

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 AMERICAN BUSINESS MEDIA & MCGRAW-HILL
(ABM-MH/SPS-T28-1 THROUGH 3)

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of American Business Media & McGraw-Hill: ABM-MH/USPS-T28-1 through 3, filed on December 10, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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December 26, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MOELLER
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

ABM-MH/USPS-T28-1

Please confirm each of the following. To the extent that you are unable to confirm, please explain fully.

- (a) The Commission recommended a 101 percent cost coverage for Regular-Rate Periodicals in Docket R97-1, where Regular-Rate Periodicals received a rate increase that was about 1.6 percentage points higher than the system average.
- (b) The Commission recommended a 100.6 percent cost coverage for Outside-County Periodicals in Docket R2000-1, where Regular-Rate mailers in that subclass received an above-average rate increase of 12.8 percent.
- (c) In this case, the proposed cost coverage for the Outside-County Periodicals subclass as a whole is 108.6 percent, despite the above-average rate increase of 10.4 percent proposed for the subclass (1.7 percentage points higher than the system average), and the effective cost coverage that would be borne by Regular-Rate mailers in the subclass (referred to in Exhibit USPS-28B) would be 109.3 percent, as indicated in the testimony of Postal Service witness Taufique, USPS-T-34, pp. 3-4.

RESPONSE:

- (a) The recommended markup on costs (PRC methodology) was 1 percent, for a cost coverage of 101.0 percent. This low markup resulted in a 4.6 percent increase for Periodicals, which was higher than the system average of about 3 percent. As noted by the Commission, “this coverage barely satisfies the requirement of 39 U.S.C. section 3622(b)(3).” [PRC Rec. Dec., R97-1, para. 5817-8.] Also, “it is markedly lower than the 116 percent coverage recommended by the Commission in Docket No. R94-1. [PRC Rec. Dec., R97-1, para. 5813.] Appendix G, page 32, shows that the markup from Docket No. R97-1 was well below the recommended markups in Dockets No. R90-1 (23 percent); R87-1 (25 percent); R84-1 (24 percent); and R80-1 (21 percent). Appendix G, Page 33, shows that the markup index from R97-1 of 0.017 was also well below

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the previous markup indices in Dockets No. R94-1 (0.286); R90-1 (0.465); R87-1 (0.510); R84-1 (0.462); and R80-1 (0.778).

(b) According to Appendix G, Schedule 1, of the Recommended Decision in Docket No. R2000-1, the cost coverage for Outside County was 100.1 percent. The recommended rate increase was 9.9 percent for Regular Rate Periodicals, and the systemwide recommended increase was 4.6 percent. The net increase after modification was 12.8 percent, and the systemwide average was 6.3 percent. The Commission noted that “[I]n general, the Commission believes that it is preferable for the class to make more than a nominal contribution to institutional costs; therefore, this coverage is not necessarily a benchmark for future cases.” [PRC Rec. Dec., R2000-1, para. 5710.]

(c) The cited figures are correct, given the USPS cost methodology. According to USPS-LR-J-89, using the PRC methodology, the cost coverage for Outside County would be 101.4 percent. This figure is more comparable to the markups in subsections (a-b), which are also based on PRC cost methodology.

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ABM-MH/USPS-T28-2

Please refer to your testimony at page 39, lines 16-21, and page 40, line 18, through page 41, line 7, to the effect that the cost coverage for Parcel Post, which was constrained in Docket R2000-1 in order to mitigate an above-average rate increase, should be held to very nearly the same level in this case (despite increasing system-wide coverage) because “[i]f the coverage were higher, either the already relatively large rate increase for [‘some mailers who do not, or cannot, avail themselves of the worksharing opportunities offered’] would have to be higher, or the cost-reducing price incentives offered for destination entry would have to be reduced.”

- (a) Please confirm that this analysis is likewise applicable to the cost coverage for Outside-County Periodicals in this case because unless it is held close to the coverage recommended for that subclass in R2000-1, rate increases as high as 14 percent or more will be imposed on many Outside-County Periodicals mailers, particularly mailers with relatively high editorial content, who do not or cannot avail themselves of the newly-proposed discounts for destination entry and palletization (unless those price incentives are reduced or eliminated). If you do not confirm, please explain fully.
- (b) Please confirm that this analysis is also applicable to Outside-County Periodicals for the further reasons that: (i) like some Parcel Post mailers, addressed in your testimony at page 39, lines 1 through 8, most Periodicals mailers presently have “no practical alternative” to using the Postal Service; and (ii) unlike other Parcel Post mailers, the rates for Periodicals mailers can be constrained without concern for the ability of competitors of the Postal Service to compete effectively, given the current dearth of any such competition for delivering Periodicals. If you do not confirm, please explain fully.

RESPONSE:

- (a) Not confirmed. The range of percentage changes is much wider in Parcel Post than in Periodicals. (In Parcel Post, some rate cells increase by approximately 30 percent, and some rate categories are proposed to decrease.) If the Parcel Post analysis were applied to Periodicals, a higher markup, or greater deaveraging, would apply to Periodicals.

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- (b) While the lack of alternatives may be a factor in both subclasses, as described in subsection (a), the application of the Parcel Post analysis to Periodicals could result in a higher markup, and much greater deaveraging.

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ABM-MH/USPS-T28-3

Please refer to your testimony at page 7, lines 10 through 17, that the Postal Service's approach to measuring volume-variable costs in this case "affects the measured volume-variable costs of the different mail classes to different degrees (when compared to the costs estimated by the method used by the Postal Rate Commission in Docket No. R2000-1)." If the Commission in this case were to recommend the rates proposed by the Postal Service for Outside-County Periodicals mail, but estimated volume-variable costs by the method used by the Commission in Docket No. R2000-1 (and otherwise accepted the cost data presented by the Postal Service in this case), please specify the cost coverage for Outside-County Periodicals that would result, and explain fully how your calculation can be verified.

RESPONSE:

The data are provided in USPS-LR-J-89. The cost coverage for Outside County would be 101.4 percent.

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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