket No. MC95-1, Tr. 22/9910 (emphasis added).

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NAA/USPS-T36-29. Please provide the average unit contribution to institutional cost for each ounce increment of nondropshipped Standard (A) Regular and Enhanced Carrier Route mail (excluding non-profit subclasses) at proposed rates stated separately for:

- a. Letters and Nonletters; and
- b. below breakpoint and above-breakpoint mail.

RESPONSE:

Redirected to the Postal Service for response.

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NAA/USPS-T36-30. Based upon the unit cost data provided in LR-H-182 and current rates, please provide the average unit contribution to institutional costs for Standard (A) Regular and Enhanced Carrier Route mail (excluding non-profit subclasses) stated separately for:

- a. letters and nonletters; and
- b. below breakpoint and above-breakpoint mail.

RESPONSE:

Redirected to the Postal Service for response.

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INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-31. Please refer to pages 1 and 2 of Library Reference H-186.
If you cannot answer, please refer to someone who can.

- a. Please explain why there are letters that exceed 3.3 ounces.
- b. Please explain how a sixteen-ounce piece can have the dimensions of a letter.

RESPONSE:

Redirected to the Postal Service for response.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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NAA/USPS-T36-32. Please refer to your testimony at page 24, lines 7-23. Does setting the piece charge at greater than zero for pound-rated saturation nonletters imply that such pieces incur piece-related costs? Please explain.

RESPONSE:

Yes. It implies that there is additional cost for handling additional pieces. The cited testimony provides an example describing such a situation.

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NAA/USPS-T36-33. Please refer to your testimony at page 25, line 5. Please clarify what are the "two reasons" to which you refer.

RESPONSE:

The two "reasons" are actually two aspects of the same point. One, no longer does the pound rate for carrier route have to be tied to the pound rate for non-carrier route; and, two, since it is no longer tied to non-carrier route, the role of the pound rate as proxy for shape can be separately analyzed for carrier route, and that analysis reveals that the pound rate has no role as a proxy for shape in ECR.

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NAA/USPS-T36-34. Please refer to your testimony at page 27, line 15 through page 28, line 2. Could "special consideration" be given to the Postal Service's concern regarding its letter automation program by holding the basic letter rate at the proposed level, but increasing the rate for Basic nonletters?

RESPONSE:

The "special consideration" is to examine the rate relationship between 5-digit automation and ECR Basic letters. The rate for nonletters at the Basic ECR tier is not a factor in this "special consideration." However, if the rate for Basic nonletters were proposed to increase more, while the rate for ECR letters was held at the proposed level and the target cost coverage remained the same for ECR, then the discounts for high-density, saturation, and/or destination entry would have to be increased.

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NAA/USPS-T36-35. Please refer to your testimony at page 28, footnote 44.

Does the elimination of the letter/non-letter rate differential at the basic tier result in letters making a significantly higher contribution to institutional costs compared to non-letters? If yes, please explain why you believe this to be desirable. If no, please explain.

RESPONSE:

Unit contribution is not calculated at this level of detail, but to the extent any cost difference remains between the letters that do not migrate and nonletters, then, yes, the letters will make a greater contribution per piece, but this should not be characterized as a "significant" difference. Both groupings should make a significant per piece contribution since the cost coverage for ECR is so high.

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NAA/USPS-T36-36. Please refer to your testimony at page 28, lines 7-11.

- a. Did the Postal Service consider eliminating the basic tier within ECR letter mail? If no, why not? If yes, why did you choose not to propose the elimination of this category of mail?
- b. Did the Postal Service consider moving the basic tier of ECR letters to the Standard A Regular Other subclass? If no, why not? If yes, why did you choose to retain this category within Standard ECR mail?

RESPONSE:

- a. Yes. Since the same effect could be achieved by setting the shape passthrough at zero percent, it seemed unnecessary to eliminate the category, especially if retaining the category allowed for distinctive preparation requirements by shape.
- b. I know of no proposal to management to consider such a classification change in preparation of this case. It is my understanding that this rate case was to retain the classification schedule recommended and approved in Docket Nos. MC95-1 and MC96-2 to the extent possible.

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NAA/USPS-T36-37. Please refer to your testimony at page 28, lines 11-13.

- a. How many letters will remain in the Basic ECR letter category?
- b. Please explain all reasons why these letters will not shift to the Automation 5-digit category within Standard Regular Other Mail.

RESPONSE:

- a. The TYAR volume forecast on page 3 of my WP1 includes approximately 3.2 billion ECR Basic letters.
- b. Presumably, the mailers of these pieces do not choose to meet the requirements for automation rates, or perhaps do not have the density to qualify for 5-digit automation.

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NAA/USPS-T36:38. Please refer to your testimony at page 28, lines 8-11. If a greater percentage of the shape differential were passed through in Standard A Regular Other Mail at the automation 5-digit level, would this permit a non-zero-percent passthrough of the shape differential for Standard ECR Mail at the basic tier while still resulting in a lower rate for 5-digit Automation mail compared to the basic ECR letter rate? Please explain fully.

RESPONSE:

The rate design model does not include an input for a passthrough "at the automation 5-digit level." One can use the spreadsheet underlying WP1 (USPS LR-H-202) to test various passthroughs to get a rough idea of what rate relationships might be possible. The scenario suggested in this question appears to involve a greater passthrough of the letter/nonletter differential at the 3/5-digit tier. Presumably, that would result in an even lower proposed rate for 5-digit automation, but may cause other rates to change in a manner that fails to meet the other rate design objectives. A non-zero shape passthrough for ECR can also be tested by using the spreadsheet. Presumably, there is a passthrough greater than zero that can be entered that would result in a rate for ECR basic letters that is still higher than 5-digit automation letters.

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NAA/USPS-T36-39. Please refer to your testimony at page 28, lines 10-12, where you state that the proposed rates would "encourage letter mailings with [basic] density to be entered instead as Automation Enhanced Carrier Route or 5-digit Automation letters."

- a. Does the Postal Service has a preference as to which rate category these letters are entered?
- b. Does the price difference between Basic ECR, Automation ECR, and 5-digit automation letters reflect the actual cost difference to the Postal Service processing this mail?
- c. Does the price difference between Basic ECR, Automation ECR, and 5-digit automation letters reflect the actual cost differences to the Postal Service processing this mail?

RESPONSE:

- a. The Postal Service prefers that these letters be entered at automation rates; whether the letters are entered at the 5-digit automation rate or the Automation ECR rate depends on mailer preference and the destination of the letters.
- b. The rates between ECR and Regular subclasses are not set through the rate design models based on cost differentials. Within ECR, the rate difference between ECR auto and ECR Basic letters represents 110 percent of the cost differential.
- c. See response to subpart b.

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NAA/USPS-T36-40. Please refer to your testimony at page 32, lines 9-10.

- a. Please explain why it is desirable to have rates for the Nonprofit Mail subclasses "mirror" the Regular subclasses.
- b. Are there any differences in mail characteristics that warrant a different rate schedule?

RESPONSE:

- a. I believe this question is intended to refer to page 33 of my testimony. The desire is to have the rate *structure* of nonprofit mirror that of commercial. It is my understanding that this simplifies administration and comports with the desire of the nonprofit community.
- b. Not that I am aware of.

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 4, 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. Alverio

475 L'Enfant Plaza West, S.W.
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September 4, 1997