

# Official Transcript of Proceedings

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*Before the*

## UNITED STATES POSTAL RATE COMMISSION

In the Matter of: **POSTAL RATE AND FEE CHANGES**

Docket No. **R97-1**

**VOLUME 6**

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POSTAL RATE COMMISSION  
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DATE: **Friday, October 10, 1997**

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**Washington, D.C. 20005**

**(202) 842-0034**

1                               BEFORE THE  
2                               POSTAL RATE COMMISSION

3 - - - - - X

4 In the Matter of: :  
5 POSTAL RATE AND FEE CHANGES : Docket No. R97-1  
6 - - - - - X

8 Third Floor Hearing Room  
9 Postal Rate Commission  
10 1333 H Street, N.W.  
11 Washington, D.C. 20268

13 Volume 6

14 Friday, October 10, 1997

16           The above-entitled matter came on for hearing,  
17   pursuant to notice, at 9:33 a.m.

19       BEFORE:

20 HON. EDWARD J. GLEIMAN, CHAIRMAN  
21 HON. GEORGE W. HALEY, VICE CHAIRMAN  
22 HON. W. H. "TREY" LeBLANC, III, COMMISSIONER  
23 HON. GEORGE A. OMAS, COMMISSIONER  
24 HON. H. EDWARD QUICK, JR., COMMISSIONER

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## P R O C E E D I N G S

[9:33 a.m.]

CHAIRMAN GLEIMAN: Good morning.

Today's hearings to receive evidence in docket R97-1 continue. Today we will hear from Postal Service witnesses Hume and Moeller.

As I mentioned yesterday, I intend to recess today's hearing at 4:30 so that those who have a religious holiday that starts this evening will have an opportunity to get home in a timely manner.

On the table in front of the room are copies of ruling number 42 which was issued early this morning.

It schedules the appearance of Postal Service witnesses presenting supplemental testimony and sets dates for perfecting written objections to the receipt of testimony sponsoring library references into evidence.

It also directs the Postal Service to provide by October 14th a current list of all those library references it intends to move into evidence.

The Newspaper Association of America's motion to strike portions of the testimony of Postal Service witness Moeller filed on September 26th is still pending. NAA contends that witness Moeller relies on a library reference not sponsored by any Postal Service witness.

NAA filed its motion to protect its -- its right

1 to obtain relief but recognized in its motion that Presiding  
2 Officer's Rule No. 20 ruled against a similar motion filed  
3 by Nashua-District-Mystic-Seattle.

4 Consistent with that ruling, I am denying the NAA  
5 motion to strike without prejudice to subsequent requests to  
6 obtain procedural relief.

7 The Postal Service has now provided as  
8 supplemental testimony a sponsor for the library reference  
9 on which witness Moeller relied. If NAA wishes procedural  
10 relief, it is to file a new motion by October the 16th.

11 Mr. Reporter, please index this ruling in the  
12 front of today's transcript.

13 [Presiding Officer's Ruling to Deny  
14 the Motion to Strike Portions of  
15 the Testimony of Witness Moeller  
16 filed on September 26, 1997 by the  
17 Newspaper Association of America.]

18 CHAIRMAN GLEIMAN: Does any party have a  
19 procedural matter to raise before we begin? I'm almost  
20 afraid to ask that question anymore.

21 [No response.]

22 CHAIRMAN GLEIMAN: It doesn't -- it doesn't appear  
23 that there are any procedural matters.

24 So, Mr. Cooper, would you identify your witness so  
25 that I can swear him in?

1           MR. COOPER: Yes. I'm Richard Cooper for the  
2       Postal Service, and the Postal Service calls Peter Hume to  
3       the stand.

4           CHAIRMAN GLEIMAN: Mr. Hume, before you sit down,  
5       I'll keep you from having to bounce up and down there.  
6       Whereupon,

7                               PETER HUME,  
8       a witness, was called for examination by counsel for the  
9       United States Postal Service and, having been first duly  
10      sworn, was examined and testified as follows:

11           CHAIRMAN GLEIMAN: Thank you.

12           Please be seated.

13                               DIRECT EXAMINATION

14           BY MR. COOPER:

15           Q     Mr. Hume, I'm handing you two copies of a document  
16       entitled "Direct Testimony of Peter Hume on Behalf of the  
17       United States Postal Service," which is designated  
18       USPS-T-18. Are you familiar with this document?

19           A     I am.

20           Q     Was it prepared by you or under your direct  
21       supervision?

22           A     It was.

23           Q     If you were to giving testimony orally today, is  
24       this the testimony that you would give?

25           A     It is.

1 I have one typographical correction. On page 14,  
2 at line 23, there is a missing right parenthesis. It says,  
3 copied herewith as my work paper five. There should be a  
4 close parenthesis before the period.

5 It is not a substantial change, of course.

6 BY MR. COOPER:

7 Q With that change, is this the testimony that you  
8 would give?

9 A It is.

10 MR. COOPER: I have made the corresponding changes  
11 on the copies that I will hand to the reporter, and I ask  
12 that this testimony be admitted into evidence?

13 CHAIRMAN GLEIMAN: Are there any objections?

14 [No response.]

15 CHAIRMAN GLEIMAN: Hearing none, Mr. Hume's  
16 testimony and exhibits are received into evidence, and I  
17 direct that they be accepted into evidence. As is our  
18 practice, they will not be transcribed into the record.

19 [Direct Testimony and Exhibits of  
20 Peter Hume, Exhibit No. USPS-T-18  
21 were marked for identification and  
22 received into evidence.]

23 CHAIRMAN GLEIMAN: Mr. Hume, have you had an  
24 opportunity to examine the packet of designated written  
25 cross examination that was made available to you earlier

1 today?

2 THE WITNESS: I have.

3 CHAIRMAN GLEIMAN: If these questions were asked  
4 of you today, would your answers be the same as those you  
5 previously provided in writing?

6 THE WITNESS: They would.

7 CHAIRMAN GLEIMAN: That being the case, I'm going  
8 to provide two copies of the designated written cross  
9 examination of witness Hume to the reporter, and I direct  
10 that they be accepted into evidence and transcribed into the  
11 record at this point.

12 [Designation of Written  
13 Cross-Examination of Peter Hume was  
14 received into evidence and  
15 transcribed into the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS PETER HUME  
(USPS-T-18)

The parties listed below have designated answers to interrogatories directed to witness Hume as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
Direct Marketing Association, Inc.	DMA\USPS: Interrogatories T18-1-2.
Major Mailers Association's	MMA\USPS: Interrogatories T18-1-2.
Newspaper Association of America	NAA\USPS: Interrogatories T18-1-2. MMA\USPS: Interrogatory T18-2. VP-CW\USPS: Interrogatories T18-1-2.
Office of the Consumer Advocate	DMA\USPS: Interrogatories T18-1-2. MMA\USPS: Interrogatories T18-1-2. NAA\USPS: Interrogatories T18-1-2. VP-CW\USPS: Interrogatories T18-1-2.
Val-Pak Direct Marketing Systems, Inc., and Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc.	VP-CW\USPS: Interrogatories T18-1-2.

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

## Response of Postal Service Witness Hume to DMA Interrogatories

DMA/USPS-T18-1. Please refer to page 11, lines 13-17, of your direct testimony (USPS-T-18) in which you state that cost savings from Delivery Point Sequencing (DPS) "is well known on a local basis and the savings are evident from contemporary work-hours statistics."

- a. Please describe the extent to which DPS cost savings are "well known on a local basis" including the degree of such savings.
- b. Please describe and produce the "contemporary work-hours statistics" detailing the cost savings from DPS.

### RESPONSE:

- a. My statement "this amount [DPS savings] is well known on a local basis" arises from the fact that when DPS is implemented at a particular delivery unit, carrier supervisors are expected (other things being equal) to realize a specific reduction in total office time. The work-hour amount of this reduction is determined by the relative volume of letters that is converted to DPS.
- b. My term "contemporary work-hours statistics" was intended as a generality rather than a reference to a particular source. Indications of DPS savings are evident as a reduction in the relative proportion of city carrier office time to total time for an aggregation of delivery units. For example, on a national basis, as determined by the CRA for recent years, the office time proportion has declined thus:

	<u>Office (\$000)</u>	<u>Total (\$000)</u>	<u>Office/Total</u>
FY93	4,005,087	10,460,564	0.383
FY94	4,163,359	11,043,423	0.377
FY95	4,161,304	11,402,483	0.365
FY96	3,946,362	11,461,472	0.344

## Response of Postal Service Witness Hume to DMA Interrogatories

DMA/USPS-T18-2. Please refer to page 11, line 22, through page 12, line 2, and page 13, lines 1 through 5, of your direct testimony (USPS-T-7) in which you state that future DPS cost savings are based on "budget amounts recognized from FY93 through FY96."

- a. Please detail the extent of cost savings from DPS in FY93 through FY96 and the estimated cost savings from DPS for FY97 through FY2000.
- b. Please confirm that the cumulative estimated cost savings from DPS for FY93 through FY96 are less than the estimated cost savings from DPS for FY97 through FY2000.
- c. If sub-part b. is confirmed, please confirm that applying the DPS cost savings from FY93 through FY96 to determine the TY98 cost savings from DPS underestimates the extent of DPS cost savings for each rate category for TY98.
- d. Please describe the projected DPS cost savings for TY98.

### RESPONSE:

You have apparently misread my testimony. I do not state that "future DPS cost savings are based on budget amounts recognized from FY93 through FY96". The budget amounts in question are apportioned by rate category to form the new "DPS Savings Returned" cost element which I use to adjust the base year costs of certain letter categories to an effective zero-DPS situation for FY96. This provides me with a point of departure for estimating FY98 costs on the basis of DPS percentage levels.

- a. I am not sure what you mean by "extent of cost savings". The total budgeted DPS savings for the years FY94, FY95, and FY96 are 118,937(\$000), 223,654(\$000), and 269,002(\$000), shown in Sheet H-1 (at e12, e13, e14) of my Workpaper 1. (Due to a typographical error, the lines for FY95 and FY96 are incorrectly labeled "FY94".) These amounts are taken from Sheet 3 (at cells k5, k6, and k7) of Spreadsheet DPSDK98.XLS of Library Reference H-129 (see the Worksheet 1 Documentation for Sheet H-1). After cumulative cost level



**Response of Postal Service Witness Hume to DMA Interrogatories**

adjustments (performed in Sheet H-1), the total DPS budgeted savings effective for the period FY93 through FY96 is 624,178(\$000), shown at e10 of Sheet H-1. This amount is allocated among affected classes on the basis of LIOCATT figures, giving, for example, the 64,951(\$000) 3brr Other DPS Savings Returned element seen at line 13 of page 12 of my testimony.

I have no knowledge of the estimated cost savings from DPS for FY97 through FY2000; such was not a subject of my testimony.

- b. Not confirmed. See the last paragraph of my response to a. above.
- c. See my response to b.
- d. The projected DPS unit-cost savings for TY98 with respect to the zero-DPS situation of my cost development are listed by rate category in Tables A-6, B-6, and C-6 of my Exhibits USPS-18A, USPS-18B, and USPS-18C. These tables also list the pertinent FY98 volumes. The projected total DPS savings can be computed from the unit costs and the corresponding volumes.

Response of United States Postal Service Witness Peter Hume  
to Interrogatories of MMA

MMA/USPS-T18-1

On page 6 of USPS-18A you show unit delivery costs by category for First-Class Mail.

- (A) What is the unit delivery cost for First-Class Single Piece letter-shaped mail?
- (B) Why do automated letters (3.6 - 3.7 cents) cost about 0.5 cents less to deliver than carrier route letters (4.1 cents)?
- (C) Why do automated letters (3.6 - 3.7 cents) cost about 0.5 cents less to deliver than presorted, non-automated letters (4.1 cents)?
- (D) When estimating unit delivery costs, have you assumed that costs were attributed using the Postal Service's costing methodology as proposed in this proceeding, including all of the changes from the Commission's approved cost methodology?
- (E) When letters are sorted to carrier route on automated equipment, are First-Class and Standard Mail (A) letters ever sorted on the same barcode sorters?
- (F) If the letters described in Paragraph (E) of the Interrogatory are ever sorted together, is that done:
  - (1) Rarely?
  - (2) Occasionally?
  - (3) Frequently?
  - (4) Regularly?If you can, please provide an approximate numerical estimate of the frequency when the two types of letters are sorted together. (A best estimate approximation is sufficient; precision is not required.)

Response

- (A) The CRA category First-Class Single Piece in my cost development includes all shapes (i.e., letters, flats, and parcels) within the category weight limit. I did not determine the unit delivery costs for First-Class Single Piece letter-shaped mail on its own - such a disaggregation was not required for the present filing.

Response of United States Postal Service Witness Peter Hume  
to Interrogatories of MMA

- (B) The costs in question all come from the same source element (1st Presort letters) and are subsequently determined in accordance with my methodology by the pertinent levels of DPS. With this element established, the cost of "automated letters" (PreBarcoded Basic Letters in my tables) is determined in Exhibit USPS-18A as the weighted combination of two unit costs, (1) Base Unit Cost and (2) DPS Unit Cost, shown in the exhibit at row 5, columns (g) and (h). The weight factors, shown at row 5a, are the respective proportions of DPS in the delivery mailstream of this category.

Thus:

$$3.711 = 5.313 \cdot 0.19 + 3.335 \cdot 0.81 \quad (\text{row 5})$$

$$4.126 = 5.313 \cdot 0.40 + 3.335 \cdot 0.60 \quad (\text{row 12})$$

See pages 000094 and 000096 of my Workpaper 1.

- (C) See my response to (B) above, and refer to rows 5 and 3 of USPS-18A.

$$4.146 = 5.313 \cdot 0.41 + 3.335 \cdot 0.59 \quad (\text{row 3})$$

- (D) Yes.

- (E) Yes.

- (F) I cannot provide a numerical estimate; no pertinent data are available in consolidated form. The frequency of sorting these different classes on the same barcode sorters (assuming you mean both at the same time and under the same scheme) depends on such local factors as the prevailing volumes, the available equipment capacity at individual processing facilities, and the possible subsequent need to manage delivery unit workloads by curtailing the Standard letters.

Response of United States Postal Service Witness Peter Hume  
to  
Interrogatories of MMA

**MMA/USPS-T18-2** Please refer to USPS-29C, p. 1.

- (A) Please confirm that the unit delivery costs for all of the categories of First-Class letters shown there were derived under the USPS proposed cost methodology that assumes that labor costs are not 100% variable with volume. If you cannot confirm, please explain.
- (B) Please provide the unit delivery costs for all of the categories of First-Class letter shown there under the current accepted cost methodology whereby labor costs are assumed to be 100% variable with volume.

**Response:**

- (A) Not confirmed. See USPS-5 (witness Alexandrovich) at p5, lines 10-15. The "... USPS proposed cost methodology that assumes that labor costs are not 100% variable with volume..." does not apply to the city and rural delivery carrier costs covered by my testimony. In particular, city delivery carrier "office direct labor" costs are treated as 100% variable, the same treatment as in my previous testimonies in Docket Nos. MC95-1 and MC96-2.
- (B) Not applicable: see my response to (A).

Response of United States Postal Service Witness Peter Hume  
to Interrogatories of NAA

NAA/USPS-T18-1 Please identify, describe and provide the cost studies that the Postal Service has performed within the last five years in order to determine the effect that weight has on costs and the classification of costs in cost segment 6, 7 and 10 for Standard Mail.

Response

I cannot attest to a complete inventory of weight and classification cost studies pertaining to Cost Segments 6, 7, and 10 performed by the Postal Service over the past five years; information may be available from other witnesses. I am aware of only the particular study (one of the "FY96 carrier and messenger surveys") described in the following library references:

- H-151, MLR Survey - Development and Data;
- H-152, SPR Survey - Development and Data;
- H-153, EMS Survey - Development and Data;
- H-156, MLR Survey - Programs and Output.
- H-157, SPR Survey - Programs and Output.
- H-158, EMS Survey - Programs and Output.

The MLR survey was fielded during AP8 of FY96 over a sample of 230 motorized city delivery routes to collect data on the weight of mail associated with individual vehicle parking stops and walk loops. The results are used by witness Nelson (USPS-T-19) to analyze the costs of vehicle drive time (a component of Cost Segment 7).

The SPR and EMS surveys were fielded coincidentally with the MLR survey over samples of Special Purpose (Parcel, Collection, Combination) city delivery routes and Special Delivery Messenger routes respectively to collect data on route operating functions. The data from these routes included the weight of pieces subject to individual delivery as described by witness Nelson (USPS-T-19)

Response of United States Postal Service Witness Peter Hume  
to Interrogatories of NAA

**NAA/USPS-T18-2** Has the Postal Service analyzed, within the last five years, the effect that weight has on component costs within cost segments 6, 7 and 10 for Standard Mail? If yes, please describe and provide a copy of such analysis. If no, explain why not.

**Response**

See my response to your NAA/USPS-T-18-1. The MLR Survey, noted in that response, deals specifically with the effects of mail weight on the costs of driving time. The treatment provides a distribution of driving-time component costs that affects the costs of Standard A mail in Cost Segment 7. To my knowledge, no other components of Cost Segments 6, 7, or 10 have been studied with regard to mail weight effects. Delivery costs are customarily differentiated according to mail shape (letters, flats, parcels), which implicitly accounts for weight effects.

Response of United States Postal Service Witness Peter Hume  
to Interrogatories of VP-CW

VP-CW/USPS-T18-1.

Please refer to USPS-18B, p. 4, Table B-4. Please explain what the unit cost data for Enhance Carrier Route shown on rows 7-12 represent. For example:

- (A) Are the data for the Base Year or Test Year?
- (B) Are the direct data costs for cost segments 6, 7 and 10 only, or do they also include piggyback costs?
- (C) If piggyback costs are included, what are the direct costs for each rate category exclusive of piggyback costs?

Response

- (A) The data in Table B-4 of my Exhibit USPS-18B are for the Test Year. See my Testimony at page 3, lines 2 through 6.
- (B) The data include the pertinent piggyback costs. See my Testimony at page 3, lines 4 and 5.
- (C) The "direct costs", (i.e., the CRA unit costs for the six ECR categories excluding piggybacks) can be found from my Workpaper 1 as follows.
  - (1) The "Basic Letters" cost (4.367) at line 7 of Table B-4 is the sum of the city carrier unit cost at line 7 of Table B-2 (3.423) and the rural carrier unit cost at line 7 of Table B-3 (0.944). Both these amounts derive from the Source Sheet cell references addresses shown for the corresponding position (denoted "f" at line 7 of Table B-1); these are m:i80 and m:i128 in the row "f" at the bottom of Table B-1 ("Third Class Reg Crte Ltr Disagg").

Response of United States Postal Service Witness Peter Hume  
to Interrogatories of VP-CW

- (2) Now turn to page M-2 of Workpaper 1 (serial page number 000083). Line 52 ("Loaded CRA Unit Cost FY98") at column i shows 3.423 (this is cell i80 of the spreadsheet); the city carrier piggyback factor contributing to this cost (1.305) is shown at line 35 ("Piggyback FY98") at column e. On page M-3, line 81 (which is erroneously labeled and should be "Loaded CRA Unit Cost FY98") at column i shows 0.944; the corresponding rural carrier piggyback factor (1.197) is at line 65 ("Piggyback FY98") at column e.
- (3) The same city carrier and rural carrier piggyback factors are also shown on page serial number 000005 of Workpaper 1 at line 31, columns ab and ac.
- (4) Now divide the city carrier cost by the city carrier piggyback factor ( $3.423/1.305 = 2.623$ ) and divide the rural carrier cost by the rural carrier piggyback factor ( $0.944/1.197 = 0.789$ ) and add the results ( $2.623+0.789 = 3.412$ ). The 3.412 is the FY98 cost of "Basic Letters" without piggybacks.
- (5) Steps (1) through (4) should be repeated for each of the remaining costs on lines 8, 9, 10, 11, and 12 of Table B-4.



Response of United States Postal Service Witness Peter Hume  
to Interrogatories of VP-CW

VP-CW/USPS-T18-2.

Please refer to USPS-18B, P. 5, Table B-5, rows 7-12, Enhanced Carrier Route.

- (A) What does the total density in column ad represent?
- (B) For Test Year 1998, what column represents your best estimate of the Postal Service's unit delivery costs on an After Rates basis?
- (C) Please refer to USPS-29C pp 2-3 and explain why the Enhanced Carrier Route Unit Delivery costs (referenced to USPS-T-18, but with no specific reference to page, table, or column) appear to be those shown in column (ab) of your Table B-5, and not those in column (ae) labeled as "actual" unit costs.
- (D) Within USPS-T-18, what is the exact source of the unit delivery cost for Auto Basic shown in USPS-29C, p. 2?

RESPONSE:

- (A) The "Total Density" is the sum of the City Density Factor, i.e., the fraction of total system volume subject to city delivery, and the Rural Density Factor, i.e., the fraction of total system volume subject to rural delivery. Thus, for ECR Basic Letters, 0.869 is the sum of 0.664 (line 7a of Table B-2) and 0.205 (line 7a of Table B-3).
- (B) None of my Tables deals with "After Rates" costs; such costs were not a subject of my testimony.
- (C) The costs in the "Delivery Costs" column of USPS-29C are indeed the costs in column ab of USPS-18B. These are "CRA Unit Costs"; they are additive across cost segments as they are all based on total system volume as a common denominator. Such an addition is performed on page 3 of USPS-29C. "Actual delivery costs", as shown in column ae of USPS-18B, reflect the actual city and

**Response of United States Postal Service Witness Peter Hume  
to Interrogatories of VP-CW**

rural delivery volumes, and are not so additive. The distinction between CRA unit costs and actual unit costs is fully explained in my previous testimony, USPS-T-7 of Docket No. MC95-1.

- (D) See line 6 of Table B-5 of USPS-18B. The cost 3.357 is the weighted combination of a DPS letter cost, (2.999 at line 6, column m, of Table B-4) and a non-DPS letter cost (3.794 at line 6, column k, of Table B-4). The weight factors, 0.55 and 0.45 (line 6a of Table B-4), reflect the proportion of DPS in the delivery mailstream of this rate category.

1 CHAIRMAN GLEIMAN: Does any participant have  
2 additional written cross examination for witness Hume?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.  
5 Only one participant, the Office of the Consumer  
6 Advocate, has requested oral cross examination of this  
7 witness.

8 Does anyone else wish to cross examine the  
9 witness?

10 [No response.]

11 CHAIRMAN GLEIMAN: Mr. Richardson, could you begin  
12 on behalf of OCA?

13 MR. RICHARDSON: Thank you, Mr. Chairman.

14 CROSS EXAMINATION

15 BY MR. RICHARDSON:

16 Q Good morning, Mr. Hume.

17 A Good morning.

18 Q Mr. Hume, I'd like to discuss with you essentially  
19 your Exhibit 18-A, B, and C, those three exhibits, and start  
20 with the point that your testimony refers, at page five, to  
21 the fact that you have testified previously on this subject  
22 in docket numbers MC95-1 and MC96-2. Is that correct?

23 A That's true.

24 Q And you rely to a large extent on your testimony  
25 in those cases as a basis for your testimony in this case.

1 Is that correct?

2 A Yes.

3 Q As a matter of fact, on page eight of your  
4 testimony, at lines 22 and 23, you state, "With the details  
5 of my previous filings available from the record," you will  
6 focus on modifications to your previous testimony. Is that  
7 correct?

8 A Yes.

9 Q And when you say "available from the record,"  
10 you're referring to the records in those previous cases, are  
11 you not?

12 A Yes.

13 Q Not the record in this case?

14 A From the previous cases, yes.

15 Q Thank you.

16 Now, I would like to focus on these Exhibits 18-A,  
17 B, and C.

18 Now, they're rather complicated, so if I could  
19 just for a moment go through with you the -- the overall  
20 points which you are making with that exhibit.

21 Since -- would you agree that Exhibits A, B, and C  
22 are each doing approximately the same thing and that if we  
23 go through Exhibit A, we will pretty much cover the points  
24 of B and C in a general manner?

25 A Yes.

1           Q     And as I understand it, that for instance, Exhibit  
2     A, in essence, calculates the effective unit cost of mail  
3     delivery of various classes of mail. Is that correct?

4           A     That's the intention, yes.

5           Q     And those effective unit costs which are shown in  
6     column I, for instance, on page six of Exhibit A, 18-A --  
7     I'll be referring to that column for a few of my questions  
8     -- is that the operative column that's important in this  
9     exhibit, Exhibit 18-A, page six, column I, entitled  
10    "Effective Unit Cost."

11          A     That column does, indeed, contain the results for  
12    first-class.

13          Q     And I know, in response to one of the  
14    interrogatories, you indicated that it's the figures from  
15    that column which are then carried over by witness Daniels  
16    into her Exhibit 29-C, pages one with respect to Exhibit  
17    18-A and page two with Exhibit 18-B and page three with  
18    Exhibit 18-C. Is that correct?

19          A     Yes.

20          Q     And those are used to develop work-sharing  
21    discounts?

22          A     Yes.

23          Q     Are these numbers used by any other witness in the  
24    Postal Service?

25          A     I -- I couldn't answer that with certainty.

1 Q But you --

2 A Witness Daniel is the one who compiles a  
3 tabulation which adds up the costs across the cost segments  
4 that I'm aware of. The costs are eventually used by  
5 numerous witnesses, I would say.

6 Q Eventually, after witness Daniel's calculation  
7 with those numbers. You do not provide these numbers  
8 directly to another witness as far as you can recall?

9 A What I do is I produce this testimony with these  
10 tables, and I know that witness Daniel uses the numbers in  
11 these tables. If there are other witnesses that do, I do  
12 not know specifically of those witnesses.

13 Q And now, this particular column I in this exhibit  
14 on page six calculates the effective unit cost.

15 Now, that is, as I understand it, the base unit  
16 cost weighted with the DPS or the effect of delivery point  
17 sequencing cost. Is that correct?

18 A Yes. And it includes the piggybacks --

19 Q It includes --

20 A -- related to delivery.

21 Q The interesting thing on this exhibit is that you  
22 start with the same base unit cost for non-automated  
23 pre-sort letters of 5.313 cents in line three and for  
24 automated letters on line five, for the same cost, and  
25 carrier route letters on line 12 is also the same unit cost

1 of 5.313 cents per piece, and also on those same lines, the  
2 delivery point sequencing unit cost is also the same for  
3 those, at 3.335 cents. Is that correct?

4 A Yes.

5 Q However, when you carry those over and calculate  
6 the effective unit cost, you have a different cost for  
7 non-automated pre-sort letters, for the automated letters,  
8 and for the carrier route letters. Is that correct?

9 A Yes.

10 Q And someone looking at this would say, well, these  
11 letters are physically the same, they -- they could be the  
12 same, and we're talking about delivering letters, how could  
13 the cost of delivering a letter that is physically the same  
14 vary by as much as almost a half-a-cent each, where you  
15 conclude that the costs are different.

16 Would you clarify for the record why those are  
17 different?

18 For instance, let's focus on the -- the automated  
19 rate, your effective unit cost, you show a 3.711-cent cost,  
20 which is a lower cost than the non-automated pre-sort  
21 letters which are on line three by about four-tenths of a  
22 cent or a little more than four-tenths of a cent.

23 Could you explain why what seemingly are the same  
24 physical letters that -- and the -- why the cost of delivery  
25 would vary for two letters that seem to be similar?

1           A     The two costs you mentioned first, the 5.313 and  
2     the 3.335, relate to two different kinds of letters. The  
3     first kind are letters which are not subject to DPS, and the  
4     carrier will receive those in his conventional fashion, as  
5     he would before DPS.

6           The ones which are costed at 3.335 represent the  
7     DPS letters, and in office work, in particular, the  
8     productivity for handling those letters is substantially  
9     higher, as reflected by the difference in cost between the  
10    five cents and the three cents, essentially a two-cent  
11    difference.

12           That difference reflects the economies of handling  
13    DPS mail during office work. Even though the letters are  
14    individually the same, the DPS letters do not have to be  
15    handled individually in the office.

16           Q     And so the difference is related to the impact of  
17    the office or, if not, the street delivery?

18           A     It's the office work which is sharing the  
19    difference which is reflected in my work papers in the cost  
20    development.

21           Q     And the impact of the amount of DPS utilized is  
22    taken into account in weighting these figures on your  
23    exhibit? For instance, in weighting you show the  
24    percentages of DPS on the "A" lines -- line 3A and 5A and  
25    12A, is that correct?



1 A I do indeed, yes.

2 Q Now those are percentages of DPS, as I understand  
3 it?

4 A Well, fractions of DPS on this particular  
5 presentation. If we look at the basic letters that you are  
6 focusing on, then the .81 is 81 percent DPS.

7 Q And that .81 is multiplied by the unit cost of  
8 DPS --

9 A Yes.

10 Q Plus the same procedure is done with the base unit  
11 costs, and they are added together to give you a total  
12 effective unit cost, is that correct?

13 A That's correct.

14 Q Now for instance on line 5A, where you referred to  
15 the .810, that is a percentage figure or a proportion of  
16 what number? DPS is a proportion of what?

17 A It is an average value reflecting the proportion  
18 of letter mail that the carrier handles which has been  
19 delivered to him with DPS processing.

20 Q That is the proportion over the entire Postal  
21 Service of all DPS mail handled by letter carriers?

22 A For all those units which are affected.

23 Q And these are 1998 test year percentages or  
24 proportions, correct?

25 A Yes.

1           Q     Could you tell me where you obtained those  
2 proportions and how you obtained them?

3           A     I obtained those proportions from Library  
4 Reference Document 129.

5           Q     And was that prepared by you?

6           A     No.

7           Q     Was it prepared under your direction?

8           A     No.

9           MR. COOPER: For clarity of the record and for the  
10 information of the Commission, I would point out that this  
11 library reference can be discussed with Witness Smith. It  
12 is within the scope of his offered testimony.

13           CHAIRMAN GLEIMAN: Thank you, Mr. Cooper.

14           THE WITNESS: Maybe I could add one thing there.

15           As I indicated in my testimony, this development  
16 was based on similar developments in two previous cases, and  
17 in both of those cases the proportions of DPS, which is a  
18 very significant factor in determining delivery costs, were  
19 provided to me, and those tend to vary depending on the year  
20 in question and on the class of mail in question, and it is  
21 not the purpose of my testimony to determine those  
22 variations.

23           That is an operational matter.

24           BY MR. RICHARDSON:

25           Q     And those numbers could vary up or down from year

1 to year, is that correct?

2 A Yes. There was no DPS in '93. Now there is quite  
3 a lot.

4 Q That is because it was not utilized at that time.

5 A Yes.

6 MR. RICHARDSON: Mr. Chairman, could I inquire of  
7 Postal Service counsel whether or not they intend to enter  
8 Library Reference 129 into the record at this time or in  
9 this proceeding? It may be premature. I understand that.

10 CHAIRMAN GLEIMAN: We can make that inquiry but if  
11 counsel is unable to respond we have given them the 14th as  
12 a date by which they should submit a list of what they do  
13 intend to offer.

14 Mr. Cooper, can you help us at this point?

15 MR. COOPER: It is my understanding that if this  
16 library reference is to be offered it will be offered in  
17 conjunction with the testimony of Witness Smith and I would  
18 like to reserve a definitive answer until later, since that  
19 is not my witness.

20 CHAIRMAN GLEIMAN: Certainly. We understand.

21 We will know by the 14th, of course. That's  
22 correct?

23 MR. COOPER: That's our intention -- God and the  
24 electricians at Postal Service Headquarters willing.

25 CHAIRMAN GLEIMAN: Thank you.

1 MR. RICHARDSON: Thank you, Mr. Chairman.

2 BY MR. RICHARDSON:

3 Q Mr. Hume, if you would just clarify for me then,  
4 on your testimony on page 11 on line 15 going over to 16,  
5 you state, "There are no data on the distribution of DPS  
6 levels" and from your testimony just now it is my  
7 understanding that you are saying that you did use the data  
8 from Library Reference 129.

9 Perhaps I am misunderstanding your testimony.

10 Would you explain that, please?

11 A The modification two in my testimony -- that is  
12 the difference between what I do in this development  
13 compared with the previous development and deals almost  
14 entirely with this issue.

15 It's one that arises because there is DPS mail in  
16 the mail stream in the base year, and such as not the case  
17 in 1973, which was the base year of the former case.

18 Now, as you had noticed yourself, I develop two  
19 costs for a particular class of mail, one with DPS and one  
20 without DPS, and those costs are developed from the CRA  
21 which reflects ongoing data measurements for the base year,  
22 so that if we look for the base year '93, as I did in the  
23 previous testimony, the base year delivery costs reflect no  
24 DPS because it was not in the field at that time.

25 For '96, there is DPS in the field, and therefore,

1     there is some effect of DPS, but I don't really know what it  
2     is.

3             Q     I see. Thank you.

4             A     So, what I'm doing is attempting to model my way  
5     around that difficulty.

6             MR. RICHARDSON: I see. Thank you very much.

7             I have no further questions, Mr. Chairman.

8             CHAIRMAN GLEIMAN: Is there any follow-up cross  
9     examination?

10            [No response.]

11            CHAIRMAN GLEIMAN: Questions from the bench?

12            [No response.]

13            CHAIRMAN GLEIMAN: Mr. Hume, I'm just curious. Do  
14     you know when the last time the Postal Service did a  
15     street-time study, when it was? Not an update but a  
16     flat-out study.

17            THE WITNESS: I'd really need to know what you  
18     really mean by street-time study there.

19            CHAIRMAN GLEIMAN: Has the Postal Service done a  
20     study of cost associated with the delivery of certain types  
21     of mail in the past eight years?

22            THE WITNESS: The studies reported by witness  
23     Nelson the other day were the most recent studies that I am  
24     aware of.

25            CHAIRMAN GLEIMAN: Did those studies pre-date the

1 advent of detached labels, or do you know that?

2 THE WITNESS: To my knowledge, detached labels  
3 have been around for some time, and these studies, the ones  
4 witness Nelson reported, were performed just last year.

5 CHAIRMAN GLEIMAN: Well, I'm going to go back and  
6 look at witness Nelson's studies some more, but I didn't see  
7 anything in there, and I didn't see anything in your  
8 testimony that spoke to cost differentials on detached label  
9 or other type of saturation mail, and the reason I ask this  
10 question, just so that people not get some incorrect  
11 impression, is that my understanding is that the overall  
12 thrust of the Postal Service's efforts now are to move mail  
13 into automation categories, and it seems to me that there is  
14 a great deal of mail out there that could move into those  
15 categories, and I was wondering, as I said, whether anyone  
16 had done any studies to determine what the costs were,  
17 because if you don't have the underlying cost you can't find  
18 what the savings might be as a consequence of moving the  
19 mail into the possibility of being delivery point sequenced.

20 THE WITNESS: I need hardly mention that doing  
21 field studies of delivery work is particularly difficult.

22 If you follow carriers around, you tend to  
23 interfere what they're -- with what they're doing, and it's  
24 also very non-productive, because most of the time they are  
25 doing the same thing, they are delivery first-class letters,

1 and the things that most people are concerned with don't  
2 happen that frequently.

3 So, these are necessarily time-consuming expensive  
4 studies, and that is one, I think, fairly good reason why  
5 they are not performed very frequently.

6 CHAIRMAN GLEIMAN: Why do you say that most of the  
7 time they're delivering first-class letters?

8 THE WITNESS: Because there are more first-class  
9 letters to be delivered than there are most other classes.

10 CHAIRMAN GLEIMAN: What do you mean by "most of  
11 the time"? Forty percent of the time? Fifty percent of the  
12 time? Ninety percent of the time? Can you give me a  
13 percentage of the time that they use that they're delivering  
14 first-class letters and not anything else?

15 THE WITNESS: I couldn't give you an estimate of  
16 that. I am basing my figures on the fact that there is more  
17 first-class volume than there is volume of any other of the  
18 classes, and --

19 CHAIRMAN GLEIMAN: So, you would -- you would --  
20 "most," then, would in some way relate to the proportion of  
21 first-class mail in the total mail stream.

22 THE WITNESS: That was my supposition there, yes.  
23 I wasn't trying to make a big point of it. I was pointing  
24 out mainly that it's difficult to do these studies.

25 CHAIRMAN GLEIMAN: Thank you.

1           Is there any followup as consequence questions  
2   from the bench?

3           [No response.]

4           CHAIRMAN GLEIMAN:  If not, that brings us to  
5   redirect.

6           Mr. Cooper, would you like some time?

7           MR. COOPER:  Just five minutes.

8           CHAIRMAN GLEIMAN:  Five minutes it is.

9           [Recess.]

10          CHAIRMAN GLEIMAN:  Mr. Cooper, do you have any  
11   redirect?

12          MR. COOPER:  No, we do not.

13          CHAIRMAN GLEIMAN:  If there is no redirect and  
14   there is nothing further, I want to thank you, Mr. Hume.  We  
15   appreciate your appearance here today and your contributions  
16   to the record, and if there's nothing further that you have  
17   to offer, you're excused.

18          THE WITNESS:  Thank you, Mr. Chairman.

19          CHAIRMAN GLEIMAN:  Thank you, sir.

20          [Witness excused.]

21          CHAIRMAN GLEIMAN:  Mr. Alverno, are you prepared  
22   to call your next witness?

23          MR. ALVERNO:  Thank you, Mr. Chairman.  The Postal  
24   Service calls Joseph Moeller to the stand.

25          CHAIRMAN GLEIMAN:  Mr. Moeller, could you please



1 stand and raise your right hand?

2 Whereupon,

3 JOSEPH D. MOELLER,

4 a witness, was called for examination by counsel for the  
5 United States Postal Service and, having been first duly  
6 sworn, was examined and testified as follows:

7 CHAIRMAN GLEIMAN: Please be seated.

8 MR. ALVERNO: May I proceed?

9 CHAIRMAN GLEIMAN: You can proceed.

10 MR. ALVERNO: Okay.

11 DIRECT EXAMINATION

12 BY MR. ALVERNO:

13 Q Please introduce yourself.

14 A My name is Joseph D. Moeller.

15 Q And where are you employed?

16 A I'm employed at the Postal Service headquarters.  
17 I'm an economist in the pricing office.

18 Q And earlier I handed you two copies of a document  
19 entitled "Direct Testimony of Joseph Moeller on Behalf of  
20 the U.S. Postal Service," marked as USPS-T-36. These copies  
21 are now with the reporter. Did you have a chance to examine  
22 them?

23 A Yes, I did.

24 Q And was this testimony prepared by you or under  
25 your direction?

1           A     Yes, it was.

2           Q     And do you have any changes or corrections to  
3     make?

4           A     I have no changes to make, but I would note that  
5     the package did include revisions that were filed on October  
6     3rd of 1997.

7           Q     And if you were to testify orally today, would  
8     your testimony be the same?

9           A     Yes.

10           MR. ALVERNO: Mr. Presiding Officer, I ask that  
11     the direct testimony of Joseph Moeller on behalf of the U.S.  
12     Postal Service, marked as USPS-T-36, be received as evidence  
13     at this time.

14           CHAIRMAN GLEIMAN: Are there any objections?

15                 [No response.]

16           CHAIRMAN GLEIMAN: Hearing none, Mr. Moeller's  
17     testimony and exhibits are received into evidence, and I  
18     direct that they be accepted into evidence. As is our  
19     practice, they will not be transcribed.

20                         [Direct Testimony and Exhibits  
21                         of Joseph D. Moeller, Exhibit  
22                         No. USPS-T-36 were marked for  
23                         identification and received  
24                         into evidence.]

25           CHAIRMAN GLEIMAN: Mr. Moeller, have you had an

1 opportunity to examine the packet of designated written  
2 cross examination that was made available earlier today?

3 THE WITNESS: Yes, and I found a few things that  
4 -- responses that were not mine and a couple of things that  
5 were not designated. So, I have pulled those from the  
6 packet.

7 I can read which ones --

8 CHAIRMAN GLEIMAN: Would you let us know which you  
9 pulled from the packet?

10 THE WITNESS: MM -- I'm sorry -- MMA/USPS-T-36-7  
11 -- that was a question that wasn't designated, and it was  
12 redirected to witness Moden in any event, and  
13 MMA/USPS-T-36-8, which was also redirected to witness Moden,  
14 and there were also some interrogatories that were  
15 originally directed to me but had been redirected to the  
16 Postal Service for response.

17 Those are NAA/USPS-T-36-21, US -- I'm sorry --  
18 UPS/USPS-36 -- actually, that one -- that was never directed  
19 to me, that's just a institutional response -- ValPak/Carol  
20 Wright/USPS-T-36-11, ValPak/Carol Wright/USPS-T-36-12, and  
21 ValPak/Carol Wright/USPS-T-36-14.

22 CHAIRMAN GLEIMAN: Thank you.

23 Mr. Alverno, have you made the corrections in the  
24 copies that the reporter has been given?

25 MR. ALVERNO: Yes, we have.

1           CHAIRMAN GLEIMAN: And you have given those copies  
2 to the reporter.

3           MR. ALVERNO: Yes, we have.

4           CHAIRMAN GLEIMAN: The copies having been given to  
5 the reporter, the designated written cross examination of  
6 witness Moeller is -- is -- I direct that it be accepted  
7 into evidence and transcribed into the record at this point.

8                               [Designation of Written  
9                               Cross-Examination of Joseph D.  
10                              Moeller was received into  
11                              evidence and transcribed into  
12                              the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS JOSEPH D. MOELLER  
(USPS-T-36)

The parties listed below have designated answers to interrogatories directed to witness Moeller as written cross-examination.

<u>Party</u>	<u>Answer To Interrogatories</u>
Advertising Mail Marketing Association	AMMA\USPS: Interrogatories T36-1-3. DMA\USPS: Interrogatories T4-23 (redirected from witness Moden) and T36-2 and 10. MASA\USPS: Interrogatories T36-1, 5. NAA\USPS: Interrogatory T36-21.
ADVO, Inc.	AAPS\USPS: Interrogatory T36-6. DMA\USPS: Interrogatories T36-2-3. MASA\USPS: Interrogatory T36-5. MMA\USPS: Interrogatory T36-12. NAA\USPS: Interrogatories T36-5-8, 14, 28, 32-34, 36, 41, 43-46, 51, 54-55. NDMS\USPS: Interrogatory T36-4. OCA\USPS: Interrogatories T36-1, 3, 5-6, 15, 21-23, 25-26.
Direct Marketing Association, Inc.	DMA\USPS: Interrogatories T36-2, 10. DMA\USPS: Interrogatory T4-23(b). AAPS\USPS: Interrogatories T36-1. OCA\USPS: Interrogatory T36 15. VP-CW\USPS: Interrogatory T36 4.
Florida Gift Fruit Shippers Association	FGFSA\USPS: Interrogatories T36-1-3. PSA\USPS: Interrogatory T36-6. UPS\USPS: Interrogatory 36. VP-CW\USPS: Interrogatories T36-11-12, 14.

Mail Advertising Service Association  
International

MASA\USPS: Interrogatories T36-1-2, 5-7.

Mail Order of Association of America

DMA\USPS: Interrogatories T36-3, 10;  
DMA\USPS-T4-23(b) redirected  
from witness Moden.  
NAA\USPW: Interrogatories T36-6-8, 13-14, 33,  
41, 51-52.  
NDMS\USPS: Interrogatory T36-4.  
OCA\USPS: Interrogatories T36-1-8, 10-11, 15,  
21-27.  
VP-CW\USPS: Interrogatories T36-6-7.

Major Mailers Association

MMA\USPS: Interrogatories T36-1-6.  
NAA\USPS: Interrogatory T36-10.

Nashua Photo Inc., District Photo Inc.,  
Mystic Color Lab, and Seattle Filmworks, Inc.

NDMS\USPS: Interrogatories T36-1-4.  
ABA&EEI&NAPM\USPS: Interrogatories T36-  
1-2.  
DMA\USPS: Interrogatory T4-23.  
DMA\USPS: Interrogatories T36-2-4, 6, 9-10.  
MASA\USPS: Interrogatory T36-4.  
NAA\USPS: Interrogatories T36-4, 6, 12.  
OCA\USPS: Interrogatories T36-8, 12-13, 15-  
18.  
PSA\USPS: Interrogatory T36-8.  
PSA\USPS: Interrogatory T37-2.  
RIAA\USPS: Interrogatory T28-4.

Newspaper Association of America

NAA\USPS: Interrogatories T36-3-16, 28, 36-  
39, 41-46, 48-55.  
AAPS\USPS: Interrogatories T36-5-6.  
ABA&EEI&NAPM\USPS: Interrogatories T36-  
1-4.  
DMA\USPS: Interrogatories T36-1, 8.  
DMA\USPS: Interrogatory T4-12 (redirected  
from Moden).  
MASA\USPS: Interrogatories T36-2, 5.  
OCA\USPS: Interrogatories T36-1-3, 7-8, 11,  
13, 15-18, 24-25, 27.  
VP-CW\USPS: Interrogatories T36-2-3, 7, 9-10,  
21-23.

Office of the Consumer Advocate

OCA\USPS: Interrogatories T36-1-27.  
AAPS\USPS: Interrogatories T36-1-6.  
ABA&EEI&NAPM\USPS: Interrogatories T36-  
1-6.  
AMMA\USPS: Interrogatories T36-1-3.

DMA\USPS: Interrogatories T36-1-10; also, response of witness Moeller to interrogatories redirected from witness Moden, i.e., DMA\USPS-T4-12a. and b., and 23.

FGFSA\USPS: Interrogatories T36-1-3.

MASA\USPS: Interrogatories T36-1-7.

MMA\USPS: Interrogatories T36-1-6, 9, 12.

NAA\USPS: Interrogatories T36-1-16, 28, 32-40, 41-46, and 48-55.

NDMS\USPS: Interrogatories T36-1-4.

NFN\USPS: Interrogatories T36-1-3.

PSA\USPS: Interrogatories T36-1-8; also, witness Moeller's response to an interrogatory redirected from witness Seckar, i.e., interrogatory PSA\USPS-T26-1; and his response to interrogatories redirected from witness Mayes, i.e., PSA\USPS-T37-2 and 6.

RIAA\USPS: Response of witness Moeller to an interrogatory redirected from witness Crum, i.e., RIAA\USPS-T28-4.

SMARTMAIL\USPS: Interrogatories T36-1-2.

UPS\USPS: Witness Moeller's response to an interrogatory redirected from witness Taufique, i.e., UPS\USPS-T34-1.

VP-CW\USPS: Interrogatories T36-1-10, 15-23.

POIR: Witness Moeller's response to POIR No. 3, questions 18-19, 21.

#### Parcel Shippers Association

PSA\USPS: Interrogatory T26-1, answered by witness Moeller.

PSA\USPS: Interrogatories T37-2 and 6, answered by witness Moeller.

PSA\USPS: Interrogatories T36-1-4, 5-8.

AAPS\USPS: Interrogatory T36-2.

DMA\USPS: Interrogatories T36-2-3, 5, 9-10.

DMA\USPS: Interrogatory T4-23(b), answered by witness Moeller.

NAA\USPS: Interrogatories T36-3-5, 15-16.

OCA\USPS: Interrogatories T36-10, 12-13, 15.

#### Val-Pak Direct Marketing Systems, Inc. and Val-Pak Dealers' Association, Inc. and Carol Wright Promotions, Inc.

VP-CW\USPS: Interrogatories T36-1-10, 20-23.

AAPS\USPS: Interrogatories T36-1, 5-6.

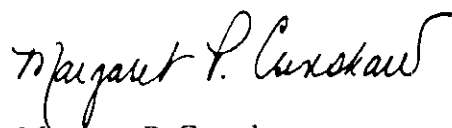
ABA&EEI&NAPM\USPS: Interrogatories T36-3-4.

DMA\USPS: Interrogatory T36-1.

MASA\USPS: Interrogatory T36-5.

NAA\USPS: Interrogatories T36-9, 14-16, 28,  
33-35, 39, 41, 43-46, 51, 55.  
OCA\USPS: Interrogatories T36-19, 21-26.

Respectfully submitted,

A handwritten signature in black ink, reading "Margaret P. Crenshaw". The signature is written in a cursive style with a large, stylized initial "M".

Margaret P. Crenshaw  
Secretary



U.S POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS

2719

AAPS/USPS-T36-1. In response to VP-CS/USPS-T36-10, you state that there is no performance measurement system in place for third-class mail. Because quality of service is such an important input into the assignment of institutional costs, please explain why the Postal Service has no such system in place.

RESPONSE:

As stated in response to VP-CW/USPS-T36-9, there have been a number of attempts to measure service performance for individual mailers' mail with the goal of developing nationally representative performance figures; however, it is my understanding none of these efforts culminated in a performance measurement system.

The criterion of 39 U.S.C. s.3622(b) to which this question presumably refers calls for the consideration of the value of the mail service actually provided each class or type of mail service. A performance measurement system is not required for this criterion to be considered.

U.S POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS

2720

AAPS/USPS-T36-2. You testify that you are proposing a residual-shape surcharge for Standard Mail of 10 cents per piece even though Postal Service Witness Crum demonstrates a cost difference in excess of 35 cents. (a) One of the reasons for your proposal to hold the surcharge to 10 cents is to mitigate the impact of the potential increase in rates on customers. Please provide any studies performed by or for the Postal Service that support the notion that a surcharge in excess of 10 cents per page [sic] would have a significantly adverse impact on customers. (b) Does the 35 cents cost difference reflect in-office costs alone, or does it reflect carrier costs while delivering mail?

RESPONSE:

- a. I know of no studies regarding the impact of the residual shape surcharge.

However, as noted in my response to OCA/USPS-T36-15(b), some residual shape pieces would experience effective rate increases in excess of 50 percent under the proposed rates.

- b. Carrier costs are included.

U.S POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS

2721

AAPS/USPS-T36-3. What are the implicit cost coverages for Standard A, residual pieces?

RESPONSE:

Please see my response to PSA/USPS-T36-4.

U.S POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS

2722

AAPS/USPS-T36-4. Is it the Postal Service's intention to increase the surcharge so that it comes close to reflecting the actual cost difference? Does the Postal Service have a schedule for doing so?

RESPONSE:

Please see my response to OCA/USPS-T36-10.

U.S POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS

2723

AAPS/USPS-T36-5. At page 27, you state that the Postal Service proposes to pass through thirty-five percent of the shape differential between ECR letters and non-letters. How much would the ECR non-letter rates increase if 100% of this differential were passed through?

RESPONSE:

One can get an idea of the rates that would be produced by the rate design formula with 100 percent passthrough by entering 1.0 for the passthroughs in Worktable C of WP1, page 17 (USPS LR-H-202). Such an exercise would not necessarily produce results that would allow one to determine "how much ECR non-letter rates" would increase, however, since the rates produced would be subject to a different set of after-rates volumes and might not result in the target cost coverage.

U.S POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF THE ASSOCIATION OF ALTERNATE POSTAL  
SYSTEMS

2724

AAPS/USPS-T36-6. Does the Postal Service consider that it faces greater competition for ECR letters or ECR flats?

RESPONSE:

The Postal Service views the higher-density advertising Standard Mail (A) subclass, Enhanced Carrier Route, as facing greater competition, regardless of shape. I am not aware of a distinction made between ECR letters and flats.

ABA&EEI&NAPM/USPS-T36-1. Please provide the base year and test year average revenue per piece for the following Standard (A) mail (automation letter size): (a) basic, (b) 3-digit, (c) 5-digit, and (d) destination entry (i) BMC and (ii) SCF.

**RESPONSE:**

Base year information is not particularly illuminating in this instance because it consists of a hybrid of pre- and post-classification reform rates and preparation requirements. If, however, one is interested in base year figures, the GFY 96 billing determinants (USPS LR-H-145) provide revenue per piece information. Also, this question refers to the test year, but does not indicate whether before or after rates information is desired. The following response provides both before- and after-rates figures. These figures can be derived from my workpapers (WP1).

		TYBR	TYAR
a.	Basic	\$0.1821	\$0.1880
b.	3-digit	\$0.1699	\$0.1722
c.	5-digit	\$0.1472	\$0.1516
d.	i) BMC	\$0.1581	\$0.1568
	ii) SCF	\$0.1453	\$0.1465

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF ABA&EEI&NAPM

2726

ABA&EEI&NAPM/USPS-T36-2. Please provide the base and test year volumes for the rate categories identified in interrogatory 1, above.

