

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

RATE AND SERVICE CHANGES TO IMPLEMENT
BASELINE NEGOTIATED SERVICE AGREEMENT
WITH BOOKSPAN

Docket No. MC2005-3

**RESPONSE OF POSTAL SERVICE WITNESS PLUNKETT
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-14-16)**

The United States Postal Service hereby provides the response of witness Plunkett to the following interrogatory of the Office of the Consumer Advocate, filed on August 22, 2005: OCA/USPS-T1-14-16.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT
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OCA/USPS-T1-14. Please refer to the August 19, 2005, DMNews, on the website www.dmnews.com/cgi-bin/index.cgi, and the article entitled "USPS Ramps Up for More NSAs." The article states "Plunkett said several things that began as NSA discussions mutated into classification changes." Please identify and describe the classification changes that began as NSA discussions.

OCA/USPS-T1-14.

The co-palletization experiments (MC2002-3 and MC 2004-1) began as discussions surrounding a possible NSA to accomplish the same purpose. In addition, there are several product classification changes under consideration that began as NSA discussions. These have yet to be approved for filing.

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OCA/USPS-T1-15. Please refer to the PostCom website at www.postcom.org/public/general/presentations.html, referencing the August 17-18, 2005 MTAC Presentations, at the seventh bulleted item, "Negotiated Service Agreements (NSAs)."

- a. At page 2 of the presentation, it states "Business results exceeding expectations." Please identify and summarize the business results exceeding expectations. How do you know these results would not otherwise have occurred?
- b. At page 5 of the presentation, in reference to the Postal Service's customers, it states "Concerns still exist." Please discuss the customer concerns that still exist.
- c. At page 7 of the presentation, it states "Declining block rate on SM with a multiplier effect, and superior address quality." Please cite the specific sections of the NSA and the proposed DMCS requiring superior address quality on the part of Bookspan.

OCA/USPS-T1-15 Response.

- a. Please see Docket No. MC2002-2, Data Collection Report for Sept. 01, 2003 to Sept. 30, 2004 which shows the results of the first 13 months of the Capital One NSA. As none of the other agreements have been implemented for a year, results are still preliminary. In the case of Capital One, the results were well beyond what was projected in MC2002-2. It is not even theoretically possible to prove beyond all doubt that this would not have occurred. Conversely, one could even argue that without the NSA Capital One's volumes would have fallen considerably, meaning that the reported benefits underestimate the financial value. As was demonstrated, Capital One's mail volume grew substantially during a time when First-Class Mail volume was otherwise declining. As there were no other observed changes in Capital One's business environment, I conclude this is a reasonable *estimate* of the NSA value.

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b. Customers continue to express a number of concerns including:

- They are required to expose information about their competitive practices in a public forum.
- Overall progress is too slow.
- Entities with no economic stake in the outcome of litigation are allowed to lengthen the duration and increase the costs of litigation.
- They are exposed to the risk that the regulator can impose new contract terms over and above those negotiated with the Postal Service.
- The time and expense associated with litigation is excessive.
- Customers discussing baseline agreements are concerned that they will bear an inordinate expense to pave the way for their competitors to attain functionally equivalent agreements.

c. My presentation described the general prerequisites for this kind of agreement.

There are no specific clauses in the contract specifying requirements.

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OCA/USPS-T1-16. Please refer to your response to POIR No. 1, Question 1(c), where it states “However, witness Yorgey’s analysis of the book industry as described in her testimony does not indicate that any particular portion of Bookspan’s mail is likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs.” Also, please refer to the testimony of Witness Thress (USPS-T-7) in Docket No. R2005-1, at page 99, Table 17, Econometric Demand Equitation for Standard Regular Mail.

- a. In your view, is any particular portion of Bookspan’s mail likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs? Please explain.
- b. If Bookspan’s mail is not likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs, please explain why the Postal Service did not propose a general classification featuring discounts for the subclass.
- c. Please confirm that Bookspan’s TYAR elasticity of demand for its Standard Regular Mail letter-size pieces is $-2.767 \left(\frac{(105 \text{ million} - 78 \text{ million})}{((78 \text{ million} + 105 \text{ million}) / 2)} \right) / \left(\frac{(\$0.178 - \$0.198)}{((\$0.198 + \$0.178) / 2)} \right)$. (See Attachment OCA-1, below, for the calculation of Bookspan’s Average Revenue per Piece of \$0.198 in the TYBR and \$0.178 in the TYAR.) If you do not confirm, please explain and provide your estimate of Bookspan’s elasticity over the range of prices from \$0.178 to \$0.198.
- d. In Docket No. R2005-1, please confirm that the postage price elasticity of demand for Standard Regular Mail is -0.267. If you do not confirm, please explain.

OCA/USPS-T1-16 Response

- a. In general, I would describe Bookspan’s mail as being typical of – though not necessarily perfectly representative of – the subclasses to which it belongs.
- b. While Bookspan’s mail volume may not exhibit demand characteristics that differ fundamentally from it’s subclass(es), it does not necessarily follow that the demand characteristics all customers in Bookspan’s subclass(es) are perfectly uniform as this interrogatory seems to suggest. Moreover, when considering a decision to propose a classification change, the Postal Service must consider other criteria beyond demand characteristics. See also my response to OCA/USPS-T1-4.

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c. Confirmed that one could calculate Bookspan's price elasticity in this way.

