

DOCKET SECTION

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

RECEIVED
OCT 1 5 04 PM '97
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 INTERROGATORIES OF
THE NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T36-41-46 AND 48-55)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of the Newspaper Association of America: NAA/USPS-T36-41-46 and 48-55, filed on September 17, 1997. Interrogatory NAA/USPS-T36-47 was redirected to the Postal Service.

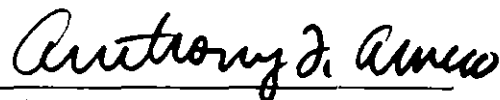
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Anthony F. Alverno

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2997; Fax -5402
October 1, 1997

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-41. Please refer to your direct testimony at page 25.

- a. You state that the new cost study presented in USPS LR-H-182 indicates that weight plays a "very small role" in ECR costs. Does this cost study provide the only data used to determine the appropriate pound rate for ECR mail? If no, please provide all other data or analyses that you used when determining the appropriate pound rate for ECR mail.
- b. In your opinion, do the cost data in USPS LR-H-182 provide an adequate basis for determining the appropriate pound rate for ECR mail? Please explain why or why not. If not, please explain what additional data or information are necessary or desirable when determining the pound rate for ECR mail.
- c. Did you perform any independent analysis to determine whether the cost data presented in LR-H-182 appeared reasonable? If so, please provide copies of all analyses performed. If not, please explain why not.

RESPONSE:

- a. The selection of the pound rate is based on a number of factors, as described at pages 24 through 26 of my testimony.
- b. The study provides an adequate basis, when combined with the other factors described at pages 24 through 26 of my testimony, to determine that the current pound rate is much too high.
- c. I reviewed the results, but did not perform any independent analysis of the data, and am satisfied that the study provides reliable information for the purposes for which it is used.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-42. Please refer to the response of the Postal Service to NAA/USPS-T36-25. Please confirm that one ounce flats are dropshipped less often, are presorted more finely, and are less automated than three ounce flats. If you cannot confirm this statement, please explain why.

RESPONSE:

Confirmed, except for presortation; it is my understanding that one ounce flats are less finely presorted than three ounce flats.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-43. Please refer to the response of the Postal Service to NAA/USPS-T36-21.

- a. Please confirm that the level of dropshipping varies by weight increment. If you cannot confirm this statement, please explain why not.
- b. Please confirm that the new cost study presented in USPS LR-H-182 did not adjust the costs for the different levels of dropshipping by weight increment. If you cannot confirm this statement, please explain what adjustment was made to remove the different levels of dropshipping by weight increment.
- c. When determining the appropriate pound rate for ECR mail, did you adjust the costs provided in USPS LR-H-182 for the different levels of dropshipping by weight increment? If so, please provide the cost data after this adjustment. If no, please explain why you did not adjust the data to remove this effect.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. I did not adjust the costs. It is my understanding that such adjustments are presented in the response to ADVO/USPS-28.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-44. Please refer to the response of the Postal Service to NAA/USPS-T36-27(d).

- a. Please confirm that the proportion of lower-cost high density and saturation mail increases from 25 percent at one ounce to 53 percent at three ounces.
- b. Please refer to the response of the Postal Service to NAA/USPS-T36-27(g). Please confirm that the costs for ECR flats within the different weight increments, as presented in USPS LR-H-182, were not adjusted for differences in density (basic, high density and saturation). If you cannot confirm this statement, please explain what adjustment was made to remove the density differences by weight increment.
- c. When determining the appropriate pound rate for ECR mail, did you adjust the costs presented in USPS LR-H-182 to remove the effect of the varying densities of mail within the different weight increments? If yes, please provide the adjusted cost data. If no, please explain why not.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. No. I would note that the comparison between one and three ounce pieces raised in this interrogatory has no relevance to the pound rate since pieces of this weight are below the breakpoint weight. It is my understanding that the adjustments described in this interrogatory are presented in the response to ADVO/USPS-28.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-45. Please refer to the Postal Service response to NAA/USPS-T36-25.

- a. Please confirm that one-ounce flats are less likely to be automated than three-ounce flats. If you cannot confirm this statement, please explain why.
- b. Please confirm that the cost study LR-H-182 does not adjust the cost data to account for the differences in the percentages of automated flats by weight increment. If you cannot confirm this statement, please indicate where this adjustment is made.
- c. When determining the appropriate pound rate for ECR mail, did you adjust the costs presented in USPS LR-H-182 to remove the effects of differences in the percentages of automated flats by weight increment? If yes, please provide the adjusted cost data. If no, please explain why not.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. No. The percentage of automation flats in the Regular subclass has no bearing on the ECR pound rate. There are no automation-rated flats in the ECR subclass.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-46. Please refer to the Postal Service's response to
NAA/USPS-T36-17.

- a. Please confirm that the cost study presented in LR-H-182 assumed that city carrier street costs do not vary with weight. If you cannot confirm this statement, please provide your understanding of how city carrier street costs are distributed to weight increment in this study.
- b. Please confirm that weight has an effect on city carrier street costs. If you cannot confirm this statement, please explain why.
- c. Please confirm that the cost study presented in LR-H-182 assumed that city carrier street costs do not vary with shape. If you cannot confirm this statement, please provide your understanding of how city carrier street costs are distributed to weight increment in this study.
- d. Please confirm that shape has an effect on city carrier street costs. If you cannot confirm this statement, please explain why.
- e. When determining the appropriate pound rate for ECR mail, did you make any attempt to consider the effects of weight on city carrier street costs? If yes, please explain how. If no, please explain why not.