RESPONSE:

Base year information is not particularly illuminating in this instance because it consists of a hybrid of pre- and post-classification reform rates and preparation requirements. If, however, one is interested in base year figures, the GFY 96 billing determinants (USPS LR-H-145) provide such information. Also, this question refers to the test year, but does not indicate whether before or after rates information is desired. The following response provides both before- and after-rates figures. These figures can be derived from my workpapers (WP1).

Figures are in millions.

		TYBR	TYAR
a.	Basic	3,157.221	3,136.543
b.	3-digit	9,750.408	9,535.365
c.	5-digit	3,016.552	6,358.646
d.	i) BMC	4,442.187	5,405.793
	ii) SCF	1,077.375	1,774.925



U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF ABA&EEI&NAPM

2727

ABA&EEI&NAPM/USPS-T36-3. Please provide the base year and test year average revenue per piece for the following Enhanced Carrier Route Subclass (automation letter size): (a) basic, (b) basic automated, (c) high-density, (d) saturation, and (d) [sic] destination entry (i) BMC, (ii) SCF, and (iii) DDU.

RESPONSE:

Base year information is not particularly illuminating in this instance because it consists of a hybrid of pre- and post-classification reform rates and preparation requirements. If, however, one is interested in base year figures, the GFY 96 billing determinants (USPS LR-H-145) provide revenue per piece information. Also, this question refers to the test year, but does not indicate whether before or after rates information is desired. The following response provides both before- and after-rates figures. These figures can be derived from my workpapers (WP1).

	TYBR	TYAR
a. Basic	\$0.1382	\$0.1516
b. Basic Auto	\$0.1359	\$0.1461
c. High-density	\$0.1255	\$0.1263
d. Saturation	\$0.1168	\$0.1176
e. i) BMC	\$0.1348	\$0.1429
ii) SCF	\$0.1248	\$0.1285
iii) DDU	\$0.1160	\$0.1177

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF ABA&EEI&NAPM

2728

ABA&EEI&NAPM/USPS-T36-4. Please provide the base and test year volumes for the rate categories identified in interrogatory 3, above.

RESPONSE:

Base year information is not particularly illuminating in this instance because it consists of a hybrid of pre- and post-classification reform rates and preparation requirements. If, however, one is interested in base year figures, the GFY 96 billing determinants (USPS LR-H-145) provide such information. Also, this question refers to the test year, but does not indicate whether before or after rates information is desired. The following response provides both before- and after-rates figures. These figures can be derived from my workpapers (WP1).

Figures are in millions.

	TYBR	TYAR
a. Basic	6,781.046	3,173.765
b. Basic Auto	2,123.223	2,059.662
c. High-density	394.077	392.986
d. Saturation	3,095.861	3,086.387
e. i) BMC	3,344.695	2,140.817
ii) SCF	5,354.098	3,962.555
iii) DDU	791.246	676.976

ABA&EEI&NAPM/USPS-T36-5. Re testimony at 28. Please provide workpapers or other documents which set forth the cost and revenue consequences to the Postal Service of the expected migration of 3.3 billion letters from the Basic ECR letter rate to 5-digit automation.

RESPONSE:

Witness Daniel (Exhibit USPS-29C, page 3) provides unit cost information regarding ECR Basic letters and 5-digit automation letters. These figures, which are presented to assist in the final adjustment to test year after rates costs described in my testimony at page 47, are virtually equal and indicate that the cost consequences are probably minimal.

There are no "revenue consequences" since the after-rates volume forecast incorporates the migration, and the after-rates cost coverage targets for the two subclasses involved are met. In other words, the migration is anticipated, and the after-rates revenues reflect it. One might be tempted to state that the revenue consequences are 3.3 billion x (\$0.164 - \$0.160); however, if the migration were not occurring, then the rates for the two categories involved might have been different. In any event, again, the after-rates revenue estimates incorporate the effect of the migration.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF ABA&EEI&NAPM

2730

ABA&EEI&NAPM/USPS-T36-6. Please provide the workpapers and other documents which show in detail the derivation of the Postal Service's proposed percentage change in rates for Standard (A) Commercial Regular, 4.1%, Commercial Enhanced Carrier-Route, 3.2%.

RESPONSE:

These calculations are performed in my workpapers (WP1, pages 26-28).

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE ADVERTISING MAIL MARKETING ASSOCIATION**

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>Standard(A)</u> <u>Rate Category</u>  (1)	<u>(Thousands of Pieces)</u>	
	<u>Before Rate</u>	<u>Test Year</u>
	<u>GFY 98</u>	<u>After Rate</u>
	(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

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE ADVERTISING MAIL MARKETING ASSOCIATION

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.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE ADVERTISING MAIL MARKETING ASSOCIATION

2733

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.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE ADVERTISING MAIL MARKETING ASSOCIATION

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



U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE ADVERTISING MAIL MARKETING ASSOCIATION

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

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE ADVERTISING MAIL MARKETING ASSOCIATION

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.

DMA/USPS-T36-1. Please refer to your testimony at page 2, lines 10-16.

- a. Please confirm that you compute an average rate change for the Standard (A) Regular subclass at 4.1 percent and the average rate change for Standard (A) ECR at 3.2 percent. Please confirm, also, that these figures were computed using a "constant volume mix," i.e., you applied the USPS-proposed rates to before-rates volumes. If you cannot so confirm, please provide any correction needed.
- b. Please identify the workpapers or other documents that reflect the computation of the figures referred to in interrogatory 1(a), above, including the multiplication of specific rate levels by mail volume estimated to be handled at each of the rate elements in the test year.
- c. Did you, or some other Postal Service witness, make similar computations using after-rates volumes in the test year? If so, please identify the workpapers or other documents that reflect these computations.
- d. On page 28, lines 11-13 of your testimony, you describe "an expected migration of 3.3 billion letters from the Basic ECR letter rate to 5-digit automation." Do the after-rates volumes mentioned in interrogatory DMA/USPS-T36-1(c) reflect any mail migrations other than this one? If yes, please explain fully. If no, is it fair to conclude that your estimates of after-rates volumes reflect price elasticities and no other factors, as compared with the corresponding before-rates volumes?

RESPONSE:

- a. Confirmed.
- b. USPS-T-36, WP1, pages 27 and 28.
- c. Such figures can be derived by dividing the after-rates revenue per piece from WP1, page 22, line 30 by the before-rates Regular revenue per piece from WP1, page 8 (the result is 1.9 percent). For ECR, divide WP 1, page 23, line 32 by the revenue per piece for ECR from WP1, page 8 (the result is 3.0 percent).
- d. The volumes mentioned in DMA/USPS-T36-1(c) presumably refer to the after rates volumes presented in WP1, page 3, column 2, which are from witness Tolley's

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORY OF DIRECT MARKETING ASSOCIATION

workpapers. See witness Tolley's testimony regarding the volume forecast. I do not estimate after-rates volumes. I do, however, disaggregate the volume figures from the forecast by applying factors from the billing determinants. See my WP1, page 20.

The percent change figures presented in DMA/USPS-T36-1(c) reflect not only the effect of the 3.3 billion piece migration between subclasses, but also any migration which occurs within the subclasses. The constant volume mix figures presented in DMA/USPS-T36-1(a) control for migration between and within the subclasses.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF DIRECT MARKETING ASSOCIATION

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.

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DMA/USPS-T36-9. Please refer to your response to NAA/USPS-T36-5(d) in which you state that "A piece with "flat-like" costs will likely meet the definition of a flat, in which case it would be exempted from the surcharge, as long as it is prepared in accordance with flat preparation requirements."

- a. Please describe the flat preparation requirements you cite.
- b. Does this answer imply that the Postal Service has performed studies which show that shape is the factor that differentiates the costs of flats from those of nonflats? If so, please provide a copy of the relevant study or studies.

RESPONSE:

- a. See DMM C050 Exhibit 2.0; DMM C050.3.0; DMM M610.5.0; DMM M620.4.0; and DMM M820.4.0.
- b. This answer implies that a piece which meets the definition of a flat, and is not prepared as a parcel, is going to be processed as a flat. Pieces entered as flat-size pieces should exhibit the costs of flats. Witness Crum's testimony (USPS-T-28) describes a study which measures the cost differences between flats and other nonletters.

DMA/USPS-T36-10. Please refer to your response to DMA/UPS-T4-23(b) (redirected from witness Moden).

- a. Please confirm that the Postal Service realizes similar cost savings from prebarcoded Standard (A) parcels as with prebarcoded Standard (B) parcels.
- b. Please confirm that one of the reasons that no discount was proposed for prebarcoded Standard (A) parcels is because the discount would make the rate structure for Standard (A) less "simple."
- c. Please describe the number of rate categories that already exist in Standard (A) mail.

RESPONSE:

- a. If a prebarcoded Standard (A) parcel is processed on a parcel sorter with a barcode reader, the cost savings due to the presence of the barcode on that piece are likely to be similar to those for a prebarcoded Standard (B) parcel that is processed on a parcel sorter with a barcode reader.
- b. Reasons why no discount was proposed for barcoded Standard Mail (A) parcels are provided in the response to the interrogatory cited in this question. Avoidance of added rate complexity was one of the reasons provided.
- c. The response to this subpart depends on what is considered a rate category. For example, is 3/5-digit automation flats a single category, or three categories (no destination entry, DBMC, and DSCF), or six categories (minimum-per-piece, or pound-rated, for each entry option)? If minimum-per-piece and pound-rated pieces are considered one category, and the destination entry options are not considered distinct rate categories for each presort and automation category, then the number of categories is 16 for commercial Standard Mail (A), and 16 for nonprofit Standard Mail (A).

DMA/USPS-T4-12. At page 28 of his testimony, USPS witness Moeller (USPS-T-36) refers to the "Postal Service's concern regarding its letter automation program" (lines 1-2) and cites your testimony as support for the proposition that a zero percent pass-through of the letter/nonletter differential is appropriate in light of this concern. See also the testimony of USPS witness O'Hara (USPS-T-30) at page 36.

- a. Please confirm that, under the USPS proposal, a mailer of Standard (A) letters with density adequate to meet Basic ECR requirements would have four choices: (1) apply barcodes and sort the mail to five digits, in which case he would pay 16.0 cents per piece; (2) sort the mail to ECR specifications and apply a barcode, in which case he would pay 15.7 cents per piece for pieces destined for delivery offices where either a CSBCS was available or where letters were sequenced manually and pay 16.0 cents per piece for the remaining pieces; (3) sort his mail to ECR specifications (without adding a barcode) and pay 16.4 cents per piece; or (4) neither sort to ECR specifications nor add a barcode, in which case his mail would travel at the "Presort-3/5-Digit" level, and he would be charged 20.9 cents per piece.
- b. Would it be fair to conclude from the Postal Service's proposals in this case that, for letters, mailer-applied barcodes yield cost savings to the Postal Service at least 0.4 cents per piece greater than carrier route presortation? Please explain fully any "no" answer.

**RESPONSE:**

- a. Yes, these are the primary options available within Standard Mail (A). Three-digit automation is also a possibility; five-digit preparation is not required for automation rates.
- b. No. The two rate categories to which this question presumably refers, 5-digit automation and ECR Basic, are in two separate subclasses. The rates for these two categories, therefore, are derived separately as described in my testimony at pages 6-31, and the difference between the rates is not based on a cost avoidance methodology.

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FROM WITNESS MODEN

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DMA/USPS-T4-23. Please refer to your response to DMA/USPS-T4-13.

- a. Are barcodes applied to parcels in all mail classes (including Standard (A)) by parcel sorting machines or by postage validation imprinters? If yes, please describe the number and types of parcels sprayed with barcodes by mail class.
- b. Has the Postal Service considered any proposal to apply a parcel barcoding discount to Standard (A)? If "yes," please provide details of such a proposal and explain why such a proposal was not introduced in R97-1. If "no," please explain why such a discount is being considered for Standard (B), but not Standard (A).
- c. Does the Postal Service have any plans to apply barcodes to parcels at mail processing facilities other than BMCs and at retail windows? If "yes," please provide details of such plans. If "no," please explain why the Postal Service is not considering expanding the application of barcodes to parcels.

RESPONSE:

- a. Responded to by witness Moden.
- b. I know of no proposal considered by the Postal Service to introduce a parcel barcode discount in Standard Mail (A). As described in my testimony at page 12, line 17, through page 13, line 7, the Postal Service proposes a simple per-piece surcharge for pieces that are prepared as parcels or are neither letter- nor flat-shaped. One factor for choosing this per-piece surcharge as the method for de-averaging is to avoid the complexity that would be introduced if another schedule of piece and pound rates, complete with presort tiers and automation discounts, were proposed. If a barcode discount were proposed, it would essentially split this relatively small segment of Standard Mail (A) into two smaller groups: one that pays the residual surcharge, and one that pays the residual surcharge, less the



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barcode discount. This would be counter to the intended simplicity of the per-piece surcharge.

Also, the low passthrough applied to the residual shape cost difference has the effect of moderating the rate increase for these pieces. It seems counter-productive to introduce an offsetting discount, especially if the intention of the discount is to further moderate the impact of the surcharge. In addition, machinable parcels receive favorable rate treatment by virtue of the extension of 3/5-digit presort rates to parcels prepared to BMC in lieu of the more stringent preparation required of non-machinable parcels and flats. Although this preparation is compatible with the mail processing of machinable parcels, it makes it easier for Standard Mail (A) parcels to satisfy eligibility for the 3/5-digit presort tier.

- c. Responded to by witness Moden.

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FGFSA/USPS-T36-1. To what extent do you expect the destination entry rate proposals to result in a diversion of Standard A mail for other entry points. Please quantify.

RESPONSE:

The after-rates distribution of pieces by destination-entry option for each rate category is based on the billing determinants for FY97 quarters 1 and 2 for commercial Standard Mail (A) and FY97 quarter 2 for nonprofit Standard Mail (A). There is no estimation of "diversion" of Standard Mail (A) for other entry points. Please also see responses to MASA/USPS-T36-4, MASA/USPS-T36-6, and MASA/USPS-T36-7.

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FGFSA/USPS-T36-2. Please provide the entry profile for Standard A mail, with volumes for each entry point.

RESPONSE:

Please see USPS LR-H-111, Appendix A, Table 1 for the entry profile which is generated from volume data in USPS LR-H-105.

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FGFSA/USPS-T36-3. Please confirm the the [sic] flowpath of Standard A mail in the postal transportation system shown in Appendix A to USPS Library Reference H-111 correctly reflects the use of the transportation system by Standard A mail for the base year. If you do not confirm, please provide a correct flowpath.

RESPONSE:

I have no reason to believe that the library reference does not provide a reasonable representation of the flowpath.

MASA/USPS-T36-1. At page 18 of your testimony, you state:

The new costing methodology and other changes to the cost models for automation letters lead to significant reductions in the calculated value of automation compatibility.

- a. Explain what you mean by "reductions in the calculated value of automation compatibility."
- b. Explain what "calculated value" means and describe how it is computed.
- c. When you speak of "value," value to whom?
- d. Is there another measure of the value of automation compatibility than what you have referred to as "calculated value?" If your answer is yes, describe that measure and explain whether and how the value of automation compatibility has decreased by any alternative measure.
- e. What "other changes to the cost models" are you referring to in your testimony? Explain and quantify how have they affected the value of automation compatibility.
- f. In your opinion, would the value of automation compatibility have decreased under the costing methodology used in MC95-1? If your answer is yes, describe why you believe this and estimate the amount of the decrease.

RESPONSE:

- a. The cost differences used as a basis for the discounts in this proposal are lower than the differences used in Docket No. MC95-1.
- b. By "calculated value" I mean the cost differences between the non-automation categories and the automation categories. Please see witness Daniel's testimony (USPS-T-29) regarding the calculation of the costs which are displayed in my WP 1, page 10. The cost differences implied by these costs are presented in my WP 1, page 12.
- c. "Value" is used to describe the savings that the Postal Service may realize when a mailer performs worksharing activities.

- d. No.
- e. I do **not** have any particular changes in mind. It is my understanding that many of the inputs to the models reflected updated studies which would have some impact in the cost calculations. The sum of all of these changes led to the reduction in the cost differentials.

- f. I do not know what the calculated cost differential would have been in this proceeding if the Docket No. MC95-1 methodology had been used.

Although I am not familiar with the underlying analysis, I understand that the volume variability study described by witness Bradley (USPS-T-14) tends to reduce mail processing costs allocated to mail subclasses. Since the costs for the subclasses are reduced, the cost differentials between automation and nonautomation categories tend to be reduced.

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INTERROGATORIES OF MAIL ADVERTISING SERVICE ASSOCIATION 2757  
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MASA/USPS-T36-2. At page 28 of your testimony, you refer to the "Postal Service's concern regarding its letter automation program," and to proposed Basic Carrier Route rates that "would encourage letter mailings with this density to be entered at" automation rates. Does not this testimony suggest that the Postal Service places a high value on mail that is presented in automation compatible form? Explain any "no" answer.

**RESPONSE:**

It is my understanding that the Postal Service encourages, to the extent practical, the preparation of mail in a manner that facilitates the automated processing of the mail. This policy is pursued, however, in the context of available cost data and the effect on customers, along with other considerations such as the development of a reasonably simple and understandable rate structure for Standard Mail (A).

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MASA/USPS-T36-3. What automation rates would have been proposed if there were a separate automation subclass? If you cannot give precise rates in response to this question, describe what the impact would have been on proposed rates, quantifying as best as possible that impact.

RESPONSE:

It is impossible to speculate what rates would have been proposed if a separate, stand-alone, automation subclass would have been included in this proposal.

Separate costs, markup, passthroughs, and rate design formula would have to have been developed if such a subclass were proposed. Any such hypothetical proposed rates would have had to have been approved by the Board of Governors.



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MASA/USPS-T36-4.

- a. Confirm that the discount proposed for Standard mail entered at the destination SCF is for all rate categories .3 cents per piece. If you cannot confirm, explain why.
- b. Confirm that the discount currently offered for Standard mail entered at the destination SCF is .5 cents. If you cannot confirm, explain why.
- c. Describe for each rate category any volume effect the USPS has determined will result from the decrease of the discount increment between BMC and SCF destination entry mail to .3 cents.
- d. If the USPS has determined that there will be a volume decrease in SCF destination mail for any rate category, identify each policy, operational and other reason that justifies a volume shift away from the rate category with the higher level of worksharing.

RESPONSE:

- a. Not confirmed. The proposed discount is 1.8 cents per piece for piece-rated pieces. The difference between the proposed DBMC and DSCF discounts is 0.3 cents.
- b. Not confirmed. The current discount for DSCF is 1.8 cents. The current discount for DBMC is 1.3 cents per piece, for a difference between those two discounts of 0.5 cents.
- c. It is my understanding that there is no forecast of volume changes specifically due to this change in the difference between the DBMC and the DSCF discount.
- d. Not applicable. See response to part c.

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MASA/USPS-T36-5. At page 20 of your testimony, you state that "savings due to destination entry, unlike most other worksharing discounts, have increased."

- a. Confirm that per unit discounts for SCF destination entry categories of letters and flats in Standard mail, Regular Subclass, have been decreased in the USPS proposal in this case compared to MC95-1. If you cannot confirm, please explain why not.
- b. Provide the data showing the per unit cost savings and discounts for BMC and SCF Standard Regular and ECR mail in MC95-1 and as determined by the Postal Service in this case.
- c. In light of the increase in cost savings for destination entry categories of Standard mail referred to in your testimony, what is the justification for decreasing the SCF discount?

RESPONSE:

- a. Not confirmed. The current discount, which was established pursuant to Docket No. MC95-1, is 1.8 cents and the proposed discount is 1.8 cents. The DBMC discount is proposed to *increase* from 1.3 to 1.5 cents, thereby resulting in a narrowing of the difference between DBMC and DCSF rates. See response to subpart (c).

- b. Docket No. MC95-1, USPS-T-18, Appx. B, page 6 (in cents):

	per pound	per piece
DBMC	6.40	1.32
DSCF	8.53	1.76
DDU	11.05	2.28

Docket No. R97-1, USPS-T-36 WP1, page 9 (in cents):

	per pound	per piece
DBMC	9.04	1.86
DSCF	11.05	2.28
DDU	13.79	2.84

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- c. First, it is important to emphasize that the question incorrectly concludes the DSCF discount has "decreased;" in fact, the DSCF discount remains unchanged. The passthrough of 80 percent was selected and applied to all three levels of destination entry for the reasons explained in my testimony at page 20. This passthrough results in a proposed increase to the DBMC piece discount, while the DSCF and DDU piece discounts are proposed to remain at current levels. The proposed difference between the DBMC and DSCF discounts is narrower than the current difference due to the proposed *increase* in the DBMC discount.
- If this differential between DSCF and DBMC were to be explicitly addressed with the desire to keep it at current levels, one method for obtaining such a rate relationship would be to input a passthrough of 70 percent at the DBMC tier, while keeping all other passthroughs at the proposed levels. This appears to result in the maintenance of the current DBMC/DSCF differential and would allow for a small reduction in all of the proposed Regular subclass piece rates.
- Another option might be to choose passthroughs that result in an increase in one-tenth of a cent over current discounts for all three dropship levels. This would preserve the current relationship between the discounts and may not result in any change in the base rates in the Regular subclass. It might, however, result in an increase in the base rates in Enhanced Carrier Route.

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MASA/USPS-T36-6. In response to MASA/USPS-T36-4c, you state that there has been "no forecast of volume changes specifically due to [the] change in the difference between the DMBC and DSCF discount."

- a. Apart from whether any specific forecast was made, will any volume decrease occur in DSCF mail as a result of the decrease in the discount increment between DSCF and DBMC mail under the USPS proposal in this docket? If so, give your best estimate of the magnitude of the decrease and explain how you arrived at it?
- b. If your answer to a. is no, explain your answer fully.

RESPONSE:

- a. It is possible that increasing the DBMC discount relative to the DSCF discounts could result in a decrease in DSCF volume. Presumably, there is some mail that is entered at the DSCF because it is closer to mailers' plants than is the DBMC, or is entered at the DSCF for service reasons. These pieces might continue to be entered at the DSCF regardless of the difference between the DSCF discount and the DBMC discount. On the other hand, there is a second group of mail which is currently entered at the DSCF rather than the DBMC in order to take advantage of the difference between the two discounts. The decrease in the difference may cause some of this mail to no longer be entered at the DSCF rate. I do not know how much mail falls into each of these two groupings, and have no estimate of the net change in DSCF volume that would result from a decrease in the DBMC/DSCF differential.
- b. See response to subpart a.

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OF MAIL ADVERTISING SERVICE ASSOCIATION INTERNATIONAL

MASA/USPS-T36-7. In formulating rate recommendations, was any consideration given to whether the decrease in the discount increment between DSCF and DBMC mail categories would make it less attractive to mailers to present mail at the DSCF level? Explain your answer fully.

RESPONSE:

No. The proposed destination entry discounts were developed as described in my testimony at page 20. Potential alternative approaches are described in my response to MASA/USPS-T36-5c.

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OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T36-1. In your Testimony (USPS-T-36, page 21), you list the proposed rates for Standard (A) Regular Automation letters.

- a. Confirm that the Service's proposed Standard Automation rates would result in the following postage prices for letters:

Standard(A) Regular Automation 5-Digit: Weight (No Entry Discount)	Rate (Cents)
--	-----------------

0.1 oz. to 1.0 oz.	16.0
1.1 oz. to 2.0 oz.	16.0
2.1 oz. to 3.0 oz.	16.0

- b. If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

- a. Confirmed.
- b. Not applicable.

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OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T36-2. In your Testimony (USPS-T-36, page 21), you list the proposed rates for Standard (A) Regular Automation letters.

- a. Confirm that the Service's proposed Standard Automation rates would result in the following postage prices for letters:

Standard(A)Regular Automation 3-Digit: Weight (No Entry Discount)	Rate (Cents)
---	-----------------

0.1 oz. to 1.0 oz.	17.8
1.1 oz. to 2.0 oz.	17.8
2.1 oz. to 3.0 oz.	17.8

- b. If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

- a. Confirmed.
- b. Not applicable.

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MMA/USPS-T36-3. In your Testimony (USPS-T-36, page 21), you list the proposed rates for Standard (A) Regular Automation subclass.

- a. Confirm that the Service's proposed Standard Automation rates would result in the following postage prices for letters:

<b>Standard(A)Regular Automation Basic: Weight (No Entry Discount)</b>	<b>Rate (Cents)</b>
--	-------------------------

0.1 oz. to 1.0 oz.	18.9
1.1 oz. to 2.0 oz.	18.9
2.1 oz. to 3.0 oz.	18.9

- b. If you cannot confirm this, please state the correct postage prices for each of the listed letters.

**RESPONSE:**

- a. Confirmed; however, the question incorrectly refers to an Automation subclass.
- b. Not applicable.



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OF MAJOR MAILERS ASSOCIATION

MMA/USPS-T36-4. In your Testimony (USPS-T-36, page 21), you list the proposed rates for Standard (A) Regular Presort letters.

- a. Confirm that the Service's proposed Standard Presort rates would result in the following postage prices for letters:

Standard(A)Regular 3/5 Digit Presort: Weight (No Entry Discount)	Rate (Cents)
--	-----------------

0.1 oz. to 1.0 oz.	20.9
1.1 oz. to 2.0 oz.	20.9
2.1 oz. to 3.0 oz.	20.9

- b. If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

- a. Confirmed.
- b. Not applicable.

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MMA/USPS-T36-5. In your Testimony (USPS-T-36, page 21), you list the proposed rates for Standard (A) Regular Presort letters.

- a. Confirm that the Service's proposed Standard Presort rates would result in the following postage prices for letters:

Standard(A)Regular Basic Presort: Weight (No Entry Discount)	Rate (Cents)
--	-----------------

0.1 oz. to 1.0 oz.	24.7
1.1 oz. to 2.0 oz.	24.7
2.1 oz. to 3.0 oz.	24.7

- b. If you cannot confirm this, please state the correct postage prices for each of the listed letters.

RESPONSE:

- a. Confirmed.
- b. Not applicable.

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MMA/USPS-T36-6. In your Testimony (USPS-T-36, page 21), you list the proposed rates for Standard (A) non-letters.

Please confirm that:

- a. For basic automation flats, the rates are the same for all pieces weighing up to 3.3 ounces. If not please explain.
- b. For 3/5 digit automation flats, the rates are the same for all pieces weighing up to 3.3 ounces. If not, please explain.
- c. For basic presorted non-letters, the rates are the same for all pieces weighing up to 3.3 ounces. If not, please explain.
- d. For 3/5 digit presorted non-letters, the rates are the same for all pieces weighing up to 3.3 ounces. If not, please explain.

RESPONSE:

- a. Not confirmed. There are three different rates that apply to basic automation flats weighing less than the breakpoint weight: no destination entry, DBMC, and DSCF. Within each of these groupings, however, the rates are the same regardless of weight. Also, the breakpoint as calculated in WP1, page 16, is 3.2985 ounces.
- b. Not confirmed. There are three different rates that apply to 3/5-digit automation flats weighing less than the breakpoint weight: no destination entry, DBMC, and DSCF. Within each of these groupings, however, the rates are the same regardless of weight. Also, the breakpoint as calculated in WP1, page 16, is 3.2985 ounces.
- c. Not confirmed. There are six different rates that apply to basic presort nonletters weighing less than the breakpoint weight: no destination entry, DBMC, and DSCF for nonletters not subject to the residual shape surcharge; and no destination entry, DBMC, and DSCF for nonletters subject to the residual shape surcharge. Within

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each of these groupings, however, the rates are the same regardless of weight.

Also, the breakpoint as calculated in WP1, page 16, is 3.2985 ounces.

- d. Not confirmed. There are six different rates that apply to 3/5-digit presort nonletters weighing less than the breakpoint weight: no destination entry, DBMC, and DSCF for nonletters not subject to the residual shape surcharge; and no destination entry, DBMC, and DSCF for nonletters subject to the residual shape surcharge. Within each of these groupings, however, the rates are the same regardless of weight. Also, the breakpoint as calculated in WP1, page 16, is 3.2985 ounces.

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MMA/USPS-T36-9. In USPS-T-36, page 16, you state that the Standard mail rate design incorporates a breakpoint weight--the maximum weight for pieces that pay only the per-piece rate--of 3.3 ounces. (See also *Id.* page 7, note 7.)

- a. Please explain whether the selection of this breakpoint takes into account the results of the "live" test announced in 59 Federal Register 65967-71 and 60 Federal Register 5860-61 and, if so, how.
- b. Please explain whether the "live" test announced in 59 Federal Register 65967-71 and 60 Federal Register 5860-61--which was to process "First-Class and second-class letter mail weighing between 3.0 and 3.376 ounces" (60 Fed. Reg. at 5860)--supports your use of a breakpoint rate of 3.3 ounces and, if so, how.

RESPONSE:

- a.-b. The breakpoint was chosen independently of the test.

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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 [ $37,627.555 \times (.2178 - .2093)$ ] 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.

NAA/USPS-T36-1. Please refer to your testimony at page 4, lines 14-15.

- a. Please explain why all customers of Single-Piece Standard A Mail have not elected to use First-Class Mail already?
- b. Are there any unique features to Single-Piece Standard A Mail that are not available in First-Class Mail? If yes, please describe these features.

**RESPONSE:**

- a. For those weight increments where there is rate parity between First-Class Mail and Single-Piece Standard Mail (A), it is possible that some customers are not aware of the rate parity and choose the latter. Also, some mail, such as returned parcels, must travel by Single-Piece Standard Mail (A) by regulation, and I understand that some Single-Piece mail consists of residual pieces from automation rate mailings.
- b. It is unclear what the question intends by "unique features," but I note that Single Piece Standard Mail (A) includes a service for the return of keys and identification devices.



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NAA/USPS-T36-2. Please refer to your testimony at page 4, lines 15-17.  
Please explain why Single-Piece Standard A Mail has unit costs in excess of  
First-Class Mail. Why is Single-Piece Standard A Mail more expensive to handle  
than First-Class Mail of comparable weight?

RESPONSE:

Please see my response to UPS/USPS-T34-1 which was redirected from witness  
Taufique.

NAA/USPS-T36-3. Please refer to your testimony at page 10, lines 14-15. Please explain why more of the "revenue benefit" of the residual surcharge should be directed to flats, when letters are already contributing more to institutional costs on average compared to flats.

RESPONSE:

The paragraph which includes the citation noted in this question explains that some observers might argue that the residual shape surcharge should be viewed solely as a deaveraging of nonletters. The rate design formula, however, spreads the added revenue from the surcharge to all pieces within the subclass, not just flats. The cited passage observes that nonletters, including flats, are benefiting from a relatively low shape passthrough, so to the extent the rate design formula benefits letters through its treatment of the revenue from the residual shape surcharge, it should be viewed as an offset to the lower letter/nonletter passthrough.

NAA/USPS-T36-4. Please refer to your testimony at page 10, lines 20-21 and page 11, lines 1-2.

- a. What is the highest percentage rate increase proposed for an existing category of Standard A Regular mail?
- b. What is the highest percentage rate increase proposed for an existing category of Standard A Nonprofit mail?
- c. What is the highest percentage rate increase proposed for an existing category of First-Class letter mail?
- d. Please refer to footnote 19 at page 11. What is the highest percentage increase in the proposed rate for a parcel entered in Standard Regular mail?

RESPONSE:

- a. The proposed increase for non-destination entry rate for minimum-per-piece 3/5-digit automation flats is 9.5 percent. If DSCF-entered minimum-per-piece 3/5-digit automation flats is considered a separate rate category, then its proposed increase is the highest at 10.5 percent.
- b. For full rates (Step 6), the proposed increase for non-destination entry rate for minimum-per-piece 3/5-digit automation flats is 24.0 percent. If DSCF-entered minimum-per-piece 3/5-digit automation flats is considered a separate rate category, then its proposed increase is the highest at 28.0 percent.
- c. Carrier Route cards are proposed to increase 11.4 percent. Also, to the extent it is considered a rate category, a one-ounce nonstandard presort piece is proposed to increase 21.7 percent.
- d. The proposed increase for non-destination entry rate for minimum-per-piece 3/5-digit residual shape pieces is 51.1 percent. If DSCF-entered minimum-per-piece 3/5-digit residual shape is considered a separate rate category, then the proposed increase for this category is the highest at 55.6 percent.

NAA/USPS-T36-5. Please refer to your testimony at page 13, lines 17-20 and page 14, lines 1-5.

- a. Please describe the characteristics of the different types of parcels in Standard A mail.
- b. Please explain why some parcels have cost characteristics similar to flats, while other parcels are more costly to handle than flats.
- c. For those parcels with the same or similar cost characteristics as flats, please explain why you propose applying the surcharge to these parcels.
- d. Would it be possible to define "parcel" in such a manner as to exempt parcels with flat-like cost characteristics from the surcharge? If no, why not?

RESPONSE:

- a. See my response to PSA/USPS-T36-3. As described in my testimony at page 14, lines 6-16, a wide variety of piece types populate Standard Mail (A). Rather than attempt to describe all of these types, it is proposed that Standard Mail (A) be viewed as consisting of letters, flats, and pieces which meet neither the definition of a letter nor a flat. The proposal, therefore, does not deal with the definition of a parcel or attempt to describe the characteristics of a parcel.
- b. I do not contend that there are parcels with cost characteristics similar to flats. The passage cited in my testimony attributes this argument to mailers.
- c. See response to subpart b.
- d. A piece with "flat-like" costs will likely meet the definition of a flat, in which case it would be exempt from the surcharge, as long as it is prepared in accordance with flat preparation requirements.

NAA/USPS-T36-6. Please refer to your testimony at page 15, lines 8-10 and page 24, lines 3-5.

- a. Please confirm that the proposed reduction in the pound rate for Regular Rate Other is 4 percent. If you cannot confirm this figure, please provide the correct figure.
- b. Please confirm that the proposed reduction in the pound rate for Regular ECR mail is 20 percent. If you cannot confirm this figure, please provide the correct figure.
- c. Please explain why the proposed reductions in the pound rate differ for the two subclasses.
- d. Please refer to footnote 26 at page 13. Please confirm that less than 8 percent of Regular Rate Other non-letters are parcels while less than one percent of ECR non-letters are parcel shaped.
- e. Please explain why the higher percentage of parcels in Regular Rate Other does not cause a greater reduction in the pound rate in Regular Rate Other mail compared to ECR given that "the surcharge reduces the need for the pound rate to act as a proxy for the changing shape mix as weight increases."

**RESPONSE:**

- a. For this subpart, and all other subparts of this interrogatory, I assume that "Regular Rate Other" means the Regular subclass, and "Regular ECR" means the ECR subclass. The reduction in the pound rate element for non-destination entry pound-rated Regular mail is 4 percent.
- b. The reduction in the pound rate element for non-destination entry pound-rated ECR mail is 20 percent.
- c. The rationale for the reductions in the pound rate is explained in my testimony at pages 15 and 16 for Regular, and pages 24-26 for ECR.  
  
Several factors cause the pound rate to be higher for Regular. For instance, due to the low passthrough for the residual shape surcharge, the pound rate

still has a role as a proxy for shape as described at page 15, lines 15-19. In ECR, the pound rate does not act as a proxy for shape even without the *residual shape surcharge*, as described at page 25, lines 9-11. Also, as described at page 16, lines 1-6, a lower pound rate in Regular would require a greater push up on piece rates, some of which are close to the 10 percent maximum increase guideline. In ECR, the guideline is met even with the lower pound rate. Also, the weight study in USPS LR-H-182 shows that weight likely plays a greater cost-causative role in Regular than in ECR.

- d. Confirmed.
- e. The current Regular pound rate may be viewed as a proxy for changing shape mix as weight increases, and implementation of the residual surcharge lessens the need for the pound rate to play that role. The current ECR pound rate, although it is very similar in magnitude to the Regular pound rate, plays no such role since, as described in my testimony at page 25, lines 9-11, the weight per piece for flats and parcels in ECR is about the same. The ECR pound rate should be reduced even in the absence of a residual piece surcharge. See response to subpart c.

NAA/USPS-T36-7. Please refer to your testimony at page 16, lines 7-8 and page 27, lines 1-2.

- a. Please explain why you propose to maintain a breakpoint weight of 3.3 ounces for Standard Regular Other Mail.
- b. Other than the fact that this is "very near" the current breakpoint, is there any reason why 3.3 ounces is preferred compared to, for example, 3.0 ounces?
- c. Please explain why you propose to maintain a breakpoint weight of 3.3 ounces for Standard ECR mail?
- d. Other than the fact that this is "very near" the current breakpoint, is there any reason why 3.3 ounces is preferred compared to, for example, 3.0 ounces?
- e. What criteria are important when determining the breakpoint weight? Please list these criteria in order of importance and explain why they are important when selecting the proposed breakpoint weight.

**RESPONSE:**

- a. The Postal Service is not proposing a major change to the established minimum-per-piece, per pound, rate structure. In absence of such a change, there was no need to depart from the current breakpoint.
- b. See response to subpart a. Also, proposing a breakpoint near the existing breakpoint is advantageous in that it avoids disruption to mailers that have established mailing practices based on the current breakpoint.
- c. The Postal Service is not proposing a major change to the established minimum-per-piece, per pound, rate structure. In absence of such a change, there was no need to depart from the current breakpoint.
- d. See response to subpart c. Also, proposing a breakpoint near the existing breakpoint is advantageous in that it avoids disruption to mailers that have established mailing practices based on the current breakpoint.
- e. In absence of a compelling reason to change the breakpoint, the existing breakpoint is generally retained. See response to subparts b and d.

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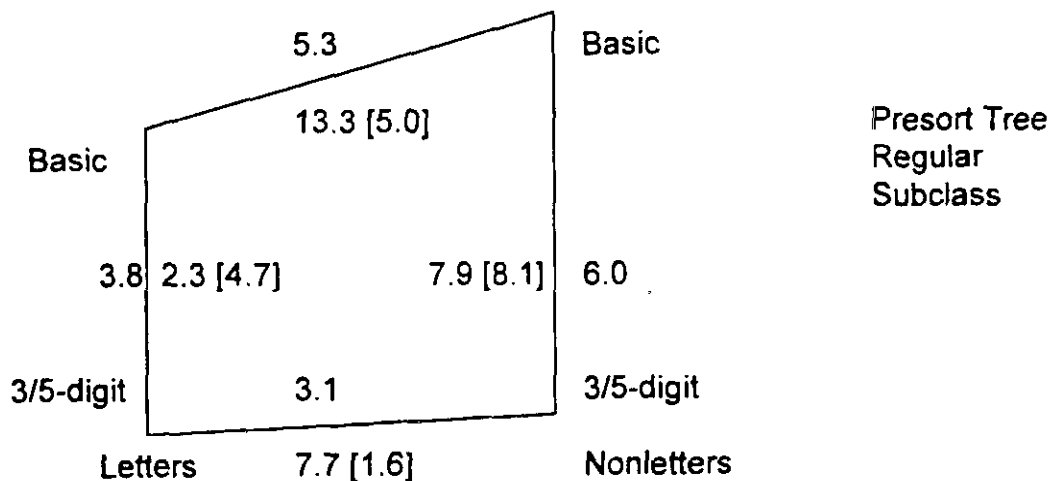
NAA/USPS-T36-8. Please refer to your testimony at page 16, lines 11-13 and page 29, lines 15-18.

- a. Please provide the "presort tree" for Standard A Regular Other Mail.
- b. Please provide the "presort tree" for Standard A ECR Mail.

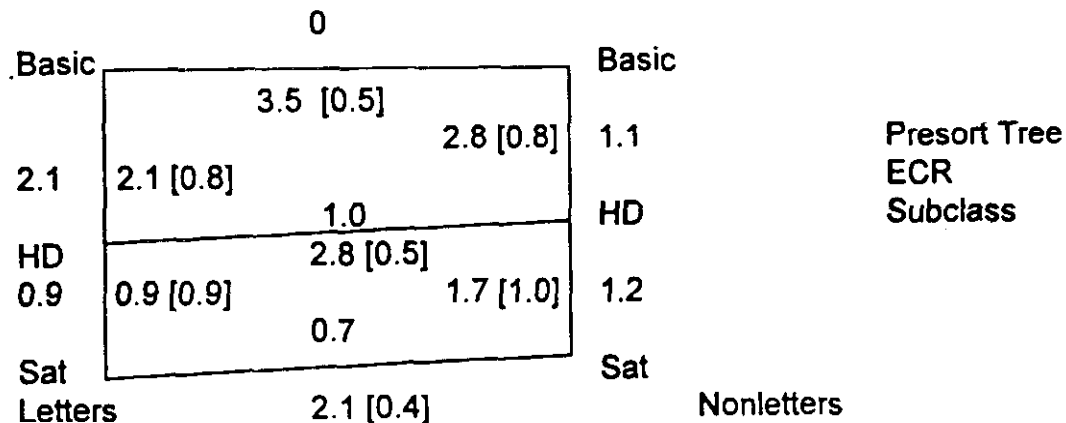
**RESPONSE:**

Numbers in brackets are current rate differences; other numbers inside box are cost differences as calculated in this proposal. Numbers outside of box, or above non-vertical lines are proposed rate differences. All figures are in cents.

a.



b.





NAA/USPS-T36-9. Please refer to page 17, lines 10-11 of your testimony, where you state that "the proposed rates maintain discounts at or above 80 percent of their current level."

- a. To which specific discounts are you referring?
- b. Please clarify whether your comparison is between the absolute value of the discounts, or to the total discounted rate, or some other comparison.

RESPONSE:

- a. The statement refers to the guideline for all of the discounts.
- b. This specific passage refers to the absolute value of the discounts.

NAA/USPS-T36-10. As a general matter, would the presort discounts have been larger if the Postal Service were not sponsoring a cost study that tends to attribute fewer mail processing costs than the methodology that underlies current rates?

RESPONSE:

There are a number of factors that cause the cost differentials underlying the discounts to differ from the cost differentials presented in Docket No. MC95-1.

All else equal, though, it would not be unreasonable to expect that the cost study referred to in this question would tend to reduce presort-related cost differentials.

I cannot confirm, however, that the discounts themselves would be larger since I do not know what passthroughs would have been applied to those cost differentials.

NAA/USPS-T36-11. Please refer to your testimony at page 17, lines 15-20. Could the reduction in the passthroughs of the presort cost differentials for non-letter mail be avoided by increasing the shape passthroughs at some presort levels? If yes, please explain how. If no, please explain why not.

**RESPONSE:**

Yes. The spreadsheet underlying WP1 (USPS LR-H-202) allows for entry of various changes to the proposed rate design to determine, roughly, if such changes would result in a particular outcome. As an illustration, by entering 50 percent instead of 40 percent for the letter/nonletter passthrough at the Basic tier, one can see that the passthrough of the presort cost differential for non-letter mail in the Regular subclass would increase from the proposed passthrough.

NAA/USPS-T36-12. Please refer to your testimony at page 17, lines 2-5.  
Please explain why 10 percent was chosen as a general guideline for mitigating  
rate increases.

**RESPONSE:**

I received general direction from management that an upper limit of 10 percent  
was appropriate for commercial Standard Mail (A) given the overall increase  
proposed for that general classification.

NAA/USPS-T36-13. Please refer to the Summary of Proposed Regular Rates at page 21.

- a. Please confirm that the proposed rate for a 4 ounce 3/5-digit presorted, non-barcoded flat entered at the SCF is 24.65 cents.
- b. Please confirm that the proposed rate for a 8 ounce 3/5-digit presorted, non-barcoded flat entered at the SCF is 38.7 cents.
- c. Please confirm that the proposed rate for the 8 ounce piece is 57 percent higher than the rate for the 4 ounce piece.
- d. Please confirm that the proposed rate for a 12 ounce 3/5 digit presorted , non-barcoded flat entered at the SCF is 52.75 cents.
- e. Please confirm that the proposed rate for the 12 ounce piece is 114 percent higher than the rate for the 4 ounce piece.
- f. Please confirm that the proposed rate for a 16 ounce 3/5 digit presorted , non-barcoded flat entered at the SCF is 66.8 cents.
- g. Please confirm that the proposed rate for the 16 ounce piece is 171 percent higher than the rate for the 4 ounce piece.

If you cannot confirm any of these figures, please provide the correct figures.

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed; although Standard Mail (A) must weigh less than 16 ounces.
- g. Confirmed; although Standard Mail (A) must weigh less than 16 ounces.

NAA/USPS-T36-14. Please refer to your testimony at page 24, lines 3-4 and page 25, lines 16-17. Please explain how you arrived at a proposed rate of 53 cents for ECR mail based upon the "new" cost information provided in Library Reference H-182.

**RESPONSE:**

As described on pages 24-27 of my testimony, the selection of the pound rate was based on a number of factors, only one of which was the USPS Library Reference H-182. As far as the Library Reference is concerned, it shows generally that weight plays a very minor role in the cost of Enhanced Carrier Route mail. It was not used in any type of calculation of the proposed 53 cent rate.

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NAA/USPS-T36-15. With regard to Library Reference USPS-LR-H-182 as part of your testimony? If not, please state whether any witness is sponsoring USPS-LR-H-182.

RESPONSE:

No witness is sponsoring the Library Reference as part of his or her testimony; however, I rely on the study and can field questions about my use of its results; to the extent further information is required, the Postal Service is providing responses to interrogatories regarding the Library Reference.

NAA/USPS-T36-16. Please provide the following information regarding Library Reference USPS-LR-H-182.

- a. Was this document prepared by you or under your direction?
- b. Did you participate in any way in, the preparation of LR-H-182?
- c. Unless your answer to the preceding part (b) is an unqualified negative, please describe your role with respect to LR-H-182.
- d. When was the material prepared?
- e. What was the purpose of the document?
- f. What were the data sources used in preparing this material?

RESPONSE:

- a. No.
- b. I suggested that a refinement and update of the study provided in Docket No. MC95-1 would assist in the rate development for this proceeding. Also, I reviewed a near-final draft.
- c. See response to b.
- d. The material was prepared in the spring and early summer of 1997.
- f. It is my understanding that the Library Reference documents the data sources on pages 10 and 11.



NAA/USPS-T36-28. Please refer to your testimony at page 26, lines 5-7. Please provide all studies and analyses of the rates for other advertising media that, in your mind, justify the lower pound rate.

RESPONSE:

As described in my testimony at pages 24-27, the rates for other advertising media were an additional consideration in the pound rate proposal. This is not to say that postal rates must mirror non-postal alternatives; however it useful to note the price structures of other media.

In addition to the testimony cited in the footnote to the passage cited in this question, I reviewed, in preparation for Docket No. MC95-1, the pricing schedules of several major newspapers for preprinted inserts in order to get a general impression of how rates increase with weight. Although the rates varied widely from paper to paper, and the rates were by pages, not ounces, I recall that a doubling of pages resulted in rate increases of about 20-40 percent – and never resulted in anything near a doubling of the rate.

Also, in reaction to the Docket No. MC95-1 filing, the April 17, 1995 issue of *Optimum Delivery*, a trade publication for the alternate delivery industry, stated:

For alternate delivery companies the case as filed would *slightly* reduce competitive rates, making the economies of scale better for mail at low package weights. However, the real opportunity in alternate delivery has always been heavier packages and the new classifications *will do nothing to change that* even though the pound rate has been reduced. The pound rate reduction *will* reduce the savings at higher weights, but *will not eliminate the significant advantages alternate delivery has with heavier packages.*

Docket No. MC95-1, Tr. 22/9910 (emphasis added).

NAA/USPS-T36-32. Please refer to your testimony at page 24, lines 7-23. Does setting the piece charge at greater than zero for pound-rated saturation nonletters imply that such pieces incur piece-related costs? Please explain.

RESPONSE:

Yes. It implies that there is additional cost for handling additional pieces. The cited testimony provides an example describing such a situation.

NAA/USPS-T36-33. Please refer to your testimony at page 25, line 5. Please clarify what are the "two reasons" to which you refer.

RESPONSE:

The two "reasons" are actually two aspects of the same point. One, no longer does the pound rate for carrier route have to be tied to the pound rate for non-carrier route; and, two, since it is no longer tied to non-carrier route, the role of the pound rate as proxy for shape can be separately analyzed for carrier route, and that analysis reveals that the pound rate has no role as a proxy for shape in ECR.

NAA/USPS-T36-34. Please refer to your testimony at page 27, line 15 through page 28, line 2. Could "special consideration" be given to the Postal Service's concern regarding its letter automation program by holding the basic letter rate at the proposed level, but increasing the rate for Basic nonletters?

RESPONSE:

The "special consideration" is to examine the rate relationship between 5-digit automation and ECR Basic letters. The rate for nonletters at the Basic ECR tier is not a factor in this "special consideration." However, if the rate for Basic nonletters were proposed to increase more, while the rate for ECR letters was held at the proposed level and the target cost coverage remained the same for ECR, then the discounts for high-density, saturation, and/or destination entry would have to be increased.

NAA/USPS-T36-35. Please refer to your testimony at page 28, footnote 44. Does the elimination of the letter/non-letter rate differential at the basic tier result in letters making a significantly higher contribution to institutional costs compared to non-letters? If yes, please explain why you believe this to be desirable. If no, please explain.

**RESPONSE:**

Unit contribution is not calculated at this level of detail, but to the extent any cost difference remains between the letters that do not migrate and nonletters, then, yes, the letters will make a greater contribution per piece, but this should not be characterized as a "significant" difference. Both groupings should make a significant per piece contribution since the cost coverage for ECR is so high.

NAA/USPS-T36-36. Please refer to your testimony at page 28, lines 7-11.

- a. Did the Postal Service consider eliminating the basic tier within ECR letter mail? If no, why not? If yes, why did you choose not to propose the elimination of this category of mail?
- b. Did the Postal Service consider moving the basic tier of ECR letters to the Standard A Regular Other subclass? If no, why not? If yes, why did you choose to retain this category within Standard ECR mail?

RESPONSE:

- a. Yes. Since the same effect could be achieved by setting the shape passthrough at zero percent, it seemed unnecessary to eliminate the category, especially if retaining the category allowed for distinctive preparation requirements by shape.
- b. I know of no proposal to management to consider such a classification change in preparation of this case. It is my understanding that this rate case was to retain the classification schedule recommended and approved in Docket Nos. MC95-1 and MC96-2 to the extent possible.

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NAA/USPS-T36-37. Please refer to your testimony at page 28, lines 11-13.

- a. How many letters will remain in the Basic ECR letter category?
- b. Please explain all reasons why these letters will not shift to the Automation 5-digit category within Standard Regular Other Mail.

RESPONSE:

- a. The TYAR volume forecast on page 3 of my WP1 includes approximately 3.2 billion ECR Basic letters.
- b. Presumably, the mailers of these pieces do not choose to meet the requirements for automation rates, or perhaps do not have the density to qualify for 5-digit automation.

NAA/USPS-T36-38. Please refer to your testimony at page 28, lines 8-11. If a greater percentage of the shape differential were passed through in Standard A Regular Other Mail at the automation 5-digit level, would this permit a non-zero-percent passthrough of the shape differential for Standard ECR Mail at the basic tier while still resulting in a lower rate for 5-digit Automation mail compared to the basic ECR letter rate? Please explain fully.

RESPONSE:

The rate design model does not include an input for a passthrough "at the automation 5-digit level." One can use the spreadsheet underlying WP1 (USPS LR-H-202) to test various passthroughs to get a rough idea of what rate relationships might be possible. The scenario suggested in this question appears to involve a greater passthrough of the letter/nonletter differential at the 3/5-digit tier. Presumably, that would result in an even lower proposed rate for 5-digit automation, but may cause other rates to change in a manner that fails to meet the other rate design objectives. A non-zero shape passthrough for ECR can also be tested by using the spreadsheet. Presumably, there is a passthrough greater than zero that can be entered that would result in a rate for ECR basic letters that is still higher than 5-digit automation letters.



NAA/USPS-T36-39. Please refer to your testimony at page 28, lines 10-12, where you state that the proposed rates would "encourage letter mailings with [basic] density to be entered instead as Automation Enhanced Carrier Route or 5-digit Automation letters."

- a. Does the Postal Service has a preference as to which rate category these letters are entered?
- b. Does the price difference between Basic ECR, Automation ECR, and 5-digit automation letters reflect the actual cost difference to the Postal Service processing this mail?
- c. Does the price difference between Basic ECR, Automation ECR, and 5-digit automation letters reflect the actual cost differences to the Postal Service processing this mail?

RESPONSE:

- a. The Postal Service prefers that these letters be entered at automation rates; whether the letters are entered at the 5-digit automation rate or the Automation ECR rate depends on mailer preference and the destination of the letters.
- b. The rates between ECR and Regular subclasses are not set through the rate design models based on cost differentials. Within ECR, the rate difference between ECR auto and ECR Basic letters represents 110 percent of the cost differential.
- c. See response to subpart b.

