BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-000

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

| POSTAL RATE AND FEE CHANGES, 1997 | Docket No. R97-1 |

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MOELLER TO INTERROGATORY OF
THE MAJOR MAILERS ASSOCIATION
(MMA/USPS-T36—12)

The United States Postal Service hereby provides the response of witness

Moeller to the following interrogatory of the Major Mailers Association: MMA/USPS–
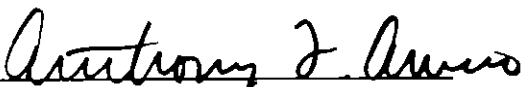
T36—12, filed on September 16, 1997.

The 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

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September 30, 1997

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORY OF THE MAJOR MAILERS ASSOCIATION

MMA/USPS-T36-12. Please refer to your workpapers, WP1, pages 24, 25, and 27.

a. Please explain how a migration of 3.242 billion letters from Standard Mail A
    ECR to Standard Mail A Regular, each costing 7.5725 cents prior to
    migration and costing 7.5888 cents after migration (which is virtually the
    same), results in a volume variable cost reduction of $223.806 million (prior
    to contingency) for Standard Mail A Regular and another reduction of
    $32.099 million (prior to contingency) for Standard Mail A ECR. In other
    words, how does a transfer of volume from one subclass to another, when
    the cost to process those same pieces remains unchanged, result in cost
    savings?
b. Please explain how your adjustments to TYAR Standard Mail A Regular
    revenues to account for the volume mix result in an increase in revenue of
    $319.834 million [37,627.555 x (.2178 - .2093)] and no volume adjustment.
c. Please explain why the additional revenues figure resulting in a unit revenue
    of .2178 for Standard Mail A Regular, as shown on your WP1, page 27, is
    not the same as the .2132 figure provided by USPS witness O'Hara, as
    shown in his workpapers, USPS-T-30, W/P II, page 2 (revised).

RESPONSE:

a. The figures cited ($223.806 million and $32.099 million) are not "savings"

    due to migration; rather, as described on page 47 of my testimony, the

    figures are the amount by which the volume variable costs must be adjusted.

    For example, the Regular volume variable costs which are presented in

    column (2) on page 25 of WP1 were calculated with the assumption that the

    cost of the migrating pieces is similar to the *average* unit cost of a Regular

    subclass piece. Since the cost of a 5-digit automation piece is much lower

    than the average cost of a Regular piece, the total Regular costs (in column

    (2) of page 25 of WP1) are too high. The necessary adjustment is

    calculated on page 24 of WP1.

b. There is no "adjustment" of revenues. The per-piece revenue figure of
$0.2178 which is cited in this question was calculated for illustrative
purposes only. The volumes underlying this figure are the before-rates
volumes. By providing this figure ($0.2178), a more accurate estimate of
percentage change in revenue per piece can be calculated. Please see my
testimony at page 2, line 9, through page 3, line 4.

c. The figure provided by witness O'Hara is from page 22 of my workpapers
(WP1). It is the TYAR actual revenue per piece for the Regular subclass, as
opposed to the figure $0.2178, which, as described in response to subpart b,
is the revenue per piece assuming the before-rates volume mix.

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

Dated: September 30, 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 J. Averno

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