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, 2001	Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION (DMA/USPS-T32—1)

The United States Postal Service hereby provides the response of witness Moeller to the following interrogatory of the Direct Marketing Association: DMA/USPS-T32—1, filed on November 7, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 21, 2001

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.

DMA/USPS-T32-1.
Please refer to page 19 of your testimony (USPS-T-32) where you state, "Specifically, the law [Public Law 106-384] requires that Nonprofit revenue-per-piece should be 60 percent of commercial revenue per piece." Please refer further to Exhibit USPS-28D where you show that the proposed rate increase for Standard Regular is 8.0%, the proposed rate increase for Standard Nonprofit is 6.7%, the proposed rate increase for Standard Enhanced Carrier Route is 6.2%, and the proposed rate increase is Standard Nonprofit Enhanced Carrier Route is 6.5%.

a. Given the enactment of Public Law 106-384, please explain in as much detail as possible why the percentage rate increase for Standard Nonprofit is not the same as the percentage rate increase for the Standard Regular subclass.
   (i) In particular, is the difference in rate increases between the two subclasses related to the migration of Basic ECR letters to the 5-Digit Automation rate category?
   (ii) If so, please explain the relationship.
b. Given the enactment of Public Law 106-384, please explain in as much detail as possible why the percentage rate increase for Standard Nonprofit Enhanced Carrier Route is not the same as the percentage rate increase for the Standard Enhanced Carrier Route subclass.
   (i) In particular, is the difference in rate increases between the two subclasses related to the migration of Basic ECR letters to the 5-Digit Automation rate category?
   (ii) If so, please explain the relationship.

RESPONSE:

a-b. The requirement, embodied in recent changes to 39 USC 3626, that the revenue-per-piece for nonprofit be 60 percent of the commercial counterpart's revenue-per-piece does not necessarily translate into equivalent percentage changes for the two groupings, although the percentage changes should be similar. Intuitively, one might suspect the percentage changes to be equivalent; however, a change in mail mix from Base Year to Base Year (from one rate case to the next) will affect the revenue-per-piece relationship between the two groupings. As an illustration, assume that the 60 percent relationship is incorporated into the rates using the billing determinants for Fiscal Year X. In the next fiscal year, the mail mixes for nonprofit and commercial may change to different extents. For example, the commercial grouping may become more letter-shaped than it was the previous year. This would tend to pull down its revenue-per-piece. Assuming nonprofit did not experience a similar mail mix change, the revenue-per-piece ratio would have crept above 60 percent. For example, assume 10 cents per piece for commercial and 6 cents per piece for nonprofit in Fiscal Year X. If the mail mix change caused the revenue per piece for commercial to fall to 9.8 cents--with no change in nonprofit's mail mix--the percentage would then be 61.2 percent. Assuming that the following rate case included a zero percent change for commercial, the nonprofit rates would have to be reduced in order to restore the relationship to 60 percent. If the new rates were to maintain the 9.8 cent revenue per piece for commercial, the nonprofit rates would have to result in a revenue per piece of 5.88 cents in order to meet the 60 percent requirement, which would imply a 2 percent reduction in their rates.

With respect to subpart (i), any number of shifts in mail mix could affect the revenue-per-piece figures. While the particular phenomenon noted here (migration from ECR Basic to Automation 5-digit) would affect the revenue per piece figures for the subclasses involved, it has not been identified as the source of the change in underlying mail mix between commercial and nonprofit that causes the small disparity in percentage change. Certainly, though, as described in the example above, if 5-digit automation letters grew at a faster clip in Regular than in Nonprofit, that might tend to suppress the revenue-per-piece for Regular. The 60 percent "target" for nonprofit would then be lower, requiring a lower percentage increase.

In any event, the legislation was intended to narrow the disparity in the percentage changes that could occur under the formula in the Revenue Forgone Reform Act. By removing the "half-the-markup" rule, and the measurement of separate costs for nonprofit, the disparity has indeed been narrowed. Incidentally, the mail mix changes can "cut" either way, as is evidenced by the lower increase for Nonprofit as compared to Regular, and the higher increase for NECR as compared to ECR.

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
JOSEPH D. MOELLER

Dated: 11-21-01

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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