NAA/USPS-T36-40. Please refer to your testimony at page 32, lines 9-10.

- a. Please explain why it is desirable to have rates for the Nonprofit Mail subclasses "mirror" the Regular subclasses.
- b. Are there any differences in mail characteristics that warrant a different rate schedule?

RESPONSE:

- a. I believe this question is intended to refer to page 33 of my testimony. The desire is to have the rate *structure* of nonprofit mirror that of commercial. It is my understanding that this simplifies administration and comports with the desire of the nonprofit community.
- b. Not that I am aware of.

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.

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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.

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.

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.

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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.

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.



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.

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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.

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.

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

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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.

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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.

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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.

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.



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.

NDMS/USPS-T36-1.

- a. What is the average cost of Standard A ECR parcels?
- b. What is the average revenue from Standard A ECR parcels?
- c. For Standard A ECR parcels, your proposed surcharge of 10 cents represents what percent of the difference between revenues and costs?

RESPONSE:

- a. See witness Crum's response to NDMS/USPS-T28-17.
- b. See witness Crum's response to NDMS/USPS-T28-17.
- c. See witness Crum's response to NDMS/USPS-T28-17. The comparison sought in this subpart is not particularly illuminating, but can be calculated using the figures cited by witness Crum. What percentage 10 cents is of the "difference between revenues and costs" is not relevant to the rate design. The 10-cent surcharge is a recognition of the cost difference between flats and other nonletters.

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NDMS/USPS-T36-2.

- a. What is the average cost of Standard A Regular parcels?
- b. What is the average revenue from Standard A Regular parcels?
- c. For Standard A Regular parcels, your proposed surcharge of 10 cents represents what percent of the difference between revenues and costs?

RESPONSE:

- a. See witness Crum's response to NDMS/USPS-T28-17.
- b. See witness Crum's response to NDMS/USPS-T28-17.
- c. See witness Crum's response to NDMS/USPS-T28-17. The comparison sought in this subpart is not particularly illuminating, but can be calculated using the figures cited by witness Crum. What percentage 10 cents is of the "difference between revenues and costs" is not relevant to the rate design. The 10-cent surcharge is a recognition of the cost difference between flats and other nonletters.

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NDMS/USPS-T36-3. Please refer to your response to DMA/USPS-T4-23 (redirected from witness Moden). Please define the term "low passthrough" as you use it in that interrogatory response, and explain how one would distinguish a low passthrough from a moderate or high passthrough.

RESPONSE:

In the cited response, I am referring to the resulting passthrough of 28.6 percent for the residual shape surcharge of 10 cents. This is a very low passthrough in that it is, with one exception, the lowest passthrough in Standard Mail (A).

NDMS/USPS-T36-4. In witness Mayes' response to NDMS/USPS-T13-1, in Docket No. MC97-2, she stated that "machinability on any particular piece of equipment will not determine whether any specific piece of Standard (A) is subject to the surcharge."

- a. Would machinability determine whether any specific piece of Standard (A) is subject to the surcharge under the Postal Service's proposal in this docket?
- b. If not, please explain why a surcharge that ignores totally the most important characteristic determining differences in unit mail processing cost (*i.e.*, machinability) is likely to result in a price structure that better reflects cost differences.
- c. With respect to imposition of a surcharge that applies irrespective of machinability, please list and explain all incentives which the surcharge gives mailers to redesign their mail so that non-machinable pieces will become machinable.
- d. As a general principle, are incentives for reducing cost an appropriate consideration in rate design?

RESPONSE:

- a. Pieces not meeting the definition of a letter or flat, or pieces prepared as parcels, are subject to the residual shape surcharge. Machinability, per se, is not a determinant.
- b. This question is based on the mistaken impression that the costs upon which the residual shape surcharge is based do not account for machinability. In fact, machinability is factored into the calculation of cost differences.  
  
Witness Crum's cost calculations reflect the machinability of parcels. To the extent machinability of parcels reduces costs, the cost differential on which the surcharge is based is narrowed.
- c. The surcharge itself is not designed to encourage machinability.  
  
Machinability is encouraged, however, by the simpler preparation requirements for machinable parcels. Such pieces may be prepared to

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BMCs rather than 3-digit (which greatly reduces the number of separations required), and qualify for the 3/5-digit presort rate.

d. Yes.

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.

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.



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).

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OCA/USPS-T36-1. Please refer to your testimony at 7, lines 9-11. There you state:

This last input, the piece rate for pound mail, is theoretically set at the rate which, if it were to take advantage of all applicable discounts, would equal zero.<sup>8</sup>

At footnote 8, you cite "PRC Op., MC95-1. Para. 5643." Para. 5643 states:

Since the Commission is recommending a Regular subclass and an Enhanced Carrier Route subclass, the basis for calculating the piece charge must reflect the presort levels in each subclass. Thus, for the Regular subclass, the basis is the basic presort level compared to the 3/5-digit presort level. For the Enhanced Carrier Route subclass, the basis is the basic level compared to the saturation level. Using the Docket No. R90-1 approach for the Enhanced Carrier Route subclass, the Commission recommends a piece charge equal to the cumulative presort differential between basic flats and saturation flats. However, for the Regular subclass, applying this approach would result in a pound rate exceeding the current rate of 68.7 cents. To mitigate the rate impact on Regular subclass pound rate mailers, consistent with the § 3622(b)(4) pricing criterion, the Commission selects a piece charge greater than the cost differential between a basic flat and a 3/5-digit flat to prevent an increase in the pound rate for the Regular subclass.

Please explain specifically how the para. 5643 language demonstrates the point you make.

- a. Do the Commission's Docket No. MC95-1 workpapers illustrate the point you make at page 7 (quoted above)? If so, provide a specific citation to those workpapers.
- b. Please cite to any other Commission-generated documents that illustrate the point made at page 7 (quoted above).

RESPONSE:

Regarding para. 5643, if the piece charge is "equal to the cumulative presort differential between basic flats and saturation flats," then the piece rate for pound-rated saturation pieces would be zero.

- a.-b. Yes. Page 13 of the Commission's Docket No. MC95-1 workpapers shows "intercept" of 1.8, which is the sum of the discounts, and page 15 has an input called "intercept" of 1.8 cents.

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OCA/USPS-T36-2. Please display, as a mathematical expression, the equation described at 7, lines 7-14, of your testimony.

- a. In other words, please display, as a mathematical expression, the equation the Commission preferred and used in Docket No. MC95-1.
- b. Also display, as a mathematical expression, the equation you use in the current proceeding, which you describe as containing 2 modifications of the Commission's MC95-1 equation. USPS-T-36 at 8-9.

RESPONSE:

- a.-b. Actually, the formula used by the Commission in Docket No. MC95-1 and the formula used in the current proceeding are in essence the same mathematical expression. One modification is simply changing the value for which the formula solves. The rate design proposed in my testimony uses the formula to solve for the piece-rate for pound-rated pieces, whereas in Docket No. MC95-1, the Commission used the formula to solve for the pound rate. The formula can be expressed as follows:

$$RR+D = V_r(i+(BP/16)*P) + V_{rp}(i) + V_pP$$

Where RR is the revenue requirement from postage; D is the value of the discounts claimed by mailers;  $V_r$  is the volume of pieces paying minimum per piece rates;  $i$  is the basic per piece rate for pound-rated pieces; BP is the breakpoint weight; P is the pound rate;  $V_{rp}$  is the volume of pieces paying the pound rate; and  $V_p$  is the total number of pounds paying the pound rate. One modification is that the proposal solves for  $i$  with P as an input; whereas the Commission solved for P with  $i$  as an input. Both methods solve for the basic piece rate for flats. The other modification is that RR is reduced by the amount of revenue expected to be obtained from the residual-shape surcharge. See WP1, page 16 for a step by step derivation of the formula and the calculation of the rates.

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OCA/USPS-T36-3. Is it correct that, in Docket No. MC95-1, the pound rate you used did not depend on other "decisions" because you selected it? PRC Op. Docket No. MC95-1 at para. 5642. If your answer is negative, please explain.

RESPONSE:

No. Although the proposed methodology in Docket No. MC95-1 included selection of a pound rate, other decisions affected that selection in that the sum of all the decisions needed to result in the required revenue. In other words, if a higher or lower pound rate had been chosen, other selections, or decisions, would have had to change in order to generate the required revenue. The pound rate, however, was not "dependent" upon the other decisions in the sense that it was not the result of an algebraic function.

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OCA/USPS-T36-4. Is it correct that, in Docket No. MC95-1, the pound rate you used was not an algebraic function of decisions such as those cited in n. 69 of page V-255 of PRC Op. Docket No. MC95-1? If your answer is negative, please explain.

RESPONSE:

Yes, it is true that in Docket No. MC95-1, the proposed pound rate was not an algebraic solution; but as described in OCA/USPS-T36-3, other decisions played a role in selection of the pound rate in that the total revenue needed to meet the revenue requirement.

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OCA/USPS-T36-5. Is it correct that the Commission rejected your approach to determining the pound rate, and instead, determined the pound rate as an output of the formula described at para. 5642 of PRC Op. Docket No. MC95-1? If your answer is negative, please explain.

RESPONSE:

In Docket No. MC95-1, the Commission used the Docket No. R90-1 methodology for determining the pound rate, which was different from the methodology I proposed in Docket No. MC95-1. In this proceeding, the proposed rate design acknowledges the utility of the PRC-adopted formula and enhances its use by allowing for the pound rate to be an input, rather than an output. As described at page 26, line 17 of my testimony, *this modification provides more latitude to consider other factors when determining the appropriate pound rate.*

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OCA/USPS-T36-6. Is it correct that you are essentially proposing again in your current testimony that the pound rate should be "chosen"? USPS-T-36 at 9, lines 4-5. If your answer is negative, please explain.

RESPONSE:

Although the pound rate is selected, unlike the proposed rate design in Docket No. MC95-1, the rate design in this docket uses the PRC-adopted formula to determine other rates. Some choices have to be made as inputs to the formula. As described in my testimony at page 9, line 9, the proposed modification substitutes the variable for which the formula solves, i.e., the pound rate as opposed to the piece rate for pound rated mail. This modification of how the per-piece rate element for pound-rated mail is determined gives the Postal Service and the Commission more latitude to consider other factors in a comprehensive fashion when determining the appropriate pound rate. It should be noted that the PRC-recommended pound rate for Regular was essentially chosen as well. As stated in PRC Op., MC95-1, para. 5643, the Commission selected a particular piece rate for pound-rated mail in order to prevent an increase in the pound rate. In other words, the pound rate, although not an input to the formula, was monitored during the selection of the piece rate, and the piece rate was chosen to result in a pound rate which was deemed appropriate. The modified formula would allow for the direct input of an appropriate pound rate, and the output of the piece rate for pound rated mail. See my testimony at pages 8-9 regarding the advantages of the modification to the formula.



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OCA/USPS-T36-7. Please confirm that the 65-cent pound rate (for the regular subclass), that you recommend, would be higher if the Commission's Docket No. MC95-1 methodology for calculating the pound rate were employed. If you do not confirm, please explain your reasoning.

RESPONSE:

I cannot confirm. As stated in the passage in OCA/USPS-T36-1 from the Recommended Decision in Docket No. MC95-1, the Commission selected a piece rate greater than the cost differential between a basic flat and a 3/5-digit flat in order to prevent an increase in the pound rate for the Regular subclass. I do not know if the Commission would again choose a piece rate in this proceeding to avoid an increase in the pound rate, nor do I know what that piece rate would be if it were chosen by the Commission; consequently, it is uncertain whether the pound rate would be higher if the PRC's Docket No. MC95-1 methodology were employed. If, however, the term "methodology" in this question is intended to mean selecting a piece rate which equals the differential between a basic flat and a 3/5-digit flat (as described in the final sentence of PRC Op., MC95-1, para. 5643 and reproduced in OCA/USPS-T-36-1), then, yes, the pound rate produced by the formula would be considerably higher. The Commission could, however, select a piece rate to avoid this substantially higher pound rate, but I cannot speculate as to whether such a selection would result in a pound rate above 65 cents.

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OCA/USPS-T36-8. In preparing your testimony for Docket No. R97-1, did you ever calculate rates for Standard Mail A, bulk regular rate mail using the Commission's approach of solving for the pound rate, rather than selecting it?

- a. If so, please provide the rates that resulted from such a calculation.
- b. If not, please generate a set of Standard Mail A, bulk regular rates which result from using the Commission's approach concerning the pound rate (in place of your approach).

RESPONSE:

Initial question and a. I did not calculate rates for Standard Mail (A) using the Commission's approach in preparing my testimony.

- b. As stated in my response to OCA/USPS-T36-7, I cannot speculate what piece rate the Commission would select for the Regular subclass. One can use the formula in my workpapers (WP1, page 16) to calculate what rates might result if a strict adherence to the Commission methodology were followed regarding the calculation of the per-piece rate for pound-rated mail. In other words, pound rates can be input into the formula (at line 13) in an iterative fashion in order to produce a piece rate (at line 19) which equals the proposed rate differential between Basic and 3/5-digit flats. As stated in my response to OCA/USPS-T36-7, the result would be a higher pound rate, and lower piece rates. It is unclear whether the rates produced by such an exercise would result in the target cost coverage since they would have to be applied to a different set of after-rates volumes.

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OCA/USPS-T36-9. Please provide citations that support your statement at page 13, lines 17-19, that:

*[I]n Classification Reform I and in other forums, mailers have argued that there are different types of parcels, some of which are claimed to be similar in cost to flats, and some of which are claimed to be more costly than flats.*

RESPONSE:

For example, see Docket No. MC95-1 Tr. 39/17378-89, Tr. 39/17402-03, and Tr. 19/8275; and Reply Brief of Recording Industry Association of America. (Nov. 16, 1995) at 3-5. It is also my understanding that this issue has been raised during informal discussions between representatives of the Standard A and B parcel shipping communities and the Postal Service.

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OCA/USPS-T36-10. You observe, at page 13 of your testimony, that the Postal Service proposes to pass through "less than one-third of the measured cost difference" between flats and non-flats. What is the timetable of the Postal Service for increasing the passthrough to 100 percent of the cost difference?

RESPONSE:

There is no "timetable." As described in my testimony at page 13, there are a number of factors contributing to the selection of the passthrough. These factors will always need to be considered, and reevaluated, as necessary, when choosing a passthrough in future proceedings.

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OCA/USPS-T36-11. At page 16 of your testimony, you explain that:

Due to significant changes in costing methodology, the cost differentials supporting many of the discounts have changed significantly.

Please summarize the "significant changes" and provide citations to the testimonies of other Postal Service witnesses who espouse (or generate) the "significant changes."

RESPONSE:

Many of the inputs to the cost models (see testimony of witness Daniel, USPS-T-29) have been updated with more recent information. In addition, one of the more significant changes is the volume variability study described by witness Bradley (USPS-T-14).

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OCA/USPS-T36-12. Please confirm that the 80 percent passthrough described at page 17, line 14, of your testimony may be illustrated as follows:  
the current 3/5-digit presort letter discount of 4.7 cents (25.6 cents — 20.9 cents) x 0.8, yields a proposed 3/5-digit presort letter discount of 3.8 cents (rounded up from 3.76 cents). If you do not confirm, please provide the correct calculations, accompanied by an explanation and citations to the sources for the numbers used.

RESPONSE:

Not confirmed. The 80 percent figure is not a "passthrough," but rather a percentage of the current discount. The calculation, however, is correct and represents the derivation of the 80 percent figure.

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OCA/USPS-T36-13. Please refer to your WP 1, page 11, Worktable C, "Passthrough Percentages." The passthrough percentage for presort letters is given as "1.65." The note beneath Worktable C states "Assumed."

- a. Does this mean that the 1.65 (or 165 percent) passthrough has been assumed? If not, please explain.
- b. Does the 165-percent passthrough result solely from your decision not to allow discounts to fall below 80 percent of their current level (USPS-T-36, p. 17, lines 9-11)? If not, please explain how you arrived at a passthrough of 165 percent.
- c. Do you agree that the 165-percent passthrough is far out of line with the uniform 100-percent passthroughs recommended by the Commission in Docket No. MC95-1 for Standard A letters (see Table V-4, at page V-264, of the opinion and recommended decision)? If not, please explain.
- d. Please confirm that a 100-percent passthrough of the presort savings for 3/5-digit mail would result in a discount of approximately 2.3 cents (your WP 1, page 12). If you do not confirm, please explain.
- e. Please confirm that a 2.3-cent discount (based upon a 100-percent passthrough) would result in a 3/5-digit piece rate for Standard A letters of 22.4 cents (24.7 — 2.3 cents). If you do not confirm, please explain.

RESPONSE:

- a. The term "assumed" is from the Docket No. MC95-1 PRC Standard Mail Workpapers, page 7. It is "assumed" in that it is selected.
- b. The passthrough was selected as described in my testimony at page 17, lines 13-14, and followed the guidelines discussed at page 16, line 17 - page 17, line 12.
- c. As stated on page 16, line 20 of my testimony, the proposed rates reflect unconventional passthroughs. Such passthroughs are used in order to meet the guidelines described on pages 16-17.
- d. Confirmed.
- e. I cannot confirm. A reduction in the discount would result in lower "leakage" due to discounts and this in turn could result in lower basic rates. In other words, the 24.7 cent rate would probably be lower. The differential would be 2.3 cents, however.

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OCA/USPS-T36-14. Please confirm that the 5.3 cents set forth in Worktable D of WP 1, page 11, was calculated as follows:

26.1585 cents (from WP1, page 10) — 12.8452 cents (id.) =

13.3133 cents (from Worktable B, WP 1, page 11) x 40% = 5.3

- a. If you do not confirm, please provide the derivation of the 5.3-cent basic letter/flat differential unit cost passthrough.
- b. Is the non-letter basic presort rate of 30 cents, that you propose, the result of adding 5.3 cents to the proposed basic presort letter rate of 24.7 cents, i.e.,  $24.7 + 5.3$  cents = 30 cents? If this is not correct, please show how the 30-cent basic presort non-letter rate was developed.
- c. Is it correct that the proposed rate for 3/5 digit presort non-letter Standard Mail, Regular was derived as follows:  
30.6 cents (current rate for basic presort non-letter) — 22.5 cents (current rate for 3/5 digit non-letter presort) = 8.1 cents x 75.6% (from USPS-T-36-17, line 15) = 6.12 cents; and 6.12 cents was rounded to 6 cents as set forth in Worktable E of WP 1, page 11; and the 6-cent presort flat discount was subtracted from the proposed basic presort non-letter rate of 30 cents to arrive at the 3/5 digit presort non-letter rate of 24 cents?  
If the calculations set forth in this subpart are not correct, then please provide all necessary corrections and citations to sources relied upon.
- d. Please confirm that the 75.6-percent passthrough of the basic/3-5 digit presort differential was assumed, as noted in Worktable C, WP1, page 11. If you do not confirm, please explain.
- e. You note at page 17, lines 17-19, that the proposed presort passthrough for non-letters is only 74 percent of the current discount. Was that percentage calculated in the following manner:  
30.6 cents (current basic presort non-letter rate) — 22.5 cents (current 3/5 digit presort non-letter rate) = 8.1 cents; and  
30 cents (proposed basic presort non-letter rate) — 24 cents (proposed 3/5 digit presort non-letter rate) = 6 cents; and  
 $6 \div 8 = 74$  percent? If this is not correct, please explain.
- f. Was the 75.6 percent passthrough assumed in order to maintain a non-letter 3/5 digit discount of 74 percent of the current discount? If not, please explain how you chose the 75.6-percent passthrough.
- g. Please confirm that a 100-percent passthrough of the letter/flat differential of 13.3133 cents would result in a basic presort non-letter rate of approximately 38 cents, i.e., 24.7 cents (basic presort letter rate) + 13.3 cents = 38 cents. If you do not confirm, please explain.
- h. Also confirm that a 38-cent rate for basic presort non-letters is approximately a 24-percent increase from the current rate of 30.6 cents. If you do not confirm, please explain.



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OCA/USPS-T36-14. Continued

RESPONSE:

- a. Confirmed.
- b. The 30 cent rate is an output from the formula on page 16 of WP1. The letter rate is 30 cents - 5.3 cents.
- c. The calculations are correct, but this was not the method followed. The question implies that 75.6 percent was selected as the passthrough between Basic and 3/5-digit nonletters. In fact, that passthrough is characterized in my testimony as a "resulting passthrough" since it is determined by the other three passthroughs in the "presort tree." As stated in PRC Op., MC95-1, para. 5638: "Setting the letter presort passthrough and the letter-flat passthrough automatically produces the presort passthrough for flats." See response to parts d and f.
- d. Not confirmed. The note in Worktable C says the passthroughs were assumed "except for the flat passthrough" (emphasis added). It is the result of the shape passthroughs and the letter presort passthrough.
- e. The calculation is correct; however, the passage cited does not state that the "passthrough" is 74 percent. Rather, the proposed discount is 74 percent of the current discount.
- f. The passthrough was not selected explicitly; it is the result of the selection of the shape passthroughs and the letter presort passthroughs. In other words, the rates for Basic nonletters and 3/5-digit nonletters can be determined without selecting a nonletter presort passthrough; the two shape passthroughs (basic

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and 3/5-digit) and the letter presort passthroughs determine the discount for 3/5-digit nonletters. Once these three passthroughs are selected, the rate differential between basic and 3/5-digit nonletters "falls out." This differential is divided by the cost differential between Basic and 3/5-digit flats in order to see what the effective passthrough is for this discount. Although the rate difference and the effective passthrough are determined by the other passthrough choices, they are reviewed for appropriateness. See my testimony at page 17, line 15 through page 18, line 2.

g. I cannot confirm. An increase in the passthrough would change the "value of discounts" element of the rate design formula. This could lead to a change in the output of the formula. In other words, the basic nonletter rate might not be 38 cents; however, the differential between basic letters and basic nonletters would indeed be 13.3 cents. One can use the spreadsheet underlying WP1 to get an idea of what rates might result from 100 percent passthrough by entering 1 in place of the 0.4 in Worktable C, p 11.

h. Confirmed.

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OCA/USPS-T36-15. Please confirm that, under the rates you propose, a Standard A Regular Presort non-letter size piece subject to the 10-cent residual shape surcharge will experience the following percentage increase in rates currently paid:

- a. for piece-rated mail, basic presort, a 31% increase (calculated as follows: current rate paid is 30.6 cents; proposed rate applicable to surcharged mail is 30 cents plus 10-cent surcharge = proposed rate of 40 cents;  $40 - 30.6 = 9.4$ ;  $9.4/30.6 \approx 31\%$ ).
- b. for piece-rated mail, 3/5-digit presort, a 51% increase (calculated as follows: current rate paid is 22.5 cents; proposed rate applicable to surcharged mail is 24 cents plus 10-cent surcharge = proposed rate of 34 cents;  $34 - 22.5 = 11.5$ ;  $11.5/22.5 \approx 51\%$ ).
- c. for pound-rated mail, basic presort piece rate, a 60% increase (calculated as follows: current rate paid is 16.6 cents; proposed rate applicable to surcharged mail is 16.6 cents plus 10-cent surcharge = proposed rate of 26.6 cents;  $26.6 - 16.6 = 10$ ;  $10/16.6 \approx 60\%$ ).
- d. for pound-rated mail, 3/5-digit presort piece rate, a 142% increase (calculated as follows: current rate paid is 8.5 cents; proposed rate applicable to surcharged mail is 10.6 cents plus 10-cent surcharge = proposed rate of 20.6 cents;  $20.6 - 8.5 = 12.1$ ;  $12.1/8.5 \approx 142\%$ ).
- e. Please reconcile the proposed rate increases listed in subparts a.- d., i.e., increases ranging from 31% to 142%, with your decision to "keep individual proposed rate increases below 10 percent in the Regular and Enhanced Carrier Route subclasses in order to mitigate the impact of the increases." USPS-T-36 at 17.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Not confirmed. There is a 60 percent increase in the *piece rate element*, but this is not the total rate paid, so mailers of pound-rated pieces will

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not experience this rate increase. A piece weighing just under 16-ounces, for example, would experience an 8.7 percent increase.

- d. Not confirmed. There is a 142 percent increase in the *piece rate element*, but this is not the total rate paid, so mailers of pound-rated pieces will not experience this rate increase. A piece weighing just under 16-ounces, for example, would experience a 12.2 percent increase.
- e. As described in response to subparts (c) and (d), the proposed increases do not range as high as 142 percent for Regular pieces. Some effective rate changes, however, exceed the maximum 10 percent increase guideline. This 10 percent figure was intended as a guideline, not a constraint, and was primarily intended to apply to existing rate categories. The introduction of a new rate element, the residual shape surcharge, results in rate increases beyond the 10 percent figure, even though, as noted in OCA/USPS-T36-10, the passthrough for the surcharge is less than 1/3 of the cost difference. The effective rate increases are a result of a classification change which responds to the PRC's Opinion and Recommended Decision in Docket No. MC95-1 and should not be viewed as "pure" rate increases such as those which are proposed for existing rate categories.

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OCA/USPS-T36-16. Please confirm that the proposed rate of 18.9 cents for Standard A Regular Automation letters, basic presort, was developed by applying a discount of 5.8 cents to the proposed rate of 24.7 cents for non-automation basic presort letters.

- a. Also confirm that the 5.8-cent discount reflects your election of a 140-percent passthrough of the 4.1-cent cost differential between basic presort letters and basic automation letters. (WP1, page 12).
- b. Please confirm that if you had passed through only 100 percent of the 4.1 cent cost differential, a basic automation letter rate of 20.6 cents would result.
- c. Please confirm that a 20.6-cent rate for basic automation letters would be a 12.6 percent increase from the current rate of 18.3 cents.
- d. Please confirm that in PRC Op. MC95-1 at V-264, Table V-4, the Commission recommended a 100-percent passthrough for basic automation letters and rejected the Postal Service's proposal to pass through 118.2-percent of the cost differential.
- e. Please confirm that the 80-percent figure discussed at USPS-T-36, page 18, line 11, refers to the determination to retain 80 percent of the current discount of 7.3 cents (i.e., the 25.6-cent basic presort letter rate minus the basic automation rate for letters of 18.3 cents), yielding a proposed discount in this case of 5.8 cents (your WP1, page 12).

RESPONSE:

Initial question and a. Confirmed.

- b. I cannot confirm. If the discount were reduced, the "leakage" due to the discounts would be reduced, which could result in a reduced basic rate from the formula. In other words, the 24.7 cent rate would probably be lower. The differential between basic nonautomation and basic automation letters would, however, be 4.1 cents.
- c. As described in subpart (b), the rate would probably not be 20.6 cents. If it were, however, that would represent a 12.6 percent increase.

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- d. I cannot confirm. The Commission did recommend a 100 percent passthrough; however, the Postal Service had proposed an Automation subclass. As such, the rates for automation letters were not proposed as discounts off of nonautomation pieces, and therefore, the "passthrough" referred to in the question was not proposed.
- e. Confirmed.

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OCA/USPS-T36-17. Please confirm that the proposed rate of 17.8 cents for Standard A Regular Automation letters, 3-digit presort, was developed by applying a discount of 3.1 cents to the proposed rate of 20.9 cents for non-automation 3/5-digit presort letters.

- a. Also confirm that the 3.1-cent discount reflects your election of a 130-percent passthrough of the 2.384-cent cost differential between 3/5-digit presort letters and 3-digit automation letters. (WP1, page 12).
- b. Please confirm that if you had passed through only 100 percent of the 2.384-cent cost differential, a 3-digit automation letter rate of 18.5 cents would result.
- c. Please confirm that an 18.5-cent rate for basic automation letters would be a 5.7-percent increase from the current rate of 17.5 cents.
- d. Please confirm that in PRC Op. MC95-1 at V-264, Table V-4, the Commission recommended a 100-percent passthrough for 3-digit automation letters and rejected the Postal Service's proposal to pass through 150.7-percent of the cost differential.
- e. Please confirm that the 90-percent figure discussed at USPS-T-36, page 18, line 12, refers to the determination to retain 90 (actually 91) percent of the current discount of 3.4 cents (i.e., the 20.9-cent 3/5-digit presort letter rate minus the 3-digit automation letter rate of 17.5 cents), yielding a proposed discount in this case of 3.1 cents (your WP1, page 12).

RESPONSE:

- Initial question and a. Confirmed.
- b. I cannot confirm. If the discount were reduced, the "leakage" due to the discounts would be reduced, which could result in a reduced basic rate from the formula. In other words, the 20.9 cent rate would probably be lower. The differential between 3/5-digit nonautomation and 3-digit automation letters would, however, be 2.4 cents.
- c. As described in subpart (b), the rate would probably not be 18.5 cents. If it were, however, that would represent a 5.7 percent increase.

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- d. I cannot confirm. The Commission did recommend a 100 percent passthrough; however, the Postal Service had proposed an Automation subclass. As such, the rates for automation letters were not proposed as discounts off of nonautomation pieces, and therefore, the "passthrough" to which the question refers was not proposed.
- e. Applying 90 percent to the existing discount of 3.4 cents results in 3.06 cents, which is rounded to 3.1 cents.



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OCA/USPS-T36-18. Please confirm that the proposed rate of 16.0 cents for Standard A Regular Automation letters, 5-digit presort, was developed by applying a discount of 1.8 cents to the proposed rate of 17.8 cents for 3-digit automation letters.

- a. Also confirm that the 1.8-cent discount reflects your election of a 130-percent passthrough of the 1.361-cent cost differential between 3-digit automation letters and 5-digit automation letters. (WP1, page 12).
- b. Please confirm that if you had passed through only 100 percent of the 1.361-cent cost differential, a 5-digit automation letter rate of approximately 16.4 cents would result.
- c. Please confirm that a 16.4-cent rate for 5-digit automation letters would be a 5.8-percent increase from the current rate of 15.5 cents.
- d. Please confirm that In PRC Op. MC95-1 at V-264, Table V-4, the Commission recommended a 100-percent passthrough for 5-digit automation letters.
- e. Please confirm that the 90-percent figure discussed at USPS-T-36, page 18, line 13, refers to the determination to retain 90 percent of the current discount of 2.0 cents (i.e., the 17.5-cent 3-digit automation letter rate minus the 5-digit automation letter rate of 15.5 cents), yielding a proposed discount in this case of 1.8 cents (your WP1, page 12).

RESPONSE:

Initial question and a. Confirmed.

- b. I cannot confirm. If the discount were reduced, the "leakage" due to the discounts would be reduced, which could result in a reduced basic rate from the formula. In other words, the 17.8 cent rate would probably be lower. The differential between 5-digit automation and 3-digit automation letters would, however, be 1.4 cents.
- c. As described in subpart (b), the rate would probably not be 16.4 cents. If it were, however, that would represent a 5.8 percent increase.
- d. Confirmed.
- e. Confirmed.

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OCA/USPS-T36-19. Please refer to your testimony at 23, lines 12-19. Is it correct that you have chosen the pound rate for the Enhanced Carrier Route subclass instead of solving for the pound rate using the formula that the Commission preferred in Docket No. MC95-1? If this is not correct, please explain.

RESPONSE:

My testimony adopts the formula used by the Commission in Docket No. MC95-1;

however, instead of solving for the pound rate, I select the pound rate. See response to

OCA/USPS-T36-6.

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OCA/USPS-T36-20. Please confirm that in Docket No. MC95-1 (USPS-T-18) at 15 (footnotes omitted) you testified that:

[S]ince the analysis presented in USPS-LR-MCR-12 shows that, even with parcels included, weight plays a small cost-causing role, I am proposing a pound rate of 51 cents for the Enhanced Carrier Route subclass. This lower pound rate is also beneficial in that it is more closely aligned with the price structure of competitive advertising media since rates for other advertising media are not as sensitive to weight.

If you do not confirm, explain why.

RESPONSE:

Confirmed.

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OCA/USPS-T36-23. You claim in USPS-T-36 at 26 that:

The Postal Service has proposed a modification to the formula that no longer makes the pound rate dependent upon the other ratemaking decisions, and is more cost based in that it results in a pound rate which better reflects the weight-cost relationship for saturation mail.

Also, in response to interrogatory OCA/USPS-T36-2, you state that:

One modification [Postal Service's] is that the proposal solves for  $i$  with  $P$  as an input; whereas the Commission solved for  $P$  with  $i$  as an input.

However, isn't it correct that the Commission's calculation of the ECR pound rate in Docket No. MC95-1 is more "cost-based" than yours in this respect: you select the pound rate in the instant proceeding, while the Commission derived the pound rate from a formula that used the piece rate as a central input and the piece rate used was derived from unit mail processing and delivery costs developed by Postal Service witness Takis (USPS-T-12) in Docket No. MC95-1? If you do not agree, please explain.

- a. Please confirm that the intercept 0.018 was used in the formula set forth at page 15 of PRC-LR-2, Docket No. MC95-1 (the Commission's MC95-1 Standard Class rate design workpapers), to derive the pound rate for ECR. If you do not confirm, please explain.
- b. Also confirm that the 0.018 figure was derived in worktables A through E of page 13 of PRC-LR-2. If you do not confirm, please explain.
- c. Confirm that the presort cost differential figures and the letter/flat cost differential figures used in worktable A, page 13, of PRC-LR-2 ultimately can be traced to USPS-T-12C, p.2, Docket No. MC95-1 (see "source" note at bottom of page 4 of PRC-LR-2). If you do not confirm, please explain.
- d. Confirm that USPS-T-12C, Docket No. MC95-1, presented mail processing, delivery, and other unit cost estimates for proposed Standard Mail classes. If you do not confirm, please explain.
- e. Confirm that, given the unit cost estimates developed by Postal Service witness Daniels [sic] in the instant proceeding (USPS-T-29C, page 2; and cited in your WP 1, page 10), and accepting all of your other assumptions in application of the formula that both the Postal Service and the Commission agree is appropriate for determining ECR rates, a pound rate far higher than the 53-cent pound rate you propose would result from deriving the pound rate from an " $i$ " input comparable to that employed by the Commission in Docket No. MC95-1 in determining the pound rate for ECR. If you do not confirm, please explain.

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OCA/USPS-T36-23 (continued)

RESPONSE:

The question implies that the Commission's method for using the formula is more cost-based than the proposed usage; however, I contend that the proposed usage is just as, if not more, "cost-based." As correctly noted in this question, I select the pound rate by reviewing available data. The Commission calculates the pound rate by selecting a per-piece element for pound-rated mail that results in a zero piece rate for Saturation mail. The crux of the difference between the two methods is that the Commission's method results in rates for pound-rated Saturation mail that double with weight. As described in my testimony at page 24, this outcome does not seem to be as cost-based in that it seems illogical that the Postal Service would be indifferent between delivering one eight-ounce piece, and two four-ounce pieces, yet the total postage in these two cases would be the same. Another outcome is a basic pound rate which implies that weight is much more of a cost driver than is suggested by available weight/cost data. The proposed selection of the pound rate is cost-based in that it considers available cost data. The selection of a piece rate of zero for pound-rated Saturation mail is only cost-based under circumstances where costs for pound-rated saturation mail are solely tied the weight of the piece.

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

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- e. Confirmed; the resulting pound rate would be much higher than it should be given the available data which suggest that weight plays a much less significant role in cost.

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
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OCA/USPS-T36-24. Please refer to the following tables. Do these tables accurately represent the rates and percentage increases you propose? If not, please make any corrections necessary.

**ENHANCED CARRIER  
ROUTE**

**MIN/PC  
RATE**

**CURRENT  
RATES**

**PROPOSED    % INCR  
RATES**

**LETTERS**

Automation	14.6	15.7	7.53%
Basic	15.0	16.4	9.33%
High Density	14.2	14.3	0.70%
Saturation	13.3	13.4	0.75%

**DBMC disc.**

Automation	13.3	14.2	6.77%
Basic	13.7	14.9	8.76%
High Density	12.9	12.8	-0.78%
Saturation	12.0	11.9	-0.83%

**DSCF disc.**

Automation	12.8	13.9	8.59%
Basic	13.2	14.6	10.61%
High Density	12.4	12.5	0.81%
Saturation	11.5	11.6	0.87%

**DDU disc.**

Automation	12.3	13.4	8.94%
Basic	12.7	14.1	11.02%
High Density	11.9	12.0	0.84%
Saturation	11.0	11.1	0.91%

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

**ENHANCED CARRIER  
ROUTE**

**MIN/PC RATE**

CURRENT  
RATES

PROPOSED    % INCR  
RATES

**NONLETTERS**

Basic	15.5	16.4	5.81%
High Density	14.7	15.3	4.08%
Saturation	13.7	14.1	2.92%

**DBMC disc.**

Basic	14.2	14.9	4.93%
High Density	13.4	13.8	2.99%
Saturation	12.4	12.6	1.61%

**DSCF disc.**

Basic	13.7	14.6	6.57%
High Density	12.9	13.5	4.65%
Saturation	11.9	12.3	3.36%

**DDU disc.**

Basic	13.2	14.1	6.82%
High Density	12.4	13.0	4.84%
Saturation	11.4	11.8	3.51%



**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**Enhanced Carrier Route****Pound Rated Pieces**

3.5 Oz piece

**CURRENT  
RATES****PROPOSED  
RATES**

	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	% INCR
Basic	1.8	66.3	16.3	5.5	53.0	17.1	4.85%
High Density	1.0	66.3	15.5	4.4	53.0	16.0	3.16%
Saturation	0.0	66.3	14.5	3.2	53.0	14.8	2.00%

		PLUS Per Lb. Rate (DBMC)	Postage		PLUS Per Lb. Rate (DBMC)	Postage	
Basic	1.8	59.9	14.9	5.5	45.8	15.5	4.13%
High Density	1.0	59.9	14.1	4.4	45.8	14.4	2.24%
Saturation	0.0	59.9	13.1	3.2	45.8	13.2	0.88%

		PLUS Per Lb. Rate (DSCF)	Postage		PLUS Per Lb. Rate (DSCF)	Postage	
Basic	1.8	57.8	14.4	5.5	44.2	15.2	5.02%
High Density	1.0	57.8	13.6	4.4	44.2	14.1	3.11%
Saturation	0.0	57.8	12.6	3.2	44.2	12.9	1.78%

		PLUS Per Lb. Rate (DDU)	Postage		PLUS Per Lb. Rate (DDU)	Postage	
Basic	1.8	55.2	13.9	5.5	42.0	14.7	5.86%
High Density	1.0	55.2	13.1	4.4	42.0	13.6	3.92%
Saturation	0.0	55.2	12.1	3.2	42.0	12.4	2.59%

**Per Pound  
Rate  
(by entry discount)**

None	66.3	53.0
DBMC	59.9	45.8
DSCF	57.8	44.2
DDU	55.2	42.0

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**Enhanced Carrier Route****Pound Rated Pieces**

4.0 Oz piece

**CURRENT  
RATES****PROPOSED  
RATES**

		PLUS			PLUS		
	Per Piece	Per Lb. Rate	Postage	Per Piece	Per Lb. Rate	Postage	% INCR
	Rate	(none)		Rate	(none)		
Basic	1.8	66.3	18.4	5.5	53.0	18.8	2.04%
High Density	1.0	66.3	17.6	4.4	53.0	17.7	0.43%
Saturation	0.0	66.3	16.6	3.2	53.0	16.5	-0.75%

		PLUS			PLUS		
		Per Lb. Rate	Postage		Per Lb. Rate	Postage	
		(DBMC)			(DBMC)		
Basic	1.8	59.9	16.8	5.5	45.8	17.0	1.04%
High Density	1.0	59.9	16.0	4.4	45.8	15.9	-0.78%
Saturation	0.0	59.9	15.0	3.2	45.8	14.7	-2.17%

		PLUS			PLUS		
		Per Lb. Rate	Postage		Per Lb. Rate	Postage	
		(DSCF)			(DSCF)		
Basic	1.8	57.8	16.3	5.5	44.2	16.6	1.85%
High Density	1.0	57.8	15.5	4.4	44.2	15.5	0.00%
Saturation	0.0	57.8	14.5	3.2	44.2	14.3	-1.38%

		PLUS			PLUS		
		Per Lb. Rate	Postage		Per Lb. Rate	Postage	
		(DDU)			(DDU)		
Basic	1.8	55.2	15.6	5.5	42.0	16.0	2.56%
High Density	1.0	55.2	14.8	4.4	42.0	14.9	0.68%
Saturation	0.0	55.2	13.8	3.2	42.0	13.7	-0.72%

**Per Pound Rate  
(by entry discount)**

None	66.3	53.0
DBMC	59.9	45.8
DSCF	57.8	44.2
DDU	55.2	42.0

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

## Enhanced Carrier Route

## Pound Rated Pieces

6.0 Oz piece

CURRENT  
RATESPROPOSED  
RATES

	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	% INCR
Basic	1.8	66.3	26.7	5.5	53.0	25.4	-4.83%
High Density	1.0	66.3	25.9	4.4	53.0	24.3	-6.14%
Saturation	0.0	66.3	24.9	3.2	53.0	23.1	-7.19%

	Per Piece Rate	PLUS Per Lb. Rate (DBMC)	Postage	Per Piece Rate	PLUS Per Lb. Rate (DBMC)	Postage	% INCR
Basic	1.8	59.9	24.3	5.5	45.8	22.7	-6.54%
High Density	1.0	59.9	23.5	4.4	45.8	21.6	-8.04%
Saturation	0.0	59.9	22.5	3.2	45.8	20.4	-9.29%

	Per Piece Rate	PLUS Per Lb. Rate (DSCF)	Postage	Per Piece Rate	PLUS Per Lb. Rate (DSCF)	Postage	% INCR
Basic	1.8	57.8	23.5	5.5	44.2	22.1	-5.96%
High Density	1.0	57.8	22.7	4.4	44.2	21.0	-7.50%
Saturation	0.0	57.8	21.7	3.2	44.2	19.8	-8.77%

	Per Piece Rate	PLUS Per Lb. Rate (DDU)	Postage	Per Piece Rate	PLUS Per Lb. Rate (DDU)	Postage	% INCR
Basic	1.8	55.2	22.5	5.5	42.0	21.3	-5.56%
High Density	1.0	55.2	21.7	4.4	42.0	20.2	-7.14%
Saturation	0.0	55.2	20.7	3.2	42.0	19.0	-8.45%

Per Pound Rate  
(by entry discount)

None	66.3	53.0
DBMC	59.9	45.8
DSCF	57.8	44.2
DDU	55.2	42.0

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U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

**Enhanced Carrier Route**

**Pound Rated Pieces**

8.0 Oz piece

	CURRENT RATES			PROPOSED RATES			% INCR
	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	
Basic	1.8	66.3	35.0	5.5	53.0	32.0	-8.44%
High Density	1.0	66.3	34.2	4.4	53.0	30.9	-9.52%
Saturation	0.0	66.3	33.2	3.2	53.0	29.7	-10.41%

	PLUS Per Lb. Rate (DBMC)			PLUS Per Lb. Rate (DBMC)			% INCR
	Per Piece Rate	Per Lb. Rate	Postage	Per Piece Rate	Per Lb. Rate	Postage	
Basic	1.8	59.9	31.8	5.5	45.8	28.4	-10.55%
High Density	1.0	59.9	31.0	4.4	45.8	27.3	-11.79%
Saturation	0.0	59.9	30.0	3.2	45.8	26.1	-12.85%

	PLUS Per Lb. Rate (DSCF)			PLUS Per Lb. Rate (DSCF)			% INCR
	Per Piece Rate	Per Lb. Rate	Postage	Per Piece Rate	Per Lb. Rate	Postage	
Basic	1.8	57.8	30.7	5.5	44.2	27.6	-10.10%
High Density	1.0	57.8	29.9	4.4	44.2	26.5	-11.37%
Saturation	0.0	57.8	28.9	3.2	44.2	25.3	-12.46%

	PLUS Per Lb. Rate (DDU)			PLUS Per Lb. Rate (DDU)			% INCR
	Per Piece Rate	Per Lb. Rate	Postage	Per Piece Rate	Per Lb. Rate	Postage	
Basic	1.8	55.2	29.4	5.5	42.0	26.5	-9.86%
High Density	1.0	55.2	28.6	4.4	42.0	25.4	-11.19%
Saturation	0.0	55.2	27.6	3.2	42.0	24.2	-12.32%

**Per Pound Rate  
(by entry discount)**

None	66.3	53.0
DBMC	59.9	45.8
DSCF	57.8	44.2
DDU	55.2	42.0

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

## REGULAR AUTOMATION

## MIN/PC RATE

CURRENT  
RATESPROPOSED  
RATES

## % INCR

LETTERS

Basic	18.3	18.9	3.28%
3-Digit	17.5	17.8	1.71%
5-Digit	15.5	16	3.23%

DBMC disc.

Basic	17.0	17.4	2.35%
3-Digit	16.2	16.3	0.62%
5-Digit	14.2	14.5	2.11%

DSCF disc.

Basic	16.5	17.1	3.64%
3-Digit	15.7	16.0	1.91%
5-Digit	13.7	14.2	3.65%

NONLETTERS

Basic	27.7	24.3	-12.27%
3/5-Digit	18.9	20.7	9.52%

DBMC disc.

Basic	26.4	22.8	-13.64%
3/5-Digit	17.6	19.2	9.09%

DSCF disc.

Basic	25.9	22.5	-13.13%
3/5-Digit	17.1	18.9	10.53%

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U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

**REGULAR AUTOMATION FLAT      Pound Rated Pieces**

3.5 Oz piece							
CURRENT RATES				PROPOSED RATES			
		PLUS			PLUS		% INCR
	Per Piece Rate	Per Lb. Rate (none)	Postage	Per Piece Rate	Per Lb. Rate (none)	Postage	
Basic	13.7	67.7	28.5	10.9	65.0	25.1	-11.89%
3/5-Digit	4.9	67.7	19.7	7.3	65.0	21.5	9.18%
		PLUS			PLUS		
		Per Lb. Rate (DBMC)	Postage		Per Lb. Rate (DBMC)	Postage	
Basic	13.7	61.3	27.1	10.9	57.8	23.5	-13.15%
3/5-Digit	4.9	61.3	18.3	7.3	57.8	19.9	8.93%
		PLUS			PLUS		
		Per Lb. Rate (DSCF)	Postage		Per Lb. Rate (DSCF)	Postage	
Basic	13.7	59.2	26.7	10.9	56.2	23.2	-12.97%
3/5-Digit	4.9	59.2	17.9	7.3	56.2	19.6	9.77%

**Per Pound Rate  
(by entry discount)**

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	—	—

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U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

**REGULAR AUTOMATION FLAT     Pound Rated Pieces**

4.0 Oz piece							
CURRENT RATES				PROPOSED RATES			
	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	% INCR
Basic	13.7	67.7	30.6	10.9	65.0	27.2	-11.35%
3/5-Digit	4.9	67.7	21.8	7.3	65.0	23.6	7.90%
	Per Piece Rate	PLUS Per Lb. Rate (DBMC)	Postage	Per Piece Rate	PLUS Per Lb. Rate (DBMC)	Postage	% INCR
Basic	13.7	61.3	29.0	10.9	57.8	25.4	-12.66%
3/5-Digit	4.9	61.3	20.2	7.3	57.8	21.8	7.54%
	Per Piece Rate	PLUS Per Lb. Rate (DSCF)	Postage	Per Piece Rate	PLUS Per Lb. Rate (DSCF)	Postage	% INCR
Basic	13.7	59.2	28.5	10.9	56.2	25.0	-12.46%
3/5-Digit	4.9	59.2	19.7	7.3	56.2	21.4	8.38%

**Per Pound Rate  
(by entry discount)**

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	—	—

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U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

**REGULAR AUTOMATION FLAT    Pound Rated Pieces**

6.0 Oz piece							
CURRENT RATES				PROPOSED RATES			
		PLUS			PLUS		% INCR
	Per Piece Rate	Per Lb. Rate (none)	Postage	Per Piece Rate	Per Lb. Rate (none)	Postage	
Basic	13.7	67.7	39.1	10.9	65.0	35.3	-9.75%
3/5-Digit	4.9	67.7	30.3	7.3	65.0	31.7	4.58%
		PLUS			PLUS		
		Per Lb. Rate (DBMC)	Postage		Per Lb. Rate (DBMC)	Postage	
Basic	13.7	61.3	36.7	10.9	57.8	32.6	-11.21%
3/5-Digit	4.9	61.3	27.9	7.3	57.8	29.0	3.90%
		PLUS			PLUS		
		Per Lb. Rate (DSCF)	Postage		Per Lb. Rate (DSCF)	Postage	
Basic	13.7	59.2	35.9	10.9	56.2	32.0	-10.93%
3/5-Digit	4.9	59.2	27.1	7.3	56.2	23.4	4.70%

**Per Pound Rate  
(by entry discount)**

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	—	—



**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**REGULAR AUTOMATION FLAT      Pound Rated Pieces**

8.0 Oz piece							
CURRENT RATES				PROPOSED RATES			
		PLUS			PLUS		% INCR
	Per Piece Rate	Per Lb. Rate (none)	Postage	Per Piece Rate	Per Lb. Rate (none)	Postage	
Basic	13.7	67.7	47.6	10.9	65.0	43.4	-8.73%
3/5-Digit	4.9	67.7	38.8	7.3	65.0	39.8	2.71%
		PLUS			PLUS		
		Per Lb. Rate (DBMC)	Postage		Per Lb. Rate (DBMC)	Postage	
Basic	13.7	61.3	44.4	10.9	57.8	39.8	-10.26%
3/5-Digit	4.9	61.3	35.6	7.3	57.8	36.2	1.83%
		PLUS			PLUS		
		Per Lb. Rate (DSCF)	Postage		Per Lb. Rate (DSCF)	Postage	
Basic	13.7	59.2	43.3	10.9	56.2	39.0	-9.93%
3/5-Digit	4.9	59.2	34.5	7.3	56.2	35.4	2.61%

**Per Pound Rate  
(by entry discount)**

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	—	—

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U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

REGULAR PRESORT		MIN/PC RATE	
	CURRENT RATES	PROPOSED RATES	% INCR
<u>LETTERS</u>			
Basic	25.6	24.7	-3.52%
3/5-Digit	20.9	20.9	0.00%
<u>DBMC disc</u>			
Basic	24.3	23.2	-4.53%
3/5-Digit	19.6	19.4	-1.02%
<u>DSCF disc</u>			
Basic	23.8	22.9	-3.78%
3/5-Digit	19.1	19.1	0.00%
<u>NONLETTERS</u>			
Basic	30.6	30.0	-1.96%
3/5-Digit	22.5	24.0	6.67%
<u>DBMC disc</u>			
Basic	29.3	28.5	-2.73%
3/5-Digit	21.2	22.5	6.13%
<u>DSCF disc</u>			
Basic	28.8	28.2	-2.08%
3/5-Digit	20.7	22.2	7.25%

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE

## REGULAR PRESORT FLAT

## Pound Rated Pieces

		3.5 Oz piece						% INCR
CURRENT RATES		PROPOSED RATES						
	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage		
Basic	16.6	67.7	31.4	16.6	65.0	30.8	-1.88%	
3/5-Digit	8.5	67.7	23.3	10.6	65.0	24.8	6.48%	
		PLUS Per Lb. Rate (DBMC)	Postage		PLUS Per Lb. Rate (DBMC)	Postage		
Basic	16.6	61.3	30.0	16.6	57.8	29.2	-2.55%	
3/5-Digit	8.5	61.3	21.9	10.6	57.8	23.2	6.09%	
		PLUS Per Lb. Rate (DSCF)	Postage		PLUS Per Lb. Rate (DSCF)	Postage		
Basic	16.6	59.2	29.6	16.6	56.2	28.9	-2.22%	
3/5-Digit	8.5	59.2	21.5	10.6	56.2	22.9	6.73%	

Per Pound Rate  
(by entry discount)

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	—	—

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**REGULAR PRESORT FLAT****Pound Rated Pieces**

4.0 Oz piece

	CURRENT RATES	PLUS		PROPOSED RATES	PLUS		% INCR
		Per Piece Rate	Per Lb. Rate (none)		Per Piece Rate	Per Lb. Rate (none)	
Basic	16.6		67.7	16.6		65.0	-2.01%
3/5-Digit	8.5		67.7	10.6		65.0	5.60%
			Postage			Postage	
			(DBMC)			(DBMC)	
Basic	16.6		61.3	16.6		57.8	-2.74%
3/5-Digit	8.5		61.3	10.6		57.8	5.14%
			Postage			Postage	
			(DSCF)			(DSCF)	
Basic	16.6		59.2	16.6		56.2	-2.39%
3/5-Digit	8.5		59.2	10.6		56.2	5.79%
			Postage			Postage	
			(DSCF)			(DSCF)	

Per Pound Rate  
(by entry discount)

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	--	--

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**REGULAR PRESORT FLAT****Pound Rated Pieces**

		6.0 Oz piece						
CURRENT RATES					PROPOSED RATES			% INCR
	Per Piece Rate	PLUS Per Lb. Rate (none)	Postage		Per Piece Rate	PLUS Per Lb. Rate (none)	Postage	
Basic	16.6	67.7	42.0		16.6	65.0	41.0	-2.41%
3/5-Digit	8.5	67.7	33.9		10.6	65.0	35.0	3.21%
		PLUS Per Lb. Rate (DBMC)	Postage			PLUS Per Lb. Rate (DBMC)	Postage	
Basic	16.6	61.3	39.6		16.6	57.8	38.3	-3.32%
3/5-Digit	8.5	61.3	31.5		10.6	57.8	32.3	2.50%
		PLUS Per Lb. Rate (DSCF)	Postage			PLUS Per Lb. Rate (DSCF)	Postage	
Basic	16.6	59.2	38.8		16.6	56.2	37.7	-2.90%
3/5-Digit	8.5	59.2	30.7		10.6	56.2	31.7	3.18%

**Per Pound Rate  
(by entry discount)**

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	-	-

**U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO INTERROGATORIES  
OF THE OFFICE OF THE CONSUMER ADVOCATE**

**REGULAR PRESORT FLAT****Pound Rated Pieces**

		8 0 Oz piece					
		CURRENT RATES		PROPOSED RATES		% INCR	
	Per Piece Rate	PLUS		Per Piece Rate	PLUS		
		Per Lb. Rate	Postage		Per Lb. Rate	Postage	
		(none)		(none)			
Basic	16.6	67.7	50.5	16.6	65.0	49.1	-2.68%
3/5-Digit	8.5	67.7	42.4	10.6	65.0	43.1	1.77%
		PLUS			PLUS		
		Per Lb. Rate	Postage		Per Lb. Rate	Postage	
		(DBMC)		(DBMC)			
Basic	16.6	61.3	47.3	16.6	57.8	45.5	-3.70%
3/5-Digit	8.5	61.3	39.2	10.6	57.8	39.5	0.89%
		PLUS			PLUS		
		Per Lb. Rate	Postage		Per Lb. Rate	Postage	
		(DSCF)		(DSCF)			
Basic	16.6	59.2	46.2	16.6	56.2	44.7	-3.25%
3/5-Digit	8.5	59.2	38.1	10.6	56.2	38.7	1.57%

**Per Pound Rate  
(by entry discount)**

None	67.7	65.0
DBMC	61.3	57.8
DSCF	59.2	56.2
DDU	—	—

**RESPONSE:**

**Yes.**

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OCA/USPS-T36-25. In USPS-T-36 at 27, you propose a zero percent passthrough of the letter/non-letter differential for the Basic ECR letter tier.

