

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 ADVERTISING MAIL MARKETING ASSOCIATION
(AMMA/USPS-T36-1-3)

The United States Postal Service hereby provides the responses of witness Moeller to the following interrogatories of the Advertising Mail Marketing Association: AMMA/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:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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October 1, 1997

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AMMA/USPS-T-36-1. You testify that the rates proposed will lead to "an expected migration of 3.3 billion letters from the Basic ECR Letter Rate to 5-digit automation." USPS-T-36 at 28, lines 12-13. The volume forecasts in your workpapers (USPS-T-36 WP-1, p. 3) show the following two major changes:

	<u>(Thousands of Pieces)</u>		
	<u>Standard(A) Rate Category</u>	<u>Before Rate GFY 98</u>	<u>Test Year After Rate</u>
	(1)	(2)	(3)
1. Regular Automated 5-Digit Letters		3,016,552	6,358,646
2. ECR Basic Letters		6,781,043	3,173,765

- a. Please confirm that the above is the volume forecast associated with the migration projected in your testimony.
- b. Please provide the value of the cross-elasticity for this migration.
- c. Please provide the source of the value of the cross-elasticity provided in your response to part (b).
- d. What evidence do you have that it is possible for over three billion pieces (approximately 50 percent) of the existing ECR Basic Letter mail to qualify for Regular Automated 5-Digit Letter mail?
- e. Please provide citation(s) to (or copies of) the evidence to which you refer in your response to part (d).
- f. If the answer to part (d) is that there is no such evidence, why do you believe that such a large migration is possible?

RESPONSE:

- a. The migration figure comes from the same forecast as the numbers in the table presented in this interrogatory. The projection is part of the volume forecast and is not "projected" in my testimony.
- b. Please see response of witness Thress to NAA/USPS-T7-8. It is my understanding that although a cross-price elasticity can be calculated, the migration is actually the effect of the rate relationship between these two

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categories, not the level of the prices.

- c. Please see response of witness Thress to NAA/USPS-T7-8(k).
- d-e. Please see witness Thress' testimony (USPS-T-7) at page 224-226.
- f. Not applicable.

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AMMA/USPS-T-36-2. Please confirm that the forecasts for After Rate volumes of Standard (A) parcels assume no change in the volumes of that mail in consequence of the proposed 10 cent per parcel surcharge.

- a. If you confirm, please cite evidence or explain your reasons for this assumption.
- b. If you cannot confirm, please cite where the change in forecast appears.

RESPONSE:

a-b. The volume forecast for Standard Mail (A) nonletters incorporates the surcharge.

The volume of pieces subject to the surcharge is estimated in my workpapers,

WP1 page 13.

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AMMA/USPS-T-36-3. Please refer to USPS-T-36 WP1 page 3 (WP1 p 3") and page 13 ("WP1 p 13"), and LR-H-129 page II-8 ("H-129 II-8")

- a. Please confirm that the volume of Standard (A) Regular "Non-Car Rt." mail as shown on line 1 of H-129 II-8 is 34,359 million pieces and, except for rounding, is equal to the number of pieces of "Regular Subclass" mail for the "Before Rates GFY98" shown in WP1, p 3.
- b. Please confirm that the number of parcels for "Non-Carrier Route" mail shown in line 12 of H-129 II-8 is 990.792 million and is different from the number of parcels shown in WP1-13 as "Expected Residual Volume" of the "Regular Subclass" (Before Rates), namely, 1,058.234 million.
- c. If you cannot confirm either part a or part b, please explain.
- d. If you can confirm part b, please reconcile the difference or explain why the difference should remain.
- e. Please confirm the volume of Standard (A) Regular "Carrier RT." mail shown on line 2 of H-129 II-8 is 32,424 million pieces and, except for rounding, is equal to the number of pieces of "ECR Subclass" mail for the "Before Rates GFY98" shown in WP1, p 3.
- f. Please confirm that the number of parcels for "Carrier Route" mail shown in line 15 of H-129 II-8 is 77.185 million and is different from the number of parcels shown in WP1-13 as "Expected residual volume" of the "Enhanced Carrier Route Subclass" (Before Rates), namely, 84.126 million.
- g. If you cannot confirm either part e or part f, please explain.
- h. If you can confirm part f, please reconcile the difference or explain why the difference should remain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not applicable.
- d. These two figures were calculated for different purposes. The 1,058.234 million figure is calculated in my workpapers. For rate design purposes, I needed to estimate expected revenue from the residual shape surcharge. The rate design formula which calculates the basic rates for the subclass has, as an input, a reduction in the revenue required from the basic rates. This reduction in the

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revenue requirement is the expected revenue from the residual shape surcharge.

This additional revenue suppresses the basic rates produced by the formula. A lower estimate of this revenue could possibly lead to a higher basic rate as calculated by the formula, but the alternative figure presented in USPS LR-H-129 does not appear to cause such an increase in rates. It is my understanding that the two figures presented in subpart b are derived from the same data regarding shape mix; however, the estimate from my workpapers is derived by applying the mix data to the forecasted volume for nonletters, whereas the figure from USPS LR-H-129 is derived by applying the mix data to the total volume for the subclass. Neither of these estimates are inappropriate for the purposes for which they are used.

e. Confirmed.

f. Confirmed.

g. Not applicable.

h. These two figures were calculated for different purposes. The 84.126 million figure is calculated in my workpapers. For rate design purposes, I needed to estimate expected revenue from the residual shape surcharge. The rate design formula which calculates the basic rates for the subclass has, as an input, a reduction in the revenue required from the basic rates. This reduction in the revenue requirement is the expected revenue from the residual shape surcharge. This additional revenue suppresses the basic rates produced by the formula. A lower estimate of this revenue could possibly lead to a higher basic rate as

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calculated by the formula, but the alternative figure presented in USPS LR-H-129 does not appear to cause such an increase in rates. It is my understanding that the two figures presented in subpart f are derived from the same data regarding shape mix; however, the estimate from my workpapers is derived by applying the mix data to the forecasted volume for nonletters, whereas the figure from USPS LR-H-129 is derived by applying the mix data to the total volume for the subclass. Neither of these estimates are inappropriate for the purposes for which they are used.

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.

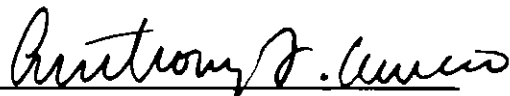


JOSEPH D. MOELLER

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

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