

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

RATE AND SERVICE CHANGES TO IMPLEMENT  
FUNCTIONALLY EQUIVALENT NEGOTIATED  
SERVICE AGREEMENT WITH BRADFORD GROUP

Docket No. MC2007-4

RESPONSES OF POSTAL SERVICE WITNESS PARR  
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T1-5-10)  
(September 7, 2007)

The United States Postal Service hereby provides the responses of witness Parr to the following interrogatories of the Office of the Consumer Advocate, filed on August 24, 2007: OCA/USPS-T1-5-10.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**OCA/USPS-T1-5.** Please refer to your testimony at page 3, Table 1, Declining Block Rate Structure. Prior to concluding agreement on the Declining Block Rate Structure, Table 1, did the Bradford Group provide to the Postal Service own-price elasticities for the Bradford Group's Standard Mail letters and flats? If so, please provide the own-price elasticities provided by the Bradford Group for its Standard Mail letters and flats. Please provide any supporting calculations used to develop such own-price elasticities prepared by the Bradford Group.

**RESPONSE:**

No.

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**OCA/USPS-T1-6.** Please refer to your testimony at page 13, lines 1-3, which references the NSA's "adjustment mechanism" that "reduces risk from deviation in volume forecasts."

- a. Please confirm that common sources of risk or risk factors are changes in government policy, economic conditions, and company-specific management and marketing plans and goals. If you do not confirm, please explain.
- b. Please identify and discuss possible risks or risk factors that might cause the Bradford Group's actual volumes to deviate from its forecast volumes.
- c. Please identify and discuss those risks or risk factors specific to the Bradford Group that will likely cause the Bradford Group's actual volumes to deviate from its forecast volumes during the three year period of the NSA.
- d. Please explain how you controlled for uncertainty with respect to the risk factors identified in part c., above, that could affect the Bradford Group's actual Standard Mail letters and flats volumes when estimating the Bradford Group's forecast volumes.

**RESPONSE:**

- a. Confirmed.
- b-c. Changes in government policy, economic conditions, and company-specific management and marketing plans and goals all may contribute to possible deviation in Bradford Group's volume forecasts. Bradford Group's mailing behavior could theoretically be positively or adversely affected by any of these risk factors. A complete list of these factors is impossible to compile and probably unknowable. Therefore, Postal Service and Bradford Group took a proactive stance by including several risk mitigation provisions in this NSA, as was done in previous NSAs.
- d. Risk mitigation provisions were included in this NSA to deal with potential risk factors. These risk mitigation provisions include the threshold adjustment mechanism, customer-specific negotiated thresholds and volume commitments,

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the Merger and Acquisition clause, the Sale or Closure clause, and the  
Termination clause.

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**OCA/USPS-T1-7.** Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes.

- a. Assuming there are risk factors that cause the Bradford Group's actual volumes to deviate from the forecast volumes, at the conclusion of the three-year period of the NSA, please explain how the Postal Service will be able to distinguish those volumes caused by the risk factors from those generated in response to the discounts.
- b. Assuming there are risk factors that cause the Bradford Group's actual volumes to deviate from the forecast volumes, at the conclusion of the three-year period of the NSA, please explain how the Postal Service will know that any net contribution received is the result of volume generated solely in response to the discounted rates?

**RESPONSE.**

- a. The Postal Service throughout the life of the NSA will be able to track actual volume. It is likely that the Postal Service will not be able to distinguish volume changes caused by the other factors from those generated in response to the discounts. The Postal Service generally does not possess the data needed to quantify the uncertainty and variability of other non-price outside events for individual mailers (assuming the data for such an analysis exists). Thus, the risk-mitigating features of the NSA are intended to address the presence of risk by providing mechanisms to adjust for unforeseen circumstances and/or misestimations by either party.
- b. See my response to OCA/USPS-T1-7(a).

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**OCA/USPS-T1-8.** Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes. Assume there are risk factors that cause the Bradford Group's actual volumes to exceed its forecast volumes.

- a. Under the NSA, please confirm that the Bradford Group will earn discounts on volumes exceeding the forecast volumes up to the volume cap (see Request, Appendix F, Article III.F.2). If you do not confirm, please explain.
- b. Under the NSA, please confirm that the Postal Service is obligated to provide the Bradford Group discounts on volumes exceeding the forecast volumes up to the volume cap (see Request, Appendix F, Article III.F.2). If you do not confirm, please explain.
- c. Under the NSA, please confirm that the Bradford Group pays less postage, i.e., earns discounts on its actual volumes up to the volume cap whether or not its actual volumes are induced by the discounts or caused by risk factors. If you do not confirm, please explain.

**RESPONSE:**

- a. Not confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. Bradford Group will earn discounts on volumes exceeding the volume commitment up to the top volume tier.
- b. Not confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. The Postal Service is obligated to provide the Bradford Group discounts on volumes exceeding the volume commitment up to the top volume tier.
- c. Confirmed.

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**OCA/USPS-T1-9.** Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes. Assume there are risk factors that cause the Bradford Group's actual volumes to fall below its forecast volumes.

- a. Under the NSA, if the Bradford Group's actual volumes are less than its forecast volumes and more than the lowest discount threshold, please confirm that the Bradford Group will earn discounts. If you do not confirm, please explain.
- b. Under the NSA, if the Bradford Group's actual volumes are less than its forecast volumes *and* less than the lowest discount threshold, please confirm that the Bradford Group will not earn discounts. If you do not confirm, please explain.
- c. Under the NSA, please confirm that the Bradford Group pays less postage, i.e., earns discounts on its actual volumes, or pays no more in postage than if it had not entered into the NSA. If you do not confirm, please explain.

**RESPONSE:**

- a. Not confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. In this case, Bradford Group would not earn discounts. Under the NSA, if the Bradford Group's actual volumes are more than the volume commitment, the Bradford Group will earn discounts.
- b. Confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. In this case, Bradford Group would not earn discounts.
- c. Confirmed.

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**OCA/USPS-T1-10.** Please refer to your testimony, Appendix C, Table 1, the “Value To Volume Sensitivity Matrix Based on Year 1,” in which the column headings show the assumed variance between the after-rates letter volume forecast and the actual after-rates letter volume.

- a. Please confirm that the assumed variance in volume represents misestimates of discount induced volume. If you do not confirm, please explain.
- b. Please confirm that the assumed variance in volume does not represent misestimates of volume caused by non-price risk factors. If you do not confirm, please explain.
- c. Please provide an electronic version of the Table 1.

**RESPONSE:**

- a. Confirmed.
- b. Not confirmed. The volumes shown in Appendix C, Table 1 represent variation resulting from any source of change, including non-price risk factors.
- c. An electronic version of Table 1 will be provided.