- a. Please confirm that there is a unit cost differential between Basic ECR letters and Basic ECR flats which is equal to 3.5099 cents; i.e., 10.3844 cents (unit mail processing and delivery cost for basic ECR non-letters) — 6.8745 cents (unit mail processing and delivery cost for basic ECR letters) = 3.5099. [Source: USPS-29C, page 2] If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- b. Also confirm that in PRC Op. MC95-1, para. 5593, the Commission held that a basic, carrier-route, unit cost differential between letters and flats of 1.6 cents was of sufficient magnitude that it must not be ignored and that to do so "would be contrary to the Act." If you do not confirm, please explain.
- c. Confirm that in PRC Op. MC95-1, page V-265, Table V-5, the Commission calculated a Basic ECR letter/non-letter unit cost differential of 1.3563 cents. If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- d. Confirm that the Commission applied a 40-percent passthrough of the differential, yielding a discount of 0.5 cents (rounded). Id. If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- e. Isn't it true that the cost difference between Basic ECR letters and Basic ECR non-letters has more than doubled since it was last reported in Docket No. MC95-1? If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- f. Confirm that a 40-percent passthrough of the Docket No. R97-1 cost differential (3.5099 cents, as described in subpart a.) would yield a discount of approximately 1.4 cents for Basic ECR letters. If you do not confirm, explain why and provide the correct figure, including calculations and citations.
- g. Isn't it correct that when you balance the "special consideration" of the Postal Service's letter automation program against letter/non-letter cost differences, you reach a conclusion opposite to that reached by the Commission in PRC Op. MC95-1? If you do not agree, please explain.
- h. Isn't it correct that one of the assumptions relied upon by the Postal Service in Docket No. MC95-1 to justify its decision not to propose a lower rate for ECR letters was information given to Postal Service witness McBride that "the letter-flat cost differential would decrease in the future because of the shift to vertical flat casing?" PRC Op. MC95-1, para. 5575. If you do not agree, please explain why.
- i. Isn't it also true that, contrary to Postal Service expectations at the time Docket No. MC95-1 was being litigated, the letter/flat differential has grown substantially? If you do not agree, please explain.

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OCA/USPS-T36-26.

- a. Please confirm that, in USPS-T-18 at 15, Docket No. MC95-1, you proposed per-piece rates for pound-rated ECR that were of roughly the same magnitude as those you propose in the current proceeding. [See comparison below]

USPS-proposed ECR Per-Pc Rates,  
Docket No. MC95-1  
(Cents)

Basic:	5.0
High-density:	4.3
Saturation:	3.0

USPS-proposed ECR Per-Pc Rates,  
Docket No. R97-1  
(Cents)

Basic:	5.5
High-density:	4.4
Saturation:	3.2

If you do not confirm, please explain.

- b. Also confirm that the Commission rejected per-piece rates of this magnitude and instead recommended the current rates, which are:

Basic:	1.8
High-density:	1.0
Saturation:	0.0

If you do not confirm, please explain.

RESPONSE:

- a. The tables presented in the question accurately depict the rates proposed by the Postal Service.
- b. These are the piece-rates for pound-rated mail recommended by the Commission in Docket No. MC95-1. There is a relationship between the piece rate and pound rate for pound-rated mail. Since the pound rate recommended by the Commission in Docket No. MC95-1 was higher than the pound rate proposed by the Postal Service, the recommended piece rates would be lower than those piece rates proposed by the Postal Service.



OCA/USPS-T36-27. This interrogatory follows up on your response to OCA/USPS-T36-25, parts e. and i. You state that: "A better comparison could be drawn using the figures in Exhibit USPS-29C, page 3 rather than . . . page 2, although this would still not be a direct comparison."

- a. Explain in full why page 3 makes for a better comparison than page 2.
- b. Explain in full why this still would not be a "direct comparison."
- c. Making the substitution you suggest in part e., [i.e., the unit cost differential between Basic ECR letters and Basic ECR flats would be equal to 1.8804 cents; i.e., 8.2324 cents (unit mail processing and delivery cost for basic ECR non-letters) — 6.352 cents (unit mail processing and delivery cost for basic ECR letters) = 1.8804 [Source: USPS-29C, page 3]]; then isn't it true that the Basic ECR letter/non-letter unit differential of 1.3563 (PRC Op. MC95-1, page V-265, Table V) has grown to at least 1.8804 cents? If you do not agree, please explain.
- d. In response to part i. of OCA/USPS-T36-25 you express a reluctance to agree that there is a "growth in the differential."
  - i. Isn't it true, however, that in response to NAA/USPS-T36-10, you state that the attribution of fewer mail processing costs underlying rates in the current proceeding leads to a reasonable expectation that presort-related cost differentials tend to be smaller in this case than they would be if the mail processing costs were attributed at roughly the same levels as Docket No. MC95-1? If you do not agree, please explain.
  - ii. Isn't it equally true that the attribution of fewer mail processing costs in this case than, say, in Docket MC95-1, tends to reduce the Basic ECR letter/non-letter differential in a like manner? If you do not agree, please explain.
  - iii. If you do agree with the tendency posited in subpart ii. above, then hasn't there been even greater growth in the Basic ECR letter/non-letter differential than was noted in part c. above? If you do not agree, please explain.

RESPONSE:

- a. It is my understanding that the costs on page 2 of Exhibit USPS-29C are adjusted for destination-entry differences, whereas the costs on page 3, like those in Docket No. MC95-1, are not.
- b. The figures would still not be directly comparable because of changes in the costing methodology for determining mail processing cost differences between Basic ECR and High-Density/Saturation ECR. Please note that in Docket No.

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MC95-1, the mail processing costs are the same for all three tiers in ECR (Docket No. MC95-1, USPS-T-12C, page 2). By contrast, in this docket, mail processing costs have been disaggregated into Basic and High-Density/Saturation (USPS-29C, page 2).

- c. This is the result of the more direct comparison; however, as described in subpart b, this is still not a direct comparison.
- d. The citation to my response to NAA/USPS-T36-25 omits the qualifying phrase "all else equal." As discussed in subpart b, "all else" is not equal. My response to NAA/USPS-T36-10, moreover, refers to presort-related differentials; I cannot confirm that shape-related differentials would be affected in a like manner due to relative differences in volume variability. Even if a direct comparison were to be made and it were shown that the differential had grown, other factors, as described in my response to OCA/USPS-T36-25 subparts g and i, warrant a reconsideration of the continuation of a separate rate for ECR Basic letters.

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PSA/USPS-T36-1. With respect to your testimony on page 10, you seem to be saying that flats recoup some of the benefit of the residual surcharge which accrues to letters by reason of the fact that the letter/nonletter cost differential pass-through is smaller, and conversely that while letters do share the benefits of the surcharge, the amount of that benefit is offset by virtue of the lower shape differential than would otherwise be proposed between letters and non-letters. Please supply the pass-through you believe would be appropriate to reflect the difference in letters/non-letters, and the corresponding rates that would result, *were you not to propose nor the Commission recommend a surcharge for Standard A parcels.*

RESPONSE:

If the Postal Service were not to propose a residual shape surcharge, there might be a number of changes in the rate design, including the letter/nonletter passthrough. Given the complexity of the analysis involved, and in the absence of a Board of Governors' vote on such a proposal, it is not possible to present an alternative set of rates (or specific passthroughs that would generate the rates).

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PSA/USPS-T36-2. Without a Standard (A) parcel surcharge, is it not the case that you would not increase the letter/flat cost differential pass-through in any event, because the percentage increase for the category already receiving the highest increase in the proposed rates, minimum per piece 3/5 digit presorted automation flats, as you say at pp. 10 and 11, would be even higher?

RESPONSE:

Not necessarily. If the Postal Service were not proposing a residual shape surcharge, the guideline governing the percentage increase would likely have been reevaluated in light of the revenue foregone from the surcharge. Even if the 10 percent guideline were to remain intact, it may be possible to design rates that do not include a residual shape surcharge, yet have a wider letter/nonletter passthrough. As stated in my response to PSA/USPS-T36-1, it is not possible to present alternative rate designs; however, one can perform a rough calculation of rates to see whether it would be possible to widen the letter/nonletter differential in the absence of a residual shape surcharge, while keeping rate increases within the 10 percent guideline. The spreadsheet underlying WP1 (USPS LR-H-202) allows for entry of various changes to the proposed rate design. As an illustration, if one were to enter zero cents for the residual shape surcharge, and 65 percent instead of 40 percent for the letter/nonletter differential at the Basic tier in the Regular subclass, the result would be a rate of 20.8 cents for the minimum-per-piece 3/5-digit automation flats. This would represent a 10.05 percent increase, which is very close to the 10 percent guideline. If it were desired to keep the increase under 10 percent, an entry of 67.9 cents (instead of 65 cents) for the pound rate (an increase which, in the

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Regular subclass, would be consistent with elimination of the residual shape surcharge) would result in the proposed 9.5 percent increase for minimum-per-piece 3/5-digit automation flats.

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PSA/USPS-T36-3. You state that the surcharge applies to pieces "that are not letter or flat-shaped. It is expected that most pieces subject to the surcharge would be parcel-shaped." (page 11) "Most" implies "some" are not parcel-shaped. If the pieces are not letter-shaped, nor flat-shaped, nor parcel-shaped, what kind of shape would they have?

RESPONSE:

As mentioned in my testimony at page 14, the issue of the definition of a parcel arose in Docket No. MC95-1. See also my response to OCA/USPS-T36-9. The term "residual-shape" was chosen because, to paraphrase Commissioner LeBlanc, pieces which are not letters or flats are a residual element of third class. (See Dissenting Opinion of Vice Chairman LeBlanc, Docket No. MC95-1, at 1-2). Many of these residual pieces may not look like what is traditionally thought of as a "parcel", yet they fall outside of the definition of the letters and flats, which are the primary processing shapes in Standard Mail (A).

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PSA/USPS-T36-4. With respect to the table you present on page 46, Test Year 1998 Financial Summary, please further break down the categories of regular and ECR mail to show separately the information for regular letters, regular flats, and regular residual shape, regular ECR, regular ECR flats, and regular ECR residual shape.

RESPONSE:

The information presented in the table on page 46 of my testimony is made possible by the subclass level quantification of total volume variable costs.

These cost data are not available in the level of detail requested in this interrogatory, so a further break down is not possible.

PSA/USPS-T36-5. In your response to PSA/USPS-T26-1, redirected from witness Seckar, you state that: "Revenue for flats only, or residual shape only, cannot be calculated since the weight profile and destination entry profile is not available for these two groupings." Does this mean that the Postal Service is unable to state whether, assuming the application of the 10 cent per piece surcharge, Standard (A) flats will have less cost coverage than Standard (A) residual shapes? If the answer is anything other than in the affirmative, please explain how the Postal Service would be able to compute cost coverage if it does not know the revenues from either category.

RESPONSE:

This question implies that the Postal Service is able to compute cost coverages by rate category. Such computation is not a required step for developing specific rate elements and was not used in the rate design process.

A specific comparison of cost coverages is not possible because the Postal Service did not measure or employ separate cost coverages for flats and for pieces subject to the residual shape surcharge. One might suspect, however, that, since the passthrough for the residual shape surcharge is so low, flats would have a higher implicit cost coverage than pieces subject to the residual shape surcharge.



PSA/USPS-T36-6. Your response to PSA/USPS-T37-2, redirected from witness Mayes, states that: "Some Standard Mail (A) parcels will be processed on sorters equipped with barcode readers." Do you have any basis for an estimation of what percentage of Standard (B) parcels compared to Standard (A) parcels will be processed on sorters equipped with barcode readers? If your response is affirmative, please supply the estimates.

RESPONSE:

I do not have an estimate of what percentage of Standard (B) parcels compared to Standard (A) parcels will be processed on sorters equipped with barcode readers. However, there are several sources of data that might be helpful in forming a basis for an estimate, or at least an upper bound of an estimate. It is my understanding that 92 percent of non-OMAS, non-Alaska, inter-BMC Parcel Post is estimated to be machinable on the equipment in question based on the definition of machinability in the DMM. Please see USPS LR-H-135. For the percentages of non-Alaska, non-OMAS, intra-BMC and DBMC Parcel Post please refer to page 1 of workpaper USPS-T-37, WP I.I. Pieces in the remaining Standard (B) subclasses that are presorted to carrier route or 5-digit, or are above the weight limit for machinability, will not likely be processed on the parcel sorters. For information regarding Standard Mail (A) parcels, see witness Crum's response to RIAA/USPS-T28-2.

PSA/USPS-T36-7. In your response to PSA/USPS-T36-4(c), redirected from witness Mayes, you state that it would not be surprising if the amount of cost differences that end up being averaged between letters and non-letters is greater than the amount of cost differences that is being averaged between flats and residual-shape pieces. Does that answer suggest the probability that there is a more serious problem of cross-subsidization between letters and non-letters than there are between flats and residual pieces? Please explain any answer that is not in the affirmative.

RESPONSE:

The answer merely states the possibility (not the probability) that the amount of averaging between letters and nonletters (of which residual shape pieces are a part) is greater than the averaging between flats and residual shape pieces. If there is a problem with "cross-subsidization" between letters and nonletters (as is implied in this question), such "cross-subsidization" is more serious without a residual shape surcharge. Also, if there is indeed a "cross-subsidization" problem between letters and nonletters, that problem is more serious between letters and residual shape pieces than it is between letters and flats. The possibility that more averaging exists across one pair of shapes relative to another does not imply that both issues cannot be addressed simultaneously.

PSA/USPS-T36-8. In your response to DMA/USPS-T4-23, redirected from witness Moden, you state that if a barcode discount were proposed for Standard (A) parcels that: "it would essentially split this relatively small segment of Standard Mail (A) into two smaller groups. . . ." Please provide the total volume of this segment of Standard (A) Mail and explain why you believe that that volume of mail is "relatively small," and please explain why splitting this kind of mail into two groups rather than one would be "counter to the intended simplicity of the per piece surcharge."

RESPONSE:

The total number of pieces projected to be subject to the residual shape surcharge in the test year is estimated to be 1.2 billion (USPS-T-36, WP1, page 13, and WP2, page 13). The total Standard Mail (A) volume for the test year is estimated to be 79.4 billion pieces. (USPS-T-36, WP1, page 3, and WP2, page 3). I consider the volume subject to the residual shape surcharge (1.5 percent of Standard Mail (A)) to be small relative to the other shape categories.

Please see my testimony at page 12, line 17 through page 13, line 7, regarding the simplicity issue.

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FROM WITNESS SECKAR

PSA/USPS-T26-1. In your testimony you develop volume variable mail processing costs for each rate category of flats, among others, within Standard Mail (A). Please provide for the record the following:

- a. The estimated volume and attributable costs TYAR, and the corresponding estimated revenues per piece TYAR for Regular Standard Mail (A) flats, and confirm whether you are able to segregate the non-flat, so-called residual pieces from the cost, volume, and revenues.
- b. Please provide the volume, revenues, and estimated attributable costs TYAR for Regular (A) non-flat residual pieces, and for Regular ECR non-flat residual pieces.

RESPONSE:

- a-b. The requested costs are not available separately for flats, nor separately for residual shape pieces, since total volume variable costs are not available in finer detail than the subclass level for Standard Mail (A).

Regarding volumes, USPS-T-36 WP1, page 20, depicts the volume for nonletters, including automation flats. The estimated volume of residual shape pieces is on page 13 of WP1. These two sources allow one to estimate the TYAR volume of flats and residual shape pieces.

Regarding revenues, the volume detail presented on page 20 of WP1 can be applied to the proposed rates and discounts to calculate the total revenue from nonletters prior to the application of the residual piece surcharge. The amount of estimated revenue from the surcharge is available on page 13 of WP1. Revenue for flats only, or residual shape only, cannot be calculated since the weight profile and destination entry profile is not available for these two groupings.

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REDIRECTED FROM WITNESS MAYES

PSA/USPS-T37-2. Will Standard A parcels be sorted on BMC parcel sorters equipped with barcode readers? If the answer is in the affirmative, please explain why those parcels will not be eligible to receive the 4 cents per piece discount offered to parcel post parcels

RESPONSE:

Some Standard Mail (A) parcels will be processed on sorters equipped with barcode readers. For the response to the remaining question, see my response to DMA/USPS-T4-23b.

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REDIRECTED FROM WITNESS MAYES

PSA/USPS-T37-6.

- (a) Please provide the estimated cost coverage TYAR for Standard (A) non-flat residual pieces in the absence of the proposed 10 cents surcharge.
- (b) Please provide the cost coverage TYAR for Standard (A) flats, excluding non-flat residual shape pieces.
- (c) USPS Witness Moeller concedes that, in this case, it is proposed that only 40% of the cost differential between letters and flats is being passed through in the form of higher flat rates (page 9). Please compare the average per piece Standard (A) flat cost being borne by Standard (A) letters because of the failure to pass through 100% of the letter/nonletter cost differential with the TYBR per piece Standard (A) residual shape cost being borne by Standard (A) flats because of the current failure to pass through the alleged flat/residual shape cost differential. Please express these costs on an average per piece basis and in gross amounts for all Standard (A) letter, all Standard (A) flats, and all Standard (A) residual shape pieces, and document the sources of your data.

RESPONSE:

- (a) The absence of a residual shape surcharge would require a re-designing of the rates. Given the complexity of the analysis involved, and in the absence of a Board of Governors' vote on such a proposal, it is not possible to state as to what those re-designed rates would be, and, therefore, also impossible to determine resulting cost coverages. In any event, cost coverages for Standard Mail (A) are not calculated by shape. See response to PSA/USPS-T36-4.
- (b) See response to PSA/USPS-T36-4.
- (c) First of all, I would not characterize the passage of my testimony cited in this question as a concession.

It is not possible to determine the per-piece cost of Standard Mail (A) flats that is "being borne" by letters. Likewise, it is not possible to determine the

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REDIRECTED FROM WITNESS MAYES

cost of residual pieces "being borne" by flats. The implication of this question is that there is averaging between letters and nonletters, and between nonletters and flats, due to the fact that the passthroughs are 40 percent, and 29 percent, respectively. There is indeed averaging, and residual shape pieces are beneficiaries of *both* of these low passthroughs. Another implication is that the gross amount of costs which are "averaged" is greater between letters and nonletters than between flats and residual shape pieces. Although I cannot quantify these gross amounts, such a relationship would not be surprising due to the relative volumes of letters, flats, and residual pieces.

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INTERROGATORY FROM THE RECORDING INDUSTRY  
ASSOCIATION OF AMERICA, REDIRECTED FROM WITNESS CRUM

**RIAA/USPS-T28-4.** In the process of developing the proposal for the 10 cents per piece surcharge on Standard (A) Parcels, were alternative pricing mechanisms (e.g. piece and pound rate increases) explored to provide differential pricing for parcels?

- a. If your answer is affirmative, please describe each alternative and explain why the 10 cents per piece was selected over each alternative.
- b. If your answer is negative, why not?

**RESPONSE**

a-b. As described in my testimony at page 12, line 17, through page 13, line 7, the Postal Service is proposing the per-piece surcharge in order to avoid unwarranted complication of the rate structure. Although other alternatives were proposed by UPS in Docket No. MC95-1, no other alternatives were explored in preparation for this docket.



SMARTMAIL/USPS-T36-1. Assume that a national retail stock brokerage firm sent by First-Class mail monthly statements of activity to each of its individual customers. Further assume that it is not economical for such firms to send the copies of such statements to its sales agents by First-Class mail, but that it would be economical for such firm to send copies to its sales agents by Standard mail. Would it not benefit the Postal Service financially if the firm in the above example sent such copies to its sales agents by Standard mail, rather than to send such copies outside of the U.S. mail system by means such as the Internet?

RESPONSE:

As a general matter, assuming that a given piece of mail covers its costs and meets the eligibility requirements for a particular service, the Postal Service would benefit financially if that piece of mail were mailed rather than conveyed via the Internet. However, this question appears to ask whether changing the definition of what may be mailed as Standard Mail is in the best interest of the Postal Service and its customers. The Postal Service has not proposed changes in content restrictions and does not intend to revisit its policies in this regard. I have not performed any analysis regarding the costs and benefits of different definitions of what may be mailed as Standard Mail. However, any such analysis would need to consider the potential consequences of the change in definition. Specifically, some would argue that the Postal Service cannot allow only new volume to take advantage of a new, relaxed definition of what may be sent as Standard Mail. An analysis would consider not only the positive financial effect of potential new mail volume, but also the negative financial effect of the migration of existing volume from high-contribution subclasses to lower contribution subclasses.

SMARTMAIL/USPS-T36-2. Assume that the Domestic Mail Classification Schedule were amended by adding the following sentence to the end of Section 312 ("Printed Matter"):

"Printed matter also includes photocopies or duplicate printed copies of bills, statements of account or other personal correspondence, which photocopies or duplicate printed copies are sent not to the original addressee listed on such photocopies or duplicate printed copies, but rather to a third party with a business purpose and right to receive a copy of such information."

- a. Do you believe it more likely than not that such a modification would add to the revenue of the USPS by attracting some mail as Standard mail which would not otherwise be sent through the U.S. mail system?
- b. Do you have any reason to believe that mail sent under such an amended DMCS provision would be more expensive for the USPS to accept, process and deliver than would other Printed Matter sent under the current version of Section 312 of the Domestic Mail Classification Schedule?

RESPONSE:

- a. Regardless of how it is generated, additional volume results in additional revenue, as long as the volume is not migrating from a higher priced subclass. I have no information as to whether this particular modification would result in a net increase in revenue, or a net increase in contribution. Presumably, some of the new Standard volume generated by this modification would have otherwise been sent as First-Class Mail as indicated in my response to SMARTMAIL/USPS-T36-2.
- b. I have no information regarding costs for the specific groupings of mail requested in this subpart. I have no basis on which to state a belief as to whether mail sent under such an amended DMCS provision would be more expensive, or less expensive, than mail sent under the current version.

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WITNESS TAUFIQUE

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UPS/USPS-T34-1. On pages 4 to 6 of your testimony you discuss the reasoning behind the proposal to eliminate Standard A Mail Single Piece. Please explain in detail how it is possible for First Class, "an all-encompassing substitute that offers many features that Standard Mail lacks, such as free forwarding and return, air transportation, better service standards, and fewer content restrictions," to cost less than Standard A Single Piece.

RESPONSE:

This question, while initially directed to witness Taufique, actually refers to pages 4-6 of my testimony, USPS-T-36. My testimony presents pricing and classification analysis of the Postal Service's proposal for Standard Mail (A), and does not attempt to analyze the cost causative factors for Single-Piece; however, I would note that there are a number of cost drivers that cause the costs for Single-Piece to differ from First-Class Mail, including those listed in the question. Other potential cost drivers include weight-per-piece, length of haul, shape, and additional characteristics unique to the Single-Piece classification, which is frequently associated with return and forwarding. Regardless of cause, the costs for Single Piece imply that the rates would have to exceed those for First-Class Mail; hence, the Postal Service proposes elimination of the Single-Piece subclass.

VP-CW/USPS-T36-1. In your opinion, do the principles of Ramsey pricing have any relevance to rate design within the Standard A subclasses? Please explain your answer, regardless of whether it is affirmative or negative.

RESPONSE:

The issue of the appropriate allocation of institutional costs is one that customarily has been handled at the subclass level, and that is not the subject of my testimony. I understand, however, that many of the types of issues that would need to be addressed to respond fully to this question are discussed in Chapter 7 of the testimony of Peter Bernstein, USPS-T-31.

The principles of Ramsey pricing are useful guideposts in the setting of rate levels for the subclasses. (See witness O'Hara's response to OCA/USPS-T30-6). The relevant guidelines to be followed within the Standard Mail (A) subclasses are described throughout my testimony.

VP-CW/USPS-T36-2.

- a. Please explain your familiarity with and understanding of the concept of efficient component pricing.
- b. In your opinion, is efficient component pricing an important principle for design of rates in the Standard A subclass?
- c. When determining the various passthroughs that you recommend within the Standard A subclass, what effort did you make, if any, to incorporate the principle of efficient component pricing?

RESPONSE:

- a. Witness Bernstein (USPS-T-31) describes the principle at page 72, line 18:  
"Any activity that can be performed by more than one agent should be performed by the most efficient (least cost) agent."
- b. Yes. There are a number of worksharing discounts in Standard Mail (A) that encourage mailers to perform certain activities.
- c. My testimony recognizes the cost savings due to worksharing to the greatest extent possible while meeting the other rate design constraints and guidelines described throughout my testimony.

VP-CW/USPS-T36-3. For cost savings that arise from dropshipment of Standard A mail, you recommend an 80 percent passthrough in this case. Is 80 percent what you consider to be an "optimal" passthrough for Standard A mail, or is your recommendation for an 80 percent passthrough constrained in this case by other considerations? If the latter, please describe all other considerations that you consider significant.

RESPONSE:

The 80 percent passthrough was selected as described in my testimony at page 20. It is "optimal" in that it meets the rate design objectives discussed in my testimony. Although it was not a consideration in my passthrough selection, the 80 percent passthrough should allay the concerns of parties who contend that setting the discount for all minimum-per-piece rated pieces by using a weight of 3.3 ounces "over-rewards" destination entry.

VP-CW/USPS-T36-4. *Transportation costs represent a significant portion of the costs avoided by dropshipment to destinating facilities. In your opinion, is it most desirable to reflect transportation cost differences in rate design at (i) less than 100 percent, (ii) 100 percent, or (iii) somewhat more than 100 percent, e.g., the full cost difference times the subclass coverage factor? Regardless of your answer, please explain all rate design principles upon which you rely to support your position.*

**RESPONSE:**

When proposing discounts in the rate design, I believe it is appropriate to reflect as much of the cost avoidance that is practical, given the other rate design considerations. See response to VP-CW/USPS-T36-2 and VP-CW/USPS-T36-3.

VP-CW/USPS-T36-5. In your rate design for Standard A Mail, you have stated a desire to avoid large percentage increases for individual rate cells.

- a. At page 10 of your testimony, you state that the Postal Service has a "desire to moderate rate increases for individual categories." Please explain (i) the basis or reason why individual categories should have their rate increases moderated, and (ii) whether such moderation is inconsistent with having rates that reflect costs.
- b. Assume that the Standard A Regular or ECR subclass as a whole has an average rate increase of X percent. What is the maximum increase in any given rate cell, stated as a multiple of X, that you consider desirable? Please explain the basis for your answer.

RESPONSE:

- a. Factor 4 in section 3622(b) of Title 39 calls for consideration of the effect of rate increases on the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters. Consideration of this factor is not inconsistent with having rates that reflect costs. Ratesetting involves balancing this factor with the other criteria of the Act, including cost considerations.
- b. I do not believe that a rule involving a multiple of the average increase is the best way to consider the effect of rate increases on mailers. For example, in this proceeding, the 10 percent figure, which serves as the upper bound guideline on proposed rate increases for commercial Standard Mail (A), happens to be a multiple of about 2 or 3 of the average increase for the Regular and ECR subclasses. That is not to say, however, that if the average increase were 20 percent, then increases of 40 to 60 percent would be acceptable. Each situation needs to be considered separately.



U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS 2900

VP-CW/USPS-T36-6. Provide the Postal Service's standards for delivery of ECR mail.

RESPONSE:

Attached is a table depicting Service Commitments which appears in Publication 65. It is my understanding that the row identified as "Standard Mail (A)" is applicable.

# UNITED STATES POSTAL SERVICE

## Service Commitments

(ZIP Coded mail only)

Mall Class	Over-night	2nd Day	3rd Day	4th Day	5th Day	6th Day	7th Day	8th Day	9th Day	10th Day	Notes
Express Mail											Directories available at your local post offices.
Priority Mail											Primarily a two-day product.
First-Class Mail											11 ounces or less.
Periodicals											Surface preferential
Standard Mail (B)											See local BMC Manager for Parcel Post Commitments.
Standard Mail (A)											Mail entered at the Destination P&DC has a 2 & 3 day commitment.

For additional information contact the MANAGER, SERVICE POLICIES AND PROGRAMS, POSTAL HEADQUARTERS, 475 L'ENFANT PLAZA SW, WASHINGTON DC 20260-2806.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO 2902  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-7. Please provide all data in the possession or control of the Postal Service that show actual performance in the delivery of (i) ECR mail since reclassification in Docket No. MC95-1, and (ii) third-class carrier Route mail from Docket No. R94-1 until the effective date of reclassification.

RESPONSE:

It is my understanding that there are no nationally representative performance data for these categories for either of these time periods.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

2909

VP-CW/USPS-T36-18. Transportation costs represent a significant portion of the costs avoided by dropshipment to *destinating* facilities. In your opinion, is it most desirable to reflect transportation cost differences in rate design at (i) less than 100 percent, (ii) 100 percent, or (iii) somewhat more than 100 percent, e.g., the full cost difference times the subclass coverage factor? Regardless of your answer, please explain all rate design principles upon which you rely to support your position.

RESPONSE:

See response to VP-CW/USPS-T36-4 and VP-CW/USPS-T36-17.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/USPS-T36-19. In your rate design for Standard A Mail, you have stated a desire to avoid large percentage increases for individual rate cells.

- a. At p. 10 of your testimony, you state that the Postal Service has a "desire to moderate rate increases for individual categories." Please explain (i) the basis or reason why individual categories should have their rate increases moderated, and (ii) whether such moderation is inconsistent with having rates that reflect costs.
- b. Assume that the Standard A Regular or ECR subclass as a whole has an average rate increase of X percent. What is the maximum increase in any given rate cell, stated as a multiple of X, that you consider desirable. Please explain the basis for your answer.

RESPONSE:

See response to VP-CW/USPS-T36-5.

VP-CW/USPS-T36-20. Please refer to your direct testimony (USPS-T-36, pages 20 and 30), where you state that the proposed 80 percent passthrough of costs avoided due to destination entry with respect to Standard A Regular ECR "continues to encourage mailer dropshipment."

- a. Please confirm that the 80 percent passthrough you are recommending would actually constitute a reduction in the level of the current passthrough, which is 100 percent. If you do not confirm, please explain.
- b. Please state where in your testimony, work papers or library references you explain this reduced passthrough and the reasons for it. Please state all reasons supporting a reduced level of passthrough.
- c. (i) Would a passthrough of 60 percent also continue to encourage mailer dropshipment?  
(ii) Would a passthrough of 40 percent?
- d. Please confirm that maintaining a 100 percent passthrough would encourage mailer dropshipment more than reducing the passthrough to 80 percent. If you do not confirm, please state your reasons in detail.
- e. Please confirm that mailer dropshipment facilitates bypassing a portion of the postal network and greater efficiency in mail handling. If you do not confirm, please explain your reasons fully.
- f. Please identify what criteria support a reduction in passthrough for a dropshipment discount once it has become established, and data have been collected which demonstrate its economic efficiency.

RESPONSE:

- a. The current discounts are based on 100 percent passthrough of the costs differences calculated in Docket No. MC95-1, which are lower than the cost differentials calculated in this proceeding.
- b. The rationale for the selected passthrough is discussed at page 20, lines 1-7 of my testimony. See also my response to VP-CW/USPS-T36-3.

- c. (i) Yes.  
(ii) Yes.
- d. To the extent that a discount based on 80 percent of a given cost savings is not enough to cause a particular mailer to dropship, but a 100 percent passthrough of those same cost savings would cause that mailer to dropship, then, yes, the 100 percent passthrough would encourage more dropshipment. The level of encouragement is determined by the actual discount, not the passthrough underlying it.
- e. The purpose of mailer dropshipment (assuming the alternative would be entry at an upstream facility) is to bypass a portion of the postal network, thereby resulting in reduced costs to the Postal Service.
- f. The rationale for the selected passthrough is discussed at page 20, lines 1-7 of my testimony. See also my response to VP-CW/USPS-T36-3.

VP-CW/USPS-T36-21. Please refer to your direct testimony (USPS-T-36, page 20) where you state that a passthrough greater than the one you are recommending for Standard A Regular and ECR mail "would result in a larger increase in the basic rates, which conflicts with the general guidelines of tempering individual rate increases." You also state that such greater passthrough "would require a larger increase in the basic rates, which conflicts with the efforts to mitigate substantial increases for individual rate categories." (*Id.*, p. 30)

- a. Please list each "increase in the basic rates" which you believe would have resulted from
  - (i) continuing the current passthrough (of destination entry costs/savings) at 100 percent; and
  - (ii) proposing a passthrough of 90 percent.
- b. Please explain the "general guidelines of tempering individual rate increases" and the policy to "mitigate substantial rate increases" as you applied them here, and state their sources.

RESPONSE:

- a. In the cited passage, I am referring to the increase in the basic rates (and subsequently in all of the rates for non-dropshipped pieces) that would be required to fund the increase in the destination entry discounts. One can get an idea of the rate increases that would have resulted by entering higher dropship discount passthroughs in WP1, page 9. For instance, a 100 percent passthrough may have resulted in a proposed increase for Regular Automation 3/5-digit presort flats of 10.6 percent (or 10.1 percent with a 90 percent passthrough), instead of the proposed 9.5 percent; a 100 percent passthrough may have resulted in a proposed increase for ECR Basic Nonletters of 9.0 percent (or 7.7 percent with a 90 percent passthrough) instead of the proposed 5.8 percent; and a 100 percent passthrough may



have resulted in a proposed increase for ECR Basic letters of 12.7 percent (or 11.3 percent with a 90 percent passthrough) instead of the proposed 9.3 percent. Again, it is important to note that the actual rates might be different in order to meet the target cost coverage.

- b. Please see my response to NAA/USPS-T36-12.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF VAL-PAK/CAROL WRIGHT

2915

VP-CW/USPS-T36-22. With regard to Standard A Regular per-piece destination entry discounts, please provide

- (i) the proposed discount and
- (ii) the corresponding unit savings in the test year, for each of the following entry points:

- a. DBMC; and
- b. DSCF.

RESPONSE:

a-b. Savings due to destination entry are calculated on a per-pound basis. It is my understanding that cost savings specifically for piece-rated pieces are not quantified. In order to determine the proposed destination-entry discounts for piece-rated pieces, the breakpoint weight of 3.3 ounces is applied to the per-pound savings. Workpaper 1, page 9, details the per-pound savings due to destination entry, and shows the derivation of the per-piece discounts.

U.S. POSTAL SERVICE WITNESS MOELLER RESPONSE TO  
INTERROGATORIES OF VAL-PAK/CAROL WRIGHT

2916

VP-CW/USPS-T36-23. With regard to Standard A ECR per-piece destination entry discounts, please provide

- (i) the proposed discount and
- (ii) the corresponding unit savings in the test year, for each of the following entry points:

- a. DBMC;
- b. DSCF; and
- c. DDU.

RESPONSE:

a-c. Savings due to destination entry are calculated on a per-pound basis. It is my understanding that cost savings specifically for piece-rated pieces are not quantified. In order to determine the proposed destination-entry discounts for piece-rated pieces, the breakpoint weight of 3.3 ounces is applied to the per-pound savings. Workpaper 1, page 9, details the per-pound savings due to destination entry, and shows the derivation of the per-piece discounts.

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER  
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18. In USPS-T-36, Workpaper 1 and Workpaper 2, page 4, the percentage of presort nonletter pieces dropshipped to BMCs, SCFs, and DDUs is based on the percentage of presort letter pieces dropshipped to BMCs, SCFs, and DDUs, from page 2. Should the dropship distribution of nonletter pieces on page 2 be used instead to distribute the nonletter pieces to dropship category on page 4? If not, why not? If so, please show the effect on the Service's Standard (A) rate proposal.

RESPONSE:

Yes, the distribution of presort category nonletter pieces on page 4 should have been based on the percentages for presort category nonletter pieces on page 2.

Using the dropship distribution of nonletters instead of letters has no effect on the rates proposed.

The distribution of Test Year After Rates presort nonletter pieces (page 20 of WP1 and WP2) should also have been based on the dropship distribution for nonletters from page 2. Using the distribution for nonletters would have resulted in a slightly higher (about \$500,000) estimate of Test Year contribution for the Regular subclass; however, the cost coverage would still round to 154.45 percent. In Nonprofit, the increased estimated contribution would be about \$300,000 and the coverage would increase slightly, from 122.02 percent to 122.04 percent.

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER  
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19. To calculate test year volumes by billing determinant category, witness Moeller uses billing determinants for the first two quarters of FY 1997 for commercial mail and the first quarter of FY 1997 for nonprofit mail. See USPS-T-36, Workpaper 1, page 1 and Workpaper 2, page 1.
- a. What is the rationale for using FY 1997 quarterly billing determinants rather than base year?
  - b. What is the rationale for using the first two quarters for commercial mail but only the first quarter for nonprofit mail?

RESPONSE:

- a. The implementation of commercial classification reform on July 1, 1996, and of nonprofit classification reform on October 6, 1996, included significant changes in the rate structure for the affected subclasses, as well as significant changes in preparation requirements. In order for test year volumes by rate category to reflect the mail mixes that occurred after implementation of classification reform, it was necessary to use the most recent and complete post-classification reform billing determinants available to distribute the volume to rate category. The base year billing determinants would have reflected a hybrid of pre- and post-classification reform volumes.
- b. As described in subpart a, it was necessary to use the most recent and complete post-classification reform billing determinant information available in order to reflect post-reclassification mail mixes. For commercial, this included quarter one and two of FY 1997. With respect to the nonprofit subclasses, the rate design relies upon the second quarter of FY 97, not the first quarter. Since nonprofit classification reform was implemented in

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October 1996, only quarter two of PFY 1997 reflected pure post-  
classification reform volume distributions.

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21. For the purpose of proposing a residual shape surcharge, witness Moeller relies on witness Crum's unit costs by shape. See USPS-T-36 at 13. Witness Crum uses the shape costs presented in LR-H-108, Table 3 (which reflect total costs, not just mail processing and delivery), and calculates the unit cost difference between flats and parcels (including IPPs) by adjusting to remove the differences resulting from variation in presort and dropshipping.
- a. Is this characterization correct?
  - b. Please provide the rationale for using mail processing and delivery costs for computing worksharing cost differences and shape cost differences between letters and flats but using total costs for computing shape cost differences between flats and Parcels (including IPPs).

RESPONSE:

- a. Yes.
- b. Ideally, only cost differences due directly to the shape of the piece should be used as a basis for the rate differential. Mail processing and delivery cost differences were used to support the shape-based rates for letters and nonletters first proposed in Docket No. R90-1. The Postal Service did not mean to suggest that these were the only cost components upon which a shape-based rate differential could be based. Between flats and parcels, other cost segments might well be candidates for inclusion in the cost differential. Flats and parcels, for example, exhibit a significant difference in density (USPS LR-PCR-38) and, therefore, transportation costs. The cost difference underlying the residual shape surcharge accordingly reflects this difference in density. In any event, in this proceeding, the proposed rate differential is 10 cents, a figure which was proposed for reasons other than a strict adherence to a passthrough selection. See my testimony at page

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13, line 14, through page 14, line 5. It is my understanding that if the cost difference were limited to mail processing and delivery as the basis for a 10 cent surcharge, the resulting passthrough would be 36.9 percent, which would still be a relatively low passthrough.



1 CHAIRMAN GLEIMAN: Does any participant have  
2 additional written cross examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.

5 Ten participants have requested oral cross  
6 examination of witness Moeller -- and we'll see how our  
7 random alphabet generator did today in coming up with the  
8 list of cross examiners -- Advertising Mail Marketing  
9 Association, Florida Gift Fruit Shippers, Mail Order  
10 Association of America, Nashua-District et. al, National  
11 Federal of Non-Profits, the Newspaper Association of  
12 America, the Office of the Consumer Advocate, Parcel  
13 Shippers Association, the Recording Industry Association of  
14 America, and ValPak Direct Marketing Systems et. al.

15 Does any other participant have oral cross  
16 examination for this witness?

17 [No response.]

18 CHAIRMAN GLEIMAN: There doesn't appear to be  
19 anyone else.

20 I'm not sure -- Mr. Wiggins, are you here on  
21 behalf of AMMA this morning? I couldn't see which hat you  
22 had on this morning.

23 MR. WIGGINS: I -- I have both hats on, but this  
24 one comes first, Mr. Chairman.

25 CHAIRMAN GLEIMAN: You can begin when you are

1 ready.

2 And while he's readying himself, Mr. Moeller, in  
3 the event you haven't ever counted it up, there were 91  
4 documents that were either produced by you or sent to you  
5 during the course of these proceedings, so far.

6 THE WITNESS: That explains all that paper, I  
7 guess.

8 CROSS EXAMINATION

9 BY MR. WIGGINS:

10 Q Mr. Moeller, I am Frank Wiggins here for the AMMA.  
11 Do you have AMMA-1 to you handy?

12 A Yes.

13 Q In your responses to our inquiries 1-D and E, you  
14 refer us to Witness Thress. Is that simply deference or do  
15 you contend that he is the better informed person to whom we  
16 should inquire on those subjects?

17 A I think I referred you to him because he explains  
18 how the three billion pieces was estimated and I think he  
19 talks in there about some of the assumptions he had made.

20 Q He does indeed. But my question is whether you  
21 consider yourself sufficiently informed to elaborate on the  
22 questions that we propounded.

23 A I am vaguely familiar with what was built into it  
24 but he would certainly be able to do a step-by-step better  
25 than I could.

1           Q     You are not comfortable explaining why it is that  
2     the Postal Service believes that those three billion pieces  
3     proposed to migrate are eligible for entry or will be  
4     eligible for entry as automation five-digit pieces? That  
5     was really the thrust of our inquiry.

6           A     Like I said, I think I understand some of the  
7     inputs into his --

8           Q     I am not trying to press you into something you  
9     are not comfortable with.

10          A     I think it was -- I remember the general outline  
11     of it and I thought it was the right approach to take.

12          Q     What would be the appropriate rate adjustment were  
13     it the case if somebody could persuade either you or  
14     Mr. Thress or whoever ought to be persuaded that something  
15     less than those three billion pieces were eligible for entry  
16     at the five-digit automation class? What adjustments to the  
17     rates that you propose would be appropriate?

18          A     Oh, my, I have no idea what the adjustment to the  
19     rates would be. You mean, if I were given a forecast, an  
20     alternative forecast?

21          Q     Correct. Suppose none of those three billion  
22     pieces were to migrate, that all of them were to remain at  
23     the basic automation level at which they now reside, what  
24     adjustment would you make in your calculation of rates?

25          A     I can't speak to that. Any adjustment I would

1 make would have to be approved by the Board of Governors  
2 before we filed it again anyway.

3 Q Do you have your page 24 of your workpaper 1  
4 handy?

5 A Yes.

6 Q That is the place at which you calculate the  
7 adjustment that is appropriate.

8 A Right.

9 Q In anticipation of those three billion pieces, is  
10 it not?

11 A That's the page where I make a cost adjustment  
12 that is a final adjustment to Witness Patelunas' costs to  
13 account for the fact that the costs before the adjustment  
14 provided by Witness Patelunas has embedded in it the  
15 assumption that these migrating pieces take on the cost of  
16 the average piece in that regular subclass. But obviously  
17 these are very low-cost pieces and if we did not make the  
18 final adjustment, the regular subclass would have been  
19 inappropriately tagged with \$226 million in costs and the  
20 carrier route subclass would have had costs too high by 32  
21 million.

22 Q Thirty-two million, yeah. So you make that  
23 adjustment in anticipation of a migration; is that right?

24 A Yes.

25 Q Isn't it equally right that were the migration not

1 to take place you would simply reverse the adjustments that  
2 you have made on that page of your workpapers?

3 A If someone were to tell me that there were no  
4 pieces that were going to take advantage of this lower rate  
5 up there in five-digit automation, then that figure M there  
6 on the upper right-hand side of that page would be zero and  
7 that would probably calculate to no cost adjustment. But  
8 there would be no cost adjustment necessary because  
9 Patelunas' costs would not have had that volume up in that  
10 subclass to begin with.

11 Q You would simply rip that page out of your  
12 workpaper and revert to --

13 A Then we would have like a missing page. It would  
14 be 23 and 25.

15 Q That would be another correction that you would  
16 have to make.

17 A Yeah, I'd have to renumber the pages.

18 Q Look at page 20 of your testimony if you would,  
19 please.

20 A Okay.

21 Q Do you have that?

22 A Yes, I do.

23 Q You there explain, rather briskly, I must say, why  
24 it is that you recommend a decrease from 100 percent, as it  
25 is now, to 80 percent in the passthrough for destination

1 entry or drop shipping. Could you elaborate? You say a  
2 greater passthrough would result in a larger increase in  
3 basic rates. Is that really the core of it?

4 A That's one of the reasons.

5 Q Are there others?

6 A Well, this paragraph says that it is also intended  
7 to keep the discounts basically where they are today.

8 Q It also says that the savings due to destination  
9 entry have increased, correct? I left a few words out.

10 A Yeah, you did. The savings to the destination  
11 entry, unlike most other work sharing discounts, have  
12 increased.

13 Q But -- but those savings have increased; is that  
14 right?

15 A The measurement of those savings are greater than  
16 the measurement of those savings in parcel -- in the  
17 classification reform case.

18 Q Right. And so in keeping the discounts at the  
19 same levels, right, which is what you say you are doing  
20 here?

21 A Generally.

22 Q You are passing through less of a cost saving than  
23 previously was passed through?

24 A The passthrough was lower than the passthrough  
25 that was applied to the savings as measured in

1 classification reform.

2 Q Which in a sense, though the dollar amount, the  
3 take-home pay, if you would, for what the Postal Service is  
4 paying people to engage in these work-saving activities, the  
5 dollar amount remains constant but the benefit in some sense  
6 is being diminished?

7 The Postal Service is saving more and the mailer  
8 benefitting proportionately less?

9 A I think whatever savings there are in actuality  
10 out there are going to be the same the day before the  
11 discounts change as the day after the discounts or these new  
12 rates would go into place. I mean, this is just a  
13 measurement of what we think those savings are. It's not --  
14 nothing's going to change in terms of how much we save  
15 necessarily.

16 Q What do you mean then in saying, and I'm leaving  
17 out those few words again, that the savings due to  
18 destination entry have increased?

19 A I probably should have said I'm speaking of the  
20 measured savings there, the measured savings -- I mean, day  
21 to day it saves one amount one day and the same amount the  
22 next day presumably -- maybe I'm nitpicking here, I'm sorry,  
23 but --

24 Q You're not intimating that the measurement devices  
25 are --

1 A No.

2 Q No good.

3 A Oh, no; never do that.

4 Q Would the Postal Service have a problem if there  
5 were evidence presented to it that the mailers affected  
6 would prefer to have a 100-percent passthrough of those  
7 savings even though it would result, as you point out, in a  
8 push-up effect in other rates for the subclasses affected?

9 A My understanding is that you all -- all the other  
10 parties are free to propose whatever rate design they would  
11 recommend.

12 Q I appreciate that, but I'm asking what your  
13 response, your institutional response to that would be.

14 A I can't speak for the Postal Service and how they  
15 would react to that proposal.

16 Q Oh, but you're the rate guy, right?

17 A I'm the rate guy.

18 Q As a rate guy, how would you feel about that?

19 A Well, I like the rates I proposed, because I  
20 was -- so I would probably not like that. But that doesn't  
21 mean that the institution wouldn't look at the entire  
22 package of rates proposed by a party and objectively look at  
23 it and see if it suited our needs and the customer needs  
24 more appropriately. But for now I'm going with my rates.

25 Q You're the rate guy, and they're your rates. I



1 understand that.

2 Could you turn to page 28 of your testimony,  
3 please?

4 A Um-hum.

5 Q And you're remarking here on the fact that the  
6 elimination of letter-flat differential in the basic ECR  
7 category has certain effects, and you say among them, and  
8 I'm quoting now, it does not result in a cross-subsidy of  
9 nonletters by letters. You performed an implicit  
10 contribution calculation to reach that conclusion, did you?

11 A No, as a matter of fact, I didn't do an implicit  
12 calculation. I think in the footnote I just mentioned that  
13 intuitively the ECR subclass has such a high cost coverage  
14 that it's hard to imagine how not passing through a  
15 differential at that tier would cause nonletters to go below  
16 cost.

17 Q I think that it is pretty intuitively obvious, but  
18 you didn't actually do the calculation?

19 A No.

20 Q Did you do implicit coverage calculations for any  
21 of the other rate coverages, particularly the discounts, for  
22 example, that are above 100 percent? Did you calculate  
23 implicit coverages in those cells?

24 A I did not calculate implicit coverages.

25 MR. WIGGINS: Mr. Chairman, I have nothing

1 further.

2 CHAIRMAN GLEIMAN: Mr. Wells.

3 MR. WELLS: Thank you, Mr. Chairman.

4 CROSS EXAMINATION

5 BY MR. WELLS:

6 Q Mr. Moeller, I'm Maxwell Wells of the Florida Gift  
7 Fruit Shippers Association.

8 CHAIRMAN GLEIMAN: Mr. Wells, could you pull the  
9 mike a teeny bit closer? Or turn it on? That's an  
10 alternative too.

11 BY MR. WELLS:

12 Q Would you look at page 10 of your testimony,  
13 please, sir?

14 There at line 5 you talk about the Postal Service  
15 desire to moderate rate increases. Is that a desire that  
16 you developed or is that an institutional desire?

17 A As I said in a response to one interrogatory, that  
18 was the general direction I received from my management.

19 Q And at the bottom of the page you say the need to  
20 temporarily increase any one rate category -- and that  
21 similarly is the instruction you received from management?

