

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T28-1 -15)

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of Newspaper Association of America: NAA/USPS-T28-1 through 15, filed on October 26, 2001.

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

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 9, 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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RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
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NAA/USPS-T28-1: Please refer to Page 14, lines 11 to 12, of your testimony. Under the proposed rates in this proceeding, what is the systemwide average ratio of revenues over volume variable costs (which is what you call the proposed system-wide cost coverage)?

RESPONSE:

178.5 percent. (179.9 percent if "other income" is included. See Exhibit USPS-28B).

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NAA/USPS-T28-2. Please refer to Page 7, lines 13 to 17, of your testimony. Please quantify the amount by which the Postal Service's proposed new mail processing cost approach affects the measured volume variable costs for

- a. First Class letter mail
- b. Periodicals mail
- c. Standard Regular mail
- d. Standard Enhanced Carrier Route mail
- e. Parcel Post

RESPONSE:

- a-e. To compare the costs under the two methodologies, see USPS-T-12, WP H, Table E (revised 10/31/01), and USPS-LR-J-75 (revised 10/31/01).

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NAA/USPS-T28-3: Please refer to Page 14, lines 11 to 12, of your testimony. Are the factors that you describe at Page 7, lines 10 to 21, the cause of the increase in the systemwide percentage coverage of revenues over volume variable costs of about 10 percentage points in this case compared to Docket No. R2000-1? Please identify any other factors that caused the increase in the overall systemwide coverage.

RESPONSE:

The point of the two passages was to describe why the cost coverages by subclass from Docket No. R2000-1 are not directly comparable to the proposed cost coverages in this request. They are not an attempt to describe the causation of the increase in the systemwide coverage, which could be affected by a variety of factors, including general improvements in mail processing, changes in mail mix to more workshared mail, or efforts to improve the infrastructure that are not specific to any particular class of mail.

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NAA/USPS-T28-4: Do you believe that comparisons of contribution to institutional costs on a unit (per piece) basis are relevant to the assignment of institutional costs? Please explain your answer.

RESPONSE:

Such comparisons can certainly be performed, but they were not used in the proposed assignment of cost coverages. If one were to attempt to make such a comparison and use it as a basis for assignment of relative cost coverages, such use should not be considered in isolation. Also, to the extent such comparisons are deemed useful at all, they should be considered in light of the relative characteristics of the subclasses being compared. For example, a comparison of Priority Mail unit contribution to First-Class Cards contribution would not be particularly useful.

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NAA/USPS-T28-5: Please provide a table presenting the average Test Year After Rates unit contribution to institutional costs on a subclass basis, using the rate and cost evidence submitted by the Postal Service in this proceeding.

RESPONSE:

That exercise can be performed by consulting the subclass contribution figures in Exhibit USPS-28B, and the volume forecast presented in the response to POIR No. 2, Question 6, pages 3 and 4.

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NAA/USPS-T28-6: Please refer to Page 10, lines 10 to 21, of your testimony, where you observe that one consequence of holding a cost coverage constant where the costs are declining due to mail preparation activities is to reduce the unit contribution of that mail. Does this phenomenon suggest to you that cost coverages may not be a completely satisfactory tool for assigning institutional costs?

RESPONSE:

No. The “phenomenon” simply illustrates that comparisons of cost coverage over time should be made with caution. In addition to changes in the degree of worksharing, shifts in the mix of workshared/non-workshared mail within a subclass can also affect the cost coverage. See my testimony at pages 15-16.

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NAA/USPS-T28-7: Please refer to Page 17, lines 15 to 16. To your knowledge, has the Postal Service attempted to determine what would be the price elasticity of demand for First Class mail if the Private Express Statutes were modified or repealed? If so, please describe those attempts.

RESPONSE:

No.

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NAA/USPS-T28-8: Please refer to Page 33, line 5 to Page 34, line 7, and Page 38, lines 15-16, of your testimony where you describe your implementation of Public Law 106-384 and in particular your use of a “merged” markup for commercial and nonprofit mail.

