

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 THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE  
REDIRECTED FROM WITNESS YORGEY  
(OCA/USPS-T2-25)**

The United States Postal Service hereby provides its response to the following interrogatory of the Office of the Consumer Advocate, filed on November 16, 2005, and redirected from witness Yorgey: OCA/USPS-T2-25.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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December 1, 2005

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
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REDIRECTED FROM WITNESS YORGEY

**OCA/USPS-T2-25.** Please refer to the response to interrogatory OCA/USPS-T2-23, and the attachment thereto, provided on November 15, 2005.

- a. Please confirm that in that attachment, the calculations of elasticities apply a TYAR 2006 price of \$0.178 to 105,000,000 letters. If you do not confirm, please identify where in the calculations the price of \$0.178 is applied to 17,000,000 letters.
- b. Please confirm that the “equation form used to forecast mail volumes by witness Thress in R2005-1” does not work when  $L_{OLD}$  is zero (as is the case with a new discount). If you do not confirm, please demonstrate the use of witness Thress’s equation when  $L_{OLD}$  is zero.
- c. Please confirm that the average revenue per piece for Bookspan’s letters in TYAR 2006 is \$0.1842  $((105 \times \$0.18745 - 17 \times \$0.02)/105)$ . If you do not confirm, please provide the correct average revenue per piece and show its derivation.
- d. Please confirm that replacing \$0.178 with \$0.1842 at note [6] of the attachment produces the following elasticities. If you do not confirm, please provide the correct elasticities resulting from the above substitution and show their derivations.

**Bookspan Elasticities:**

**Letters:**

Own-Price Elasticity	-0.932
Discount Elasticity	0.542

**Flats:**

Own-Price Elasticity	-0.154
Discount Elasticity	-0.310

**Total:**

Own-Price Elasticity	-0.507
Discount Elasticity	0.079

- e. Please confirm that the elasticities presented above will generate 5,284,000 completely new letters (assuming discount elasticity is zero), 20,338,000 diverted letters (assuming own-price elasticity is zero), and 1,318,000 “compound” letters  $(105,000,000 - 5,284,000 - 20,338,000)$ . If you do not confirm, please provide the correct letter volumes and show their derivations.
- f. Please confirm that neither the attachment to interrogatory OCA/USPS-23 nor these interrogatories have any relevance when the marginal price differs from the average price. If you do not confirm, please explain.

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**RESPONSE:**

- a. Not confirmed. The response to OCA/USPS-T2-23f correctly uses the marginal price of Bookspan’s letters to calculate the price elasticity, but does not “apply a TYAR 2006 price” to anything.
- b. Confirmed. However, in none of the three scenarios contemplated in the response to OCA/USPS-T2-23f is the volume of Bookspan’s letters zero.
- c. Confirmed for TYAR as originally filed. After replacing the originally filed base rates with the Docket No. R2005-1 rates, the average revenue per piece for Bookspan’s letters in TYAR 2006 is \$0.1944  
 $((105 \times \$0.197616 - 17 \times \$0.02)/105)$ .
- d. Confirmed that if the marginal price of Bookspan’s letters was \$0.184, the elasticities in the table would result (within rounding).
- e. Not confirmed. Applying the elasticities posited in part d of this interrogatory to the before-rates scenario that incorporates the Commission’s recommended R2005-1 rates results in additional volume as shown in the table below:

**Volume Change from TYBR 2006 with Commission Rates  
Using OCA-Supplied Elasticities**

Source of change	Calculation	Change (000s)
Own price	$78,000 \times [(0.177616/0.197616)^{-0.932} - 1]$	8,156
Discount	$78,000 \times [(0.045133/0.025133)^{0.542} - 1]$	29,127
“Compound” effect	$40,328 - 8,156 - 29,127$	3,045
<b>Total change</b>	$78,000 \times \{[(0.177616/0.197616)^{-0.932} \times (0.045133/0.025133)^{0.542}] - 1\}$	<b>40,328</b>

- f. Not confirmed. Average price is irrelevant to the calculation of price elasticities under the circumstances presented in this case.

## **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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