22 A Generally though we were talking about existing  
23 rate categories.

24 Q Then on page 13, line 14, you refer to two reasons  
25 for holding the surcharge to 10 cents, the first to mitigate

1 the impact of a potential increase in rates on customers.  
2 Is that your desire to mitigate or is that also the  
3 instructions you received from your management?

4 A Again, that's a general direction from management.

5 Q Is this to be applied only to standard A mail or  
6 to all categories of mail?

7 A It actually applies only to the commercial  
8 subclasses of standard mail.

9 Q Does it apply to any other class of mail?

10 A I'm not familiar with the rate design of the other  
11 classes to know what they were told or what they were  
12 generally indicated that they should have as their maximum  
13 increase.

14 Q Were you told that this institutional  
15 determination of the desire to mitigate would be limited to  
16 the commercial aspects of standard A mail?

17 A Well, that just became obvious as things started  
18 piecing together that the nonprofit subclasses by virtue of  
19 the costs and the required markup by virtue of the Revenue  
20 Forgone Reform Act would have their increases forced above  
21 10 percent.

22 Q Was it your understanding that this mitigation  
23 would not apply to Fourth Class mail?

24 A Again I don't know what the percentage maximum  
25 increase there was limited to.

1           Q     And on page 17 you refer to general guidelines.  
2     Are these general guidelines the ones that you've just been  
3     referring to that came to you from Postal Service  
4     management?

5           A     Can you give me a line? I can't seem to find it.

6           Q     Two.

7           A     Line 2. Yes, that's the same guideline.

8           Q     And again your reference to the guideline on line  
9     11 is similarly the direction that you received from Postal  
10    Service management and is not a guideline that you  
11    personally developed.

12          A     Well, that next sentence goes on to say they're  
13    kind of linked. That 80-percent limit aids in achieving the  
14    percentage rate increase or rate change guideline of 10  
15    percent. So they're tied together, but --

16          Q     But the guideline was given to you rather than  
17    developed by you; is that right?

18          A     It was probably in conjunction with my discussions  
19    with various people who have control over me.

20          Q     All right.

21          A     Management.

22          Q     On page 30 you refer here to the continuation of  
23    destination entry discount to continue to encourage mailer  
24    drop shipping. Is that a Postal Service desire to continue  
25    mailer drop shipment?

1           A     I think it's everyone's desire to have  
2     work-sharing done at a level that benefits customers and the  
3     Postal Service.

4           Q     And drop shipping mail closer to the point of  
5     delivery benefits the Postal Service, doesn't it?

6           A     I think it benefits everyone. The less  
7     processing -- if the mailer can take on some work and get a  
8     discount for it and we avoid some work, that's a good thing.

9           Q     Do you believe that this concept of encouragement  
10    of destination entry discount and the encouragement of  
11    mailer drop shipments is applicable to all classes of mail?

12          A     Again, I'm limited here to standard A.  
13    Work-sharing as a general principle is something that should  
14    be considered wherever it makes sense.

15          Q     And mailer drop shipment would be encouraged in  
16    all classes of mail. Is that your understanding?

17          A     No.

18          Q     Are you going to discourage mailer drop shipment  
19    for any class of mail?

20          A     I'm just speaking to standard A. Let's just get  
21    back to that. I mean, I'm not speaking for any other  
22    classes of mail.

23          Q     And in your discussions with management, was there  
24    ever any suggestion that mailer drop shipment encouragement  
25    would not apply to any other class of mail?

1           A     My discussions regarding this filing were limited  
2 to what I'm testifying to, which is standard A.

3           MR. WELLS: Thank you, Mr. Moeller.

4           No further questions, Mr. Chairman.

5           CHAIRMAN GLEIMAN: Thank you, Mr. Wells.

6           Mail Order Association of America.

7           I don't see anyone representing that group in the  
8 room.

9           That brings us to Nashua District et al.

10          MR. OLSON: Thank you, Mr. Chairman.

11                   CROSS EXAMINATION

12          BY MR. OLSON:

13          Q     Mr. Moeller, William Olson representing Nashua,  
14 Mystic, District, and Seattle, and I want to ask you to turn  
15 first to your response to NDMS-T-36-4.

16          A     Okay.

17          Q     And particularly sub-part B where we talked about  
18 the numbers that witness Crum provided to you and whether  
19 those numbers took into account the fact that -- the issue  
20 of machinability of some of these parcels. Do you recall  
21 that?

22          A     I recall the question, yes.

23          Q     Okay. And your response says that the -- if -- if  
24 I can paraphrase it -- says that the lower costs of  
25 machinable parcels and the higher costs of non-machinable

1 parcels are averaged together in the costs that were given  
2 to you, correct? Is that a fair summary?

3 A I don't think I say anything about the other  
4 parcels in there, but I -- I -- I guess that goes without  
5 saying. I'm just -- this answer specifically just says  
6 that, to the extent parcels are -- are machinable, the cost  
7 effects of that machinability are baked into witness Crum's  
8 cost figures.

9 Q So, they're averaged together. Rather than  
10 presenting you with separate numbers for machinable parcels  
11 and non-machinable parcels, he averaged them together,  
12 correct?

13 A It's the cost of all those pieces, regardless of  
14 how they're processed.

15 Q Okay.

16 And -- and that's really what we were trying to  
17 get at in the -- in the question, because the question was,  
18 is it not true that the failure to provide you with that  
19 kind of information about the costs of -- of -- of  
20 processing machinable versus non-machinable parcels makes it  
21 impossible to build those kind of incentives into the rate  
22 structure in your proposal, correct?

23 A I'm trying to figure which comes first.

24 I mean we knew we were going to have a residual  
25 shape surcharge, and we had not considered any

1     machinability, separate rate for machinable pieces, because  
2     we were looking for a simple rate structure, as simple as it  
3     can be, and -- but there is incentive for people to produce  
4     machinable parcels, and that is the -- the easier mail prep  
5     and eligibility that these pieces receive when they are  
6     prepared as machinable parcels.

7             So, I think, even though there may not be a  
8     separate rate for machinability, there are preparation  
9     requirements that encourage pieces to be -- to meet the  
10    machinable parcel definition.

11            Q     Can you elaborate on that? I'm not sure I  
12    understand what you mean. It's not a lower rate but,  
13    rather, there's some other benefit. What's the other  
14    benefit?

15            A     If you're a machinable parcel, it's my  
16    understanding that the preparation guidelines for pieces  
17    that are described or claimed to be machinable parcels by  
18    the mailer, they can make them up to BMC, which -- rather  
19    than three-digit separations.

20                   There are many fewer separations to make if you're  
21    a machinable parcel, because you'd make it up to BMC, and  
22    you'd qualify for the three-/five-digit rate.

23            Q     Okay.

24                   For people who are, for example, drop-shipping to  
25    SCFs, that would have no benefit, I take it.



1           A     I'm not sure of the regulations, but I don't think  
2     you can drop-ship something that's only pre-sorted to BMC.  
3     You can't drop-ship it deeper into the system. I'm not  
4     positive, but that would seem to make sense to me.

5           Q     You don't think you can drop-ship Standard A  
6     parcels to an SCF? Is that --

7           A     Oh, you can if you've prepared them in a way that  
8     that makes sense, but if it's prepared to BMC --

9           Q     Oh, no, it wouldn't be prepared to BMCs if it's  
10    drop-shipped to an SCF. It would be prepared to SCFs,  
11    correct?

12          A     No. Pre-sorted is what I was speaking of, rather  
13    than prepared.

14                If it's pre-sorted to BMC, you wouldn't want it  
15    entered deeper into the system, just as if something is a  
16    five-digit automation, you don't -- or -- or three-digit  
17    automation, you don't want it entered at DDU, because then  
18    it has to go back up.

19                That's why there are no DDU discounts in the  
20    regular subclass, for instance.

21          Q     But for Standard A parcels that are pre-sorted for  
22    and prepared for SCF entry, that are for -- that are to  
23    destine within that SCF, there would be no benefit to them,  
24    correct, from machinability in this non-cost way that you're  
25    discussing?

1           A     I believe that's correct.

2           Q     And irrespective of -- of whether the chicken or  
3     the egg came first on the decision to go with an exceedingly  
4     simple surcharge, isn't it true that the fact that you don't  
5     have the costs from witness Crum or from another source on  
6     the costs of machinable parcels versus non-machinable  
7     parcels <sup>making</sup> ~~make~~ it impossible for you, sitting here today, for  
8     example, to tell me the -- the cost difference of those  
9     parcels and -- and the rate implications.

10          A     Obviously, he's the only that would speak to those  
11     costs, and I think there was a discussion yesterday about  
12     the -- the cost of machinable versus other pieces, if I  
13     remember correctly, but I can't recite it.

14          Q     I couldn't -- I couldn't understand it or recite  
15     it. I haven't yet read it, but I will. But I -- all I'm  
16     trying to say is, if you don't have the costs, you can't  
17     develop rates based on machinability, correct?

18          A     I don't generally offer -- I mean propose  
19     discounts that -- that don't -- that there is nothing to  
20     point to, no.

21          Q     Do you ever propose increases where there is  
22     nothing -- no, I'm sorry, strike that.

23                     Let me ask you to look at your response to  
24     ValPak/Carol Wright T-35-22.

25          A     I'm sorry. What was the number?

1 Q T-35-22. I believe that is your response, if I'm

2 --

3 A Well, 35 --

4 Q Or 36-22, I'm sorry.

5 A Okay.

6 Q There you talk about how savings due to  
7 destination entry are calculated on a per-pound basis,  
8 correct?

9 A The numbers that I'm given are savings on a pound  
10 basis, yes.

11 Q Okay. Do those savings, to your knowledge,  
12 reflect both savings from transportation as well as from  
13 mail processing?

14 A That's my understanding.

15 Q Okay. Do you recall the source of those? Library  
16 reference 111? Is that the source?

17 A That's the source.

18 Q Okay. And do you recall the approximate  
19 percentage of the mail<sup>costs</sup> that was transportation versus mail  
20 processing? If you don't, I can suggest something and ask  
21 you -- I can -- as I understand it, it's about 80 percent  
22 transportation, about 20<sup>percent</sup> mail processing. Does that sound  
23 reasonable to you?

24 A That's what you say.

25 Q Okay. Well, for purposes of the question, let's

1       assume that, okay?

2           A       Okay.

3           Q       Transportation costs, the 80-percent item, the  
4       big-ticket item here in the costs avoided --

5           A       Uh-huh.

6           Q       -- are distributed generally according to cube,  
7       aren't they?

8           A       I hate to -- to beg off on this, but I'm not a  
9       transportation cost person to know how those costs are  
10      distributed.

11          Q       Well, let me ask you to assume that, too.

12          A       Okay.

13          Q       Okay. And if they are, can you tell me why the --  
14      the savings of -- the transportation cost savings due to  
15      destination entry are calculated on a pound basis instead of  
16      a cube basis?

17          A       Like I say, I'm not sure why -- how the costs are  
18      distributed. I know that the discount that I propose has to  
19      be off of some rate that's already in the -- in the  
20      schedule, and the rates that are there are piece rates and  
21      they are pound rates.

22                 So, if you're going to discount off of those  
23      rates, it would be on a piece or a pound basis. In this  
24      case, these have been calculated on a per-pound basis for  
25      ease of use in proposing these rates. I don't know how I

1 would do a cube -- how we would administer a discount that  
2 regards the cube of the piece.

3 Q Well, the point that I'm getting at is, if you're  
4 looking at a parcel and you're saying that the parcel is  
5 less dense than other pieces and therefore has greater cube  
6 and therefore has greater transportation costs associated  
7 with that cube to build up the costs, isn't it reasonable to  
8 expect that, when you look at destination entry, that you  
9 would take into account that the costs avoided from  
10 transportation, which are distributed by cube, are the -- is  
11 the proper method to knock off the costs that are avoided  
12 rather than using pounds?

13 Now, that's probably the worst question I've ever  
14 asked, but do you -- do you get the drift?

15 A Well, are you asking that -- would it be more  
16 appropriate to give a discount for drop-ship based on the  
17 shape such that letter drop-ship discounts should be lower  
18 than -- I mean we want to have a -- we want to have a -- a  
19 uniform simple rate structure that gives drop-ship discounts  
20 for all pieces.

21 Q Right. And -- and currently there is a drop-ship  
22 discount which is a -- based on pounds, and it is for  
23 letters, flats, and parcels, correct?

24 A That's correct.

25 Q Okay.

1           A     Well, I back -- I can amend that response.

2                     It's based on pounds when it's above the  
3 break-point weight. There is a conversion when the piece  
4 weighs less than 3.3 ounces in order to give the discount --  
5 since that's a piece-rated piece, you want the discount to  
6 be off of that rate.

7                     It's a piece rate, so you want a piece discount  
8 off of it. So, there needs to be some conversion of those  
9 pound-related savings to piece-related --

10          Q     Right.

11          A     -- and the assumption built into the rate design  
12 is that those letters or non-letters weigh 3.3 ounces.

13          Q     Right. You've explained that in response to a  
14 number of interrogatories, I think. So, I -- I'm aware of  
15 that.

16                    But I guess what I'm saying is, is it fair to  
17 impose a surcharge on a parcel on the theory that it has  
18 greater density and, therefore, greater transportation costs  
19 and, yet, when considering drop-ship discounts, not to  
20 reflect the real cost savings that are incurred because that  
21 same parcel does have greater density?

22          A     I think, first of all, you said less density -- or  
23 you said greater density and greater transportation costs,  
24 but I'll assume you meant less density, greater  
25 transportation costs for --

1 Q Yes.

2 A -- parcels.

3 Q Thank you.

4 A I think this gets back to the simplicity issue,  
5 and just as we don't have different destination entry  
6 discounts for letters versus non-letters, which there may be  
7 some cube difference there, we don't plan to have different  
8 drop-ship discounts based on shape, be it parcel or flat.

9 Q Well, you are proposing a parcel surcharge in this  
10 docket, correct?

11 A Yes.

12 Q So if fairness and equity is one of the criteria  
13 of the Act you can understand why I had asked you the  
14 question, can't you?

15 I am trying to get to a consistent approach, one  
16 that if you are going to build the costs up based on parcels  
17 having greater cube, then it seems to me fairness and equity  
18 might require some looking at the fact that 80 percent of  
19 the cost savings by destination entry are due to  
20 transportation, and if we are going to take a look at cost  
21 savings from destination entry we ought to give account to  
22 the fact that the parcels are saving much more than average.

23 A Well, to the extent that's true and to the extent  
24 that parcels are drop shipped deep into the system -- I am  
25 not sure they even are -- I fall back on the fact that that

1     buildup of costs you are talking about is a significant  
2     buildup of costs.

3             It's a large amount and we pass through a very  
4     small amount of it, so that is my effort at fairness and  
5     equity there is that, and add this to the list, to the  
6     extent they are denied or their drop ship discounts are  
7     perhaps lower than they would be if you had distinct drop  
8     ship discounts by shape then at least they are not having  
9     their rates pushed up by 100 percent passthrough of Witness  
10    Crum's large cost difference.

11            Q     Which you have taken as a given that Witness  
12    Crum's testimony with respect to his belief as to what that  
13    cost difference is, you have accepted that number from  
14    Witness Crum?

15            A     I have seen that number in his testimony. I saw  
16    it in the parcel classification reform case.

17            Q     Well, it was a different number there.

18            A     Well, it was different but it had one thing in  
19    common -- they had one significant thing in common, that  
20    they were large numbers.

21            Q     Okay. Let me ask you to take a look at your  
22    response to NDMS-36-1.

23            A     Okay.

24            Q     We asked you about the average cost of a Standard  
25    A ECR parcel in this question and an average revenue of a



1 Standard A parcel, and you referred to Witness Crum's  
2 response to certain other interrogatories, correct?

3 A Yes.

4 Q Those interrogatories, of course, don't have those  
5 numbers in them, but they refer to the CD ROM version of  
6 Library Reference H-108 as amended, where supposedly some of  
7 those numbers are, correct?

8 A I know -- I accept that it -- I don't have it in  
9 front of me, but I'll accept your --

10 Q Okay -- which I am still trying to extract, I'll  
11 add, so I can't ask you with respect to the specifics of the  
12 numbers but in subpart (c) you say what percentage 10 cents  
13 is of the difference between revenues and costs is not  
14 relevant to the rate design, and by that I take it to mean  
15 not relevant to your parcel surcharge, correct, or the  
16 amount of your parcel surcharge?

17 A That's correct.

18 Q Okay, and as a matter of fact, wouldn't it be  
19 accurate to just take the first part of that sentence off  
20 and just say that the difference between per piece -- I'm  
21 sorry, the difference between average cost and average  
22 revenue is not relevant to your parcel surcharge?

23 A The parcel surcharge was developed by applying a  
24 passthrough to the cost difference as measured by Witness  
25 Crum.

1           There was nothing involved in the rate design that  
2 suggested it should be done here, what is suggested here, as  
3 far as comparing the revenue per piece and the cost per  
4 piece.

5           It is strictly a recognition of a cost difference.

6           Q     No, I understand that you didn't do it. As a  
7 matter of fact, that is what I am trying to point out, and I  
8 am trying to get to your sentence, where you say that the --  
9 I think this is what the sentence can be fairly interpreted  
10 to mean, and I am asking if this is a reasonable rendition,  
11 that the difference between the average revenue of a  
12 Standard A parcel and the average cost of a Standard A  
13 parcel is not relevant to setting the parcel surcharge in  
14 the way that you did it, the way that you set it, correct?

15          A     The way I said it, no. I think this issue came to  
16 attention because people somehow feel that perhaps that  
17 revenue is below the cost and that troubles people and they  
18 want it recognized in the rate structure. The way the  
19 surcharge was developed though was a measure of the cost  
20 difference between flats and these pieces and a small  
21 passthrough applied to that cost difference.

22          Q     Have you ever looked at the average revenue of,  
23 say, a standard A regular parcel and compared it to the  
24 average cost of a standard A regular parcel?

25          A     Well, as a matter of fact, Witness Crum and I

1 discussed this yesterday because it did come up and you can  
2 use some of the information in the tables in his testimony,  
3 too, to get such figures and so, yes, I have.

4 To answer your question, I have looked at that  
5 based on my discussion with him yesterday.

6 Q Good thing he came first as a witness.

7 Do you consider that comparison -- do you stick by  
8 your statement that that comparison is not relevant in  
9 setting the parcel surcharge?

10 A It's not relevant to how the surcharge is  
11 proposed. I would imagine that if some people saw these  
12 figures and if the revenue was lower than the cost, that  
13 would bolster the argument that you should have a surcharge.

14 Q And hypothetically if the revenues were larger  
15 than the costs that would -- it would indicate the reverse?  
16 Again, I'm saying hypothetically.

17 A No, hypothetically it would not --

18 Q It would not indicate that?

19 A -- necessarily say that you would do that. The  
20 point of the surcharge isn't to assure cost coverage or that  
21 the revenues exceed the costs; it is to recognize cost  
22 differences between these two groupings of mail.

23 I am not sure but I think in R90 when the  
24 letter/nonletter differential was put into place, I am not  
25 sure it was done because it was a feeling nonletters were

1 not necessarily covering their cost. So I don't think a  
2 distinction in the rate has as a requirement for that  
3 distinction that the piece which happens to be incurring a  
4 push-up on its rates is not covering its cost.

5 Q Right, but to the extent that there has been an  
6 interest in creating a standard A parcel surcharge merely  
7 because of a perception that the parcels on average were not  
8 covering costs, at least those people would no longer  
9 necessarily be as enthusiastic about a parcel surcharge,  
10 wouldn't you say?

11 A If that is the sole reason someone thinks you  
12 should have a surcharge and, hypothetically if they were to  
13 find that, indeed, those pieces aren't covering -- or those  
14 pieces are covering their cost, then maybe that individual  
15 may not think it's necessary.

16 Q Thank you for that admission.

17 Let me ask you to take a look at your response to  
18 NAA-3.

19 A Okay.

20 Q We started talking about this before when you said  
21 my analysis of cost savings <sup>from</sup> ~~of~~ destination entry of parcels  
22 could be added to the list of reasons why you propose a low  
23 shape passthrough, I wonder if you might go through some of  
24 those reasons and give me your thoughts as to why -- as to  
25 your rationale for a relatively low shape passthrough there.

1           And it might be useful to just go through. Did  
2   you apply the criteria of the act to choosing your  
3   relatively low shape passthrough?

4           A     I am confused on which shape passthrough you are  
5   talking about.

6           Q     On the parcel surcharge. I'm sorry.

7           A     Oh, okay. And the question regarding the parcel  
8   surcharge passthrough was?

9           Q     Did you apply the criteria of the rate setting  
10   provisions or the classification section -- classification  
11   setting section of the act or both?

12          A     I think, as a whole, the rates we've proposed,  
13   which includes the parcel surcharge are -- I have to choose  
14   the right -- you guys are the lawyers; I don't know what the  
15   exact term is. But they are consistent with the act.

16          Q     Did you go through the -- well, let's just take  
17   3622-B for a second and walk through it real quick. Did you  
18   consider fairness, fair and equitable, when you came up with  
19   the parcel surcharge? I think that's in your testimony,  
20   correct?

21          A     Yes.

22          Q     Value of service?

23          A     I think -- I mean, I am confused on what some of  
24   these criteria are for, actually. I think that most of  
25   these speak toward Dr. O'Hara's work in setting -- proposing

1 cost coverages or markups for these subclasses. I didn't --

2 Q Let me ask you, do you think the standard A parcel  
3 surcharge that you are proposing is a rate category or  
4 subclass or something else?

5 A It's not a subclass. I'm not sure how to define a  
6 rate category. There's different ways of maybe splitting up  
7 the rates and saying individual rates or categories are. Is  
8 SCF entry a category or is basic SCF entry, basic automation  
9 letters SCF entry a category? So it's either a category or  
10 something else.

11 Q And do you believe if it's a rate category you  
12 should apply all of the factors of the act?

13 A Again, I say that our proposal is consistent with  
14 the act. Whether I go through on a checklist and look at  
15 each individual one and see if it applies to this particular  
16 part of the proposal, that's -- I'm not sure if that was  
17 something that was supposed to be done. I can tell you I  
18 did not sit down with a checklist and cross off each of  
19 these things with respect to every individual rate cell  
20 here.

21 Q But did you check off each of the criterion of  
22 3622-B with respect to the parcel surcharge as you developed  
23 your proposal?

24 A I think I said I did not go through a checklist on  
25 each individual element of the rates for these subclasses.

1           Q     Including the parcel surcharge? That's all I'm  
2     trying to establish.

3           A     Yes, but I really don't want that to be couched in  
4     some way that says I didn't consider the act in proposing  
5     these rates.

6           Q     No, I think your testimony is clear.  
7                 Did you consider simplicity of structure?

8           A     Yes.

9           Q     With respect to the parcel surcharge?

10          A     Yes.

11          Q     And how?

12          A     Well, there's probably a sentence in my testimony  
13     that would speak to this. Maybe on page 11. That's where  
14     it starts.

15                 Page 12, line 17, the Postal Service proposes a  
16     simple per-piece surcharge within the existing nonletter  
17     rate structure as opposed to completely replacing the rate  
18     designs for standard regular and enhanced carrier route mail  
19     with separate rate structures for flats and the remaining  
20     pieces and nonletters that are not flat-shaped.

21          Q     So you're saying that in having one surcharge for  
22     parcels of all sorts, that -- and then a relatively low  
23     passthrough of that cost-based differential that you took  
24     from Witness Crum that that met your -- the criteria of  
25     simplicity of structure?

1           A     Proposing the surcharge in that manner is  
2 consistent with simplicity of rate structure.

3           MR. OLSON: I have nothing else. Thank you, Mr.  
4 Chairman.

5           CHAIRMAN GLEIMAN: Thank you, Mr. Olson.

6           Before we go on to the next party who wishes to  
7 cross examine, I think we're going to take a 10-minute break  
8 at this point.

9           I noticed that the representative of the Mail  
10 Order Association of America is here. Mr. Todd, do you wish  
11 to cross examine the witness?

12          MR. TODD: I do not at this time. If I do  
13 anything, it will be followup.

14          CHAIRMAN GLEIMAN: Thank you.

15          Mr. Todd indicated that he wanted to reserve his  
16 rights for followup.

17          If someone is here from the National Federation of  
18 Nonprofits -- doesn't appear to be -- if they show up before  
19 the 10 minutes, they'll be next. If not, then we'll move on  
20 to the Newspaper Association of America.

21          Thank you.

22          [Recess.]

23          CHAIRMAN GLEIMAN: Mr. Cooper, did we lose the  
24 witness? We could probably get through the cross  
25 examination very quickly if we started asking the questions



1 now.

2 Per our discussion, Mr. Baker, you're next, and  
3 after lunch, we're going to pick up with the National  
4 Federal of Non-Profits.

5 CROSS EXAMINATION

6 BY MR. BAKER:

7 Q Good morning, Mr. Moeller.

8 A Good morning.

9 Q For the record, I'm Bill Baker, appearing for the  
10 Newspaper Association of America.

11 And your task was a simple one, wasn't it, Mr.  
12 Moeller? Your job was to set the rates that the  
13 government's going to charge in order to recover from  
14 Standard A mail the amount of revenue set by Dr. O'Hara. Is  
15 that right?

16 A My job was to propose the rates that the Postal  
17 Service wanted to achieve that objective.

18 Q The Postal Service is still an agency of the  
19 government, isn't it?

20 A I don't know the distinction of what the  
21 relationship with the Federal Government is.

22 Q And the rates that you present for Standard A  
23 commercial, regular and ECR, are interrelated with one  
24 another, are they not?

25 A The rates for --

1           Q     -- commercial, regular and ECR, and the rate  
2 categories within them are interrelated to some degree.

3           A     They are two distinct subclasses. In the rate  
4 design for those two distinct subclasses, I am mindful of  
5 rate relationships between those two subclasses.

6           Q     And in establishing the rates for each subclass in  
7 turn, you made use, did you not, of a spreadsheet that would  
8 allow you to adjust cost differentials and pass-throughs and  
9 actual rates so they all work out nicely. Is that correct?

10          A     There were two spreadsheets filed which underlie  
11 my work papers for Standard A commercial and nonprofit.

12          Q     Uh-huh. And was the one for commercial mail 202?

13          A     The library reference with the diskette for those  
14 spreadsheets was library reference 202.

15          Q     And in setting the rates for any particular  
16 subclass or any particular rate category within a subclass,  
17 if you adjusted one factor in your spreadsheet, that could  
18 lead to implications elsewhere in the same subclass as  
19 rates. Is that right?

20          A     Individual decisions that need to be made in the  
21 rate design that are entered into that spreadsheet could  
22 have an effect of changing other cells in that spreadsheet.

23          Q     And just to illustrate the point, could you turn  
24 to your answer to NAA-38?

25               And if you've had a chance to look that over, here

1 we had asked you what might happen if you pass through a  
2 greater percentage of the shape differential and Standard A  
3 regular other at a particular level, might that have a  
4 particular pass-through effect elsewhere. Is that right?

5 A The question asks --

6 Q Uh-huh.

7 A -- about a particular pass-through, one that's not  
8 involved in this --

9 Q Uh-huh.

10 A -- the rate design, as a matter of fact.

11 Q Uh-huh.

12 A But yes, it asks sort of a hypothetical what-if.

13 Q Right.

14 And the sentence that was particularly of interest  
15 to me right now was about halfway in your answer, where you  
16 said, presumably, the -- the question posed would result in  
17 an even lower proposed rate for five-digit automation, and  
18 then you added, but may cause other rates to change in some  
19 other manner, essentially.

20 A Right.

21 Q And that simply illustrates the point here that,  
22 if you make an adjustment at one place in the spreadsheet,  
23 some other things could happen elsewhere that need to be  
24 taken into account. Is that right?

25 A That's correct.

1           Q     Is this kind of like a bowl of Jello, where you  
2     push one place and it jiggles somewhere else?

3           A     Well, I don't know if you've taken the opportunity  
4     to play with the spreadsheet, but it's fun, and you can --  
5     you can -- the rate design formula is set up in a way that  
6     has these inputs into it that you can play to your heart's  
7     content with different pass-throughs, different pound rates,  
8     whatever, to -- to see what the outcome of that is.

9           Q     And it's true enough, then, that when you do --  
10    you change one thing, something else will change, changes  
11    flow throughout and can have effects elsewhere in the  
12    spreadsheet.

13          A     Can have effects. Sometimes there's no effect.

14          Q     And the -- my Jello bowl would -- or your  
15    spreadsheet is library reference 202, which is diskette  
16    form.

17          A     Yes.

18          Q     And if I put your -- that diskette in my computer  
19    and ran the appropriate program and push print, would I get  
20    your work sheet one, work papers one?

21          A     I don't know if you're familiar with Excel, but  
22    there are a number of work sheets within that spreadsheet  
23    that are tabbed at the bottom of the screen if you were to  
24    call up the file --

25          Q     Uh-huh.

1           A     -- and it is set up that, if you were to click on  
2     one of those particular pages of the work papers and hit  
3     print, in most cases you would get what's on that page.

4           Q     Uh-huh. So, is it possible to print out your work  
5     papers from library reference 202 if you know what you're  
6     doing?

7           A     I hope so.

8           Q     Okay.

9           A     I believe it should be.

10          Q     Actually, we were able to do so, and I just wanted  
11     you to confirm that. If you do it right, the work papers  
12     and the diskette amount to the same thing.

13          A     Just for point of interest, there are a few pages  
14     that have -- a few of those sheets that have three  
15     individual pages on them. In those cases, it's usually the  
16     -- the calculation of the revenue like before rates or after  
17     rates.

18          Q     Okay.

19                 I'd like to move to a subject -- and you kind of  
20     got into a little bit with counsel for Nashua-District,  
21     etcetera, and in doing so, I'd like you to turn to your  
22     answer to ValPak/Carol Wright number one, and in that  
23     question, you were -- had been asked whether principles of  
24     Ramsey pricing had -- were relevant to your rate design, and  
25     as I understand your answer, your question to the specific

1 question was a no or close to a no. Is that right?

2 A I don't apply the principles --

3 Q Okay.

4 A -- in my rate design.

5 Q And then you state -- go on to state, in the last  
6 sentence of the answer, that the relevant guidelines to be  
7 followed are -- in Standard A subclasses -- were described  
8 throughout your testimony, correct?

9 Now, I did not notice in your testimony a specific  
10 reference to the statutory factors found in 36-22. Did I  
11 overlook them or did you not -- or did you specifically  
12 state them or not?

13 A Well, if you're speaking of them in the context of  
14 how Ramsey pricing would be used --

15 Q No. I'm thinking in terms of the context of what  
16 you were thinking of, what operational -- what guidelines  
17 and considerations were in your mind as you set the rates.

18 A Well, I think, if you were to read through the  
19 testimony, you will find that there are references to  
20 fairness and equity and simplicity and effect on mailers in  
21 terms of rate shock --

22 Q Uh-huh.

23 A -- those type of things.

24 Q So, the -- in designing your rates, you do try to  
25 take into account the statutory factors.

1           A     Not the ones that involve, you know, the cost  
2 coverage issues, but --

3           Q     And did you, in fact, attempt to apply the ones  
4 you felt appropriate in designing these rates?

5           A     Again, I come back to my -- you described it as a  
6 bowl of Jello. I should have taken issue with that. It  
7 sounds demeaning in some way. But --

8           Q     I like Jello, actually.

9           A     There are a number of items in -- in there, number  
10 of inputs, number of calculations, number of outputs, and on  
11 the whole, when you look at that package of rates and the  
12 rate relationships in there and the various decisions, I  
13 feel comfortable, and the Postal Service does, that they are  
14 consistent with the act.

15          Q     I want to look at some other things that you  
16 mentioned in your testimony and answers that were guidelines  
17 apparently to what you did.

18                   Was one of them the concern about the relationship  
19 between ECR basic letters and standard regulation automation  
20 five-digit letters?

21          A     There was -- I kept an eye on that rate  
22 relationship because I felt that it was important that it  
23 come out the way it did.

24          Q     Right, and the point is it was important in the  
25 final rates that the rate for the standard regular

1 automation five-digit were less than the rate for the ECR  
2 basic letter rate?

3 A If that could be achieved without violating any  
4 other number of guidelines that were involved in the rate  
5 design, that would be a good outcome.

6 Q And that outcome was desirable from the point of  
7 view of the institution because of operational  
8 considerations that I believe Mr. Moden has addressed as  
9 well?

10 A That was a desirable outcome, yes.

11 Q In response to NAA-12 where it said that you were  
12 advised by your management that an upper limit of a 10  
13 percent rate increase was appropriate, do you recall that?

14 A Well, let me find it here.

15 That question discusses that 10 percent guideline,  
16 yes.

17 Q And I believe you stated this morning that you  
18 don't know whether all the other pricing witnesses were  
19 given a similar constraint by management?

20 A I assume there was direction on some constraint.  
21 Whether it was similar to the 10 percent, if you are talking  
22 about the actual figure, I don't know that.

23 I would imagine that there was concern from  
24 management about rate increases.

25 Q The 10 percent guideline that you heard was --



1 affected Standard A?

2 A Yes, it -- that particular figure was directed at  
3 me regarding Standard A, commercial subclasses.

4 Q Do you in fact know whether any witness has  
5 testified to a higher constraint on his rates -- 16 percent  
6 or 11 percent figure, as far as that witness's rates?

7 A I know that there are other witnesses that have  
8 higher, or at least one witness who has a higher maximum.

9 Q If you look at each combination of discount and  
10 destination entry point as a separate rate cell, you did not  
11 quite meet the 10 percent in all cases, did you?

12 A That's correct. The 10 percent was the  
13 nondestination entered pieces.

14 Q Did you receive any instruction from management as  
15 to the size of any rate decreases?

16 A Well, it's nice that we are in a world where we  
17 actually think about those kind of things.

18 I don't remember a specific guideline on the  
19 amount of a decrease.

20 Q I noticed in ValPak/Carol Wright-2 you added that,  
21 you said that efficient component pricing is also an  
22 important principle to be applied in rate design, correct?

23 A Yes, but I am just thinking I should have added to  
24 my previous response the fact that I was not given a  
25 specific figure doesn't mean that when the people reviewing

1 the rates I was suggesting we propose, that they wouldn't  
2 have objected if they saw something that was in their mind  
3 too large of a decrease.

4 Q Okay -- and no one did so.

5 A No one stopped me from doing anything.

6 Q Okay. Back to efficient component pricing.

7 Is that also a principle that you would attempt to  
8 apply as you felt appropriate in rate design?

9 A My response to (b) says that I think it is an  
10 important principle for design of rates.

11 Q It is one that you keep in mind as you do it?

12 A That's correct.

13 Q Okay, and is the notion of lowest combined cost  
14 between mailers and the Postal Service another principle  
15 that you keep in mind in designing rates?

16 A Yes.

17 Q Okay. I want to move then from sort of principles  
18 to actual inputs.

19 One of the inputs you had was Dr. O'Hara's  
20 institutional cost assignment, correct?

21 A Dr. O'Hara gave us target coverages that our rates  
22 should achieve.

23 Q Did you feel free to go back to him and say I  
24 really should be achieving more or less than what you told  
25 me?

1           A     I don't recall ever going back to him and saying  
2     this is too high or this is too low.

3                     I mean it was an interactive process and we all  
4     discussed a lot of things, various implications of various  
5     cost coverages.

6           Q     Okay. Another input to you was also Witness  
7     Daniel's cost estimates, correct?

8           A     Witness Daniel has an exhibit in her testimony  
9     that summarizes cost inputs from many cost witnesses that I  
10    use, yes.

11          Q     Did Dr. Tolley provide you with volume  
12    projections?

13          A     Yes.

14          Q     Okay. You also in your work papers make use of  
15    billing determinants. Are those also an input to you that  
16    you took as pretty much a given as what the billing  
17    determinants were in the base year?

18          A     The billing determinants are what the billing  
19    determinants are.

20          Q     I want to -- we touched briefly on a subject I'm  
21    returning to now, and that's the rate for enhanced carrier  
22    route basic letters. How did -- and the concern here is the  
23    crossover between the ECR basic letters and the standard  
24    regular automation five-digit letter rate; correct?

25          A     That's the concern about -- right.

1 Q Okay.

2 A Okay.

3 Q And counsel for AMMH spoke about -- talked to you

4 about it earlier today -- the migration of pieces.

5 A Yes.

6 Q Is that crossover concern a reason why you did not

7 pass through any of the cost difference between letters and

8 flats at the ECR basic level?

9 A I imagine that's addressed specifically --

10 Q Look at OCA 25, I think subpart G.

11 Have you had a chance to review that?

12 A Yes, I have.

13 Q It's a lengthy answer, but let me see if I can --

14 if you would agree with the proposition that in this case

15 you chose to not recognize the letter-flat difference at the

16 ECR basic level because you believed it was more important

17 to set the ECR letter rate high enough that letters would

18 migrate into the automation category of regular. Is that

19 correct?

20 A Well, I think this answer speaks for itself.

21 Q Um-hum.

22 A I mean, I hate to -- it was very carefully worded,

23 and I don't want to attempt to do something --

24 Q Um-hum.

25 A And not state it --

1 Q Um-hum.

2 A Correctly as it is here.

3 Q Um-hum.

4 A The effect of having a zero-percent passthrough at  
5 that basic tier --

6 Q Um-hum.

7 A Is that it produces a letter rate which comports  
8 with this rate relationship objective --

9 Q Which is important to the Postal Service in this  
10 case.

11 A Yes.

12 Q Yes. That's all I wanted to get.

13 I'd like you to move to a different subject and  
14 turn to page 16 of your testimony, and I direct your  
15 attention particularly to lines 17 and 18.

16 A Okay.

17 Q And here you mention there are significant changes  
18 in costing methodology that other witnesses are proposing  
19 that the cost differential supporting many of the existing  
20 discounts have changed significantly. Is that right?

21 A That's what it says.

22 Q Right. And as a result of that you are proposing  
23 some what you call unconventional passthroughs; is that  
24 correct?

25 A That's correct.

1           Q     And if you turn to page 48 of your testimony that  
2     was revised I guess last Friday you present there  
3     passthroughs both as filed and as they now are given updated  
4     cost information; correct?

5           A     The second column are the passthroughs that are  
6     implicit given that the rates are not changing but the costs  
7     have been revised.

8           Q     Okay. Right. That's what you mean by implicit.

9                     And the regular subclass presort letter category  
10    where the as-filed passthrough was 165 percent and is now  
11    167, is that an example of the unconventional passthrough?

12          A     That would be an unconventional passthrough; yes.

13          Q     Is the reason for these unconventional  
14    passthroughs the new mail processing cost testimony of  
15    Professor Bradley?

16          A     I don't know which specific changes in the cost  
17    methodology flow through to these particular costs for these  
18    particular passthroughs to know what's driving them.

19          Q     Um-hum.

20          A     All I know is that there were significant changes  
21    and that was one of them, or the volume variability study  
22    was one of them.

23          Q     Which affected mail processing costs.

24          A     I assume so.

25          Q     Um-hum.

1 A I mean, that can --

2 Q Um-hum. These unconventional passthroughs are  
3 mostly in regular subclass; correct?

4 A As opposed to ECR?

5 Q Yes.

6 ~~A~~Q Yes. But as we discussed before, they may  
7 indirectly affect ECR insofar as they set the automation  
8 five-digit letter rate, which has an influence on what you  
9 proposed for the ECR basic letter rate; correct?

10 ~~QA~~ The result of these passthrough decisions affect  
11 that five-digit letter automation rate.

12 A Um-hum. Yes.

13 Q Yes.

14 A Like you said, it's a bowl of Jello, and  
15 everything has the effect of changing things.

16 Q Okay.

17 Now, in NAA-10, we asked what if the new mail  
18 processing methodology of Professor Bradley was not accepted  
19 by this commission, and you may turn to that -- it might be  
20 helpful if you could turn to that.

21 A Well, you'll have to forgive me. I didn't catch  
22 which one it was.

23 Q NAA-10.

24 A Okay. I see that question.

25 Q Okay. And we asked you, okay, what if the

1 commission does not accept the -- the -- Professor Bradley's  
2 testimony, and I understand that you cannot tell us what  
3 rates you might have proposed if you had not had that, but  
4 what I would like you to review with me is the tendencies.

5 I take it that one tendency that you state in the  
6 answer is that pre-sort-related cost differentials would get  
7 smaller. Is that correct?

8 A The answer specifically says --

9 Q Well --

10 A -- that it's not --

11 Q I mean increase. I -- I misspoke. That if we  
12 have greater volume -- mail processing volume variability,  
13 the tendency would be to increase the pre-sort cost savings.

14 A You have greater volume variability?

15 Q Yes. If you had greater volume variability, then  
16 would the costs avoided to the Postal Service be larger or  
17 smaller from pre-sortation?

18 A Well, I probably shouldn't get into the whole  
19 volume variability thing, but if it's closer to 100 percent  
20 volume variable, I think it's the opposite of what you were  
21 saying. The greater the volume variability -- I don't know.  
22 I -- I -- I defer to the volume variability people.

23 Q Do you think the direction -- do you -- do you  
24 --can you tell me whether, in the event the commission did  
25 not accept Professor Bradley's changes and reverted to the



1 prior methodologies, would -- and we had no change in your  
2 proposed rates, so we're keeping your proposed rates -- do  
3 you know whether that would make the pass-throughs in  
4 standard regular closer to conventional percentages or still  
5 more unconventional?

6 A I can't speculate what --

7 Q Okay.

8 A -- undoing Dr. Bradley's work would do to my  
9 pass-throughs.

10 Q Okay.

11 I want to move on and talk about the pre-sort  
12 tree, and so, could you turn to NAA-8?

13 A Okay.

14 Q This is the Jello bowl, right?

15 A This is part of it.

16 Q In graphical form. All right.

17 I want to just go through this and make sure I  
18 understand it right.

19 Now, you have here presented in NAA-8 the pre-sort  
20 trees for Standard A regular and Standard A ECR, correct?

21 A Yes.

22 Q And let's look at the bottom or part B of your  
23 answer, which is the pre-sort 2-E for Standard A ECR. As I  
24 understand the exhibit, the numbers you've put in brackets  
25 are the current rate differences in today's rates. Is that

1 right?

2 A That's what the response says, yes.

3 Q Okay. And the numbers outside the box are the  
4 proposed rate differences -- differences, not actual levels  
5 but differences.

6 A Outside of the box or above non-vertical lines are  
7 proposed rate differences.

8 Q And the numbers inside the box are the cost  
9 differences presented in this proceeding.

10 A That's correct.

11 Q All right. This is all very abstract, but for  
12 example, let's look at the difference between ECR basic  
13 letters and ECR high-density letters. Today, this table,  
14 assuming it's correct, shows that the rate difference is 0.8  
15 cents, correct?

16 A Yes.

17 Q And the proposal is to increase that rate  
18 differential to 2.1 cents, correct?

19 A That's the rate difference proposed.

20 Q Yes. And until you revised your testimony on  
21 October 1st, I think it was, or 3rd, that proposed rate  
22 difference represented a 100-percent pass-through of the  
23 newly calculated cost difference of 2.1 cents, correct?

24 A I'll look at my work papers. Yes.

25 Q And in fact, now it's about 95 percent, I believe,

1 if you looked at page 48 of your testimony. Well, no, it  
2 won't show -- it does show it there, but I believe the  
3 difference is closer to 95 percent of the cost difference  
4 now, implicit.

5 A The implicit.

6 Q Uh-huh.

7 A Yes. It's 95 percent.

8 Q Do you recall from MC95-1 what the cost difference  
9 was between the basic and high-density ECR letters?

10 A I don't recall on the top of my head.

11 Q Would you accept subject to check that it was  
12 approximately .8 cents?

13 A I will accept your --

14 Q Yes. And that would -- and thus the rate that's  
15 currently charged would reflect a 100-percent pass-through  
16 of that difference if that was, in fact, the number.

17 A If, as you say, the cost difference is .8 cents  
18 and the rate difference is .8 cents currently, then that's  
19 100 percent pass-through.

20 Q Do you know why the cost difference has increased  
21 to 2.1 or 2.2 cents in this proceeding from where it was two  
22 years ago?

23 A I think I address this in my testimony where I  
24 describe -- just bear with me here a second. Yes, on page  
25 29 of my testimony, I -- I mention that the costs which I

1 use have as an input a cost study --

2 Q Uh-huh.

3 A -- that -- and it -- that is different from the  
4 MC95 cost study.

5 Q And it was different because it included a  
6 different category of costs -- right? -- included mail  
7 ~~process~~ <sup>processing</sup> costs as well as just -- as delivery costs. In the  
8 prior study, it depended solely on delivery costs, correct?

9 A I believe that's what my testimony --

10 Q That's your understanding of what -- what was  
11 going on.

12 A Yes.

13 Q Did you give any consideration in your rate design  
14 to phasing in this increase in cost over time by a  
15 less-than-100-percent pass-through at this -- in this -- in  
16 this case?

17 A No.

18 Q Why not?

19 A Well, the rates produced by choosing the  
20 pass-throughs that -- that were chosen and put into the  
21 spreadsheet resulted in rates that met the general  
22 guidelines that -- that I was following and met the approval  
23 of management and they were proposed.

24 Q Well, suppose there were an error of some kind in  
25 the estimated cost differences between ECR, basic, and

1 high-density saturation or the -- well, ECR, basic, and  
2 high-density -- and that the correct cost estimate showed a  
3 smaller difference between the two, a smaller cost  
4 difference.

5 Would the tendency of that be to move the basic  
6 and high-density rates closer together?

7 A Well, there's a hypothetical here that I can't  
8 address. I mean I don't know what that cost change would  
9 be.

10 Q Right.

11 A I -- I show that, in other circumstances, the  
12 pass-throughs that were --

13 Q Uh-huh.

14 A -- implied by the cost changes were still  
15 acceptable or still --

16 Q Uh-huh. Right.

17 THE REPORTER: Were still what?

18 THE WITNESS: Acceptable.

19 BY MR. BAKER:

20 Q But if the cost difference was smaller and you  
21 kept the proposed rate, then you would have a pass-through  
22 of greater than 100 percent.

23 A Well, I think we can look at what actually  
24 happened if you want to see that sometimes the pass-throughs  
25 do increase, sometimes they decrease, depends on what the

1 change in the --

2 Q Right. And the assumption here was that the cost  
3 difference was smaller rather than bigger.

4 A I would imagine you don't even need a hypothetical  
5 situation for that if you were to go to one of the actual  
6 ones that happened and showed that -- that, where the  
7 implicit pass-through or the implied pass-through increased,  
8 it was probably because that cost differential narrowed.

9 Q Uh-huh. That's the direction, mathematically.

10 A Yes.

11 Q Okay.

12 Maybe holding your finger at -- on NAA-8 and just  
13 -- I would quote from your testimony at page 29, where you  
14 state that there was a 72-percent pass-through between  
15 high-density and saturation non-letters by virtue of the  
16 pre-sort tree in this case, and you state on page 29 that  
17 that 72-percent pass-through is driven by the other -- two  
18 other pass-throughs in your pre-sort tree, correct?

19 A The pass-throughs on the side of the tree that  
20 involve non-letters --

21 Q Uh-huh.

22 A -- and the different tiers within ECR --

23 Q Uh-huh.

24 A Those pass-throughs fall out from the other  
25 pass-through decisions.

1 Q Right.

2 So, in particular, if I'm looking at -- on the  
3 bottom of NAA-8, right side of the pre-sort tree, there's a  
4 figure of 1.2, which is the proposed rate difference between  
5 saturation and high-density, correct?

6 A Yes.

7 Q And that number happened because you had already  
8 fixed the corresponding differential on the left side of the  
9 pre-sort tree for letters -- correct? -- and the shape  
10 differentials?

11 A Yes.

12 Q Okay.

13 Why did you fix the letter rates first?

14 A Well, I am using the fundamental rate design  
15 process and formula that was used in the decision for MC95-1  
16 and that's the way that was set up. You have to choose one  
17 or the other and since that was what had been used, I  
18 continued to use --

19 Q The letters.

20 A The letters, yes.

21 Q You could have started with the nonletters, if you  
22 had wanted to, and worked back the other way?

23 A I suppose I could have rewritten the formulas to  
24 have the other passthroughs solved for rather than the  
25 nonletter passthroughs.

1           Q     There is another instance we are going to come to  
2     shortly where you did rewrite the formula, isn't there?

3           A     Yeah, I'm not saying that it wasn't worthy of some  
4     change.

5           Q     And you could have fixed the nonletters and the  
6     letter rate passthroughs first and then let the shape  
7     differential fall out, could you not?

8           A     Something has to fall out. I am not sure how many  
9     of the shape passthroughs would fall out. I mean, I would  
10    have to play with that bowl of Jell-O to find out.

11          Q     I want to just comment that we found your  
12    workpapers the most clear of any of the Postal Service  
13    witnesses and I hope that doesn't hurt your career. But I  
14    still wondered when you responded to MASA-2 that you were  
15    deriving -- achieving a reasonably simple and understandable  
16    rate structure, if you were jesting?

17          A     What does that response say?

18          Q     It was MASA-2.

19          A     No, I'm not joking.

20          Q     Okay.

21          A     Okay.

22          Q     Now, I want to move on to the subject of the pound  
23    rate for ECR mail, commercial ECR mail. And as we all know,  
24    that is part of one of the rate elements above the break  
25    point in ECR rate design, correct?



1           A     Yes.

2           Q     Do you -- turning just briefly to the  
3 below-the-break-point part of the ECR rate design, do you  
4 happen to have a figure of what the percentage increase is  
5 to the minimum per piece rate below the break point?

6           A     There are several rates that --

7           Q     Okay, for nonletters?

8           A     For nonletters, and this is in the workpapers,  
9 which density tier?

10          Q     Saturation.

11          A     Saturation nonletter minimum per piece rate is  
12 proposed to increase 2.9 percent.

13          Q     Okay, and at the basic level?

14          A     The basic level, the nonletter rate is proposed to  
15 increase 5.8 percent.

16          Q     Which page of your workpaper are you referring to?

17          A     Page 31 of Workpaper 1.

18          Q     Okay. Okay.

19                Now, let's take a look at -- you proposed  
20 different pound rates for standard regular and for standard  
21 ECR, correct?

22          A     Yes.

23          Q     And in standard regular, is the current rate today  
24 67 cents per pound?

25          A     For regular, I believe it is 67.7.

1 Q Okay, and the proposed rate for standard regular  
2 is 65?

3 A Yes.

4 Q That's a small reduction?

5 A Yes.

6 Q And in ECR, the current pound rate is 66.3 cents?

7 A Yes.

8 Q And your proposed or new rate is 53 cents,  
9 correct?

10 A Yes.

11 Q And is that reduction about 12, 13 percent or so?

12 A You can do the math.

13 Q Now, OCA-24 conveniently asked you to calculate  
14 rate changes at current -- certain ounce increments. Do you  
15 recall that interrogatory?

16 A Yes, I have it here.

17 Q And it has many pages of tables where all the  
18 rates are presented at certain ounce levels and ask you to  
19 calculate the increases and decreases that result from your  
20 rate schedule, correct?

21 A Yes. That's the --

22 Q And if you could turn to the one, two, three,  
23 fourth sheet labeled Four-Ounce Pieces?

24 A Okay.

25 Q And here we are talking about enhanced carrier

1 route pound rated pieces, correct?

2 A Yes.

3 Q Okay. And let's see. And the numbers to the left  
4 side of the page are current rates and the numbers to the  
5 right side of the page are proposed rates and the column on  
6 the far right side shows the percent change, correct?

7 A Yes.

8 Q Okay. And at these four-ounce pieces, I note for  
9 example that, let's see, an ECR saturation pound rate piece  
10 that is entered at the destination SCF, which is the third  
11 group of rows, sees a rate reduction of about 1.38 percent.  
12 Did I read that correctly?

13 A You said saturation?

14 Q Saturation.

15 A Yes.

16 Q And if we turn to the next page where it -- the  
17 rates were presented for a six-ounce piece, that same  
18 reduction falls -- becomes an 8.77 rate decrease, correct?

19 A That's what it says, yes.

20 Q Same rate category.

21 And if we turn to the very next page at the eight  
22 ounce weight increment, the rate reduction becomes 12.46  
23 percent, correct?

24 A Correct.

25 Q And while the rates were presented here as the

1 weight increments get higher, the percentage decrease would  
2 become steeper, correct?