- a. Did you consider any alternative methods of implementing Public Law 106-364? If so, please describe those methods and explain why you chose not to use them.
- b. Did you consider setting the markup for the Standard A subclasses by considering the Section 3622 criteria on the commercial mail only, and then implementing the public policy favoring nonprofit mail through recognizing the 60 percent revenue per piece requirement of Public Law 106-384? If so, why did you reject this methodology?

RESPONSE:

- a. I did not consider any alternative other than that which is defined in the law.
- b. No. The law states that the factors of section 3622(b) are to be applied to the costs attributable to the regular rate mail *combined with* the costs of the corresponding special rate categories. It would be inappropriate to consider only commercial mail when assigning a cost coverage. Doing so would place the entire “burden” of reduced rates for nonprofit mail on the comparable commercial mail, which would be a significant departure from the “funding” that was established with the Revenue Forgone Reform Act. Under that Act, the markup assigned to the nonprofit subclass was to be one-half the markup of the commercial subclass. The “benefit” that accrued to nonprofit (by avoiding the commercial markup) was covered through the markups on all other classifications, not just the commercial counterpart subclass. Under the premise of this interrogatory, all of the mail (commercial and nonprofit) would get the “commercial” markup. The “60 percent” feature would then de-average the

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RESPONSE TO NAA/USPS-T28-8 (CONTINUED):

commercial and nonprofit rates, pushing down the nonprofit rates, and pushing up the commercial rates. The resulting implicit coverage for the commercial subclass would then be higher than the assigned coverage for the combined grouping, thereby forcing the cost of the public policy favoring nonprofit mail directly, and entirely, onto the commercial counterpart.

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NAA/USPS-T28-9: Please refer to Page 35, lines 1 to 7, in which you discuss the rate level for Standard Regular mail. Please identify the “competitors” for Standard Regular mail to which you allude in line 6.

RESPONSE:

I was speaking generally of alternative means of distribution of demographically targeted advertising such as internet websites, cable television, or special-interest magazines.

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NAA/USPS-T28-10: If the “very high” coverage over volume variable costs of Standard Enhanced Carrier Route mail is consistent with a high degree of worksharing, why do you have a “desire” to lower the cost coverage of ECR mail?

RESPONSE:

The “desire” to lower the cost coverage for ECR is based on examination of the pricing criteria, and comparison of the ECR coverage to the coverages for other subclasses.

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NAA/USPS-T28-11: Is the “deferability” of Standard ECR mail (Page 37, lines 4 to 6) offset by the Postal Service’s ability to “accommodate mail requests for delivery within a specific time frame” (Page 37, lines 6 to 8)?

RESPONSE:

No. “Deferability” and “delivery with a specific time frame” are not mutually exclusive.

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NAA/USPS-T28-12: What are the competitors to Standard ECR mail to which you refer to Page 37, line 17?

RESPONSE:

I was speaking generally of other methods of distributing high-density advertising messages, particularly alternate delivery companies. See my response to AAPS/USPS-T28-3.

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NAA/USPS-T28-13: Does the fact that a newspaper may deliver an advertising insert through a combination of newspaper delivery to subscribers and a mailed Total Market Coverage product to nonsubscribers make it, in your opinion, a “competitor” to Standard ECR mail or a customer of ECR mail?

RESPONSE:

I am a bit wary of the use of the term “competitor.” For instance, it has been used, at times, to describe the relationship between newspapers and the Postal Service.

However, the Postal Service frequently provides a means for newspapers to reach more addresses in a given market. Also, newspapers frequently use other Postal Service products in the conduct of their business. In that sense, newspapers are important Postal Service customers. With that in mind, 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.”

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NAA/USPS-T28-14. Please refer to Interrogatory NAA/USPS-T28-13, and state your understanding of what is the newspaper's competition in that situation.

RESPONSE:

The primary competition would be with other providers of a medium for high-density or saturation advertising. That might include local radio or television, as well as hard-copy media.

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NAA/USPS-T28-15: Please refer to your answer to DFC/USPS-T28-3. If, as you say, speed of delivery is only "one aspect of value of service," please identify all other aspects of "value of service" of which you are aware.

RESPONSE:

Please see my testimony at pages 4-6 for a discussion of value of service.