

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

SEP 4 5 00 PM '97

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS MOELLER TO INTERROGATORIES OF  
THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T36-25-26)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T36-25-26, filed on August 21, 1997.

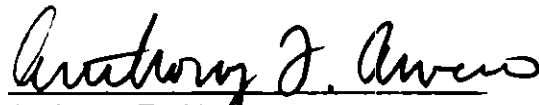
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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September 4, 1997

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T36-25. In USPS-T-36 at 27, you propose a zero percent passthrough of the letter/non-letter differential for the Basic ECR letter tier.

- a. Please confirm that there is a unit cost differential between Basic ECR letters and Basic ECR flats which is equal to 3.5099 cents; i.e., 10.3844 cents (unit mail processing and delivery cost for basic ECR non-letters) — 6.8745 cents (unit mail processing and delivery cost for basic ECR letters) = 3.5099. [Source: USPS-29C, page 2] If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- b. Also confirm that in PRC Op. MC95-1, para. 5593, the Commission held that a basic, carrier-route, unit cost differential between letters and flats of 1.6 cents was of sufficient magnitude that it must not be ignored and that to do so “would be contrary to the Act.” If you do not confirm, please explain.
- c. Confirm that in PRC Op. MC95-1, page V-265, Table V-5, the Commission calculated a Basic ECR letter/non-letter unit cost differential of 1.3563 cents. If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- d. Confirm that the Commission applied a 40-percent passthrough of the differential, yielding a discount of 0.5 cents (rounded). *Id.* If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- e. Isn't it true that the cost difference between Basic ECR letters and Basic ECR non-letters has more than doubled since it was last reported in Docket No. MC95-1? If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- f. Confirm that a 40-percent passthrough of the Docket No. R97-1 cost differential (3.5099 cents, as described in subpart a.) would yield a discount of approximately 1.4 cents for Basic ECR letters. If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- g. Isn't it correct that when you balance the “special consideration” of the Postal Service's letter automation program against letter/non-letter cost differences, you reach a conclusion opposite to that reached by the Commission in PRC Op. MC95-1? If you do not agree, please explain.
- h. Isn't it correct that one of the assumptions relied upon by the Postal Service in Docket No. MC95-1 to justify its decision not to propose a lower rate for ECR letters was information given to Postal Service witness McBride that “the letter-flat cost differential would decrease in the future because of the shift to vertical flat casing?” PRC Op. MC95-1, para. 5575. If you do not agree, please explain why.
- i. Isn't it also true that, contrary to Postal Service expectations at the time Docket No. MC95-1 was being litigated, the letter/flat differential has grown substantially? If you do not agree, please explain.

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OCA/USPS-T36-25. (continued)

RESPONSE:

- a. Confirmed, if "ECR flats" is intended to mean "ECR Nonletters."
- b. The Commission reached this decision after giving special consideration to the Postal Service's concern that lower rates for carrier route letter mail would be counterproductive to the letter automation program. "On balance," the Commission believed it was important to recognize the cost differences.
- c. Confirmed.
- d. Confirmed.
- e. Not confirmed. Presumably, this question is referring to the figures in subparts a and c. It is my understanding that, due to changes in the costing methodology, these figures are not directly comparable. A better comparison could be drawn using the figures in Exhibit USPS-29C, page 3 rather than Exhibit USPS-29C, page 2, although this would still not be a direct comparison.
- f. Forty percent of 3.5099 is 1.4.
- g. The Postal Service concludes that it is important to have a rate relationship that encourages the most efficient handling of letters that are now presorted to carrier route, and the proposed rate design reflects that conclusion. The Commission, given the information available at the time, concluded that it was important to recognize the letter/nonletter cost differential. In this proceeding, witness Moden notes that delivery units and plants are working to "capture bundles of non-barcoded Enhanced Carrier Route (ECR) Basic letters in order to barcode them at

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the plant.” (USPS-T-4 at page 8, lines15-18) Given this practice, it is counter to the principle of lowest combined cost to encourage mailers to prepare 10-piece bundles of letters to carrier route, only to have this preparation undone in the course of preparing this mail for efficient automated handling. It is preferable to have mailers apply the barcode and prepare the mail in accordance with automated processing. This preferred situation will not occur, however, as long as the rate relationship encourages carrier route preparation. Also, there may be a “chicken-or-the-egg” situation at work here in that the automated handling of current ECR letters may serve to maintain or increase the letter/nonletter cost differential. If the cost difference continues to be seen as requiring a letter/nonletter differential in ECR Basic which results in a lower rate for ECR letters than 5-digit automation, the result will be a continuation of the processing described by witness Moden, rather than the even more efficient handling of *pre*-barcoded letters prepared in accordance with the guidelines for automation-rated letters.

- h. In Docket No. MC95-1, the Postal Service proposed elimination of the letter/nonletter differential in the proposed ECR subclass in part because of the expected shift to vertical flat casing of flats and letters not sorted to delivery sequence on automation.
- i. The figures in subparts a and c would seem to indicate a growth in the differential; however, it is my understanding that significant changes in the costing methodology make a direct comparison of these figures difficult. See response to subpart e.

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Also, the practice of barcoding ECR basic letters may have served to lower the cost of letters relative to nonletters.

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OCA/USPS-T36-26.

- a. Please confirm that, in USPS-T-18 at 15, Docket No. MC95-1, you proposed per-piece rates for pound-rated ECR that were of roughly the same magnitude as those you propose in the current proceeding. [See comparison below]

| <u>USPS-proposed ECR Per-Pc Rates,</u><br><u>Docket No. MC95-1</u><br>(Cents) | <u>USPS-proposed ECR Per-Pc Rates,</u><br><u>Docket No. R97-1</u><br>(Cents) |
|---|--|
| Basic: 5.0  | Basic: 5.5   |
| High-density: 4.3   | High-density: 4.4  |
| Saturation: 3.0   | Saturation: 3.2  |

If you do not confirm, please explain.

- b. Also confirm that the Commission rejected per-piece rates of this magnitude and instead recommended the current rates, which are:

Basic: 1.8  
High-density: 1.0  
Saturation: 0.0

If you do not confirm, please explain.

RESPONSE:

- a. The tables presented in the question accurately depict the rates proposed by the Postal Service.
- b. These are the piece-rates for pound-rated mail recommended by the Commission in Docket No. MC95-1. There is a relationship between the piece rate and pound rate for pound-rated mail. Since the pound rate recommended by the Commission in Docket No. MC95-1 was higher than the pound rate proposed by the Postal Service, the recommended piece rates would be lower than those piece rates proposed by the Postal 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: 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. Alverno

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