3 A That's correct.

4 Q And have you worked out the math to the 15 ounce  
5 increment?

6 A That particular increment? I may have somewhere  
7 along the line. I don't have it here.

8 Q Would it surprise you if the reduction at that  
9 level were around 18 percent?

10 A No.

11 Q Have you calculated the dollar value from the  
12 reduction in the pound rate? I know it is possible in your  
13 work papers, but did you?

14 A In the course of developing the work papers and  
15 coming up with the proposal, there were times when I put  
16 different pound rates in and by doing that I was able to see  
17 generally what the effect of doing that was.

18 Q So you tried different pound rates to see what  
19 happened?

20 A I tried a lot of different rates and rate inputs  
21 just to see what would happen.

22 Q Okay, and would you calculate -- if you wish to  
23 calculate the dollar value from the reduction of the pound  
24 rate, would you do so by comparing page 7 of work paper 1  
25 with page 28 of your work paper 1?

1 A Page 7 and page --

2 Q 28.

3 A No.

4 Q You would not? What would you do?

5 A Well, it's hard to do because, like you said,  
6 there's -- you don't choose one thing in isolation of  
7 anything else happening.

8 When you do put in a different pound rate, that  
9 doesn't mean the revenue from the pound rated pieces  
10 necessarily goes down by the amount of the reduction in the  
11 pound rate times those pounds.

12 Q I understand that, but if I wish to know the  
13 reduction of revenue from pound rated pieces without taking  
14 into account any volume effects, would I add the revenue  
15 from the pound rated piece charge plus the pound charge  
16 before rates and compare that with after rates?

17 A If you wanted to get a total revenue change from  
18 pound rated pieces, you would be getting the effect of all  
19 the rate proposed changes.

20 Q Well, I am wondering, what could I get, could I  
21 add lines 12 and 16 of work paper 7, and would that give me  
22 total revenue from pound rated pieces under current rates,  
23 before rates?

24 A No, because those -- that is before any drop ship  
25 discounts are applied.

1           Q     So I would need to take those into account as  
2     well.

3           A     And they are embedded in those lines down below.

4           Q     Okay, so -- so is it possible to calculate the  
5     total revenue lost from this rate reduction from the work  
6     papers?

7           A     You could put in a higher pound rate and see what  
8     the effect -- and that in isolation of any other decisions,  
9     which like you said, nothing -- just as the work papers are  
10    linked in a way that things change when you change one  
11    input, the rate designer also takes into consideration,  
12    doesn't usually look at one particular change in isolation.  
13    They might do something else.

14          Q     So back to the question I started this line with.  
15                 Do you know what the dollar value or revenue  
16    reduction to the Postal Service is from the pound rate  
17    decrease that you are proposing, including of course the  
18    increase in the piece element of that charge?

19          A     No, because I can't really look at that in  
20    isolation.

21                 I would choose not to look at it in isolation.

22                 If the pound rate were suddenly proposed to be  
23    higher, that presumably would have other effects like  
24    changing in the pass-through of the letter flat  
25    differential.

1           I think we have been there before. One can do  
2 something in isolation like that to see what the effect is,  
3 but I haven't done that.

4           Q     So you have no idea how much that figure would be?

5           A     Well, I think we are coming back to the start of  
6 your cross examination of this topic where I said that by  
7 playing with the pound rate I got a feel for how sensitive  
8 it was to different pound rates, and I might mention that  
9 these rather dramatic decreases that you are highlighting  
10 here, there's not a lot of heavy volume out there that  
11 causes that percentage rate reduction to mean a lot in terms  
12 of revenue, total revenue reduction.

13                So it is not as sensitive as one might think, and  
14 again, if you get into the spreadsheet, that is one of the  
15 things that might surprise you as you start putting things  
16 in, that you can change that pound rate without necessarily  
17 changing the other rates that dramatically.

18           Q     Were there approximately 7.45 billion pieces of  
19 ECR pound rated mail in the base year?

20           A     Workpaper page?

21           Q     Seven. I am looking at Workpaper 1, page 7, line  
22 12.

23           A     Pound-rated pieces, yes.

24           Q     And it is -- is it -- those pieces would all be  
25 receiving, if they weigh about three-and-a-half or more

1 ounces, that portion of those pieces that weigh four ounces  
2 or more would be receiving a rate decrease if they stayed in  
3 the system, correct?

4 A Does this get back to the OCA response? Is that  
5 what you are referring to?

6 Q No, I am just trying to get a sense of the number  
7 of pieces in the system that might see the rate decrease.  
8 We start with the number of pound-rated pieces in the base  
9 year of 7.45 billion pieces and I am saying to the extent  
10 they, those pieces, weighed at an increment that receives a  
11 rate decrease, those pieces, were they still in the system,  
12 would see a decrease as well. Those pieces would be  
13 beneficiaries of the rate decrease.

14 I sense you lost me.

15 A Yeah, I lost --

16 Q I'm asking if the universe of potential rate  
17 beneficiaries here of the pound rate starts with the 7.45  
18 billion?

19 A No. It's a subset of that, I suppose, because  
20 like we discussed, lowering the pound rate causes a push-up  
21 in the piece rate for pound-rated mail. So if you are just  
22 above the break point weight or some degree beyond the break  
23 point weight, there is a range of weights in there where the  
24 push-up on that piece rate has a greater effect on you than  
25 the lowering of the pound rate.



1           Q     I understand that and we went through that with  
2     the OCA-24 numbers. And we can look to see the effect on  
3     any particular rate category. That's a good place to look  
4     to see the net effect, right?

5           A     That's why I asked you if you were referring back  
6     to that one, yes.

7           Q     Would you turn to OCA-2?

8           A     Okay.

9           Q     This presents the pound rate formula, does it not?  
10    About half way through your response?

11          A     Yes. I was asked to express it as a mathematical  
12    expression and that's what's there.

13          Q     Okay. And I want to go painfully through the  
14    factors in the equation and ask you which was an input from  
15    somewhere and which you selected. And the first one is the  
16    revenue requirement from postage and that, generally  
17    speaking, is an input from Dr. O'Hara, correct?

18          A     Well, let me get to the actual formula in my  
19    workpapers which is at page -- for example, we will use the  
20    one for the regular subclass, I guess. The revenue  
21    requirement?

22          Q     Right.

23          A     It's derived by taking the volume variable costs,  
24    test year before rates and applying a markup to that cost.

25          Q     Right. And the markup is from Dr. O'Hara so, in a

1 sense, that is a given to you. That is not something you  
2 selected; that was an input to you, was it not?

3 A The only reason I am hesitating is because that  
4 number there on that page is not the number that --

5 Q There is a certain iterative process, iteration to  
6 the process?

7 A Thank you. Yes.

8 Q Okay. You start with a given and then you make  
9 your adjustments and you have to adjust it at the end,  
10 right?

11 A That number there is with an eye towards the  
12 coverage target given to me by Dr. O'Hara.

13 Q Right. And the D, which the value of the  
14 discounts mailers claim, comes out of your workpapers as a  
15 result of your passthroughs and cost differentials in your  
16 various calculations, correct? That's one you calculate,  
17 you generate that number?

18 A Yes.

19 Q Okay. <sup>V</sup>~~B~~ sub R, is that an input from billing  
20 determinants?

21 A It says page 4 is the source. That sounds like a  
22 billing or a -- well, it's actually the volume forecast for  
23 FY '98 before rates which has an input to that, the billing  
24 determinants.

25 Q Well, that's an input to you; that's not something

1     you particularly -- that's one where -- was that totally  
2     given to you or was there some iteration on your part?

3             A     Well, the test year before rates volume forecast  
4     is given to me.

5             Q     Okay.

6                     The next character is a little "i" which is the  
7     basic per piece rate for pound-rated pieces. And my  
8     understanding is that in your proposal that was an output,  
9     correct?

10            A     That's correct.

11            Q     Okay. The next, BP, is the break point and, if I  
12     understand correctly, you selected that and then refined it  
13     in the iterative process?

14            A     I selected that and then the rates which are  
15     output have an implied break point that is carried out to  
16     more digits.

17            Q     And your selection was not to change the existing  
18     break point to the extent you could?

19            A     That's correct.

20            Q     P is the pound rate. And in this instance, you  
21     departed from the way the Commission has set the pound rate  
22     in the past by selecting it, correct?

23            A     The pound rate is an input to my use of the  
24     formula.

25            Q     You selected it and it as your input, your choice?

1 A Yeah.

2 Q And the V sub R P and the  $V_p$  ~~VP~~ are, again, inputs to  
3 you, correct?

4 A They grow out of the volume forecast for the FY  
5 '98 before rates.

6 Q And you changed the way the pound rate formula  
7 worked in two respects and let me see if I state them both.  
8 One is you reduce the revenue requirement by the residual  
9 shaped surcharge that is new to this case?

10 A That's correct.

11 Q And you selected the pound rate, okay?

12 A Yes.

13 Q Now I want to focus, you've used the word  
14 "selected" for the pound rate in a number of your answers.  
15 I want to focus on what you meant by that. You did not  
16 calculate it from cost information in the way we calculate  
17 cost differences and discounts from measures of costs  
18 voided, did you?

19 A It is not a calculated number, no.

20 Q Why did you pick 53 cents? Why not 58 cents or 43  
21 cents?

22 A In my testimony I say that it is similar to the  
23 pound rate reduction that we proposed in classification  
24 reform.

25 Q Um-hum.

1           A     And to me the cost information suggests that --  
2     the cost information and the intuitive arguments and the  
3     other things that I put forth in the discussion of the pound  
4     rate argue for a lower pound rate. And that pound rate  
5     there can be put in without doing violation to any other  
6     objectives of the rate design. So I felt that it was a  
7     reasonable pound rate to choose.

8           Q     Well, you tried several others. You mentioned  
9     previously you had tried some other pound rates just to kind  
10    of see what would happen.

11          A     I'm sure I put other numbers in there just to make  
12    sure -- if nothing else to make sure that the thing was  
13    functioning correctly.

14          Q     And you settled on 53.

15          A     Yes.

16          Q     As to the piece rate part of the pound charge,  
17    pound rated pieces charge, now historically that has been  
18    set by the Commission so that the saturation level, the  
19    piece-related presort discounts offset the piece charge so  
20    it works out to be zero; is that right?

21          A     I'm not sure how much tradition is actually there;  
22    that's the way it was --

23          Q     That's the way it was done. And here, however, it  
24    popped out of the formula. It was an output from the  
25    formula.

1 A Correct.

2 Q Okay. You did not attempt to build the piece  
3 charge up by adding up piece-related costs, did you? You  
4 did not sit down and say what should the piece charge be and  
5 add it up?

6 A The piece charge is an output of the formula.

7 Q Output. Okay. Did you anywhere compare that  
8 piece charge output with piece-related costs?

9 A Yes.

10 Q Where?

11 A The differentials between the piece rates --

12 Q Um-hum.

13 A For pound-rated mail --

14 Q Um-hum.

15 A For the various tiers differ by the cost  
16 difference between those tiers as presented in the work  
17 paper.

18 Q So the differences between the tiers were related  
19 to some cost information, but the base rate, if you will,  
20 itself, was an output, not a calculation.

21 A It was an output --

22 Q Not a calculation.

23 A Not a calculation.

24 Q Yes. Okay. So neither the pound rate nor the  
25 piece rate was calculated based on measured costs; correct?

1           A     They were not calculated based on measured costs,  
2     but I would get back to the point I think you're trying to  
3     draw a distinction between the current piece rate of zero  
4     for saturation mail and somehow suggesting that that is  
5     based on --

6           Q     Well, I'm not --

7           A     Some sort of cost basis.

8           Q     I'm just asking -- I'm just asking questions.

9     Okay.

10          A     I just wanted to clarify that I didn't think that  
11     that was a departure in any way --

12          Q     Um-hum.

13          A     From previous.

14          Q     You summarize or state -- my word summarize --  
15     your reasons for selecting the pound rate that you did in  
16     your testimony. I wanted to ask you just a question or two,  
17     one of which was, you mentioned in both subclasses the  
18     parcel surcharge was one reason that if that were adopted  
19     the pound rate wasn't quite as necessary as it might have  
20     been before. Is that one way of --

21          A     That's one --

22          Q     A fair characterization of what you say?

23          A     The advent of a nonstandard or a residual shape  
24     surcharge takes away the -- one of the historic bases for  
25     the pound rate, that it is to act as a proxy in some respect

1 for changing shape mix as weight increases.

2 Q Um-hum. And that reason to the extent it has  
3 merit would lose its force if the Commission chooses not to  
4 adopt that proposal; correct?

5 A It might in the regular subclass.

6 Q Um-hum.

7 A It would not in enhanced carrier route.

8 Q You also refer to the analysis that's found in  
9 library reference 182 that is now going to be sponsored by  
10 Mr. McGrane. At what point in the preparation of your  
11 testimony did you review a draft of that?

12 A I can't tell you what -- what day things happened.  
13 It's all a blur. It's a whirlwind of activity.

14 Q And in response to NAA-41, you stated that you  
15 believe the reference was reliable for the purposes for  
16 which it was used, which was, as I gather, one of several  
17 factors that you thought about that kind of led you to the  
18 same conclusion, correct? Okay.

19 A Yes.

20 Q Do you regard that library reference as a  
21 definitive study of the effect of weight on costs in  
22 standard mail?

23 A I think you asked that exact same question last  
24 time we were up here doing this. I think, for the purpose  
25 it is used, it is -- it is a study of the effect of weight



1 on costs.

2 Definitive -- I don't know what you mean by  
3 definitive. It's one of those issues that we've been --  
4 that have been chased around for years and years and been  
5 trying to get our hands around it, and this is what I think  
6 to be a very good effort at that and --

7 Q Do you --

8 A -- reasonable results.

9 Q Do you regard it as the final word? Would you  
10 suggest after this case is over that this matter warrants  
11 further study?

12 A I would imagine almost everything we do is subject  
13 to improvement or to take a look at it to see if there's a  
14 better way of doing something.

15 My industrial engineering background was that way.  
16 There was always a better way, always a better process,  
17 always something better. So, I'm not inclined to say that  
18 anything is the definitive study.

19 Q You really do not know how standard mail costs are  
20 affected by weight, do you? You may have an idea, but you  
21 don't really know. I'm trying to see if there's a  
22 distinction of your level of knowledge here.

23 A If knowing means you have a definitive study, if  
24 that's what knowing means, then -- then I say I have an  
25 idea.

1           Q     Are you familiar with the first-class rate  
2     structure?

3           A     Yes.

4           Q     And as a consumer, do you ever mail a two-ounce  
5     letter?

6           A     I am familiar with it primarily as a consumer,  
7     yes.

8           Q     And when you do, you pay an extra 23 cents,  
9     correct?

10          A     For the -- for the second ounce, yes.

11          Q     Yes, for the second ounce. And for each ounce  
12     beyond that, you would still pay another 23 cents until you  
13     hit the ceiling of the -- the subclass, correct?

14          A     Yes.

15          Q     Okay.

16                 To your knowledge, does the Postal Service have  
17     information on the effect of weight on first-class costs?

18          A     I'm not aware of any study presented in this case  
19     regarding that. I imagine somewhere along the line there  
20     has been some study that attempted to get a feel for that  
21     issue.

22          Q     You don't know. That's just something -- you just  
23     don't know.

24          A     About the history? I know -- I know in the  
25     history there have been, but as far as contemporaneous -- I

1 mean as of now, I don't -- I don't -- I'm not familiar with  
2 any study that's currently in play.

3 Q Do you have any knowledge or understanding of what  
4 the institutional cost contribution is in first-class mail  
5 by weight increment?

6 A No.

7 Q Do you have that knowledge for standard mail?

8 A No.

9 Q Okay.

10 Another reason that you stated for the pound rate  
11 reduction was to make ECR rates for heavier pieces -- and  
12 your word was more competitive. Do you recall that?

13 A I think you're referring to that list of maybe  
14 five points?

15 Q Yes. That's, I think, the fifth reason -- the  
16 fifth reason of the five.

17 A Let's see exactly what words I use there.

18 I say the rate structure should be sensitive to  
19 and priced competitively with the alternatives.

20 Q Priced competitively with the alternatives.

21 In AAPS-6, you state that you are not aware of a  
22 distinction made by the Postal Service between ECR letters  
23 and flats as to whether one or the other type faces greater  
24 competition; is that correct?

25 A Which one was it again? I remember that answer.

1 Q AAPS-6.

2 A I'm not aware of a distinction between ECR letters  
3 and flats.

4 Q So as far as your testimony is concerned, letters  
5 and flats face equal competition in ECR?

6 A I'm not aware of any distinction between --

7 Q What about parcels?

8 A I would put letters, flats, nonletters, parcels,  
9 residual shaped pieces all in the same group. I'm not --

10 Q In NAA-28 to you, we asked you to tell us what you  
11 knew about the rates charged by other advertising media.  
12 Would you turn to that?

13 A Yes.

14 Q And in your answer, you referred to materials you  
15 looked at in preparation of your testimony in docket MC95-1;  
16 is that correct?

17 A Yes.

18 Q That was more than two-and-a-half years ago,  
19 correct?

20 A I guess so, yes. It doesn't seem that long but,  
21 yes, I guess it has been.

22 Q Did you make any effort to look for more current  
23 information?

24 A I think I may have logged onto some web sites to  
25 see if there were advertising rates. I think I got on

1 your -- does NAA have a web site?

2 Q My client does maintain a web site, yes.

3 A I remember getting on there and looking at various  
4 things and I couldn't find any. I thought maybe there were  
5 some sort of rate schedules on there but I couldn't find  
6 any.

7 Q So the extent of your knowledge of newspaper rates  
8 is that of about two to three years ago?

9 A I have not become familiar with the newspaper  
10 pricing structure, you know, the rate structure, to a great  
11 degree, no.

12 Q Do you regard the Postal Service as competing with  
13 newspapers in the preprint market?

14 A I would think if we are not competing, you  
15 wouldn't be here asking me these questions.

16 Q So the answer is yes?

17 A I think there is some market there we both serve  
18 and people might go back and forth between them.

19 Q Well, I hear from time to time the Postmaster  
20 General and others state that the Postal Service wants to  
21 act more like a business. And I must say I am surprised  
22 that its pricing witness on this issue doesn't seem to have  
23 looked at any of the alleged competitors' prices for more  
24 than two years.

25 Should I be surprised at that?

1           A     I guess you shouldn't be surprised in that this is  
2     not a big part of the argument for lowering the pound rate.  
3     I even preface this response saying that the rates for other  
4     advertising media were an additional consideration in the  
5     pound rate proposal and this is not to say that Postal rates  
6     must mirror non-Postal alternatives. So given that, it  
7     shouldn't surprise you that I didn't get every rate  
8     structure of every newspaper to try to mirror their rates.

9           Q     And returning to your answer to 28, I notice that  
10    you said rates were by pages not ounces in the newspaper  
11    rates that you surveyed at that time. Did you consider  
12    charging by pages rather than by ounces?

13          A     No.

14          Q     You also in that answer refer to an article from  
15    Optimum Delivery, also dating from April of '95. Do you  
16    regard the Postal Service as competing with the alternate  
17    delivery industry?

18          A     I think they view us as a competitor.

19          Q     Does the Postal Service view them as a competitor?

20          A     I think in the same way we do with the newspapers  
21    in that, yes, there is a -- we're talking about delivery of  
22    high density advertising here and there are several ways an  
23    advertiser can achieve that and we may be one of the  
24    options, the newspapers may be another option and alternate  
25    delivery may be yet another option.

1 Q Are you familiar with the company Alternate Postal  
2 Delivery or APD?

3 A I am not well familiar -- I am not familiar with  
4 it.

5 Q Have you heard of it?

6 A It sounds familiar.

7 Q Would you -- if I were to state, represent that it  
8 may be the largest alternate delivery company in the  
9 country, would you have any reason -- would that sound right  
10 to you?

11 A I would accept that.

12 Q You mentioned you logged onto web sites. Did you  
13 happen to consider logging onto the Securities and Exchange  
14 Commission's Edgar Database to check out what it might have  
15 to say about Alternate Postal Delivery Corporation?

16 A I didn't get on that web site, no.

17 Q And if you had done so recently, let me suggest  
18 subject to check that you would see that -- find a filing  
19 that reports APD's net income for the past six months of  
20 being about approximately \$49,000 --

21 MR. ALVERNO: Objection. That's not in evidence  
22 at this time. The question assumes the facts not in  
23 evidence and therefore it's misleading.

24 MR. BAKER: I asked him to check subject to check,  
25 Mr. Chairman.

1 MR. ALVERNO: I don't think he is equipped to  
2 go -- to go and do research on SEC filings.

3 CHAIRMAN GLEIMAN: I am going to let the question  
4 stand. The witness' testimony and responses to  
5 interrogatories talk in terms of setting rates at least in  
6 some small way to reflect what's perceived as a competitive  
7 market. I didn't hear Mr. Baker do anything other than  
8 throw a number out and ask if somebody would be surprised  
9 about something. And I am going to let it go at this point,  
10 Mr. Alverno.

11 MR. BAKER: Is there a pending question?

12 I was asking the court reporter if there was a  
13 question pending.

14 BY MR. BAKER:

15 Q Well, let me proceed in a different way then.

16 COMMISSIONER LeBLANC: Mr. Baker, will you pull it  
17 in a little bit?

18 BY MR. BAKER:

19 Q Assume, please, that APD's net income for the  
20 first half of the year was approximately \$49,000. Do you  
21 think that's a fact that would be relevant to the  
22 Commission's consideration of this rate proposal for the  
23 pound rate?

24 A I don't presume to know what or to speak for the  
25 Commission at least in saying what they should consider when



1 they look at the pound rate proposal.

2 Q Was it -- I take it then it was not something that  
3 you thought you needed to consider in proposing the rate.

4 A I did not think -- I did not -- well, obviously I  
5 didn't do it. I didn't consider a net income of any --

6 Q Okay.

7 A Alternate delivery firm.

8 Q Okay. Do you expect the rate reduction for  
9 pound-rated pieces to generate additional volume?

10 A Such an outcome wouldn't surprise me if the pound  
11 rate were reduced.

12 Q Have you had any conversations with mailers where  
13 they have urged you to lower the pound rate so that they  
14 could have more pieces, more volume at the pound rated  
15 levels?

16 A Well, we, the Postal Service, especially marketing  
17 systems, hears from a lot of mailers about a lot of things.

18 Q Um-hum.

19 A And it wouldn't surprise me if people who might  
20 want a lower pound rate would have expressed that notion.

21 Q Did they express it to you?

22 A Only in the context with other people involved. I  
23 mean, it wasn't a one-on-one Joe Moeller, this is what we  
24 think you should do. No.

25 Q Is it reasonable to expect that some of the

1 additional volume might come from catalog mailers?

2 A I would see where maybe they would have a decision  
3 to make about adding pages to their catalog, and if that  
4 additional weight implied by those additional pages was  
5 offset by what they perceived as a marketing advantage of  
6 getting that additional advertising to their customer, then  
7 that might increase the volume.

8 Q It is reasonable to think that -- expect that  
9 additional volume might come from saturation mailers?

10 A That's also a possibility.

11 Q Did you review any market research on whether  
12 there'd be additional volumes of heavy-weight pieces?

13 A No.

14 Q No. And have you reviewed or seen the document  
15 entitled Finding Common Ground that was recently released by  
16 your employer, which was a report of a blue-ribbon committee  
17 on postal reform?

18 A I saw an announcement of it in the paper --

19 Q Um-hum.

20 A But I did not read the report.

21 Q And are you aware that on pages 31 and 32 of that  
22 report the chairman of ADVO, Mr. Kamerschen, is quoted as  
23 saying that Postal Service rates, quote, must be more  
24 competitive for heavier-weight ad pieces?

25 A Again, I didn't see the report.

1 Q So you're not aware of that.

2 A I'm not aware of his statement.

3 Q Would it surprise you if he had said that?

4 A No.

5 MR. BAKER: Mr. Chairman, I have no more  
6 questions. Thank you.

7 CHAIRMAN GLEIMAN: Thank you, Mr. Baker.

8 I think that this looks like a good point to break  
9 for lunch. As I indicated earlier today and in the  
10 preceding two days, I want to try and finish up by 4:30 this  
11 afternoon. Before we break for lunch, if I could just get a  
12 rough guesstimate from the remaining parties in terms of how  
13 much time they might have for cross examination.

14 Mr. May, simply because you're the closest to me,  
15 ballpark?

16 MR. MAY: Twenty minutes.

17 CHAIRMAN GLEIMAN: Okay. Mr. Wiggins?

18 MR. WIGGINS: Less than half an hour, I believe.

19 CHAIRMAN GLEIMAN: Mr. Olson?

20 MR. OLSON: Twenty, perhaps.

21 CHAIRMAN GLEIMAN: I don't think I missed -- oh,  
22 I'm sorry, Ms. Dreifuss?

23 MS. DREIFUSS: About a half hour.

24 CHAIRMAN GLEIMAN: A half an hour. Okay.

25 Let's come back at -- it's 12:30 -- let's come

1 back at quarter to two. I think we ought to be able to do  
2 things by then.

3 MR. MAY: You have the nonprofits also.

4 CHAIRMAN GLEIMAN: I understand, but there's no  
5 one in the room that I can ask now. Thank you, you know,  
6 for reminding me. I appreciate it.

7 Come back at quarter to two then, and we'll pick  
8 up at that point. If the nonprofit federation is here, then  
9 they'll be first in the dock. If not, then we'll go to OCA.

10 [Whereupon, at 12:35 p.m., the hearing was  
11 recessed, to reconvene at 1:45 p.m., this same day.]

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1 AFTERNOON SESSION

2 [1:44 p.m.]

3 CHAIRMAN GLEIMAN: The National Federation of  
4 Nonprofits -- turn on the mike and identify yourself for the  
5 record.

6 MS. EMIGH: Carolyn Emigh, representing the  
7 National Federation of Nonprofits, and with me is our  
8 technical expert, Leonard Merevitz.

9 CHAIRMAN GLEIMAN: Whenever you are ready, you can  
10 start cross examining the witness.

11 MS. EMIGH: Thank you, Mr. Chairman.  
12 Whereupon,

13 JOSEPH MOELLER,  
14 the witness on the stand at the time of the recess, having  
15 been previously duly sworn, was further examined and  
16 testified as follows:

17 CROSS EXAMINATION

18 BY MS. EMIGH:

19 Q Mr. Moeller, is it fair to say that you are the  
20 rate design witness for Standard A mail, both commercial and  
21 nonprofit?

22 A Yes.

23 Q Would you accept subject to check that Dr. Tolley  
24 uses as his base year for forecasting 1996, Quarter 3  
25 through 1997, Quarter 2?

1 A I'll accept that subject to check.

2 Q Okay. I hope we're not wrong on that.

3 Is this a postal fiscal year or a Government  
4 fiscal year?

5 A It sounds like it is four quarters of data. I  
6 don't know if it is -- if those quarters are postal or  
7 Government quarters or whatever.

8 Q Would you accept subject to check that it is the  
9 Government fiscal year?

10 A But how could it be if it is two quarters of one  
11 year and then two quarters of the next year?

12 Q 1996 Quarter 3 through 1997 Quarter 2 --

13 [Discussion off the record.]

14 BY MS. EMIGH:

15 Q What is the test year in this rate case?

16 A The test year is 1998, Government fiscal year '98.

17 Q Government fiscal year 1998, so we are talking  
18 about a Government fiscal year for the test year.

19 A Yes. That is my understanding.

20 Q Do you happen to know the period of time over  
21 which a cost revenue analysis is performed? In other words,  
22 is a CRA performed for a Government fiscal year or the  
23 postal fiscal year?

24 A You know, I don't know that. I know that they are  
25 for a fiscal year. I am not sure which one it is, as a

1 matter of fact.

2 Q But in any case, it's for a 12 month period?

3 A Which one are we talking about, which report?

4 Q The cost revenue analysis, CRA.

5 A Yes -- I don't know which one is that. I have  
6 seen RPW in both formats, but I am not sure about CRA.

7 Q But in any case the Cost Revenue Analysis is for a  
8 year, a 12 month period?

9 A It's for a year.

10 Q Can you define for us a base year?

11 A I imagine it has different meanings to different  
12 people.

13 In my case it is the --

14 Q Really, what I am interested in is the period of  
15 time that it covers.

16 A It covers a year.

17 Q It covers a year and what about the TYBR, Test  
18 Year Before Rates?

19 A That is the test year.

20 Q That covers a year too?

21 A Yes.

22 Q And what about TYAF, Test Year After Rates?

23 A TYAR tests the same period, applying the other,  
24 the proposed rates to --

25 Q But the same period, one year?

1           A     Yes.

2           Q     Is it true that almost always when the Postal  
3     Service forecasts volumes, costs, and revenues in a postal  
4     rate case that the Postal Service is looking at a one year  
5     period?

6           A     I can't say -- almost always?  They --

7           Q     Frequently?

8           A     Certainly the forecasts are often for a year  
9     period.

10          Q     Would you explain why so many of the analyses that  
11     the Postal Service does for a rate case uses a 12 month  
12     period?

13          A     Well, I guess it's just because there is such a  
14     thing as a fiscal year and they are usually measuring cost  
15     and revenues or whatever in terms of their fiscal year.

16          Q     Does it have anything to do with seasonality of  
17     volumes?  In other words, is mail volume constant for each  
18     month?  Does it vary at all over a 12 month period?

19          A     I am not sure if that -- that is why the world has  
20     decided to look at fiscal years, but certainly there is  
21     seasonality with -- seasonality is something that can happen  
22     within that year.

23          Q     So not only are there ups and downs in volume by  
24     month but to some extent certain costs also will vary by  
25     month?



1           A     I can't say that for sure but that doesn't seem  
2 unreasonable that that might happen.

3           Q     Some costs being volume variable, the cost will  
4 vary with the volume, by definition?

5           A     I think that is the definition.

6           Q     Does the Postal Rate Commission Rules of Practice  
7 require the Postal Service to file a test year analysis?

8           A     I am not familiar with the rules of practice.  
9 That's sort of out of my realm. The attorneys maybe know  
10 exactly what the rules are for the filing.

11          Q     Are you aware that the Commission has rules that  
12 prescribe when the test year may begin and when it may end?

13          A     I know generally that there may be some direction  
14 given on what an appropriate test year would be.

15          Q     With respect to a beginning and ending point?

16          A     That sounds like a reasonable way of defining what  
17 would be an acceptable test year.

18          Q     Maybe you could help us with understanding what  
19 billing determinants are.

20          A     Is the question, what are billing determinants?  
21 It is -- I don't know if there is a Postal Service approved  
22 definition but my view of it is it's a recasting or a  
23 casting of the volume for a particular class or subclass of  
24 mail into its various rate components.

25          Q     And what would be some examples of billing

1 determinants or rate components, as you call them? Is  
2 presortation, the mail that's presorted by three or five  
3 digits or carrier route, are those billing determinants?

4 A Those are examples of rate categories for which  
5 separate volumes are reported in the billing determinants.

6 Q Why do we need billing determinants?

7 A Well, I know why I need them. Is that when I get  
8 a volume forecast, it is usually at a level which is not as  
9 fine as what I might need to calculate the revenues from,  
10 say, the proposed rates. So I use those billing  
11 determinants to split that volume out into those components  
12 so that the revenue -- total revenue can be calculated.

13 Q So is it fair to say that you would have to split  
14 the revenue out by these billing determinants in order to  
15 get the correct revenue for various points during the year?

16 A Well, I don't know about the various points during  
17 the year but, for example, in my workpapers, I take test  
18 year after rates volume forecast and distribute that volume  
19 to the various rate categories using billing determinants.

20 Q So to get the correct distribution of volume among  
21 the line items or billing determinants or these rate  
22 components, this is the analysis, the computation that you  
23 go through? The result you are trying to get at is a  
24 correct distribution of volume?

25 A Yes, so that I can make an approximation of what

1 the total revenue will be, I get the volume by rate  
2 category, an estimate of that volume.

3 Q And some of the billing determinants, the -- when  
4 the volume is distributed by billing determinants, that  
5 could be different depending on the time of the year?

6 A The distribution is going to reflect whatever  
7 billing determinants you use so I am not sure I follow the  
8 question.

9 Q And the distribution of volume over these billing  
10 determinants or line items or rate components can vary by  
11 the volume and volume can vary depending on the season of  
12 the year, Christmas, high-mail season.

13 A The volume can vary by time of the year, yes.

14 Q And if we were to only look at one billing  
15 determinant for one period, we couldn't say that that's  
16 going to be the volume for that, hence the revenue, over the  
17 whole year?

18 A When you say you look at one billing determinant,  
19 what do you mean by looking at one billing determinant?

20 Q How about carrier route?

21 A If I look at the carrier route billing --

22 Q Or drop ship?

23 A If I look at those billing determinants? What are  
24 you saying? I'm sorry, I'm not following.

25 Q If the -- would the distribution -- if we look at

1 one of those determinants for one snap shot during a  
2 12-month period, would that necessarily give us the correct  
3 distribution of volume for that billing determinant if we  
4 just simply multiplied by 12?

5 A So that snap shot must be a month snap shot?

6 Q A month snap shot.

7 A Given that there may be some seasonality, you may  
8 not -- the billing determinant for that particular snap  
9 shot, that mix of mail, may differ somewhat from what it  
10 would be if it were an annual figure.

11 Q So to get -- what you're after, is it not correct,  
12 you are trying to get a true reading of revenue for a base  
13 year, a 12-month period?

14 A You are trying to get an estimation of it and  
15 there are various ways of getting that estimation. You want  
16 something to distribute that volume and you look around and  
17 see what is available to you that you can use and you make  
18 the best decision you can on what to use based on what you  
19 have and you get an estimate of the volume distribution for  
20 that test year period and subsequently by applying the rates  
21 you can get an estimate of the test year revenue.

22 Q What period did you use to analyze billing  
23 determinants for commercial standard A mail?

24 A I think if your question is what billing  
25 determinants did I use to distribute the volume --

1 Q What period did you use to analyze the billing  
2 determinants with respect to standard A commercial as  
3 opposed to standard A nonprofit mail?

4 A Standard A commercial was quarter one and quarter  
5 two of FY '97, and standard A nonprofit was quarter two of  
6 FY '97.

7 Q Why did you use different time periods, two  
8 quarters versus one quarter, for essentially comparable rate  
9 subclasses?

10 A Well, I'm going to --

11 MR. ALVERNO: I object. I mean, this is asked and  
12 answered already in Interrogatory NFN No. 2. I mean, it's  
13 precisely the same question. The witness has given an  
14 answer, and the cross exam here is just covering ground  
15 that's already been discussed and evaluated by the witness.

16 I wonder if counsel could just get to the point  
17 and move along and ask the question that's relevant to that.

18 CHAIRMAN GLEIMAN: Thank you for ruling, Mr.  
19 Alverno. I'm going to allow the counsel to continue,  
20 because my assumption is that the counsel for the Federation  
21 is heading in a direction where there will be some  
22 questions, and in effect she's laying a predicate for  
23 something that's going to come later on.

24 I would ask, because you weren't here earlier,  
25 there are some of us who -- we're going to pull the plug at

1 4:30 today. We'd like to finish with Witness Moeller today.  
2 I know that we're looking at about an hour and a half to two  
3 hours of cross examination from the other four participants  
4 who have not yet had an opportunity to cross examine, and  
5 then there may be questions from the bench, some redirect,  
6 what have you. But I would respectfully request that you  
7 move along, but by the same token, I'm overruling on the  
8 objection.

9 MS. EMIGH: Thank you, Mr. Chairman. I don't  
10 think our questions are going to be much longer than 30  
11 minutes, and I'd just -- I think our -- the question that we  
12 asked in our interrogatory went to commercial.

13 CHAIRMAN GLEIMAN: I already ruled. You don't  
14 have to explain.

15 BY MS. EMIGH:

16 Q Why not use a 12-month period in each instance?

17 A Well, as a matter of fact, I had flipped to that  
18 interrogatory NFN USPS-T-36-2, and part B -- well actually  
19 the whole thing, part A says confirm that I used the billing  
20 determinants for quarter two '97 as the basis for the rate  
21 design, and it asks why did I use one quarter instead of a  
22 year.

23 And I respond that in order for the test year  
24 volumes by rate category to reflect the mail mixes that  
25 occurred after implementation of nonprofit classification

1 reform, it was necessary for me to use the most recent and  
2 complete postclassification reform billing determinants  
3 available to distribute the volume to rate category.  
4 Quarter 2 of FY '97 was the only full quarter of  
5 postclassification reform data for the nonprofit subclasses,  
6 and this was also responded to in the Presiding Officer's  
7 Information Request No. 3, question 19.

8 Q I'd like to review with you some facts about the  
9 postal fiscal year. Is it your understanding that each  
10 quarter is about the same length in terms of number of days,  
11 or are there different lengths?

12 A I'm not familiar with the quarters enough to know  
13 how they vary. It wouldn't surprise me if there are several  
14 days' difference in them or whatever.

15 Q Would you accept subject to check that postal  
16 fiscal quarters one, two, and three each have 84 days and  
17 postal fiscal quarter four has 112 days?

18 A I'll accept that, subject to check.

19 Q Is it possible that the reason why postal fiscal  
20 quarter four is longer has to do with the seasonality of  
21 mail?

22 A I don't know why it's what it is, the length.

23 Q Is it possible that another reason for the  
24 difference in the number of days in the various quarters in  
25 the postal fiscal year is that the summer quarter includes

1 four accounting periods, because of the odd number of  
2 accounting periods mail volume is lower in the summer, and  
3 so they add the extra accounting period to the summer  
4 quarter?

5 A You know, I don't know why the extra accounting  
6 period was added to that particular quarter.

7 Q Is it possible that there are seasonal patterns  
8 other than Christmas that may affect mail volume  
9 perceptibly? For example, April 15, taxpayers filing their  
10 tax returns?

11 A Sure.

12 Q Would it be useful information for ratemaking if  
13 the mix of determinants for any given subclass do not  
14 reflect conditions during a peak volume quarter?

15 A I think ideally you would want to use a year worth  
16 of billing determinants, and that's what's generally done.  
17 Here, as I have explained, that wasn't available to me  
18 because doing so would have mixed pre- and  
19 postclassification reform data, and I think I get a better  
20 mix of mail, a better split made of the test year volume  
21 forecast by using pure postclassification reform data.

22 Q Are you familiar with the process of taking  
23 quarterly data and dividing or normalizing the data by the  
24 number of days in the quarter?

25 A Someone could probably do that. I'm not familiar,



1 I've never done that or am familiar with it.

2 Q Well, if we divide -- if we took the volume for  
3 one quarter and divided it by the number of days in that  
4 quarter, 84 or 112 depending on -- if we are using Postal  
5 fiscal quarter 1, 2 and 3 or Postal fiscal quarter four,  
6 would that simple division problem yield the average daily  
7 volume?

8 A It would, but there are Sundays and holidays in  
9 there so I don't know what purpose you want to use that  
10 number for. But if you are just trying to get an average  
11 daily, recognizing that mail isn't always entered on every  
12 day of the year --

13 Q To try to normalize the comparing volume in one  
14 quarter with another quarter, because we have the problem of  
15 Postal fiscal quarter 4 having 112 days and Postal fiscal  
16 quarters 1, 2 and 3 having 84, so if we wanted to compare  
17 volume if we do a division, simple division problem, get  
18 average daily volume, then we could have apples and apples  
19 instead of apples and oranges.

20 A You can divide the volume for a quarter by the  
21 number of days in that quarter to get daily volume.

22 Q And I -- we -- we've done that. And, Mr.  
23 Chairman, I would like to show the witness and commissioners  
24 the results.

25 MR. ALVERNO: I guess I do have an objection to

1 this cross-examination exhibit because it does not seem to  
2 comport with the Commission's rules on providing exhibits to  
3 opposing counsel in advance.

4 CHAIRMAN GLEIMAN: Well, that -- if it were a  
5 really complicated cross-examination exhibit, I would  
6 say -- I would rule in your favor. But this is -- whether  
7 anyone is convinced in time by anything that is in this  
8 cross-examination exhibit is another matter. But the  
9 mathematical concept is a rather simple one, even one that I  
10 can comprehend, so I think we'll allow it.

11 BY MS. EMIGH:

12 Q I took these data from the Postal Service's  
13 quarterly reports that they send to me and a lot of other  
14 mailers, revenue, pieces and weight and a very useful  
15 document. I really do appreciate you guys doing that over  
16 the years. And this is for nonprofit ECR, enhanced carrier  
17 route.

18 A Okay.

19 Q Now, what I did was on the X axis is the average  
20 daily volume in millions. That's 2 million, 4 million, 6  
21 million, 8 million pieces. And on the -- I'm sorry, that  
22 was the Y axis is the average daily volume Q, 2, 4, 6, 8, 10  
23 million pieces. And then on the X axis is the time period,  
24 fiscal year '93, quarters 1 through 4, fiscal year '94,  
25 quarters 1 through 4 and the same for '95, '96 and then we

1 have the first -- by now we do have the first three quarters  
2 for fiscal year '97.

3 A Okay, yes.

4 Q Do you see any volume patterns in this chart? If  
5 we look at the four bars for each fiscal year?

6 A Yes, I see those bars.

7 Q Is there a peak at fiscal year '93, quarter one?

8 A For that year, there's a peak, yes.

9 Q For that year. And then for fiscal year '94?

10 A The peak is at quarter 3.

11 Q At quarter 3. And for fiscal year '95?

12 A Quarter 1.

13 Q Quarter 1. Fiscal year '96?

14 A Quarter 1.

15 Q And fiscal year '97, the first three quarters?

16 A Quarter 1.

17 Q Doesn't it seem to you that quarter 1, with the  
18 exception of fiscal year '94, is consistently higher than  
19 the other courters for the --

20 A Four out of those five years have quarter 1 as the  
21 highest average daily volume for nonprofit ECR.

22 Q Have you had much experience with nonprofit  
23 mailers in the course of your work at the Postal Service?

24 A I think I remember meeting with you once, as a  
25 matter of fact.

1 Q Really?

2 A She doesn't remember. "Really?"

3 Yes, I've come in contact and I have been on the  
4 phone with Mr. Cassidy. So I am familiar, certainly, with  
5 nonprofit mailers.

6 Q Would you, based on your -- your knowledge, would  
7 you hazard a guess as to why the first -- there is a burst  
8 in the first quarter of volume for nonprofit enhanced -- you  
9 know, it used to be carrier route and then in '97 enhanced  
10 carrier route?

11 A Maybe the notion that people might be generous at  
12 that time and you're doing some fundraising activities?

13 Q Of course, that would be true for nonprofit  
14 carrier route and nonprofit other.

15 A Um-hum, I imagine.

16 Q Because of the time and other constraints, I  
17 didn't do the chart for nonprofit other. But it is not  
18 quite as pronounced. So therefore, as an economist, we  
19 would look for why the difference carrier route and all  
20 other rate categories. And I was just wondering, based on  
21 your experience at the Postal Service with nonprofit mail,  
22 can you explain that difference?

23 A Between carrier route and other or just within the  
24 year?

25 Q Why the particular burst in carrier route standard

1 A or the old Third Class during the Postal fiscal quarter 1,  
2 the pre-Christmas period.

3 A Right. I don't know why carrier route would  
4 differ so much from the other classes.

5 Q Do you know about direct mail fundraising by  
6 nonprofits?

7 A Yes, yes.

8 Q Can you tell us the difference between prospect  
9 mailings and membership or renewal mailings?

10 A Prospecting probably goes -- has a more dense  
11 distribution because you are trying to get people who are  
12 not a member or a contributor, I suppose. But if you are  
13 doing just a list of given current donors or members, that  
14 might be a less dense mailing.

15 Q So for prospect mailings, casting the net to find  
16 those relatively few people interested in your cause would  
17 be a large volume, would tend to be a larger volume mailing  
18 than a renewal mailing to your existing donor base?

19 A It would be, yes, probably a larger volume  
20 mailing.

21 Q And for the nonprofit mailers, very high volume,  
22 the mega charities, would they be selecting the lists to  
23 prospect to by carrier route?

24 A Again, I mean, I'm not intimately familiar with  
25 how the nonprofit people go about raising their funds but --

1           Q     But through the mail, with your work in the Postal  
2     Service, nonprofit mail, the high volume, big national  
3     charities?

4           A     Yes, if it is a popular charity, it is probably  
5     going to have a higher density mailing.

6           Q     But do they select the 50 or so lists that they  
7     are going to prospect to pre-Christmas by carrier route?

8           A     I don't know. I don't know how they select their  
9     lists.

10          Q     And therefore when they roll out a  
11     million-and-a-half pieces per list they are rolling out by  
12     carrier route and therefore the carrier route bursts are  
13     these particularly noticeable peaks during the course of  
14     four quarters?

15          A     I don't know if that's why that happens. I don't  
16     know if they roll out by carrier route. I guess I  
17     understand the notion that you're presenting that they mail  
18     more around that time of the year and that may explain this.

19          Q     But all the nonprofit mailers, the small ones that  
20     have no density and the large ones --

21                 CHAIRMAN GLEIMAN: Ms. Emigh, he has indicated  
22     that he is not intimately familiar with the fundraising  
23     techniques, decisions about how nonprofits mail and I think  
24     that question has been asked.

25                 Since I have interrupted you, let me ask you if

1     you have any objection to our marking this piece that you  
2     have given us as a cross-examination exhibit? And if you  
3     have no objection, then we are going to mark it NFN-XE-1,  
4     just so we'll know what the questions were concerning.

5                             [Cross-Examination Exhibit No.  
6                             NFN-XE-1 was marked for  
7                             identification.]

8             MS. EMIGH: Thank you, Mr. Chairman.

9             BY MS. EMIGH:

10            Q     Moving on, would it surprise you to learn that the  
11            full year of 1996 had about 24 percent carrier route pieces?  
12            In other words, for the full year of 1996 carrier route was  
13            about 24 percent of total nonprofit Third Class volume --

14            MR. ALVERNO: Objection again. The fact hasn't  
15            bee established as far as this witness is concerned, so it  
16            assumes a fact that is not in evidence.

17            I can understand if she wants to ask a  
18            hypothetical, but I didn't understand that question to be  
19            asked in a hypothetical sense.

20            MS. EMIGH: May I rephrase that question?

21            CHAIRMAN GLEIMAN: Certainly.

22            BY MS. EMIGH:

23            Q     What percentage, based on your expertise with  
24            nonprofit mail at the Postal Service, what percentage of  
25            nonprofit Third Class mail in 1996 was carrier route?

1           A     I don't know that number off the top of my head.

2           Q     Would you accept subject to check that about 24  
3 percent, about a quarter, of all nonprofit Third Class mail  
4 in 1996 was carrier route, paid the carrier route rate?

5           A     Yes, I'll accept that subject to check.

6           Q     And for the year test period, that one quarter,  
7 Quarter 2 of 1997, how much of the mail during that one  
8 quarter was enhanced carrier route?

9           A     Well, let's see -- page 2 of work paper 2 --

10          Q     Would you accept subject to check that it is about  
11 19 percent?

12          A     Okay, I'll accept that.

13          Q     Okay. Well, now we have for a full 12 month  
14 period almost one-quarter of all of nonprofit Third Class  
15 mail was carrier route, but for the quarter you selected,  
16 Quarter 2 of 1997, only about 19 percent was carrier route.  
17 That is about a 26 percent difference. Do you think that is  
18 misleading, to just use the volume for one quarter, Quarter  
19 2, versus a quarter -- a carrier route for a whole year?

20          A     I guess I'll go back to my earlier answer, that  
21 ideally you would want to use a whole year to have to avoid  
22 situations like this, although I thought it was going to be,  
23 the way you were laying this out it was actually going to be  
24 more dramatic than that.

25          Q     And 26 percent difference isn't dramatic?



1           A     Well, 24 percent versus 19 percent, but anyway,  
2     since it doesn't -- carrier route and the other are a  
3     different subclass.

4                     Anyway, back to my other answer. I'm sorry, I  
5     lost my train of thought.

6                     As I said, ideally you would want to use an entire  
7     year. I was faced with a situation that using an entire  
8     year was not possible unless I wanted to use figures that  
9     were pre and post reclass which had different makeup  
10    characteristics, that would not be the same as test year  
11    '98, which is obviously post classification reform.

12                    So there was a decision made there and the only  
13    decision I think you can make is to use Quarter 2 and while  
14    acknowledging that that may be less than ideal it is the  
15    only thing you can do because you don't have a full year of  
16    post reclass.

17            Q     But price times the number of pieces, the rate  
18    times the number of pieces, the rate times volume, yields  
19    revenue, is that right?

20            A     Price times volume equals revenue.

21            Q     The rate per piece times the number of pieces  
22    gives the revenue, and if the volume -- if you are using,  
23    plugging in a number for volume, for "Q" that is low, if you  
24    are using a volume number for a carrier route that is low  
25    that means that the revenue requirement for standard

1     nonprofit is going to have to be made up by charging higher  
2     rates for nonprofit other.

3           A     No, no, no. This split between carrier route and  
4     noncarrier route does not come into play in the  
5     determination of the revenue.

6           Those are two separate subclasses. Within each of  
7     those subclasses those billing determinants for Quarter 2  
8     are used. To split the volume up the relative proportion of  
9     carrier route versus other doesn't come into play here at  
10    all.

11          Q     There isn't a revenue requirement for nonprofit  
12    carrier route and a revenue requirement for nonprofit other?

13          A     There are two separate revenue requirements.

14          Q     And if the revenue, to get the revenue requirement  
15    for -- if one class produces less revenue, doesn't it affect  
16    the other classes?

17          A     Well, in nonprofit we have a different situation  
18    than normal in the commercial side of things in that the  
19    revenue requirement is dictated by the costs and the markup  
20    which is prescribed by the Revenue Foregone Reform Act.  
21    That is how you determine the revenue requirement for those  
22    two individual subclasses.

23                It doesn't have anything to do with billing  
24    determinants.

25          Q     But when we are computing revenue, it is a

1 function of volume and the rate.

2 A Volume times rate equals revenue, yes.

3 Q And if we have a revenue requirement for nonprofit  
4 other and a revenue requirement for ECR, Enhanced Carrier  
5 Route, and if we are going to take a volume period for  
6 Enhanced Carrier Route that is abnormally low, that is -- if  
7 you look at the chart, the second quarter is almost always  
8 the lowest volume quarter, going across the fiscal quarters,  
9 so if we are going to take a period for volume where the  
10 volume is abnormally low as opposed to normalizing the  
11 volume over a longer period -- if not a year, two quarters  
12 as you did for commercial -- then the revenue from  
13 nonprofits is going to have to come from some other place.

14 A No, not at all. The revenue requirement is  
15 distinct from what I use for the billing determinants as the  
16 billing determinants to split up the volume. The volume  
17 forecast is for a year's period, then that volume forecast  
18 is distributed by the only available thing I can distribute  
19 it by, and that is postreclass billing determinants, which  
20 happen to be for a quarter, but they're percentages. Within  
21 carrier route it's a percentage distribution. The fact that  
22 it's based on a lower volume quarter doesn't affect the  
23 revenue requirement in any way.

24 Q But the distribution -- the distribution over  
25 billing determinants we talked about earlier can vary by

1 season, by volume, during a high-volume season you have  
2 costs that vary by volume. So it can't -- the mix, the  
3 distribution of mail over the billing determinants by  
4 quarter can make a difference which quarter you select.

5 A The percentage volume mix within that quarter may  
6 be slightly different than the volume mix for another  
7 quarter.

8 Q And when you look at these bursts, the first  
9 quarter bursts in enhanced carrier route, that could be a  
10 very different distribution over the billing determinants  
11 for the first quarter burst than the second quarter troughs.

12 A Quarter one and quarter two could have identical  
13 distributions --

14 Q But they could also have very different.

15 A They could.

16 Q They could.

17 A That's why it's advantageous if possible to use an  
18 entire year, but that wasn't available to me.

19 Q Let's move on to my last set of questions. On  
20 your Work Paper 2, page 8, and I'd like to ask you about the  
21 TYBR, test year before rates, Work Paper 2, page 8.

22 A Yes.

23 Q And you have two lines. The first line reads  
24 nonprofit.

25 A Yes.

1 Q Which I presume is nonprofit other.

2 A Actually it's called nonprofit, but it is what  
3 used to be the other part of --

4 Q The basic rate in the presort.

5 A The noncarrier route portion.

6 Q Right. And then nonprofit, your second line is  
7 nonprofit ECR, which before rates was the carrier route.

8 A Correct. Oh, before reclass --

9 Q Before reclass, I'm sorry.

10 Okay. And then as I -- am I reading this  
11 correctly that at lines 1 and 2 that the nonprofit other  
12 taking -- subtracting line 7 from line -- or column 7 from  
13 column 6 that nonprofit other makes a .75 cents per piece  
14 contribution to institutional costs?