RESPONSE:

- a. Confirmed.
- b. Confirmed; see response to NAA/USPS-T36-17 subparts a and b, and
AAPS/USPS-T36-8.
- c. Not confirmed; see response to NAA/USPS-T36-17d.
- d. Confirmed.
- e. Yes. In my testimony at page 25, line 21 through page 26, line 2, I state that even if some of the costs that were distributed on a per-piece basis were instead distributed on a weight basis, it would be difficult to imagine a curve that would support a steep pound rate.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-47. Please refer to the Postal Service response to NAA/USPST36-27(e). Please provide all data and analyses which quantify the likelihood of error in the process of recording the weight when the IOCS tally is recorded.

RESPONSE:

Redirected to the Postal Service for response.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-48. When determining the appropriate pound rate for ECR mail, did you consider the appropriate contribution to institutional costs of heavier weight versus lighter weight mail? If no, please explain why not. If yes, please explain what effect this consideration had on the selection of the pound rate.

RESPONSE:

The rate design does not consider cost coverages within the subclass. The pound rate was selected as described in my testimony at pages 24 through 26.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-49. When determining the appropriate pound rate for ECR mail, did you consider the relationship between the rates for First-Class letter mail of different weights and the rates for Standard A Mail? If no, please explain why not. If yes, please explain what effect this consideration had on the selection of the pound rate.

RESPONSE:

No. I was primarily concerned with the rates for Standard Mail (A). My concern with rates for other subclasses was generally limited to the avoidance of rate anomalies.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-50. Does the Postal Service plan to further reduce the pound rate for ECR mail in subsequent rate proceedings? Please describe any plans with respect the [sic] amount of the reduction in the pound rate and any limits on this reduction. .

RESPONSE:

No decisions have been made in this regard, and I know of no plans regarding the level of the pound rate in future proposals.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-51. Please refer to your direct testimony at pages 27-28.

- a. Please explain why you propose to reduce the pound rate for ECR mail while at the same time you propose to pass through very little of the letter/flat cost differences in the ECR rates.
- b. Does the lower proposed pound rate, together with the low passthroughs of shape-based cost differences serve to increase the rates for ECR letter mail while decreasing the rates for ECR flat mail, all other things being equal? If your answer is other than an unqualified "yes," please explain. Please explain why such a result is fair and reasonable to ECR letter mailers.

RESPONSE:

- a. The reasons for the proposed pound rate reduction are described at page 24 through 26 of my testimony. The proposed passthroughs for shape in ECR are described on pages 27 and 28. This question, however, appears to suggest that I have proposed a small rate differential between letters and nonletters in the ECR subclass. In fact, the proposed passthroughs for shape result in a *doubling* of the differential at the High-Density tier, and a 75 percent increase in the differential at the Saturation tier. I would also note that this departs significantly from the Postal Service's proposal in Docket No. MC95-1, when the Postal Service proposed no shape differential within ECR.
- b. All else equal, if one were to enter a higher pound rate, and greater letter/nonletter passthroughs, the rates for letters produced by the rate design formula contained in USPS LR-H-202 (WP1) would be lower than the proposed letter rates, and the rates produced for flats would be higher than the proposed rates. The rate design as proposed, however, is fair and

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

reasonable. The proposed rate increases for piece-rated High-Density and Saturation letters are the lowest rate increases (one-tenth of one-cent, given the one-tenth cent rounding constraint) possible.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-52.

- a. What is the average weight per piece for letter-shaped mail within the Standard ECR subclass?
- b. What is the average weight per piece for non-letter-shaped mail below the breakpoint within the Standard ECR subclass?
- c. What is the average weight per piece for letter-shaped mail within the Standard Regular subclass?
- d. What is the average weight per piece for non-letter-shaped mail below the breakpoint within the Standard Regular subclass?

RESPONSE:

The following figures are from the GFY 96 billing determinants:

- a. 1.02 ounces.
- b. 2.01 ounces.
- c. 0.97 ounces.
- d. 2.11 ounces.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-53. In Docket No. MC95-1, you testified that the Enhanced Carrier Route subclass was "basically designed for flats." Docket No. MC95-1, USPST-18 at 13. Is the Enhanced Carrier Route subclass still designed primarily for flat-shaped mail?

RESPONSE:

The Commission recommended and the Governors approved an ECR subclass with separate letter rates; therefore, since its initial implementation, the ECR subclass has not been designed primarily for flats.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-54. In Docket No. MC95-1, in response to interrogatory NAA/USPS-T18-26 (to you) in that proceeding, you stated (in part), that one goal in rate design was "to encourage letters with the density for carrier route presort to choose the Automation subclass and be sequenced on automation." Is that still a goal of the rate design for ECR mail today?

RESPONSE:

In that response, I am referring to the Basic ECR rate. As described in my testimony in this docket at page 28, lines 5 through 13, the Postal Service is proposing rates that encourage letter mailings with the density for ECR basic to be entered instead as ECR Basic Automation or Regular Automation 5-digit.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T36-55. In Docket No. MC95-1, the Commission did not adopt your proposed pound rate for ECR mail, preferring its "R90-1 approach" as "more appropriate, because the resulting piece charge for pound rate mail reflects the presort cost differential for flats, and thus is cost based." *Docket No. MC95-1 Recommended Decision* at para. 5642. Does the piece charge for pound rate mail under your proposal reflect the cost differential for flats?

RESPONSE:

Yes. There are several piece rates for pound-rated ECR mail: 5.5 cents for Basic, 4.4 cents for High-Density, and 3.2 cents for Saturation. The differences between these piece rates reflect the same differentials for flats that are proposed for minimum-per-piece flats.

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: October 1, 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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 1, 1997