

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

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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 INTERROGATORIES OF
THE NATIONAL FEDERATION OF NONPROFITS
(NFN/USPS-T36-1-3)

The United States Postal Service hereby provides responses of witness Moeller to the following interrogatories of the National Federation of Nonprofits: NFN/USPS-T36-1-3, filed on September 17, 1997.

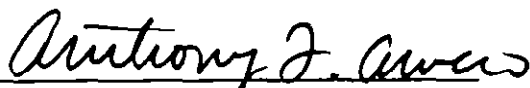
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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October 1, 1997

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO
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NFN/USPS-T36-1. Explain fully the asymmetric change attributable costs for nonprofit other rate categories—mail that the PRC has called the less expensive class US Postal Rate Commission Report on the Congress: Preferred Rate Study (1986, p.14) and see also USPS, Cost and Revenue Analysis, FY-96, p.12. and the comparable commercial rate categories between 1992 and 1996.

RESPONSE:

Explanation of relative costs over time are beyond the scope of my testimony. I do note, however, that TYBR per-piece cost for the Nonprofit subclass is still significantly lower (by 25 percent) than the TYBR cost for the comparable commercial subclass, Regular. See USPS-T-36, WP1, page 8, and WP2, page 8. The relative cost changes between commercial mail and nonprofit mail contribute to the disparity in the proposed percentage increases for these two groupings in this docket, with nonprofit mail receiving the greater increase. Pursuant to Docket No. R94-1, however, third-class nonprofit mail received an increase of only 3.9 percent, while third-class bulk rate regular received an increase of 14.0 percent. See page iii of PRC Opinion and Recommended Decision, Docket No. R94-1.

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NFN/USPS-T36-2.

- a. Please confirm that you used billing determinants from Quarter II 1997 as the basis for your rate design.
- b. Why did you use one quarter instead of a year in view of the fact that the Base Year for this rate case is FY1996 for volume forecasting and cost analysis purposes in the testimonies of Tolley, T-6; Musgrave, T-8; Thress, T-7; and Alexandrovich, T-5?
- c. Please explain why you selected that particular quarter.

RESPONSE:

- a. I used billing determinants from Quarter II of 1997 as a basis for the distribution of forecasted volumes to various rate categories.
- b-c. In order for test year volumes by rate category to reflect the mail mixes that occurred after implementation of nonprofit classification reform, it was necessary for me to use the most recent and complete post-classification reform billing determinants available to distribute the volume to rate category. Quarter II of FY97 was the only full quarter of post-classification reform data for the nonprofit subclasses. See also my response to Question 19 of Presiding Officer's Information Request No. 3.

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NFN/USPS-T36-3. Explain fully the simultaneous asymmetric increase and decrease for mail with very similar preferentiality, size, and weight characteristics, that is an increase of 20 percent for nonprofit from the current Step 6 to proposed Step 6 in contrast to a 4 percent decrease for the comparable commercial rate over the same period.

RESPONSE:

It appears as though this question is referring to the proposed rate increases for Regular and Nonprofit Basic Presort letters. There are a number of factors (e.g., underlying volume variable costs for the two subclasses, passthrough decisions, guidelines on maximum percentage rate increases, etc.) which result in these particular rate changes for these particular categories. One can review the rate design workpapers underlying my testimony to determine the derivation of these rates. I would note, however, that despite the relative percentage changes, the rate for Regular Basic Presort letters is 50 percent higher than the rate for Nonprofit Basic Presort letters. This question appears to rest on the premise that these pieces should have similar costs since they have "very similar preferentiality, size, and weight characteristics." If so, then the rate difference between Regular and Nonprofit should be primarily due to the difference in the proposed markups for these two subclasses. If, for example, the piece in question had a volume variable cost of 14 cents, and the commercial markup was 50 percent (and the markup for nonprofit was 25 percent pursuant to the Revenue Forgone Reform Act), then the rates might be 21 cents for the commercial piece, and 17.5 cents for the nonprofit piece in Step 6 under RFRA (assuming that the overall cost coverage for the subclasses applied to these

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particular categories). The commercial rate would be only 20 percent higher than the nonprofit rate, as opposed to the 50 percent higher rates alluded to in this question (24.7 cents for Regular Presort Basic letters, and 16.5 cents for Nonprofit Presort Basic letters).

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.


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