15 A If you're subtracting column 7 from column 6, that  
16 would be the contribution per piece.

17 Q And it's .75 cents.

18 A That looks like that would be the math.

19 Q And if we take line 2, the contribution per piece  
20 of carrier route, that would be about .033.

21 A That would be --

22 Q 3.3 cents per piece.

23 A Yes.

24 Q And historically is that what we -- what we had  
25 was the carrier route making a higher contribution per piece

1 to institutional costs than the nonprofit other?

2 A I don't know historically --

3 Q 3.3 cents versus .75.

4 A I know that's the way -- it breaks out that way in  
5 commercial sometimes. I'm not sure that -- of the history  
6 there in terms of the relationship between contribution of  
7 those two groupings.

8 Q Well, I mean, this Work Paper 2, page 8, this is  
9 labeled test year before rates. And I thought this was one  
10 of the whole purposes of reclassification was to even up the  
11 contribution to institutional costs between the carrier  
12 route, which is more work-sharing, where the mailer does  
13 more work, than nonprofit other.

14 A This is merely -- I'm not sure how this ties to  
15 the classification reform or what --

16 Q Well, this is before rates. This was before --

17 A This is test year, which is '98, which is before  
18 rates but after reclass.

19 Q Okay. So after reclass we still have the  
20 nonprofit carrier route contributing 3.3 cents per piece to  
21 institutional costs, whereas nonprofit other is contributing  
22 only .75 cents per piece. Subtracting column 7 from column  
23 6.

24 A Right, but I'm not -- I'm not sure that can be  
25 described as something inconsistent with the goal of

1 classification reform.

2 Q Let me strike that.

3 A Okay.

4 Q Let's just stick with your numbers. So we have  
5 these different contributions to institutional costs per  
6 piece. Then we look at -- well, where in your work papers  
7 do we see the contribution per piece after rates? Can it be  
8 calculated from workpaper 2, page 35?

9 A Yeah, I was hoping it would be on there but it's  
10 the gross contribution, not contribution per piece.

11 Q If we do the simple -- if we were to do the simple  
12 arithmetic, would we get a contribution of 2.4 cents from  
13 nonprofit other to institutional costs?

14 A Again, I'm not doing the math here but I guess  
15 that is one of those things --

16 Q Subject to check, would you --

17 A I'll accept that.

18 Q -- 2.4 cents?

19 A Subject to check, I will accept that.

20 Q And subject to check, would you accept from  
21 workpaper 2, page 35, that the nonprofit ECR contribution  
22 per piece to institutional costs is also about 2.4 cents?

23 A I will accept that subject to check.

24 Q Well, then, then we have a situation, do we not,  
25 where the contribution before rates that -- the before rates

1     nonprofit carrier route, enhanced carrier route was  
2     contributing per piece about 4.4 times the contribution of  
3     nonprofit other. Whereas, now it is contributing about only  
4     one time. In other words, they're both making about the  
5     same contribution, about 2.4 cents per piece.

6           A     So they are roughly equal contribution per piece?

7           Q     Now, whereas before in the test year before rates  
8     you had nonprofit ECR contributing per piece about 4.4 times  
9     more than nonprofit other. Whereas, after rates, they're  
10    making -- there has been this dramatic change. The  
11    contribution of ECR has come way down and the contribution  
12    of other has come up dramatically?

13          A     That appears to be the case.

14          Q     Would that have been so dramatic had you used the  
15    usual 12-month period?

16          A     I can almost assure you that it would make no  
17    difference. But I am not --

18          Q     I'm sorry, I missed that. You could almost assure  
19    me what?

20          A     One, I didn't have the annual data so we are still  
21    arguing over nothing here but those -- that relationship of  
22    contribution per piece for those two subclasses is driven by  
23    the cost for those two subclasses and the markup that is  
24    applied to those two subclasses. It has nothing to do with  
25    the billing determinants. That dramatic swing has to do



1 with the markup that's applied to the cost for those two  
2 subclasses.

3 Q But volume is distributed among billing  
4 determinants?

5 A Within a subclass, yes.

6 Q And volume and therefore the distribution can vary  
7 by season, by quarter?

8 A Yes.

9 Q Okay, one last question has to do with your  
10 testimony on page 33. Actually, it starts on the bottom of  
11 page 32, on line 21. I was wondering if you could explain  
12 just one last thing to us which I don't think involves  
13 detailed numbers.

14 On line 21, you say in connection with Docket  
15 Number MC96-2, two subclasses, nonprofit and nonprofit  
16 enhanced carrier route were established. Skipping on, as a  
17 result, separate markups were set for these two subclasses  
18 whereas one was necessary previously. Regular and ECR serve  
19 as the commercial counterparts for nonprofit and nonprofit  
20 enhanced carrier route respectively.

21 Okay, now, line 3 here on top of page 33, the  
22 effect of the adoption of these two separate markups and the  
23 generally low costs for nonprofit mail in the test year --  
24 so we have at the top of page 33 that nonprofit mail in the  
25 test year is characterized by "generally low costs." And

1 then dropping down on the same page, 33, we have the rubric  
2 C, proposed rate design, one, rate design formula.

3 Dropping down -- that section begins on line 14  
4 and dropping down to line 19 you say, this resulting  
5 nonprofit coverage coupled with the relatively high costs  
6 for the nonprofit subclass. And we were curious why at the  
7 top of page 33 you say nonprofit is characterized by  
8 generally low costs and then at the bottom of page 33 you  
9 say that nonprofits have relatively high cost.

10 A Yeah, I'm speaking at the top of that page what  
11 the phenomenon was in classification reform when the  
12 costs -- when I say they were low, they were low especially  
13 with respect to the costs that were underlying the  
14 preclassification reform rates. So in that proceeding, we  
15 were able to lower the rates for almost every nonprofit  
16 category.

17 However, by moving forward and getting a new year  
18 and a different time period, and I might add different  
19 markups, those costs I described there as being relatively  
20 high, and that is opposed -- sort of referring to the  
21 previous costs that we had for those groupings.

22 Q But the markup, can't we hold that aside? That is  
23 the markup for institutional costs you are talking about?

24 A Well, you can't really hold it aside because it's  
25 one of the two things that describes the revenue requirement

1 or is used to calculate the revenue requirement.

2 Q But with respect to attributable costs, what  
3 changed?

4 A I'm not here to present the costs for these -- for  
5 these classes of mail. I -- I am given the costs by another  
6 witness and then I apply the markup that is in compliance  
7 with the Revenue Forgone Act and that's how I get the  
8 revenue requirement.

9 Q Who would we ask about the -- to find out about  
10 these -- what contributed, what caused generally low costs  
11 to become generally high costs? To become relatively high  
12 costs?

13 A Well, again, that's my characterization and I'm  
14 not -- they're still low relative to the commercial costs.  
15 The costs for nonprofit are still low. They happen to have  
16 changed more over this time period and that's what I'm  
17 really talking about.

18 I'm trying to explain, you know, the large  
19 increase that that subclass is getting and I explained it by  
20 saying the relatively high cost. Alternative wording would  
21 have been "due to changes in the costs that have its costs  
22 relatively higher than those costs that underlie the current  
23 rates." That's sort of cumbersome but that was the point.

24 MS. EMIGH: Okay. Thank you.

25 Thank you, Mr. Chairman.

1 CHAIRMAN GLEIMAN: Ms. Dreifuss?

2 MS. DREIFUSS: Thank you, Mr. Chairman.

3 CROSS EXAMINATION

4 BY MS. DREIFUSS:

5 Q Good afternoon, <sup>Mr.</sup>~~Ms.~~ Moeller.

6 A Good afternoon.

7 Q Could you turn to your response to OCA  
8 Interrogatory 11, please.

9 A OCA-11. Okay.

10 Q In that interrogatory we reference page 16 of your  
11 testimony, where you explain that due to significant changes  
12 in costing methodology the cost differential supporting many  
13 of the discounts have changed significantly, and then we  
14 asked you to summarize the significant changes.

15 In that answer you indicate that one of the more  
16 significant changes is the volume variability study  
17 described by Witness Bradley. Is that correct?

18 A That was my response, yes.

19 Q Do you know in which direction the change in  
20 volume variability goes, whether it goes up or down, because  
21 of his study?

22 A I think there was another question where they were  
23 asked, I was asked generally what happens and was it from  
24 the OCA? I think we said generally the presort related cost  
25 differences would decrease because of that.

1           Q     Right, so his volume variability study tends to  
2     make volume variability lower in this case than if one were  
3     to use the former Segment 3 attribution methodology of the  
4     Commission?

5           A     I am not familiar with the Segment 3 attribution.

6           Q     Well, I am talking about the volume variability --  
7     well, the counterpart to what Witness Bradley did.

8                     If one used a traditional methodology instead of  
9     Witness Bradley's methodology, volume variability would be  
10    higher --

11          A     Yes.

12          Q     -- that's correct, isn't it?

13          A     Yes. That's my understanding.

14          Q     And because it would be higher <sup>then,</sup> ~~than~~ generally  
15    speaking, unit mail processing costs calculated under the  
16    Commission's methodology would also tend to be higher. Does  
17    that sound right?

18          A     In the absence of any other changes, I guess that  
19    would be correct.

20          Q     And would you also agree that with unit mail  
21    processing costs generally being somewhat higher under the  
22    Commission's attribution methodology that the differentials,  
23    let's say for presortation, would tend to be higher under  
24    that methodology, is that correct?

25          A     Yes.

1           Q     And that probably holds true for the  
2     letter/nonletter differential, is that correct? That is, if  
3     one were to use the Commission's attribution methodology,  
4     the letter/flat differential would be higher than as  
5     currently presented in Witness Daniel's testimony, is that  
6     correct?

7           A     I hesitate to say for sure because I know the  
8     volume variability varies by operation type and certainly  
9     operation type varies by shape, so I really don't want to  
10    speculate as to what the relationship would be in the  
11    letter/flat differential.

12          Q     You do know it to be true for presort  
13    differentials; is that correct?

14          A     I think I had acknowledged that somewhere else,  
15    that that was a sensible outcome because those presort  
16    differentials are usually by shape and then the operations  
17    involved are similar and probably have similar volume  
18    variability factors.

19          Q     Would it also be a sensible outcome to predict  
20    that the letter -- nonletter differential would move in that  
21    direction, too, in the same direction that the presort  
22    differentials have moved or would move, rather?

23                MR. MAY: I object to the question, Your Honor.

24                I don't think the witness is competent and he has  
25    so said he is not competent to respond to this line of

1 inquiry so anything he puts in the record would be pure  
2 speculation. The data is otherwise available but I object  
3 to this witness being asked to characterize data that he is  
4 not familiar with.

5 MS. DREIFUSS: Mr. Chairman, I am just amazed that  
6 Mr. May is able to step inside of the witness' mind and know  
7 what he does or doesn't know. It's obviously appropriate  
8 for the witness to answer the question and not Mr. May for  
9 him.

10 CHAIRMAN GLEIMAN: If the witness can answer the  
11 question, the witness should and if the witness isn't  
12 competent to answer the question, the witness will tell us  
13 that he is not competent to answer the question or that he  
14 doesn't know the answer to the question.

15 THE WITNESS: I think I had been asked that  
16 question two questions before and I said that I can't make  
17 any conclusions for letters versus nonletters because it is  
18 my understanding that some of the volume variabilities may  
19 vary according to operation which varies by shape. And I  
20 can't reach any conclusions that I would feel comfortable  
21 making.

22 BY MS. DREIFUSS:

23 Q Turn to your response to MASA interrogatory  
24 T-36-1, please.

25 A Okay.

1           Q     In your response to part F, the last sentence, you  
2     state that since the costs for the subclasses are reduced,  
3     the cost differentials between automation and nonautomation  
4     categories tend to be reduced; is that correct?

5           A     That's what I say there.

6           Q     Now, despite -- let's turn to OCA interrogatory  
7     25, please.

8           A     Number 24 is so long, I keep paging through it  
9     here.

10          Q     Twenty-five, please.

11          A     Yeah. There we go.

12          Q     In subpart A, we presented a unit cost  
13     differential calculation between basic ECR letters and basic  
14     ECR flats and we came up with a number 3.5099. Do you see  
15     that in our question, subpart A?

16          A     Yes, I see that.

17          Q     And we asked you to confirm that number and you  
18     did confirm it, did you not?

19          A     I confirmed it using those costs that were  
20     available at that time. If I were asked that question  
21     again, you would probably rephrase it to reflect the revised  
22     costs presented by Witness Daniel and I believe the 3.5099  
23     number would become 2 point something, 2.1679. And I would  
24     confirm that.

25          Q     All right. I am aware that she revised her -- her



1 Appendix 29-C. Page 2, I guess, is what we are talking  
2 about.

3 A Correct.

4 Q It appears that the basic ECR nonletter unit cost  
5 was revised significantly. Is that your understanding too?

6 A I believe so. If you are looking at it and that's  
7 what you say, I'll accept that that was the change. I think  
8 I just have the after cost so I don't know how much they  
9 changed.

10 Q All right. I do understand though that the  
11 differential we calculated in subpart A wouldn't be as large  
12 as what we presented to you there. Instead of 3.5099 cents,  
13 it would now be 2.1679 cents.

14 A Okay.

15 Q We asked you in subpart E whether that  
16 differential had doubled since Docket No. MC95-1, and you  
17 were not able to confirm that, and you said it was due to  
18 changes in the costing methodology. Is that correct?

19 A Yes, it's not really an apples-to-apples  
20 comparison there that would allow me to confirm that they  
21 had doubled.

22 Q Right.

23 A And as it turns out, since we're using a revised  
24 differential figure, it would not have doubled, so that that  
25 answer is -- certainly in light of recent events is correct.

1           Q     What are the changes in the costing methodology  
2     that you're talking about there in your answer to subpart E?

3           A     Well, I think I address it in the testimony, and  
4     I'm sure Witness Daniel could have explained this. She  
5     actually was a party to it. Let me find my testimony.

6                     I think on page 29 I describe, starting at line 7,  
7     that study and how it differed from what has been done in  
8     the past.

9           Q     You did refer us to page 3 of USPS-29-C, and said  
10    that that would make for a better comparison to the Docket  
11    No. MC95-1 differential. Is that correct?

12          A     That's correct, and actually the cite I gave you  
13    here for -- that was just one of the changes. It was  
14    another change that really led me to tell you to go to page  
15    3.

16          Q     Page 3 would be a better comparison to the Docket  
17    No. MC95-1 figure.

18          A     Better, but still not a direct comparison, because  
19    of the change I did cite here on page 29.

20          Q     Now in what way is the page 3 comparison better  
21    than the page 2 comparison?

22          A     I know it has something to do, and the only reason  
23    I'm not -- I'm not sure exactly what differences there are,  
24    it has something to do with adjusting for drop ship  
25    differences, and -- oh, I think I say that in the answer.

1 But anyway there's a normalization or something that goes on  
2 that makes -- is treated similarly in page 3 to the exhibit  
3 that you referred to in classification reform. That's why  
4 it's a better comparison.

5 Q Well, since you said it was a better comparison,  
6 and I note it's a smaller differential --

7 A That wasn't my motivation for saying it was a  
8 better comparison.

9 Q I did make that my starting point. I started with  
10 page 3 of her Exhibit 29-C, and I came up with a  
11 letter-nonletter cost differential of 1.8814 cents, and you  
12 could check that.

13 A That's the new 1.3 or 1.4 -- are you talking about  
14 the new number or the old number?

15 Q It would be the result of her revisions.

16 A Yes.

17 Q That's calculated based on the revised page of  
18 that appendix.

19 A Which happens to be very similar to the number  
20 that was used here in this interrogatory.

21 Q Right. I think it's only about a thousandth of a  
22 cent difference.

23 A Yes.

24 Q Now how much of the letter/nonletter differential  
25 did you decide to pass through in the rates that you

1 propose?

2 A Probably the best place to summarize this are the  
3 revised pages to my testimony that had the pass-throughs as  
4 filed. Of course that list on page 48 are only the ones  
5 that changed. If this one didn't change it won't be on that  
6 page.

7 Q Let me stop you for just a moment. I am not going  
8 to look at anything other than the basic, the basic  
9 letter/nonletter differential.

10 A Okay.

11 Q So how much of that did you decide to pass  
12 through?

13 A Zero percent.

14 Q When the Commission was faced with that same  
15 question in Docket Number MC95-1, did they decide to pass  
16 through zero in terms of setting the ECR basic  
17 letter/nonletter rates?

18 A They passed through something other than zero to  
19 that cost differential to come up with a letter rate and a  
20 nonletter rate at the basic tier.

21 Q Are you aware that they did pass through  
22 roughly -- well, I won't even be rough. They passed through  
23 pretty close to 36.7 percent of the calculated differential.  
24 Is that your understanding?

25 A 36.7 percent? I didn't realize it was a figure

1 that distinct. I thought it was more of a --

2 Q You could check this now, ~~or~~ if you have a 95-1  
3 opinion with you, I am looking at Table 5-4. It is at<sup>t</sup>page  
4 ~~5~~-264 of the MC95-1 opinion.

5 A I didn't bring the opinion, but I see in the work  
6 papers that the letter/flat pass-through was 40 percent, but  
7 that may just be a rounding.

8 Q Okay, well anyway, 36 to 40 percent.

9 A Yes.

10 Q It was quite a bit more than zero, we would agree?

11 A Yes.

12 Q Did you make any calculations to see what discount  
13 might result from passing through roughly, let's say, 36 to 40  
14 percent of the 1.8814 cent differential appearing at page 3  
15 of Exhibit 29-C?

16 A I don't recall if I put that particular  
17 pass-through in as I was playing with the rate design  
18 formula and the work papers are not -- I may have at one  
19 point.

20 Q I used 36 percent. I rounded it down to 36  
21 percent and I got .67 cents as the resulting discount of a  
22 36 percent pass-through. Does that sound about right?

23 A I hope that when you put it in the right cell  
24 that's what it showed. That should have been the conclusion  
25 there, yes.

1           Q     In Docket Number MC95-1, the Postal Service did  
2     present its reasons to the Commission for not passing  
3     through that letter/flat differential, did it not?

4           A     I think we provided reasons why we had one rate  
5     that would apply to letters and nonletters that weren't  
6     distinct categories proposed, so there was no pass-through  
7     proposed.

8           Q     I guess it would have<sup>been</sup> the Postal Service's  
9     preference to have the automation carrier route rate set  
10    lower than the basic letter rate for ECR, wouldn't it?

11          A     Yes, you would want the automation carrier route  
12    rate to be lower than the carrier route basic letter or  
13    nonletter rate.

14          Q     And despite that preference, the Commission did  
15    set the basic ECR letter rate higher than the five-digit  
16    automation rate in the regular subclass, didn't it?

17          A     I'm sorry, I thought you asked me about the auto  
18    carrier route rate.

19          Q     I'm sorry, the five-digit automation rate.

20          A     But your previous question, I thought you said  
21    auto carrier route.

22          Q     I misspoke. I meant to talk about the five-digit  
23    automation rate in the regular subclass.

24          A     Yes, the recommended five-digit automation rate  
25    was higher than the carrier route ECR basic letter rate.

1 Q And the Commission did take into account the  
2 Postal Service's interest in promoting automation of this  
3 mail, did it not?

4 A Special consideration to the automation program.

5 Q Yes. Nevertheless, it did decide to pass through  
6 the letter flat differential?

7 A On balance, they recommended that passthrough.

8 MS. DREIFUSS: Okay, I have no further questions,  
9 Mr. Chairman.

10 CHAIRMAN GLEIMAN: If the witness is comfortable,  
11 I would like to continue now.

12 Parcel Shippers Association, Mr. May?

13 CROSS EXAMINATION

14 BY MR. MAY:

15 Q Mr. Moeller, a few questions about the proposed  
16 10-cent surcharge on standard A residual pieces. If you  
17 have reference to your response to NAA-5-D, you there state  
18 that:

19 A piece with "flat-like" costs will likely meet  
20 the definition of a flat, in which case it would be exempt  
21 from the surcharge as long as it is prepared in accordance  
22 with flat preparation requirements, close quote.

23 Are you saying there in that answer that a parcel,  
24 a parcel or what we would call a residual piece which may  
25 have "flat-like" costs will be accepted as a flat and avoid

1 the surcharge?

2 A A residual piece, by definition, is getting the  
3 surcharge.

4 Q Well, your answer said that if it had flat-like  
5 costs, it would likely avoid the surcharge. I am asking you  
6 whether or not a residual piece that has flat-like costs,  
7 whether or not it will receive a surcharge or will it escape  
8 the surcharge?

9 A A residual piece, which is defined as being a  
10 piece that does not meet the definition of a letter or a  
11 flat or is prepared as a parcel will receive the surcharge.  
12 I don't make any claim on the cost of those pieces being  
13 flat-like or parcel-like or whatever. That is just the  
14 definition.

15 This answer is merely saying if something has  
16 flat-like costs, it is probably a flat. I mean, it's that  
17 simple here, is my comment here.

18 Q You deny the possibility that I think other --  
19 you -- your own testimony seems to reference as well as  
20 others, there are at the margins some residual pieces that  
21 are virtually indistinguishable from flats?

22 A I think I say more generally that when you draw a  
23 line and you define two different rate categories, you are  
24 going to have pieces on either side of that line that may be  
25 very similar in costs but that's an outgrowth of having a



1 rate structure where you have different rates.

2 Q All right but then you are saying that the poor  
3 unfortunate pieces that fall slightly on the other side of  
4 that line are, nevertheless, even though they have flat-like  
5 costs, are going to get a surcharge? Isn't that what you  
6 are saying?

7 A Unless they decide they would rather prepare  
8 themselves as flats. If they meet the definition of a flat,  
9 they are welcome to make themselves -- to prepare those  
10 pieces as flats and avoid the surcharge.

11 Q You believe that there are separate preparation  
12 requirements for flats that are distinct from preparation  
13 requirements for parcels in standard A?

14 A Machinable parcels certainly have --

15 Q I didn't ask you that. I asked you whether you  
16 believe, since your answer seems to imply it, that there are  
17 distinct preparation requirements for flats that are  
18 different than the preparation requirements for parcels in  
19 standard A?

20 A There are some parcel preparation rules that are  
21 different than the preparation rules for flats.

22 Q Without respect to machinability.

23 A If it is a nonmachinable --

24 Q Disregarding the issue of machinability, are there  
25 any distinctly separate preparation requirements for flats

1 as opposed to parcels?

2 A I -- I am aware of the ones, of the different  
3 preparation for machinable parcels. I am not aware of  
4 significantly different or different at all preparation  
5 requirements for --

6 Q Then how is it this mailer who is at the margin  
7 supposed to take your advice and to prepare, "prepare,"  
8 which is your testimony, prepare his parcel so that it's  
9 like a flat? How is he supposed to do that if the  
10 directions, if the preparation directions in the domestic  
11 mail manual are identical?

12 A I just have -- it appears to me that those pieces  
13 that have flat-like costs are probably the ones that are in  
14 this area where they could qualify either as machinable  
15 parcels or as flats. And that's what --

16 Q How would they do that? .

17 A There are some dimensions of pieces, and I think  
18 you've been through those before.

19 Q Yes.

20 A That meet the definition of a machinable parcel  
21 and meet the definition of a flat. Mailers, from what I can  
22 tell, prefer to be defined as machinable parcels, if  
23 possible, because then they can avail themselves of these  
24 different preparation requirements I was talking about  
25 where, by being a machinable parcel, they can prepare their

BMCs

1 mailings to ~~B&Cs~~, of which there are many fewer than there  
2 are SCFs, which is the group -- the breakout you would have  
3 to make if you were a flat. So it is advantageous from a  
4 preparation requirement to be declared a machinable parcel  
5 rather than a flat. It also is -- you also qualify for the  
6 same -- the three five-digit rate by making these B&C  
7 separations as a machinable parcel. So that's what I'm  
8 referring to.

9 If someone thinks -- if someone falls in that area  
10 where they qualify for either, they are free to make those  
11 otherwise machinable parcels up as flats and avoid the  
12 surcharge.

13 Q Well, I don't understand how you can call, I can  
14 understand the definition of a parcel might allow you  
15 to qualify as a machineable parcel, but I don't understand  
16 how your definition of a flat will allow something that is  
17 beyond the physical dimensions of a flat even by the least  
18 fraction, how it's going to allow that, machineable or not,  
19 to be prepared in a way so that it's not deemed to be a  
20 parcel.

21 A Well, I'm not saying that they can -- any piece  
22 can decide to go as a flat, only those ones that would meet  
23 the flat dimensions.

24 Q In other words, there are -- you're saying is that  
25 there are a lot of pieces that are defined as parcels that

1 would also fit the definition of flats.

2 A I don't say how many there are. I know that there  
3 are pieces just by looking at those dimensions it's possible  
4 to have a piece that you could choose, the mailer could  
5 choose to say is a machineable parcel and prepare the mail  
6 in accordance to those preparation requirements, or can say  
7 this is a flat, and make them up according to flat  
8 preparation requirements.

9 Q In which event they won't have to pay. The  
10 preparation requirement, that's where you're -- I'd like to  
11 know for the record just what those are, what those  
12 preparation requirements are.

13 MR. ALVERNO: Objection. Asked and answered,  
14 because the witness has already identified what that  
15 procedure is.

16 CHAIRMAN GLEIMAN: I'm sorry, you have to speak a  
17 little bit slower.

18 MR. ALVERNO: I'm sorry. Yes, asked and answered.  
19 The witness said that there were -- the preparation  
20 requirement involved separation to 21 BMCs. So the question  
21 has been asked and answered.

22 MR. MAY: Well, I don't think that's what the  
23 witness answered.

24 BY MR. MAY:

25 Q But is that what the witness meant, that that's

1 the sole preparation that you prepare it for 21 BMCs. Is  
2 that what you meant by preparation requirements?

3 A That was the distinction of that difference I was  
4 talking about. They still -- the mailer has to make up  
5 five-digit containers if they can, and then the next step up  
6 is BMC, and the point was that's an -- that's an easier  
7 separation to make than the separation you would have to  
8 make if you were a flat, which would be to all the SCFs in  
9 the country.

10 Q But in the other case you had to pay the 10 -- but  
11 you have to pay the 10-cent surcharge in order to get that  
12 easier separation.

13 A You'd have to decide do I want the easier prep,  
14 and bear this 10-cent surcharge, or do I want the more  
15 complicated prep and avoid the surcharge.

16 Q All right. Now if you will look at your response  
17 to DMA-9, you were asked whether the Postal Service had  
18 performed studies that show shape is the factor that  
19 differentiates cost of flats from those of nonflats, and  
20 your response simply cited Witness Crum's testimony, which  
21 describes a study which measures the cost differences.

22 That is your answer, was it not?

23 A Yes, that's my answer.

24 Q Now does that study that you cite -- does that  
25 show that shape is the cause of the cost difference, or does

1 it merely purport to show that on average parcels cost more  
2 than flats, without any explication of the reason why that  
3 might be the case?

4 A Well, I think Witness Crum can speak to what --  
5 the specifics of that cost study. I used the output of that  
6 study as the cost difference between these two groupings of  
7 mail, which I apply low passthrough to.

8 Q Well, I don't want to haggle you over it, but the  
9 question the DMA asked you was do you have studies that show  
10 that shape is the factor that differentiates the costs of  
11 flats from those of nonflats, and you simply answered that  
12 by referring to Witness Crum's testimony, so I think we're  
13 entitled to believe that you're familiar with what his  
14 testimony is, since you have cited it.

15 Now my question is, did Mr. Crum -- did the study  
16 that he references simply report the fact that flats cost  
17 more than parcels, or did it attempt to establish what it  
18 was that caused parcels to be more expensive than flats --  
19 for example, shape?

20 A My use of the study was the cost difference that  
21 he found. Whether he analyzed what's causing that big cost  
22 difference wasn't anything I referenced in that study. I  
23 was merely taking the cost difference and using it for  
24 ratemaking purposes.

25 Q I take it then that your answer now is that you

1 are not aware of any Postal Service cost studies that have  
2 explained what the cause of the cost difference is and an  
3 explication of why that whatever the cause is causes those  
4 extra costs. Are you aware of any study?

5 A Well, I think that study gives you an idea and I  
6 know that you discussed with Witness Crum various things  
7 that might be influencing it other than shape, and so I  
8 think you were talking to the right person when you were  
9 talking about that, and then the study speaks for itself,  
10 and whether or not it does what you say it does or what you  
11 guys discussed yesterday.

12 Q Well, we got here -- let me refresh you -- we got  
13 to this point because in one of your answers you stated that  
14 the Postal Service has identified the shape, the shape, as  
15 the cost-causing factor.

16 I am asking you to point to any study, any study,  
17 that the Postal Service has done that identifies shape as  
18 the cause of these cost differences, as opposed to simply  
19 reporting that there are cost differences.

20 A I am not sure you could do a study that would get  
21 shape, shape alone, absolutely no other thing but shape.

22 I mean you can't control for everything  
23 necessarily but I think this one does a pretty good job of  
24 controlling for things you can.

25 Q I take it that means that you have no other study

1 to cite?

2 A I don't have a study to cite other than this study  
3 addressing this issue of cost differences between flats.

4 Q THank you.

5 A And parcels.

6 Q Well, let me posit when you say -- did that study  
7 isolate for weight, since you are on the point?

8 A I know that there was an aspect of it that would  
9 allow you to isolate for weight or take weight out of the  
10 picture, and that would be comparing the component of it  
11 which is looking at enhanced carrier route, which has a very  
12 similar weight per piece, which implies that weight is not  
13 driving the difference there.

14 Q But have you limited your proposed discount to  
15 just that category of mail where that factor was isolated?

16 A No. Obviously I have proposed the parcel  
17 surcharge for all four subclasses.

18 Q Then I take it your answer is that for the vast,  
19 overwhelming majority of the parcels that would be subject  
20 to your discount, weight was never taken out of the equation  
21 in terms of isolating it, was it?

22 A I think the easiest way to try to get an idea of  
23 the cost difference is to look at the data which you can  
24 look at, and that happens to be the grouping of mail where  
25 you have a similar weight per piece.



1           Q     I am not arguing with you. I am simply saying but  
2     that happens to be an infinitesimally small fraction of the  
3     population of flats and parcels that we are talking about,  
4     doesn't it?

5           A     Infinitesimally small seems a little dramatic.

6                     [Laughter.]

7                     BY MR. MAY:

8           Q     Give me your characterization of that population.

9           A     I would say that carrier route has fewer parcels  
10    as a percentage of nonletters than the regular subclass  
11    does.

12          Q     Well, by what dimension? Do you know that  
13    offhand?

14          A     I can tell you what percentage of nonletters in  
15    each of those groupings are parcels if you'd like.

16          Q     Well, aren't we talking about something under 10  
17    percent of the whole?

18          A     In both subclasses it is --

19          Q     Yes.

20          A     -- is less than 10 percent.

21          Q     So it is the case then, is it not, that at least  
22    over 90 percent of the whole universe of parcels and flats  
23    that we are talking about did not have the question of  
24    weight isolated from the consideration of cost differences?

25          A     90 percent -- I am not sure I followed that from

1 the earlier statement.

2 Q Well, it is only in the case of, as I think you  
3 just said, it is in the case of ECR where you are able to  
4 study the comparative costs of flats and parcels where  
5 weight had been isolated as a factor since the average  
6 weights of the parcels and the flats were roughly equal,  
7 isn't that what you said?

8 A That is what I was saying, but that -- I believe  
9 you discussed with Witness Crum other things regarding  
10 weight and how it may affect and to what extent it may  
11 affect -- again, I don't want to speak for his cost study.

12 I am telling you what I did with it and talking to  
13 you here about the percentages of parcels that are -- or the  
14 percentage of nonletters that are parcels in these two  
15 subclasses, but I am not sure I can help you talking about  
16 the cost study and what it -- the intricacies of it.

17 Q Well, you have denominated your surcharge as  
18 shape-based surcharges, have you not?

19 A It's a surcharge based on shape.

20 Q And yet you so far at least have been unable to  
21 identify any Postal Service study that proved that shape was  
22 the only factor to explain the cost differences other than  
23 an analysis of ECR flats and parcels; is that correct?

24 A I think I did say there was not a study that  
25 looked -- that declared weight or declared shape the only

1 factor but I know that this study has been analyzed and  
2 there has been discussion and interrogatories about other  
3 things that may be coming into play and Witness Crum has  
4 explained what those things are and answered those questions  
5 and I don't think I can add anything to what he's said.

6 Q No, I'm not asking you about anybody else's  
7 testimony other than your own, Mr. Moeller, just your own.

8 Now, if you will examine your response to the  
9 AAPS-2, you there acknowledge that some residual shaped  
10 pieces would experience effective rate increases in excess  
11 of 50 percent because of the surcharge, correct?

12 A That's what I say there, yes.

13 Q Given the fact that you as well as other Postal  
14 Service witnesses have talked about certain residual pieces  
15 that are at the edge, that will have costs not significantly  
16 different than those of flats, is it your opinion that such  
17 a result, a 50 percent increase for such parcels really  
18 meets the standards of fairness and equity under the Postal  
19 Reorganization Act?

20 A I do want to find the response where I talked  
21 about this. Bear with me.

22 Yes, DMA-USPS-T-36-3, part A, the very bottom of  
23 that first page, I say that the proposed surcharge is more  
24 compatible with fairness and equity than is the alternative,  
25 which is the absence of any surcharge whatsoever and the

1 continuation of a situation where the typical standard mail  
2 A letter or flat is burdened with the higher cost of the  
3 residual shaped pieces.

4 Q Well, that -- that is, even though there are going  
5 to be some victims here whose costs are not greater but who  
6 are going to have to pay a 50 percent increase in rates, you  
7 think that it's better that one innocent be hanged than let  
8 99 guilty go free; is that what you are saying?

9 A Where is your compassion for those people that are  
10 on the other side of the fence that are in the high cost end  
11 of the nonletter category?

12 Q Well, of course, I wouldn't hang any of them.

13 A Low rates for everybody.

14 Q If you would have reference to your response to  
15 OCA-15-E, now in that response you again acknowledge that  
16 the 10-cent surcharge will, of course, result in increases  
17 that exceed this, quote, maximum 10 percent increase  
18 guideline that was one of the operative principles guiding  
19 you when you were deciding how you would meet the cost  
20 coverage. And as we just discussed, that the surcharge will  
21 cause some rates to increase by over 50 percent.

22 Now, you do say however that this surcharge should  
23 not be viewed as a simple rate increase in this answer but  
24 the result of a classification change and should not be  
25 viewed as "pure" rate increases such as those which are

1 proposed for existing categories of mail. Isn't that what  
2 you say?

3 Now, would you please explain why my client, who  
4 ships both Third and Fourth Class parcels should be more  
5 concerned about his 10 percent parcel post increase than his  
6 50 percent standard A increase because I can explain to him  
7 that the latter is not really a pure increase, don't worry,  
8 it's not, Mr. Moeller said it's really not an increase? Do  
9 you think that's going to fly and that is an acceptable  
10 answer?

11 A Well, it should.

12 Q Now, let me ask you this. Why do you call this a  
13 classification change?

14 A Because there is a DMCS language change attached  
15 to this.

16 Q Well, I mean, any time you change the DMCS at all,  
17 it's a classification change?

18 A I'm not sure. That sounds like a lawyer question  
19 but --

20 Q Well, if you change -- let me ask you this. If  
21 you change the number of pieces that have to be in a bundle,  
22 is that a classification change?

23 A If that's one of the standards that's written into  
24 the DMCS, then it's a change in the DMCS. Is that a  
25 classification change? Again, I'd just -- this is semantics

1       there, and I'm not sure --

2           Q       Well, you've created a new subclass here, have  
3       you?

4           A       No new subclass.

5           Q       There is no new cost -- there is no separate cost  
6       coverage requirement for Standard A parcels in the future,  
7       right?

8           A       No, there is not.

9           Q       So, by classification change, you don't mean what  
10      the Postal Reorganization Act calls classification.

11                 MR. ALVERNO:  Objection.  Calls for a legal  
12      conclusion.

13                 MR. MAY:  Well, I'm asking -- excuse me.  Is that  
14      all?

15                 Chairman, if -- if, indeed, this witness is going  
16      to bandy about terms and make a distinction between a rate  
17      change and a classification change, then this -- then he  
18      should be prepared to discuss what rate and classifications  
19      changes mean under the Postal Reorganization Act.

20                 MR. ALVERNO:  I think the -- the witness here is  
21      -- is saying that the -- that the -- that the act's criteria  
22      are met as far as section 3623 is concerned, and that's  
23      something within the scope of his -- of his testimony.  
24      However, to say that the witness is prepared to -- to say  
25      what is and what is not a classification change, I believe,

1 is something for the lawyers to decide.

2 MR. MAY: Well, Mr. Chairman, the -- the witness  
3 is making a distinction here between rate increases, which  
4 he says this isn't just a rate increase, and so, this is why  
5 we shouldn't be concerned that this violates their own  
6 self-imposed 10-percent constraint. We shouldn't be  
7 concerned about this, because this is not a rate change,  
8 this is --

9 CHAIRMAN GLEIMAN: Well --

10 MR. MAY: -- a classification change.

11 CHAIRMAN GLEIMAN: Excuse me. If -- if that's the  
12 basis for -- for your pursuing this line of questions --

13 MR. MAY: It is.

14 CHAIRMAN GLEIMAN: -- then I am going to side with  
15 Mr. Alverno on this one, because you're asking about what  
16 the -- what a rate change is, what a classification change  
17 is, which is a legal issue, and there are standards written  
18 into law, and you're asking -- on the other hand, you're  
19 trying to relate to some self-imposed ceiling that I, quite  
20 frankly, you know, don't understand the basis for other than  
21 what I've read in the general press that the Postal Service  
22 puts out about, you know, rate increases should not exceed  
23 10 percent.

24 I mean I know there's something in some of the  
25 case material that's been filed and all, but I think that

1       that really is a -- is a separate issue.

2               What if it was 50 percent? What if it was a  
3       half-a-percent? You know, what relevance is that to a -- a  
4       classification change? You're the one that tied it to the  
5       10 percent.

6               MR. MAY: I'm -- I'm trying to -- the witness is  
7       asked to explain why this is -- this is somehow different  
8       than other rate changes, and he has said it's different  
9       because it's a classification change, and that's his  
10      testimony, and I believe -- I'm not asking him what a legal  
11      question is, I'm asking him what he means by a  
12      classification change that differentiates this from other  
13      rate changes, since he's the one who's made -- he's made the  
14      distinction.

15              CHAIRMAN GLEIMAN: Okay.

16              What -- what -- that is slightly different than  
17      what you said a moment ago where you brought that 10-percent  
18      figure in, and the 10-percent figure is, in my view,  
19      irrelevant to -- to the issue, but I think that, in that  
20      context, that we should allow the witness to try and answer  
21      the question if he can.

22              BY MR. MAY:

23              A     Do you want me to rephrase the question, Mr.  
24      Moeller?

25              CHAIRMAN GLEIMAN: And leave the 10 percent out,



1 please.

2 THE WITNESS: Well, I could start talking if you  
3 want, because I think I have an idea.

4 Let's think of it as a structural change rather  
5 than a classification change, and maybe that will take this  
6 issue off the table.

7 It's recognizing the fact that it's a new rate  
8 element, regardless of whether, legally, it's considered a  
9 classification change or not, and as such, there is more at  
10 play than just a rate increase.

11 It's -- it's something designed to -- to recognize  
12 what may be a longstanding averaging that's been going on in  
13 this non-letter category.

14 MR. MAY: Thank you.

15 BY MR. MAY:

16 Q The -- if you would direct your attention to your  
17 response to --

18 CHAIRMAN GLEIMAN: Excuse me. Before you ask that  
19 next question, Mr. --

20 MR. MAY: Back to the --

21 CHAIRMAN GLEIMAN: No, no, no.

22 We're going to keep going for a little longer,  
23 I'll let you continue, but I just wanted the -- the record  
24 to show that I reversed myself on my ruling and that I  
25 overruled the Postal Service in -- in the final on that, in

1 case it wasn't perfectly clear that I supported Mr. May's  
2 view.

3 I apologize for the interruption.

4 MR. MAY: Back on the record.

5 BY MR. MAY:

6 Q If you will look at your response to PSA-26-1,  
7 36-5, and 37-6, if you look at those collectively --

8 A Excuse me. I got confused on all the numbers.

9 Q Okay.

10 A PSA --

11 Q -- 26-1 --

12 A Okay.

13 Q -- 36-5, 37-6.

14 A Okay. We're up to three now?

15 Q I'm just trying to recapitulate what your response  
16 is to see if you agree that -- that based on those, I take  
17 it that your testimony is that the Postal Service is unable  
18 to provide the following data: the test year after rates  
19 revenues, costs, and cost coverages separately for flats and  
20 for residual pieces in any of the eight categories of --  
21 that we're talking about in Standard A flats and parcels.

22 Those -- just so that you're clear about the eight  
23 categories, I refer to EC -- in the -- to ECR flats, ECR  
24 non-profit flats, regular flats, regular non-profit flats,  
25 ECR parcels, ECR non-profit parcels, regular parcels, and

1 regular non-profit parcels.

2           Those are the eight categories I refer to, and my  
3 question is, is it your testimony in those responses that  
4 the Postal Service is unable to provide the test year after  
5 rates revenues, costs, and cost coverages separately for  
6 flats and for residual pieces in any of those eight  
7 categories?

8           A     I think my response there in PSA/USPS-T-36-5 says  
9 a specific comparison of cost coverages is not possible,  
10 because the Postal Service did not measure or employ  
11 separate cost coverages for flats and for pieces subject to  
12 the residual surcharge.

13           I know that you discussed base year costs, and  
14 --and in the interrogatory response, you were directed on  
15 where you could get some base year information for revenues  
16 and cost.

17           I don't like to talk about cost coverages by these  
18 small categories, because -- but as far as test year, that's  
19 a more difficult task and requires many, many assumptions of  
20 mail mix and drop-ship profile and weight per piece that  
21 you're probably off better using the base year figures if  
22 you want to compare that information.

23           Q     Well, I mean your answer -- for example, 26-1 says  
24 the requested costs are not available separately for flats  
25 nor separately for residual shape pieces, and you explain

1     why, but the -- the fact is you say they're not available.

2     Is that not your answer?

3             A     That's my answer.

4             Q     Now, since the Postal Service is unable to compute  
5     cost coverages for any of these eight categories in the test  
6     year after rates, isn't it possible that some or all of  
7     these categories are more than paying their own way?

8             A     If you're saying, if you could measure test after  
9     rates revenue and cost, is it possible that, in light of the  
10    residual shape surcharge, there could be a situation where  
11    these parcels are covering their cost, that's a possibility.

12            Q     Well, I'm, at this point, going to ask you a  
13    question that your colleague, Mr. Crum, has said I should  
14    ask you instead of him, and that is, for these eight  
15    disparate categories that we're talking about here, doesn't  
16    lumping these all together, as you have done, into one big  
17    ball and having a single surcharge applying to all eight of  
18    these disparate categories -- isn't -- doesn't that tend to  
19    obscure the fact that perhaps a different level of surcharge  
20    should be charged to each one of these eight separate  
21    categories based on the relative degrees of cost difference,  
22    all still adding up to the same revenue contribution, since  
23    you were given that task of providing revenue, but would it  
24    not be possible to have a -- a more cost-based surcharge  
25    disaggregated for each one of these eight separate

1 categories, rather than lump them all together?

2 A As far as there being one surcharge, that -- one  
3 reason for that is the simplicity of it.

4 I -- I think the study that you're referencing  
5 suggests that there is a big cost difference, probably,  
6 regardless of how you slice this up and that, in each of  
7 these subclasses, there's a big cost difference, and then  
8 when -- when we apply a low pass-through to it, 28 percent  
9 or whatever it -- it works out to be, then you're -- you can  
10 be pretty sure that you're having a -- having a surcharge  
11 that's fair and -- and not necessarily burdensome to one of  
12 those particular subclasses.

13 Q Well, the -- the possibility, however, of looking  
14 at these eight categories on their own cost basis does also  
15 suggest the possibility of perhaps mitigating in some  
16 circumstances 50-percent increases visited upon parcels that  
17 have relatively similar cost characteristics of flats,  
18 doesn't it? Doesn't it create that possibility?

19 A I think the low pass-through is -- is designed to  
20 mitigate in any event.

21 I think you were also discussing with witness Crum  
22 the base year costs and revenue and whether those could be  
23 calculated by subclass, and I think he pointed to a  
24 interrogatory response that would lead one to some  
25 information where that can be done, and I think such

1 analysis -- from what I understand, such analysis would show  
2 that, even if you were to have separately -- separate  
3 information for these four subclasses, the cost difference  
4 is very high in all four of them, and -- the cost difference  
5 between flats and parcels.

6 MR. MAY: I would like that answer stricken,  
7 because it is simply his guesswork at what somebody else may  
8 or may not have said. I did not ask him about anybody  
9 else's testimony, Mr. Chairman.

10 I asked him about -- a question about the way he  
11 applied his surcharge, whether or not he could not have  
12 applied a separate surcharge to each of these different  
13 eight cost categories, and the witness responds, in part, by  
14 alluding to what some other witness may have responded to in  
15 an interrogatory. And frankly I don't -- I'm at a loss to  
16 know exactly what he's referring to, but in any event what  
17 he's -- it's not competent testimony.

18 CHAIRMAN GLEIMAN: Mr. May, constructively by your  
19 comments you have struck his testimony. I'm going to leave  
20 it in there, and the Commission will give it appropriate  
21 weight when it reviews the transcript.

22 MR. MAY: Okay.

23 BY MR. MAY:

24 Q Could you look at your response to DMA 3?

25 A Okay.

1           Q     Now you have previously alluded to this answer  
2     today. That's the one in which you conclude by saying that  
3     the surcharge is, quote, is more compatible with fairness  
4     and equity than is the alternative, which is the absence of  
5     any surcharge whatsoever, and the continuation of a  
6     situation where the typical standard mail A letter or flat  
7     is burdened with the higher costs of the residual shape  
8     pieces, close quote.

9           Would you explain in what way the standard mail A  
10    letter is currently burdened with the higher costs or  
11    residual shape pieces -- not the flat, the letter. Because  
12    that's what you said, letter and flats are both burdened.

13          A     Well, currently the residual shape pieces are part  
14    of the nonletter category, and there is some averaging  
15    between letters and nonletters, so by extension then the  
16    letters are being burdened by the cost of the parcels.

17          Q     Let me ask you this. Would flats have a lesser  
18    cost coverage requirement but for the presence of residual  
19    shape pieces in the nonletter category?

20          A     Flats by themselves don't have a cost coverage  
21    requirement.

22          Q     Exactly. So what is the consequence to these  
23    other categories? You're talking about flats and letters.  
24    What is the consequence to them of being burdened with this  
25    alleged cost difference? What is the consequence?

1           A     I think it's higher rates, and if you look at the  
2     rate design formula, you could see that the revenue that we  
3     anticipate from the residual shape surcharge serves to  
4     reduce the revenue requirement that is to be obtained from  
5     the rest of the subclass.

6           Q     Well, since there is not a full passthrough of the  
7     cost differential between letters and nonletters --  
8     nonletters to include both flats and parcels -- since there  
9     is not a full passthrough, isn't it the case that it's  
10    exclusively letters that are burdened with the asserted  
11    higher costs of residual shape pieces?

12          A     No. I'm speaking in terms of the rate design  
13    formula again that getting the revenue to account for this  
14    additional cost of the parcels accrues to the piece rates  
15    for both nonletters and letters, so by recognizing this cost  
16    difference all the other pieces are able to benefit, which  
17    implies that in absence of it they are hurt or burdened with  
18    the costs of these other pieces.

19          Q     Well, since standard A letters, according to your  
20    testimony, are being burdened by the failure to pass through  
21    the full cost differential between both flats and parcels, I  
22    don't -- I want you to -- I don't understand how it is that  
23    you can say that flats are in any way burdened by the  
24    parcels, since the flats themselves are being -- part of  
25    their costs are being borne by letters. How is it that



1 flats are somehow being damaged by the higher costs of the  
2 parcels?

3 A The higher cost of the parcels pump up the costs  
4 of the whole subclass. If it were a purely letter and flat  
5 subclass, an advertising mail type subclass that didn't have  
6 parcels in it, then the costs would be lower and they  
7 wouldn't be burdened with the higher costs of those parcels.

8 Q And in the absence of this surcharge you would be  
9 proposing what, a higher rate for letters, a higher rate for  
10 flats, a higher rate for everybody? Which of those three?

11 A It's hard to isolate the effect on those pieces,  
12 but in general all those pieces would have to have a higher  
13 rate if not for the revenue obtained through the residual  
14 shape surcharge.

15 Q And so this higher rate could be, this cost could  
16 be absorbed either on the one hand through less than a  
17 billion parcels or on the other hand be absorbed by how many  
18 billions of pieces are there in standard A?

19 A Quite a few. Yes, it would be spread out over a  
20 lot of pieces, so -- but nonetheless that's an impact on  
21 those pieces.

22 Q Yes, but does it have anything like the impact of  
23 a 50-percent increase, which is the effect of -- which is  
24 the impact that your own testimony says it will have on some  
25 parcel shippers? Would it have anything like that impact

1 anywhere else?

2 A Certainly not as discernable to any one individual  
3 mailer, but on the whole the advertising industry will  
4 benefit for their catalog mail and their letter mail if the  
5 rates are suppressed by virtue of the revenue obtained from  
6 the residual shaped surcharge.

7 Q Does the advertising industry know what you're  
8 doing for them in this case?

9 Let me ask you this. If you look at your answer  
10 to PSA 37-6-C, this is a little complicated, but in that  
11 question I asked you to compare whether the costs that  
12 standard A letters were bearing because of the failure to  
13 pass through more than 40 percent of the cost differential  
14 between letters and flats, was more or less than the amount  
15 of the burden being borne by flats because of the  
16 flat-residual cost differential.

17 Now your response was that it was not possible to  
18 determine the amount of the costs of standard A flats being  
19 borne by letters and likewise not possible to determine the  
20 amount of the costs of residual pieces that were being borne  
21 by flats.

22 A That's correct. Yes.

23 Q If the Postal Service does not know this, then why  
24 have you chosen to surcharge residual shape in order to  
25 alleviate the alleged burden on flats, rather than to

1 surcharge both flats and parcels combined to alleviate what  
2 may be an even greater burden on letters.

3 Why have you singled out parcels for this  
4 correction? You are going to correct this one thing. Why  
5 have you done that?

6 A Well, I think we started down this road of  
7 recognizing cost differences by shape in Docket Number R90,  
8 and there has been de-averaging there with the two biggest  
9 groups of shapes, letters and nonletters, and we have  
10 continued to recognize that.

11 At the same time, that doesn't mean you ignore  
12 other averaging that is going on.

13 There is nothing that says recognizing one cost  
14 difference due to shape precludes you from doing another  
15 recognition of shape.

16 Q I mean your remedial action here seems to have  
17 singled out 7 percent of the class, the subclass, and say  
18 we'll fix that 7 percent, a 7 percent where the fixing by  
19 your own testimony is going to have a disproportionate  
20 impact. That is, up to 50 percent increases for those  
21 affected.

22 I am trying to ask you to explain why you chose  
23 that one as opposed to all the other possible remedial  
24 actions you could have taken within Standard A subclass.

25 A The residual shape surcharge was not intended to

1 address specifically the letter/nonletter cost difference.

2 If you are suggesting that an alternative to  
3 residual shape surcharge would be to have no residual shape  
4 surcharge but merely widen the letter/nonletter  
5 differential, that doesn't do anything to take care of this  
6 demonstrated cost difference between two distinct shapes in  
7 the nonletter category.

8 Q Well, but question is since the landscape seems to  
9 be littered with all kinds of cases of cost differentials  
10 among things in the same subclass, for example a letter  
11 going across town, one going to Alaska, parcel, flat,  
12 letters and Standard A -- all those things -- what is it  
13 that causes you to say let's pick out this one thing,  
14 parcels and flats -- let's fix that and let's hit a whole  
15 bunch of people with cost increases up to 50 percent?

