

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

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS MOELLER TO INTERROGATORIES OF  
THE DIRECT MARKETING ASSOCIATION, INC.  
(DMA/USPS-T36-2-8)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of the Direct Marketing Association, Inc.: DMA/USPS-T36-2-8, filed on September 2, 1997.

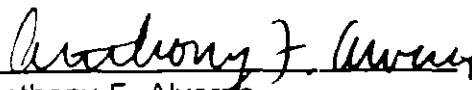
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
Anthony F. Alverno

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September 16, 1997

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DMA/USPS-T36-2. Please refer to LR-H-108, page 6, Table 1, and confirm that in GFY 1996:

- a. There were 938.9 million nonletter, nonflat Standard (A) commercial pieces.
- b. There were 26.5 billion flat Standard (A) commercial pieces.
- c. A ten cent residual shape surcharge for the Standard (A) commercial subclasses would have raised approximately \$93.9 million in revenues if the surcharge did not affect nonletter, nonflat volume.
- d. If the increase in revenue from the residual shape surcharge were used to reduce the Standard (A) commercial flat rates, the average rate per piece for Standard (A) commercial flats in GFY 1996 could have been lowered by .35 cents while keeping revenue constant.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Revenue of \$93.9 million gained from a hypothetical surcharge, assuming the volume mix in subparts (a) and (b), equates to 0.35 cent per flat.

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DMA/USPS-T36-3. Please assume that there is a nonletter, nonflat piece that has cost-causing characteristics similar to a flat and that this piece is subject to the ten cent residual shape surcharge.

- a. Do you think that this would be fair and equitable as contemplated in 39 U.S.C. § 3622(b)? Please explain fully.
- b. Do you think that applying the ten cent surcharge to this piece of mail would properly take into account the cost of service of this piece of mail? Please explain fully.

RESPONSE:

- a. First of all, a piece with cost-causing characteristics similar to a flat will likely meet the definition of a flat, so I am not sure the assumption here is particularly realistic. In any event, I believe the proposed surcharge meets the criteria of 39 U.S.C. § 3622(b). There is a certain degree of averaging within most, if not all, rate categories. Some pieces claiming a discount may not actually result in the precise cost reductions underlying the discount (the reductions may be higher or lower than the savings underlying the discount), and some surcharged pieces may not result in the precise additional costs underlying the surcharge. This averaging is the result of balancing the recognition of cost-causing characteristics with the objective of maintaining simplicity of structure. In this proceeding, the Postal Service has proposed a low passthrough of the cost differential underlying the residual shape surcharge. Among other factors, this measure should assuage the concerns of those who contend that there are pieces subject to the surcharge that have cost-causing characteristics similar to a flat.

The proposed surcharge (even under the assumption included in this question) is more compatible with fairness and equity than is the alternative, which is the

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absence of any surcharge whatsoever and the continuation of a situation where the typical Standard Mail (A) letter or flat is burdened with the higher costs of the residual shape pieces.

- b. On the whole, the application of the surcharge is reasonable. As described in subpart a, there is some degree of rate averaging involved with most rate categories. The residual shape surcharge balances the goal of recognizing cost differences while not unduly complicating the rate structure. Any line that is drawn to distinguish between two rate categories may well result in subsets of pieces falling on either side of the line that are very similar in cost.

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DMA/USPS-T36-4. Please explain fully why the Postal Service chose not to propose a four cent discount for prebarcoded Standard (A) machinable parcels as it did for prebarcoded Standard (B) machinable parcels.

RESPONSE:

Please see my response to DMA/USPS-T4-23(b), which was redirected from witness Moden.

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DMA/USPS-T36-5. Please refer to pages 3 through 6 of your direct testimony in which you propose the elimination of the Standard (A) single-piece subclass. Please explain why costs for this subclass are such that increasing rates to cover its costs would result in rates that would exceed First class mail rates and would result in "illogical rate relationships." Please explain whether this anomaly reflects a fundamental problem with the Postal Service's cost attribution systems (e.g., IOCS)?

RESPONSE:

The rate relationship that would result between Standard Mail (A) Single Piece and First-Class Mail if the former were not eliminated as a subclass does not reflect a fundamental problem with the Postal Service's cost systems. Please see my response to UPS/USPS-T34-1, which was redirected from witness Taufique.

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DMA/USPS-T36-6. Please refer to page 10 of your direct testimony. Was the need to "temper the increase on any one rate category" considered with the decision to impose a ten cent residual shape surcharge? Please explain fully.

RESPONSE:

Yes. On page 13, line 15, of my testimony, I state that the low passthrough for the surcharge helps mitigate the impact of the effective rate change for residual shape mail.

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DMA/USPS-T36-7 Please define machinable and nonmachinable letters, flats and parcels in terms of minimum and maximum dimensions and weight.

RESPONSE:

There are a number of provisions in the Domestic Mail Manual that define shape and automation compatibility:

**Letters -**

Mail dimensions, general - DMM C050.2.0 and C050 Exhibit 2.0.

Automation-Compatible Letter-Size Pieces -

Dimensions - DMM C810.2.1

Aspect Ratio - DMM C810.2.2

Maximum Weight - DMM C810.2.3

**Flats -**

Mail dimensions, general - DMM C050.3.0 and C050 Exhibit 2.0.

Automation-Compatible Flats -

Dimensions - DMM C820.2.3

Maximum Weight - DMM C820.2.4

**Machinable Parcels -**

Mail dimensions and weight - DMM C050.4.0 and C050 Exhibit 2.0.

**Irregular Parcels -**

DMM C050.5.0

**Outside Parcels -**

DMM C050.6.0



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DMA/USPS-T36-8. Please refer to page 16, lines 7-8, and page 27, lines 1-2, [of] your direct testimony. Please explain fully how the proposed breakpoint weight was calculated for both Standard (A) Commercial Regular and Enhanced Carrier Route subclasses

RESPONSE

The breakpoint weight which was an input into the rate design formula was not "calculated." It was selected. See my response to NAA/USPS-T36-7. I would note that the 3.3 ounce breakpoint is an input to the formula. The actual breakpoint is then calculated using the rates which are derived from the formula so as to result in a smooth transition from minimum-per-piece rates to the rates for pound-rated mail. This calculation is performed on line 21 of pages 16 and 19 in my workpaper entitled WP1. The result of this calculation is 3.2985 for Regular and 3.2906 for ECR.

# DECLARATION

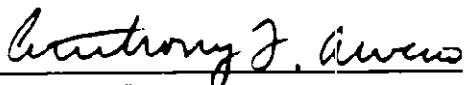
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
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JOSEPH D. MOELLER

Dated: September 16, 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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