

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 BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
REDIRECTED FROM WITNESS ROBINSON
(ABA&NAPM/USPS-T29-15, 19(b,c), 26(b,c) AND 34)

The United States Postal Service hereby provides the responses of witness Moeller (USPS-T-28) to the following interrogatories of American Bankers Association & National Association of Presort Mailers: ABA&NAPM/USPS-T29-15, 19(b,c), 26(b,c) and 34, filed on December 10, 2001.

These interrogatories have been redirected from witness Robinson to witness Moeller for response.

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

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ABA&NAPM/USPS-T29-15

- a. In your testimony on pages 4-5 you have reported that from 1991 to 2000 the FCM volume and revenue grew by an annual rate of 1.5% and 2.9%, respectively. Please confirm that the corresponding numbers for Standard mail are 3.7% and 5.4%.
- b. Please confirm that for FCM the ratio of revenue growth to volume growth is 1.93 (2.9%/1.5%) and for Standard Mail it is 1.45 (5.4%/3.7%).
- c. Please explain why FCM's contribution to USPS revenue growth relative to its volume should be 33% $[(1.93/1.45)\%]$ higher than Standard Mail's despite the fact that Standard Mail's volume has been growing more than twice as much as FCM's.
- d. Did you take into account this important fact in your rates design and cost coverages as a matter of "fairness" to FCM? If not, please explain why not. If yes, then explain how.
- e. Do you know of any other USPS witness(s) who might have considered this matter? If so, please identify them.

RESPONSE:

- a. Not confirmed. For the 9 year period from 1991 to 2000, the annual growth in volume and revenue for First-Class Mail was 1.5% and 3.2%, respectively. For Standard, it was 4.2% and 6.0%.
- b. The ratio for FCM is 2.13; for Standard it is 1.43.
- c. No "explanation" is available as to why the *ratio of ratios of percentage growth rates* (despite the fact that one of the growth rates is more than double the other, as if that is not accounted for in the growth rates themselves) have a particular

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RESPONSE to ABA&NAPM/USPS-T29-15 (continued):

relationship, much less an explanation of whether the relationships between this myriad of percentages and ratios is appropriate. Rather than attempt to untangle the meaning of the various measures in this interrogatory and their relationships (which could be affected by mail mix changes as well as rate changes, and other factors), one should recognize that the rates underlying these measures are the result of a number of rate and classification proceedings. Presumably, the rates recommended as a result of those proceedings met the pricing criteria specified in section 3622(b) of the Postal Reorganization Act. Incidentally, based on the figures provided in subpart b), the 33% figure referenced in this subpart is actually 49%.

- d. Although I would not characterize this particular figure as an “important fact,” I did consider the drivers of the figure (i.e., previous cost coverage recommendations, mail mix changes, historical percentage rate changes) in the context of the nine pricing criteria.
- e. No.

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ABA&NAPM/USPS-T29-19

. . .

- b. Please confirm that the Postal Service is proposing the following pass through values for Standard Mail, and if you do not confirm, please provide the correct pass through values as well as the unit cost savings and proposed discounts:

Mixed AADC	194%
AADC	169%
3-Digit	142%
5-Digit	139%

- c. Explain in detail and provide any studies or analyses conducted to justify the reasons the pass through values (proposed discounts relative to work-sharing related savings) for Standard Mail are substantially larger than those for First- Class Mail.

RESPONSE:

- b. Not confirmed.

	<u>Cost difference</u>	<u>passthrough</u>	<u>discount</u>
Mixed-AADC	5.6	87%	4.9
AADC	0.8	95%	0.7
3-digit	6.0	76%	4.5
5-digit	1.0	130%	1.3

Sources: USPS-T-32, page 29. USPS-LR-J-132, WP1, p. M. USPS-LR-J-60.

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RESPONSE to ABA&NAPM/USPS-T29-19 (continued):

- c. The passthroughs are not substantially larger for Standard Mail. The proposed passthroughs are explained in my testimony (USPS-T-32), and in witness Robinson's testimony (USPS-T-29).

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ABA&NAPM/USPS-T29-26 - In response to MMA/USPS-T29-5, you speak of “low relative First Class mail rate increases since the mid-1990s”.

- a. Is the rate increase for FCM in this rate increase, therefore, large, namely 3 cents compared to the 1 cent increase in R2000-1?
- b. Would you agree that relatively, Standard A mail rates have been kept even lower than FCM mail rates?
- c. If your answer to b. is in the affirmative, please explain why since the same mailer preparation activities apply to both classes.

RESPONSE:

- a. 3 cents is larger than 1 cent.
- b. Although it is not clear what is meant by “kept even lower than FCM mail rates,” the percentage increases have been higher for Standard A than for FCM.
- c. N/A.

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ABA&NAPM/USPS-T29-34 - Please refer to the response to OCA/USPS-80. In this response, you make clear that priority mail is given preference over FCM in delivery standards, a value of service issue, namely 2 versus 3 day delivery service standards for three-digit ZIP code pairs. However, whenever the debate arises over FCM rates and cost coverages compared to Standard A mail rates and cost coverages, the Postal Service always argues that FCM is given top priority. Since this is clearly not the case, how can you maintain within the appropriate 3622.b. criteria the discrepancy between FCM and Standard A rates?

RESPONSE:

The context of the question appears to refer to the relationship between First-Class Mail and Priority Mail service, as does the referenced interrogatory, OCA/USPS-80. No mention is made of the relationship, in terms of service, between First-Class Mail and Standard A. The relationship between First-Class Mail and Priority has no bearing on the alleged “discrepancy between FCM and Standard A rates.”

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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