16 What prompted that?

17 A The one thing that prompted that, if I could say  
18 one thing?

19 Q Yes.

20 A 35 cents, which is the cost difference that was  
21 demonstrated. That is a big amount of averaging that is  
22 going on and we de-average where appropriate and where it  
23 can be done, and this one is appropriate.

24 Q Back to your response to PSA-5, which asked you  
25 whether the Postal Service was able to state whether

1 Standard A flats would have more or less cost coverage than  
2 Standard A residual shapes after application of the 10 cent  
3 surcharge, and your answer was the Service is unable to  
4 compute cost coverages by rate category.

5           You do add, however, that "One might suspect,  
6 however, that since the pass-through for the residual shape  
7 surcharge is so low, flats would have a higher implicit cost  
8 coverage than pieces subject to the residual shape  
9 surcharge."

10           Is it not the case that because residual shapes  
11 are heavier than flats and therefore contribute more revenue  
12 that unless you know the average per piece revenue for the  
13 residual shapes compared to flats, you will not know whether  
14 the additional amount of revenue earned per piece was more  
15 than or less than the amount of the cost differential that  
16 was not passed through from the surcharge, will you?

17           A     My response there though says that since the  
18 residual shape surcharge is so low, one would suspect that  
19 what you are describing would not happen unless these pieces  
20 weigh a lot more than the flats.

21           Q     But the point is you don't know, do you ?

22                     That is your testimony. You do not know what the  
23 result will be test year after rates.

24           A     I am telling you that we have not computed cost  
25 coverage by rate category.

1           Q     I'll finish with a hypothetical referred to you by  
2     your colleague when I asked him.

3                     Hypothetically, is it not the case that if, for  
4     example, the cost difference between parcels and flats is 33  
5     cents apiece -- assume that is the cost difference -- and  
6     the revenues earned per piece by a parcel on average is 33  
7     cents more than the revenue earned by a flat -- assume that  
8     is the case -- would you have any justifiable case for  
9     proposing any surcharge on parcels in this proceeding?

10          A     I'm not sure I want to accept the terms of this  
11     hypothetical, but what we have done is measured a cost  
12     difference that we think is due to shape, at least  
13     primarily, and of a passthrough of a very low amount of that  
14     cost difference, which --

15                   MR. MAY: Mr. Chairman, this isn't even an attempt  
16     to answer the question.

17                   BY MR. MAY:

18          Q     Do you want me to repeat the question.

19          A     I'm not sure I understand the hypothetical.

20          Q     Okay, well, here's the hypothetical. And assume,  
21     just for the purpose of the hypothetical, that a parcel  
22     costs -- let's take the regular example, the regular rate  
23     standard A category for profit. Let us assume that the  
24     parcel costs 33 cents more than the flat to process on  
25     average, okay?

1           A     Um-hum.

2           Q     Let us further assume that the amount of revenue  
3     earned by the parcel is 33 cents more than the amount of  
4     revenue earned by the flat. Now that's the assumption.

5                     Would you, under those circumstances, have a  
6     justifiable case for proposing a surcharge of any amount on  
7     parcels in this proceeding?

8           A     Again, is this hypothetical holding everything  
9     constant, drop ship, profile, preparation requirements?

10          Q     Yes.

11          A     Everything?

12          Q     Um-hum.

13          A     So the 33 cents additional revenue would be due to  
14     what? If it's holding everything constant, then the rate  
15     would be the same.

16          Q     No, hardly, because as you know parcels weigh more  
17     than flats. And there's a -- indeed, I assume you know that  
18     in standard A the rates are determined by piece charge and a  
19     pound charge.

20          A     Well, I think your hypothetical doesn't apply  
21     then. If they're different weights then why should -- if  
22     they're paying the same rate now and --

23          Q     They're not paying the same rate, are they?

24          A     If they're the same piece they are, if they're a  
25     parcel and a flat.

1           Q     No, I said if the -- listen to the hypothetical  
2     again. If the average, if the average flat, average flat --  
3     correction. If the average parcel costs 33 cents more per  
4     piece to process than the average flat but the average  
5     parcel earns 33 cents more revenue than the amount of  
6     revenue earned by the average flat, all other things being  
7     equal, would you have any case for proposing any surcharge  
8     on parcels in this proceeding?

9           A     I'm just afraid to say. There's more to it than  
10    that. I think it's oversimplified here and I just hesitate  
11    to -- you know, I'm not going to say no --

12           CHAIRMAN GLEIMAN: Mr. Moeller, I think under the  
13    rules, as a hypothetical, you can restate all your concerns  
14    to clarify that you're only answering a hypothetical, but  
15    you have to answer the question if you can.

16           THE WITNESS: I'm afraid I can't. I mean, I  
17    don't -- I'm just -- I'm not sure that that would be the  
18    case just because this weight thing is bothering me and if  
19    the 33 cents was shown to be purely due to weight, the cost  
20    difference, then the pound rate would be doing an effective  
21    job of recouping that cost difference and you wouldn't need  
22    a surcharge. Perhaps.

23           I think it is more complicated than I can get my  
24    head around right now but --

25           MR. MAY: Well, if he can't give any better answer



1     than that, I guess I will have to accept that as the best  
2     answer I'm going to get, Mr. Chairman.

3             Thank you. That's all I have.

4             CHAIRMAN GLEIMAN: Mr. Moeller, would you like to  
5     take five?

6             THE WITNESS: Well, if it means getting  
7     out -- being done by 4:30, I'll forego a break.

8             CHAIRMAN GLEIMAN: I'm not sure we'll make it by  
9     4:30 or not. It may go a little bit longer and you may have  
10    to come back in any event one day next week or the following  
11    week. But I don't want to have -- Mr. Reporter,  
12    Mr. Counsel, are you all comfortable with continuing?

13            MR. ALVERNO: I'm comfortable, yes.

14            CHAIRMAN GLEIMAN: Let's plough ahead then.

15            Mr. Wiggins, I believe the ball is in your court.

16                            CROSS EXAMINATION

17            BY MR. WIGGINS:

18            Q     Good to see you again, Mr. Moeller.

19            A     Thank you.

20            Q     When I talked with Mr. Crum yesterday, he told me  
21    that he wasn't aware of the fact that there had been a  
22    revision in the definition of the mail pieces to which the  
23    surcharge would apply. He thought it was the same as in  
24    MC97-2, that it hadn't changed from that and that it was  
25    still just the residual piece category, pieces that were

1 defined as not being letters and not being flats.

2 Your testimony today sounds to me as though you  
3 have a slightly different view and that it may be closer to  
4 the proposed changes to the Domestic Mail Classification  
5 Schedule. Let me just read to you the definition that it  
6 has of the pieces to which the residual shape surcharge will  
7 apply. And this is just one of them. This is for regular.  
8 They are sprinkled throughout but, trust me, they're the  
9 same.

10 "Regular subclass mail is subject to a surcharge  
11 if it is prepared as a parcel or if it is not letter or  
12 flat-shaped."

13 That, to my reading, has added an element to the  
14 definition from what was at issue in MC97-2, and that is the  
15 category of mail pieces prepared as a parcel. Is that  
16 consummate with your view?

17 A It's a clarification of what is going to be  
18 subject to the surcharge.

19 Q Well, clarification, alteration, it's different.

20 A The definition in words there is different.

21 Q Yes.

22 And I think there are a lot of problems,  
23 conceptual problems, some of the problems I talked with Mr.  
24 Crum about, some of the problems that Mr. May just talked  
25 with you about, to this whole notion of a surcharge, but

1 --but I think there's a -- a supervening difficulty that  
2 simply has to be cleared up, and that is what in the world  
3 do the words or does the concept "prepared as a parcel"  
4 mean? Can you help me with that?

5 A Sure. I think there was -- it was understood that  
6 maybe there was going to be some confusion due to some of  
7 the overlapping definitions of these shapes that --

8 Q Can I ask you to -- I'm -- I'm not trying to cut  
9 you off, but I -- could I just ask you to pause at that  
10 point and make sure I understand what you're saying, and  
11 then we'll move forward?

12 A Okay.

13 Q When you say overlapping definition of the shapes,  
14 what do you mean?

15 A There are pieces that may meet the definition of a  
16 flat and may meet the definition of a machinable parcel.

17 Q Well, there are -- there are -- you're talking  
18 about in terms of dimension and weight?

19 A Yes.

20 Q Okay.

21 Indeed, isn't it right that there are pieces that  
22 meet the definition of a parcel, machinable or otherwise,  
23 that also meet the definition of a flat? It goes in -- the  
24 crossover goes in both directions, in other words.

25 A Something may be a flat that would -- could be

1 defined as machinable parcel, also?

2 Q Correct.

3 A Yes. Yes.

4 Q In terms of dimension and weight, and that's what  
5 we're talking about, right?

6 A I believe so.

7 Q Would it be helpful if I showed you a copy of  
8 DMM-CO-50?

9 A I'm familiar with it.

10 Q Okay. If you have it handy, it might -- I'm  
11 really questing after some precision here, because I fear  
12 the mischief inherent in the absence of precision.

13 MR. ALVERNO: This counsel could use a copy of  
14 that if you've got one, Mr. Wiggins.

15 MR. WIGGINS: Sure.

16 MR. ALVERNO: Thank you.

17 MR. WIGGINS: Would the bench care to see the  
18 document again?

19 CHAIRMAN GLEIMAN: DMM-CO-50?

20 MR. WIGGINS: Yes.

21 CHAIRMAN GLEIMAN: I think I memorized it  
22 yesterday,.

23 MR. WIGGINS: Okay.

24 BY MR. WIGGINS:

25 Q You sure you don't want a copy?

1           A     I have it here unless you've amended it with some  
2 sort of examples or something.

3           Q     I -- I -- I think that I -- I may have a slightly  
4 more recent version, but I believe the text of it is the  
5 same. Do you have release 52?

6           A     Yes.

7           Q     Excellent. And -- and the -- the dimensions which  
8 are shown handily in that Exhibit 2.0 --

9           A     Yes.

10          Q     -- tell you that a parcel may be both smaller, it  
11 may be as small as three inches high, six inches long --  
12 right? -- which is -- which is smaller than any qualifying  
13 flat, correct?

14          A     Well, there are three dimensions involved, but on  
15 those dimensions, those are -- those are both lower than the  
16 minimum flat minimum.

17          Q     Okay. But each of -- each of -- each of them has  
18 a minimum thickness of a quarter-inch. So, I wasn't fussing  
19 with that.

20          A     Okay.

21          Q     Right? Okay. So, the flat -- the parcel, rather,  
22 can be smaller than a flat --

23               CHAIRMAN GLEIMAN: You should note for the record  
24 that they're stated differently. One is stated as a  
25 quarter-of-inch and two of them are stated as .025.

1 MR. WIGGINS: Actually, in my copy of it, Mr.  
2 Chairman --

3 CHAIRMAN GLEIMAN: Well, you -- I was reading from  
4 copy number 51 --

5 MR. WIGGINS: Aha.

6 CHAIRMAN GLEIMAN: -- yesterday, and they were  
7 cited that way.

8 MR. WIGGINS: You see there's a -- you see there's  
9 -- there's a vice to that. You must -- you must consult 52.  
10 It -- it has in parentheses the -- it has the -- the .025  
11 and one-quarter, but it's the same thing.

12 BY MR. WIGGINS:

13 Q Anyhow, Mr. Witness, it can -- the -- the parcel  
14 can be smaller than a flat, correct, and we -- we just went  
15 through those dimensions. It can also be larger than a  
16 flat. It can be as much as 17 inches high, 34 inches long,  
17 and it can be a lot fatter than a flat. It can be 17 inches  
18 fat.

19 A Yes.

20 Q But in between the smaller and the larger, it can  
21 also meet any of the dimensions of a flat. Necessarily, the  
22 lesser and the greater encompass that which is in the  
23 middle, right? You don't need to be a geometrician to know  
24 this, I think.

25 MR. MAY: But it helps.

1 BY MR. WIGGINS:

2 Q I mean you can see from the little pictures, can't  
3 you?

4 A I can see that -- that the -- that the range of  
5 parcels starts below the range of the flats.

6 Q Correct. And goes above the range of flats, and  
7 therefore, there can be parcels in between that smallest  
8 eligible parcel and that biggest eligible parcel that  
9 encompass every available flat size.

10 A That's interesting.

11 Q Isn't that correct?

12 A I guess that's the way it would be, yes.

13 Q Yes, I think so, so that in -- in these terms, in  
14 the terms of the little pictures in Exhibit 2.0, you can  
15 have an absolute overlap between -- just in -- in dimension  
16 and weight.

17 A Wait a minute now.

18 Q Sure. I'm not -- this isn't the Tim May  
19 hypothetical. Let's be clear about that.

20 A No, but I'm looking at the -- at the definition of  
21 a flat, and it can be less than a quarter-inch thick. It  
22 has to exceed one of those --

23 Q No, no, no. The minimum thickness is a  
24 quarter-inch.

25 A Well, that just doesn't make sense, because you

1 can mail a very thin piece of mail --

2 Q I can't -- this is a DMM we're expatiating here.  
3 I mean you can't argue with it.

4 A But -- but look at the asterisks. It says it must  
5 exceed at least one of these letter-size dimensions.

6 Q It must exceed. It must be -- it says the minimum  
7 is a quarter-inch. I think that's accurate.

8 A Okay.

9 Q Okay?

10 A I was confused.

11 Q Trust me on that. Okay. So that -- right? -- you  
12 can -- you can -- you can take -- you can make a parcel that  
13 is the same size as any mail piece eligible to be treated as  
14 a flat, correct?

15 A Okay.

16 Q Okay.

17 Now, because of that -- and -- and Mr. Crum  
18 testified to -- to this yesterday -- absent something more,  
19 you're never going to be able to differentiate by physical  
20 observation that which is a flat from that which is a  
21 parcel, which makes this whole surcharge thing sort of  
22 unmanageable, wouldn't you -- wouldn't you agree?

23 A I haven't thought about the implementation issues  
24 and how the verification will go on this to -- to answer  
25 that. I don't think it's unmanageable. That sounds a



1 little -- I mean a little overstatement of -- of what it  
2 would be.

3 Q Well, you have to have something more in the  
4 definition of either a parcel or a flat or you're never  
5 going to be able to tell which one you're doing business  
6 with until you get --

7 A -- above three-quarters of an inch thickness.

8 Q Well --

9 A Then it's clearly not a flat.

10 Q When you are -- I'm sorry. When you are dealing  
11 with parcels that are within the dimensional domain of  
12 flats, which is what I thought we were talking about.

13 A There is -- there is the -- there is the very  
14 small --

15 Q I'm -- I'm not -- I'm talking the parcels that are  
16 within the definitional domain of flats --

17 A Okay.

18 Q -- and we just agreed --

19 A Okay.

20 Q -- that you can make a parcel --

21 A Oh, sure.

22 Q -- okay? -- that will fit every flat size extant,  
23 right? Those are the things that I'd like to limit our  
24 conversation to.

25 A Okay.

1           Q     Now, then, how do you know who to charge the dime?  
2     I mean if I accept the notion that somebody ought to pay a  
3     dime, who ought to pay it?

4           A     It's that -- that fact that we're talking about  
5     that caused that clarification in the definition which said  
6     "or prepared as a parcel." That's how you tell.

7           Q     Doesn't -- doesn't quite get me there yet, unless  
8     you have further explanation --

9           A     Okay.

10          Q     -- because it seems to me that I can take my mail  
11     piece that is otherwise geographically or dimensionally  
12     indistinguishable from a flat and I can sneak up to my post  
13     office and say flat rate, and I get away with that, right?

14          A     If you prepare it as a flat.

15          Q     Okay. So that the -- the definitional language  
16     ought not to be disjunctive but conjunctive, correct? It  
17     ought to be a piece which is neither a letter nor a flat and  
18     is prepared as a parcel, correct?

19          A     Do you want to suggest alternate wording for --

20          Q     Well, I'm trying to get the concept. I am not  
21     trying to dicker with you about this. I am trying to get  
22     the concept because, you see, unless we have some certainty  
23     about who you are going to tag with this vicious  
24     body-littering assault of yours, as Mr. May would have put  
25     it, you are going to be able to do it selectively and you

1 are going to say, okay, Wiggins Law Firm, right? We can't  
2 have that. We've got to have -- if we are going to indulge  
3 this idea, we've got to have certainty and precision as to  
4 the pieces to which it will apply.

5 A Anything that you can do that will help us do that  
6 would be welcome.

7 Q Okay, it doesn't apply at all.

8 CHAIRMAN GLEIMAN: First off, I would like to note  
9 that the Postal Rate Commission does not write the DMM.

10 MR. WIGGINS: Well, that's in part why I was  
11 inquiring, Mr. Chairman.

12 CHAIRMAN GLEIMAN: I have to ask you a question,  
13 though.

14 MR. WIGGINS: Yes, sir.

15 CHAIRMAN GLEIMAN: 050, you're talking about  
16 machinable parcels?

17 MR. WIGGINS: I am really more limited than that.  
18 I am just talking about the dimensional characteristics,  
19 yes, without getting into the trichotomy of parceldom on the  
20 back side.

21 CHAIRMAN GLEIMAN: You haven't looked at the  
22 exclusions or the exceptions or anything like that?

23 MR. WIGGINS: Yeah?

24 CHAIRMAN GLEIMAN: In 4.4? Because I'm getting  
25 confused about the overlap too at this point or the extent

1 of the overlap.

2 MR. WIGGINS: I will certainly cede questioning to  
3 you if you want to the witness right now.

4 CHAIRMAN GLEIMAN: No. I am just asking you  
5 because I want to make sure I am looking at the same part of  
6 the DMM that you are.

7 MR. WIGGINS: Okay, I am really focusing at this  
8 point only on the dimensional characteristics.

9 CHAIRMAN GLEIMAN: And usually anything that is  
10 this confusing is laid at the feet of the Postal Rate  
11 Commission. I just want to make clear we didn't write this  
12 section of the DMM.

13 MR. WIGGINS: I do understand that.

14 BY MR. WIGGINS:

15 Q And, Mr. Moeller, might that be the answer, that  
16 you are seeking a very broad-based authority to move forward  
17 with this surcharge that you are then going to define with  
18 greater specificity in the DMM so that the Commission will  
19 never have the opportunity to know to whom the surcharge  
20 will be applied? Is that the plan?

21 A I think we are trying to make it clear, especially  
22 by that clarification that was added between classification  
23 reform and now, and maybe we weren't successful but I  
24 thought it was an appropriate addition.

25 Q Let me just me move just another step down the

1 line here and see.

2 If the thing were rewritten to say a piece that is  
3 not letter-sized and a piece that is not flat-sized which is  
4 prepared as a parcel, okay? Just suppose that with me.

5 I think that is a little clearer in articulation  
6 and it is what you mean, isn't it?

7 A I just -- I don't want to -- this is a very  
8 complicated, confusing --

9 Q It sure got me.

10 A Yes, and we talk about these things at work and we  
11 think about all these nuances and it's easier to do it with  
12 the experts who sort of know what the requirements are.

13 Q I thought that's what I was doing.

14 A No, I don't write the DMM.

15 Q I appreciate that.

16 If you will give me my linguistic construction,  
17 how would you define "and is prepared as a parcel"? Do we  
18 have to now turn the page over and start looking at some of  
19 the things the Chairman was talking about?

20 A I think we were thinking of the machinable parcel  
21 category.

22 Q So that limitation ought to be imposed on the  
23 application of the surcharge? It should apply only to  
24 machinable parcels?

25 A I'm not prepared to say that at this --

1           Q     Mr. Moeller, don't take me wrong, I really am  
2     trying to understand.

3           A     I'm sure you are.

4           Q     Look at me.

5                     Are there characteristics of being prepared as a  
6     parcel that I am not going to find on this, either side of  
7     this sheet of paper?

8           A     Are there characteristics of not being prepared --

9           Q     No, no, of being prepared as a parcel? See, I  
10    want to know what it means to be prepared as a parcel so I  
11    know who is going to get whacked with this dime. My clients  
12    kind of care about that.

13                    Let me ask maybe a different question if this is  
14    troublesome to you. Is there somebody else to whom I should  
15    talk about this problem? I tried to talk with Mr. Crum  
16    about it, and it was all news to him. I don't mean to  
17    disparage him. He's a nice fellow and he tried hard, but --  
18    but he just didn't know. And you seem to be -- I don't want  
19    to say spinning your wheel, but not moving rapidly forward.

20          A     Well, there are machineable parcel makeup  
21    requirements there, and I think that's what we intended when  
22    we said or prepared as a parcel.

23          Q     Okay.

24          A     It does not meet the letter definition or the flat  
25    definition or is not prepared as a parcel. I want to

1 confirm that with someone before I say that that means just  
2 the machineable parcels.

3 Q Okay.

4 A If that's what that addition meant. But --

5 MR. WIGGINS: Mr. Chairman.

6 CHAIRMAN GLEIMAN: Yes, sir.

7 MR. WIGGINS: Might we request that a  
8 clarification to that effect be subsequently entered in the  
9 record?

10 CHAIRMAN GLEIMAN: We certainly might.

11 Mr. Alverno, do you think you could help us out?

12 MR. ALVERNO: Absolutely.

13 CHAIRMAN GLEIMAN: Thank you, sir.

14 MR. WIGGINS: Thank you, Mr. Chairman.

15 CHAIRMAN GLEIMAN: We all look forward to reading  
16 that.

17 BY MR. WIGGINS:

18 Q Mr. Moeller, would you take a look at your answer  
19 to AMMA No. 2, where we ask you whether your after rate  
20 volumes assumed no change in the volumes of affected -- mail  
21 affected by the surcharge in consequence of the surcharge?  
22 And I'm not -- I guess you answered, because there are some  
23 words there. But can that be answered yes or no?

24 A The question being again?

25 Q Did your after rate volumes assume no change in

1 volume as a result of application of the surcharge?

2 A The volume forecast -- I don't know the correct  
3 word, but had baked into it the fact that there was going to  
4 be a 10-cent surcharge. So the volume that was resulting  
5 from the volume forecast had that element broken in there,  
6 but there was no separate line item in the volume forecast  
7 for the residual shape pieces.

8 Q Take a look at page 13 of your Work Paper 1 to  
9 which you cite costs in that answer. And in the after rates  
10 column the second row labeled percentage residual shape has  
11 associated with it footnote 2.

12 A Yes.

13 Q And I go down here and see footnote 2, in which,  
14 No. 1, you very helpfully cite me the Library Reference 108,  
15 without further particularization, which I must say kind of  
16 frosted me.

17 A Sorry.

18 Q But you go on to say assume residual shape  
19 percentage remains constant. Is it likely that the  
20 percentage would remain constant if volume effects of the 10  
21 percent -- 50 percent in percentage terms in some cases as  
22 Mr. May pointed out to you -- increase were felt?

23 Those things seem inconsistent to me, is what I'm  
24 saying.

25 A This was a situation where we had to put a number



1 in there to try to figure out -- I mean to try to  
2 estimate -- obviously we had to come with some estimate of  
3 how much revenue there was going to be, and in absence of  
4 any study that told us precisely what --

5 Q Sure.

6 A Would happen there, I thought since the nonletter  
7 volume would be suppressed due to a rate increase by  
8 applying that same percentage you would get fewer residual  
9 pieces. I'm open to the notion that it could possibly be  
10 lower than that in reality.

11 Q Okay. And in the other piece of the interrogatory  
12 answer you say as you said on the stand just a moment ago  
13 the volume forecast for standard mail A nonletters  
14 incorporates the surcharge. Do you happen to recall where  
15 you looked to establish that that was true? Could you give  
16 a citation to where I could look to see that happen?

17 A No, that's just based on my discussions with the  
18 volume forecasters and they needed to know what the  
19 surcharge was going to be when they ran the forecast which  
20 implied that it was in some way taken into consideration in  
21 the volume of nonletters that were forecasted.

22 Q Did you actually ask him the question or are you  
23 just making an assumption there?

24 A I believe I reviewed this answer with them.

25 Q Look at AMMA number 3, would you, please? You

1     there say, and I am looking at the second -- D as it runs  
2     over on the second page.

3             A     Yes.

4             Q     And you say there that you don't believe -- I'm  
5     sorry -- that having a smaller number of pieces to which the  
6     surcharge would be applied might have the effect of driving  
7     up other rates, because the revenue contribution would be  
8     smaller, right? But you go ahead to say you don't think  
9     that would be the effect, given the two numbers you were  
10    looking at? Did you actually do that calculation or is that  
11    sort of a --

12            A     I got out the spreadsheet and put in a lower  
13    volume and saw that that reduction in revenue did not have  
14    the effect of pushing up --

15            Q     You used the \$990 million number that is given to  
16    you in B?

17            A     Those aren't dollars. Those aren't dollars, I  
18    don't believe.

19            Q     No, no, I'm sorry. I didn't mean to say dollars.  
20    Those are pieces?

21            A     Yeah. Scared me for a minute.

22            Q     Well, it's getting to be that time of day for all  
23    of us, I'm afraid, Mr. Moeller.

24                    You made an eloquent defense of deaveraging in  
25    response to a question of two Mr. May put to you. You said

1 we're taking letters out from nonletters and doing  
2 deaveraging is a fair way to describe that, isn't it?

3 I'm sorry, you have to speak, if you're ready to.  
4 I didn't mean to rush you.

5 A I think if you are describing what I said about  
6 deaveraging letters and nonletters, yes, that's deaveraging  
7 and the rates.

8 Q And yet when Mr. May suggested to you that there  
9 be some deaveraging applied in the creation of your  
10 surcharge, that there be different segments within however a  
11 parcel ends up being defined, that those that are more  
12 flat-like, to use your vivid metaphor, those that are very  
13 close to the line, the flat line, should perhaps have a  
14 smaller surcharge and those that are on the far distant  
15 edges of parceledom should perhaps have a larger surcharge,  
16 deaveraging.

17 Now, why is it good sometimes and bad other times?

18 A Well, you could take deaveraging to the extreme  
19 and have a different rate for every piece. I don't think  
20 that further deaveraging within that category is necessary  
21 at this stage and maybe it will be. But, for now, we have  
22 proposed this surcharge that takes in that group.

23 Q What conditions would you advance as making it  
24 necessary to do further averaging? You said it might be  
25 necessary at sometime in the future. What conditions would

1 make it necessary?

2 A It would be advisable, maybe not necessary but  
3 advisable to recognize if there is another level of  
4 averaging going on that involves a significant amount of  
5 volume, just like anywhere in the rate structure. If there  
6 is something that is arguing or screaming for deaveraging,  
7 you look at that and measure it --

8 Q I'm sorry, I didn't mean to cut you off. Would  
9 your measure of a significant amount of volume be absolute?  
10 That is, some number of pieces? Or relative to the group at  
11 which you are looking?

12 You've got this small, little group of 1.5 percent  
13 of the standard mail, right? If I could show you that half  
14 of it was crying out, that would be only .75 percent. It  
15 would be a very small voice in the greater scheme of things  
16 but it would be half of this population.

17 A I think it is a balance of the percentage of that  
18 particular subclass of mail versus -- and balancing the  
19 absolute number of pieces that are involved. I can't define  
20 it for you any better than that but it's a balancing of  
21 those things.

22 Q The scoundrel's first refuge, the balance.

23 You said to Mr. May that you thought the surcharge  
24 was fair in part because it was small in comparison to the  
25 costs that it was in part defraying. Do I have that right?

1 The fact that Mr. Crum measures the cost to be 35 cents and  
2 the surcharge is only a dime, therefore you are only paying  
3 a third of the ticket and that means you don't have to worry  
4 much about fairness?

5 A I think it -- it -- it mitigates the effect of  
6 that rate change as much as -- to the extent it does and  
7 that it's fair and it reflects cost differences and for the  
8 subclass it's fair.

9 Q So your endorsement of a dime as the right level  
10 is dependent if not highly dependent on the accuracy of the  
11 costs measured by Mr. Crum? Is that fair?

12 A It depends on the costs. That's what the basis is  
13 for the surcharge.

14 Q Correct, and you don't independently have any way  
15 to evaluate the integrity of those cost measurements, do  
16 you?

17 A I think those cost measurements are standing  
18 scrutiny just like everyone else's testimony in this case.

19 Q But they are being defended by Mr. Crum, not by  
20 you, is that right?

21 A That's right.

22 MR. WIGGINS: Thank you.

23 Mr. Chairman, I am terribly sorry to run on, but I  
24 did.

25 CHAIRMAN GLEIMAN: That's okay. We have a choice

1 to make. It is whether to stop right here, go another 10  
2 minutes, or perhaps if there is any chance at all that we  
3 can finish up by 5 o'clock to run to 5 o'clock, which is the  
4 absolute latest time that I would go today.

5 [Recess.]

6 CHAIRMAN GLEIMAN: Mr. Olson, we're ready when you  
7 are.

8 MR. OLSON: Thank you, Mr. Chairman.

9 CROSS EXAMINATION

10 BY MR. OLSON:

11 Q Mr. Moeller, William Olson, at this time  
12 representing ValPak and Carol Wright, with some questions  
13 for you, and I ask you if you can turn to page 30 of your  
14 testimony.

15 A Okay.

16 Q Okay. And at the end of that section discussing  
17 destination entry discounts, you talk about the reason that  
18 you reduced the commission's established pass-through of 100  
19 percent to your recommended 80 percent, correct?

20 A Yes. I say one reason there why that -- why I did  
21 that.

22 Q Okay. What's the one reason?

23 A That particular sentence says that, if you did a  
24 higher pass-through, that would have a greater revenue  
25 leakage to it that would cause a push-up in the other rates

1 and you'd have other rates going up more than we wanted them  
2 to.

3 Q In other words, up more than 10 percent?

4 A Yes.

5 Q Okay.

6 Are there any other reasons that you have besides  
7 that reason in your testimony or -- or now to offer for us  
8 for offering a reduction in the level of pass-through of  
9 drop -- of destination entry discounts?

10 A The only other thing that's mentioned there is  
11 that it -- it results in discounts which are similar to  
12 today and --

13 Q I'm sorry. I couldn't hear you.

14 A Oh. Those -- those -- that pass-through produces  
15 discounts which are similar to today's pass -- today's  
16 discounts.

17 Q In the sense that, since those pass-throughs were  
18 established, the actual amount of cost savings from  
19 destination entry has increased and therefore you can  
20 maintain the same absolute amount of discount with a lower  
21 level of pass-through. Is that what you mean?

22 A The measurement increased. The reason we went to  
23 a 100-percent pass-through or why we proposed a 100-percent  
24 pass-through in re-class was that there had been a -- I  
25 think a significant reduction at that point in the cost

1 savings, and we went all the way up to 100, if I remember  
2 correctly, but in any -- in any event, that's neither here  
3 nor there. The 80 percent was chosen for the reasons  
4 described in my testimony.

5 Q And no other reasons.

6 A Those are the reasons unless there's an  
7 interrogatory response where I don't recall where I've said  
8 something else, but if there is, it's been designated.

9 Q I don't recall it either, but --

10 A Okay.

11 Q -- I'm just trying to identify all the reasons for  
12 the record, so we can deal with them now.

13 A Okay.

14 Q Correct me if I'm wrong, but once you establish a  
15 -- a revenue target for a subclass and a coverage factor for  
16 that subclass and when you attempt to mitigate a rate  
17 increase for one rate category, that necessarily affect --  
18 causes the increasing of rates to some other categories,  
19 correct?

20 A If you decide that you're not going to let one  
21 rate go up more than a certain percentage than it otherwise  
22 would, that's going to cause one of the rate cells which is  
23 probably receiving a lower increase to go up a little.

24 Q Sure. But even apart from having a 10-percent cap  
25 or anything like that, if you have a subclass with a given



1 coverage factor and a given revenue target and you decrease  
2 some rates, for whatever reason, isn't it true you  
3 necessarily increase rates to some other categories within  
4 that subclass?

5 A Given that the total revenue is to remain the  
6 same, yes.

7 Q Right.

8 So, as between those different rate categories,  
9 it's something like a zero sum gain, is it not?

10 A There are push-ups and push-downs on rates that  
11 you can do that will result in the same total revenue, so if  
12 that's what you mean by zero sum ~~gain~~<sup>game</sup>, then yes.

13 Q Okay. Back to some -- something goes up,  
14 something has to go down, and vice versa.

15 A Yes.

16 Q Can you explain to me all of the reasons you can  
17 think of as to why you would want to mitigate substantial  
18 increases for any individual rate category?

19 A I know in this particular case we're looking at a  
20 very low increase overall, and there was an effort made as  
21 embodied in the 10-percent guideline I discussed to keep  
22 rates for individual cells to bear the brunt of a large  
23 increase in the face of the overall subclass increase of  
24 being very low.

25 Q And is avoiding rate shock, let's see, is that

1 factor 4, the effect of rate increases I believe, is that  
2 one of the reasons also?

3 A Yes, the effect on mailers.

4 Q Okay. Would all of the criteria of 3622B come  
5 into play there, or at least several of them?

6 A Several of them would; yes.

7 Q And isn't it true that some mailers only use one  
8 rate category or predominantly use one rate category for  
9 their mail?

10 A I suppose it's possible that there's someone just  
11 using one of the many rate categories.

12 Q If I were to suggest that certain mailers who, for  
13 example, send out coupons may use to an extraordinary degree  
14 standard A, ECR, SCF entry rates, would that -- that  
15 wouldn't surprise you, right, for example?

16 A That wouldn't surprise me; no.

17 Q And therefore you look at mitigating substantial  
18 increases in one rate category because you realize there are  
19 some customers out there for whom individual rate categories  
20 are terribly important; is that correct?

21 A It could be that some mailers' mail is heavily  
22 skewed towards one particular category.

23 Q That's not unusual, is it?

24 A I'm not really familiar with the disparity of  
25 people's mailings. You've given me an example of one that

1 sounds reasonable, and I imagine there are others.

2 Q Do you have the view that -- and this follows up  
3 to some degree some questions I asked you before -- but do  
4 you have the view that 3622B should be applied to all of the  
5 rate categories within a subclass, all the criteria of  
6 3622B?

7 A I think the entire proposal should be in  
8 accordance with the Act. I'm not sure which specific  
9 criteria would be applying to individual rate categories.

10 Q So if you were -- if the Commission were to ask  
11 you for your counsel as to whether the Commission should  
12 apply all the criteria of 3622B to designing rates within  
13 the standard A subclass, what would your counsel be?

14 A I would think they should rely on their own  
15 judgment of how to interpret the act and what they need to  
16 use.

17 Q So you have no view on the topic?

18 A Not one -- no.

19 Q You have of course identified some criteria of the  
20 act such as factor 4 that you believe should be considered  
21 because you recommend it be considered; correct?

22 A I think maybe I'm describing why the rates are in  
23 compliance -- I don't know if that's the right word -- but  
24 are consistent with that criterion.

25 Q Let me ask you to look at the interrogatory

1 response to OCA-24 and in your response to OCA-24, this  
2 multipage table to focus on -- if you could have that in one  
3 hand and then look at your response to ValPak-21.

4 In ValPak-21 we asked you to list each of the  
5 increases in the basic rates which you believe would have  
6 resulted from continuing the destination entry pass-through  
7 at 100 percent or, alternatively, reducing it only down to  
8 90 percent. Do you recall that?

9 A I believe I was asked several scenarios here in  
10 this question.

11 Q Because 30, where we started the cross  
12 examination, dealt with increases in the basic rates,  
13 correct? That is the language you used. That is what you  
14 were concerned about, excessive increases in the basic  
15 rates, correct?

16 A Yes, the basic rates meaning the two rates that  
17 are spit out of the formula, which then trickled down to all  
18 the other rates.

19 Q And in your response you talk about three  
20 different rates. You talk about regular automation,  
21 three/five digit presort flats. You talk about ECR basic  
22 nonletters and ECR basic letters.

23 Are those some of the basic rates that you are  
24 talking about?

25 A Those are some of the rates -- these are examples

1 of the rates that would go up.

2 I think all of the piece rates would go up in  
3 these instances. I picked these particular examples  
4 because, for instance, that first one then goes above the 10  
5 percent guideline. I thought that was a good example, and  
6 the other ones just show sort of the magnitude of the  
7 percentage increase that might happen given the  
8 circumstances that are presented in this interrogatory.

9 Q Okay, but I want to be clear what you mean in your  
10 testimony when you say, "A greater pass-through would  
11 require a larger increase in the basic rates."

12 A Right.

13 Q Which basic rates do you mean, every line on the  
14 rate chart for ECR and for regular that says basic?

15 A No. The basic rate there -- small "b" I guess --  
16 is as I said the rates that come out of the -- the starting  
17 point rates that come out of the formula that then discounts  
18 are applied to.

19 If the discounts are held constant, not only do  
20 the basic rates -- in this instance one of the basic rates  
21 is the nonletter Basic presort rate. That comes out of the  
22 formula. That would be pushed up as would all the rates  
23 that are peeled off of that rate by applying the discounts  
24 that are also in the rate design.

25 Q Okay. You are not talking about then any

1 destination entry basic rates, correct?

2 A The push-up on all of those per piece rates would  
3 be offset somewhat by the larger discounts or in some  
4 respect would be offset by the larger drop ship discounts.

5 Q I am just again trying to get at which rates you  
6 mean when you say basic rates.

7 Do you mean Standard A regular, Standard A regular  
8 automation, and Standard A ECR nondestination entry letters  
9 and/or flats as the case may be in basic presort?

10 A Yes. The rates before application of any drop  
11 ship discounts. I haven't done the analysis to see what it  
12 would have done there.

13 Q One of those rates happens to be ECR basic  
14 letters, correct?

15 A With no drop ship.

16 Q With no drop ship discount, okay, exactly.

17 Now that is what you talk about at the end of your  
18 response to 21-A, correct?

19 A Yes.

20 Q And there you say -- and that is the biggest  
21 percentage increase that you fear and try to avoid, correct?

22 You say, "A 100 percent pass-through may have  
23 resulted in a proposed increase for ECR basic letters of  
24 12.7 percent." That is with the 100 percent pass-through or  
25 11.3 percent with a 90 percent pass-through instead of the

1 proposed 9.3 percent increase, correct?

2 A Correct.

3 Q Okay, first of all, three times in response to  
4 that interrogatory you used the word "may." Can you tell me  
5 what you meant by that limitation on your response?

6 A That's just me acknowledging a couple things.  
7 One, this is done in isolation so it is sort of accepting  
8 the fact that you would do this in isolation of any other  
9 changes that you might make at the same time and, two, to be  
10 careful not to say that these rates would have been proposed  
11 because I can't speak for the Board of Governors and whether  
12 they would have voted for it. So it's just sort of a little  
13 technicality there, I guess.

14 Q Let me go back to the first caveat? What else  
15 would change? Suppose you were to say that you wanted to  
16 have a 100 percent destination entry passthrough. For ECR  
17 basic letters, can you tell me what else would change if you  
18 decided to go with a 100 percent passthrough?

19 A I'm not sure anything would change. Again, it's  
20 just a very --

21 Q It's just a general caveat that you would normally  
22 give? Not necessarily having anything in mind with this?

23 A Yeah, I didn't think of any other changes that I  
24 would recommend making in addition to the hypothetical that  
25 is put forth in this question.

1           Q     Okay. Now, let's just deal with that because I  
2     want to explore the magnitude of that increase. You express  
3     it in percentage terms. You talk about that under your  
4     proposal there is a 9.3 percent increase.

5           A     As I understand it, looking at OCA-24 for ECR  
6     basic letters that the proposed increase is from 15.0 to  
7     16.4 that you are offering, correct? And that is the 9.3  
8     percent?

9           A     I don't know where that is in the OCA response.  
10    Oh, here it is, very first page of 24.

11          Q     Yes.

12          A     Yes.

13          Q     If that were to go to the 90 percent passthrough,  
14    it would be a recommended rate of going from 16.4 to 16.7 on  
15    your proposal or an increase from 9.3 to 11.3; is that  
16    correct?

17                I did the math and that's what it comes to. You  
18    didn't give the unit cost increases, you just dealt with  
19    percentages but this is what it comes to with units, I  
20    believe.

21               MR. ALVERNO: Is that a question? I mean -- I  
22    guess I'm --

23               BY MR. OLSON:

24          Q     Is that correct?

25          A     I guess I am accepting your calculation subject to



1 check. You are saying the 9.3 percent would be 11.3 percent  
2 because that's in my answer here?

3 Q Yes.

4 A Now I see what you were referring to. I was back  
5 on the OCA one again.

6 Q You see that your testimony -- I'm sorry, you see  
7 that in the OCA-24 that the current rate is 15.0, you're  
8 proposing 16.4 and that equates to 9.3 percent increase,  
9 correct?

10 A Correct.

11 Q Now, let's go to the 90 percent passthrough tier.  
12 Your response to our ValPak interrogatory says that that  
13 would go to 11.3 percent increase. Now, I did the math and  
14 it comes to three-tenths of a cent over what you're  
15 recommending, or 16.7. Would you just accept that subject  
16 to check?

17 A Oh, so you've backed out the percentage increase?

18 Q Yes.

19 A Okay, yes. I'll accept that subject to check.

20 Q Okay. And that if you were to have a 100 percent  
21 passthrough, it would go to 12.7 percent, your response  
22 says, and I calculate that as 16.9 cents. Would you accept  
23 subject to check?

24 A I'll accept that subject to check.

25 Q Okay, now, let's look at those numbers for just a

1 second. Do you consider the difference between 16.4 or 16.7  
2 and 16.9 cents to be so great that it is unfair to cause  
3 cost-based differences to be passed through to those mailers  
4 who use basic? Is that such a great number that it causes  
5 you to be shocked and want to ameliorate the rate increase?

6 A I think people fight over much smaller increases,  
7 you know, so I think, yes, that could mean a lot to  
8 somebody, especially if, as you stated earlier, that there  
9 are some mailers that are in those particular rate  
10 categories and all their mail got a three-tenths-of-a-cent  
11 increase, you multiply that times some volume, that's --  
12 that's a big amount of money.

13 Q Okay.

14 So, for rate -- to avoid rate shock, you would  
15 like to recommend that the commission not have, let's say, a  
16 12.7-percent increase for that basic tier but, rather, it be  
17 9.3 percent, correct?

18 A The rates we've proposed, which we think are the  
19 best rates, have that in them.

20 Q Now, for the DBMC and the DCSF and the DDU basic  
21 rates, however, those would all be increased at the  
22 per-piece level but then decreased because there would be a  
23 greater amount of pass-through of the destination entry  
24 savings, correct? Have you -- is that correct?

25 A There would be some offsetting. The -- the

1 increase due to the leakage would flow back to these people.  
2 I'm not sure what -- or these -- these rate cells. I'm not  
3 sure --

4 Q We like to have you think of them as people.

5 A I'm not sure exactly the magnitude and how that  
6 would offset.

7 Q Okay.

8 You don't know if that would cause those basic  
9 destination entry tiers to go up or down, for example.

10 A It -- it's an easy task for someone to check by  
11 playing with the -- the work papers. I haven't done that,  
12 and I don't have the ability to do it right here.

13 Q If it were to result in a reduction of those basic  
14 tiers, would that be a factor to consider in considering  
15 your proposal that mitigates the effect of this rate  
16 increase and adjusts it downward from 12.7 percent to 9.3  
17 percent, or should we only look at the basic non-destination  
18 entry tier? Is that the only one we should be concerned  
19 about?

20 A You can concern yourself with any rate category  
21 here you want. I think I've just spelled out why that  
22 particular hypothetical of doing those pass-throughs would  
23 result in rates for the basic tier, at least, and as we've  
24 discussed, I can't tell you what they would be for these  
25 other tiers, but that would go above, again, the 10-percent

1 guideline that was used in the development of these rates.

2 Q I don't want to mix apples and oranges, Mr.  
3 Moeller, but let me suggest that the number that you and Mr.  
4 May were talking about before with respect to the Standard A  
5 regular parcel surcharge for mail that's up to the break  
6 point, non-letter, that's destination SCF entry -- entered,  
7 three-/five-digit, would be, I believe a percentage increase  
8 of 55.56 percent. Have you ever seen that number?

9 A There were a number of interrogatories where I was  
10 asked to confirm percentage increases.

11 Q Okay.

12 A That may have been one of them.

13 Q Okay.

14 Do you consider -- do you -- do you see anything  
15 inconsistent with being concerned about a 12.7-percent  
16 increase such that you reduce it to 9.3 percent but not  
17 being apparently as concerned with a 55.56-percent increase?

18 A Well, you mentioned apples and oranges. I think  
19 you're comparing apples and oranges. One is to address a  
20 longstanding situation in the rates where there's a cost  
21 difference between shapes with non-letters and we're  
22 recognizing it, and that's going to lead to some larger  
23 percentage increases, larger than the ones that we were  
24 discussing a moment ago.

25 Q If changes -- let me go back to the word "may"

1 just for a second in your response to our interrogatory. Is  
2 there any way to know where the effect of mitigation moves  
3 to in your spreadsheet? In other words, when you take a  
4 rate that should be 16.9 cents and reduce it to 16.4 cents,  
5 are you able to establish who is hurt by that?

6 A You can do whatever you need to do to make the  
7 rate come out. If you have a rate in mind you want to see  
8 in a particular rate cell, and you can -- there are various  
9 ways of making that rate happen. You can compare the rates  
10 before you've made that change and after you've made that  
11 change and get an idea of how individual rate cells are  
12 affected.

13 Q And in this case, it's all mailers who do  
14 destination entry irrespective of level of presort, correct?

15 A Are we talking the surcharge again?

16 Q Yes. Well, the -- no, no, no. I'm sorry. We're  
17 back to the destination entry discount reduction of  
18 passthrough from 100 to 80 percent. I was just trying to  
19 figure out who the victims are of the mitigation.

20 A Well, you can see the percentage increases and you  
21 might be able to make some assumptions about that.

22 Q Okay. Let me turn to the topic of performance  
23 very quickly and ask you to look at your response to AAPS-1.  
24 I'll try to do this very quickly. You talk about a number  
25 of attempts to measure service performance, and you say that

1 actual measurement of service performance, I believe, is not  
2 required to consider criterion -- the value of service  
3 criterion; is that correct?

4 A That's correct.

5 Q You're not saying it's of no relevance; you're  
6 just saying it's not required, correct?

7 A I'm not -- I'm not saying the value of service is  
8 not relevant; I'm saying that you don't necessarily need a  
9 performance measurement system to get some ideas about value  
10 of service that you could use to consider that particular  
11 criterion.

12 Q If you have no data, no objective evidence on  
13 value of service, what do you evaluate when you consider  
14 that criterion?

15 A I think we're --

16 MR. ALVERNO: Objection, because that question is  
17 assuming that we have no data and -- or information, I  
18 should say, as opposed to data, and I believe that the  
19 testimony of Dr. O'Hara would address the qualitative  
20 aspects of value of service.

21 MR. OLSON: I'll be glad to ask that to the  
22 witness.

23 BY MR. OLSON:

24 Q Is it true that you have, as you responded in  
25 AAPS-36-1; that although there have been a number of

1 attempts to measure service performance for individual  
2 mailers, that -- and there is a goal of developing  
3 nationally representative performance figures, it is my  
4 understanding that none of these efforts culminated in a  
5 performance measurement system? Is that your testimony?

6 A That's my response there, yes.

7 Q Okay. Is that accurate?

8 A I researched it and that was what I came up with.

9 Q Okay. Based on that, can we assume that there is  
10 no data on which we can evaluate quality of performance or  
11 quality or performance?

12 A There may be something. Again, Dr. O'Hara may  
13 address this. I think I was specifically talking about  
14 nationally representative performance figures. I am not  
15 aware -- I don't -- I'm not setting the cost coverages, so I  
16 don't need to consider this necessarily with respect to cost  
17 coverages. Dr. O'Hara does, and --

18 Q Well, I understand, but you're saying that you  
19 know of none, and I'm saying in view of the fact that you  
20 know of none, and you've asked, what would you -- what  
21 objective evidence -- in the absence of objective evidence,  
22 what should the Commission look at in determining how to  
23 apply that factor?

24 A I can't tell --

25 MR. ALVERNO: Objection, because the absence of

1 objective evidence is not in fact the case. Objective  
2 evidence is different from data. As I read Dr. -- Dr.  
3 O'Hara's testimony is objective evidence, isn't it?

4 MR. OLSON: I'll be glad to pursue this. That's  
5 fine. Thank you.

6 MR. ALVERNO: How is this within the scope of this  
7 witness' testimony anyway?

8 CHAIRMAN GLEIMAN: If the witness is able to  
9 answer, let's let the witness answer. We may, it seems,  
10 perhaps be able to get through with the first round of cross  
11 examination. We obviously aren't going to wrap up tonight  
12 and we aren't going to get to any follow-up. So if the  
13 witness can answer, he can answer; and if the witness can't  
14 answer, he can't answer.

15 THE WITNESS: I am just saying that there was no  
16 national representative performance figure to use when  
17 considering that particular criterion, but I don't -- that's  
18 Dr. O'Hara's province, and what he suggests be used to  
19 measure value of service is in his testimony.

20 BY MR. OLSON:

21 Q Okay. In the absence of nationally representative  
22 performance figures, I take it, then, you're saying you have  
23 no recommendation as to what the Commission should look at  
24 to help determine value of mail service actually provided?

25 A It's not my testimony to be offering up



1 suggestions for that.

2 Q Okay. Well, you're a rate design witness and you  
3 are putting forth important testimony.

4 Let me go to another topic and talk about the  
5 pound rate with you for a moment, and I'm going to ask you  
6 another hypothetical. You have discussed the pound rate  
7 several times today, but here is the hypothetical, that the  
8 Postal Service has in its hand an absolutely bulletproof  
9 study which controls for everything under the sun, and it  
10 shows that weight costs 20 cents a pound in the ECR regular  
11 rate subclass.

12 Do you have that in mind?

13 A Twenty cents a pound is the cost.

14 Q Just for the sake of argument, 20 cents. Twenty  
15 cents.

16 A Okay. I'm just glad it's not 33 cents.

17 Q Okay.

18 A Twenty cents.

19 Q Yes. And then for simplicity, let's assume the  
20 subclass coverage factor is 200 percent. I'm asking you as  
21 a principle of rate design, would you recommend that in the  
22 pound rated portion of the rate schedule, weight be  
23 reflected in one of the following ways, and I want to know  
24 which you would recommend: either at cost -- in other  
25 words, at 20 cents a pound; cost plus the average coverage

1 of 200 percent; or cost minus something; or cost plus  
2 something? Do you have an opinion on that?

3 A No.

4 Q You have no opinion about, as a principle of rate  
5 design, how to deal with the issue of the cost of weight if  
6 you knew it?

7 A That would be a major change of the inputs that  
8 are available to me, and I would have to consult my manager,  
9 my coworkers and I would want to think about that. I can't  
10 say whether I would say, oh, yes, definitely, you know, you  
11 just have a 20 cent pound rate. Well, no, I mean, I'm not  
12 going to say that. Or we mark it by the cost coverage for  
13 the class -- I can't say that. I mean, there is more  
14 involved. I have to analyze it.

15 Q So the concept that we would ever know the cost of  
16 weight is so startling that it has never been thought of  
17 before?

18 A I have never taken it upon myself to try to come  
19 up with a rate design that would entertain the notion of  
20 different types of inputs to me.

21 MR. OLSON: That's all I have, Mr. Chairman.

22 CHAIRMAN GLEIMAN: Thank you.

23 I think we're going to, in fairness to everybody  
24 because I don't think that we could get a round of follow up  
25 and questions from the bench and all that, just pull the

1 plug right now.

2 What I would like to know, Mr. Moeller, Mr.  
3 Alverno, and anybody else who had follow-up questions,  
4 whether we can pick up on Tuesday morning before our first  
5 scheduled witness and finish this up? Are you available?

6 THE WITNESS: Yes.

7 CHAIRMAN GLEIMAN: Are you available, Mr. Alverno?

8 MR. ALVERNO: Yes.

9 CHAIRMAN GLEIMAN: Mr. McLaughlin, I know you had  
10 some follow up.

11 MR. McLAUGHLIN: Yes.

12 CHAIRMAN GLEIMAN: Mr. Baker, you've got some  
13 follow up.

14 MR. BAKER: Yes.

15 CHAIRMAN GLEIMAN: Okay. We're all set, then.

16 Everybody have a good weekend. It's a federal  
17 holiday weekend, people are probably rushing to get out of  
18 town, so be careful on the roads.

19 [Whereupon, at 4:55 p.m., the hearing was  
20 recessed, to reconvene at 9:30 a.m., Tuesday, October 14,  
21 1997.]

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