See also my response to part d.

d. Confirmed. However, the probability that any specific customer using Standard Regular Mail has a price elasticity of -0.267 is remote. As is readily apparent, the users of a subclass as large as Standard Regular Mail are a large, heterogeneous, and changing collection of entities operating in virtually every industry in the United States. If one were to attempt to estimate the price elasticity for any of those companies using techniques of the type employed by witness Thress (which take into account many more factors than the simplistic calculation applied in your question), the results could vary substantially from the average. The demand functions used in witness Thress' models are a reliable way to explain how a large and diverse population of customers will respond to price changes *on average*. This does not necessarily mean that such analysis can be used to draw meaningful conclusions about the behavior of specific customers.

ATTACHMENT OCA-1

Base Year 2004

Standard Mail Regular LETTER-SIZE Revenue per piece

Mail Category	Bookspan average (FY 2004)			Revenue	
	Rev/pc	Volume	Revenue		
Nonauto Basic	\$ 0.262	1,518,805	\$ 398,179		1.7%
Nonauto 3/5-Digit	\$ 0.236	58,859	\$ 13,882		0.1%
Auto Mixed AADC	\$ 0.216	7,078,780	\$ 1,529,430		8.1%
Auto AADC	\$ 0.205	12,572,357	\$ 2,575,943		14.4%
Auto 3-digit	\$ 0.183	60,973,641	\$ 11,138,540		70.1%
Auto 5-digit	\$ 0.167	4,830,798	\$ 805,554		5.6%
Total		87,033,240	\$ 16,461,528		100%
Revenue per piece			\$ 0.189		

Standard Mail ECR LETTER-SIZE Revenue per piece

Mail Category	Rev/pc	Volume	Revenue	
Nonauto Basic Letters	\$ 0.171	5,575,871	\$ 952,919.00	79.9%
Auto Basic Letters	\$ 0.148	1,405,645	\$ 208,620.00	20.1%
Total		6,981,516	\$ 1,161,539	100%
Revenue per piece			\$ 0.166	
Average Revenue Letter-Size piece (FY 2004)			\$ 0.187	

Source: USPS-T-2 (Yorgey), Appendix A, Page 3.

Assumed R2005-1 Rate Increase 5.4%
 TYBR 2006
 Standard Mail Regular LETTER-SIZE Revenue per piece

Mail Category	Bookspan average (TYBR 2006)		
	Rev/pc	Volume	Revenue
Nonauto Basic	\$ 0.276	1,260,087	\$ 348,191
Nonauto 3/5-Digit	\$ 0.249	48,833	\$ 12,139
Auto Mixed AADC	\$ 0.228	5,872,959	\$ 1,337,423
Auto AADC	\$ 0.216	10,430,744	\$ 2,252,555
Auto 3-digit	\$ 0.193	50,587,208	\$ 9,740,191
Auto 5-digit	\$ 0.176	4,007,905	\$ 704,424
Total		72,207,736	\$ 14,394,923
Revenue per piece			\$ 0.199

Standard Mail ECR LETTER-SIZE Revenue per piece

Mail Category	Rev/pc	Volume	Revenue
Nonauto Basic Letters	\$ 0.180	4,626,060	\$ 833,288
Auto Basic Letters	\$ 0.156	1,166,203	\$ 182,430
Total		5,792,264	\$ 1,015,718
Revenue per piece			\$ 0.175

Average Revenue Letter-Size piece (TYBR 2006)

\$ 0.198

	Volume FY 2006
Before Rates (BR)	
New Membership Std letter-size	78,000,000
New Membership Std Flat-size	137,000,000
Total	215,000,000
After Rates (AR)	
New Membership Std letter-size	105,000,000
New Membership Std Flat-size	120,000,000
Total	225,000,000

Source: USPS-T-2 (Yorgey), Appendix A, Page 2.

Assumed TYAR Discount \$ **0.02**
TYAR 2006
Standard Mail Regular LETTER-SIZE Revenue per piece

Bookspan average (TYAR 2006)			
Mail Category	Rev/pc	Volume	Revenue
Nonauto Basic	\$ 0.276	1,696,271	\$ 468,719
Nonauto 3/5-Digit	\$ 0.249	65,736	\$ 16,341
Auto Mixed AADC	\$ 0.228	7,905,907	\$ 1,800,377
Auto AADC	\$ 0.216	14,041,386	\$ 3,032,286
Auto 3-digit	\$ 0.193	68,098,164	\$ 13,111,795
Auto 5-digit	\$ 0.176	5,395,257	\$ 948,262
Total		97,202,722	\$ 19,377,780
Revenue per piece			\$ 0.199

Standard Mail ECR LETTER-SIZE Revenue per piece

Mail Category	Rev/pc	Volume	Revenue
Nonauto Basic Letters	\$ 0.180	6,227,389	\$ 1,121,734
Auto Basic Letters	\$ 0.156	1,569,889	\$ 245,578
Total		7,797,278	\$ 1,367,312
Revenue per piece			\$ 0.175

Average Revenue Letter-Size piece, Less Discount (TYAR 2006) **\$ 0.178**

Elasticity of Bookspan, TYAR **-2.767**

TYBR Letter-Size Volume 78,000,000
 TYAR Letter-Size Volume 105,000,000

TYBR Average Revenue per piece \$ 0.198
 TYAR Average Revenue per piece \$ 0.178

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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September 6, 2005