

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-T1-34-36)
(October 10, 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 September 26, 2007: OCA/USPS-T1-34-36.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Elizabeth A. Reed

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3179, Fax -6187
October 10, 2007

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-34. Please refer to your response to OCA/USPS-T1-17. As posed, OCA/USPS-T1-17 referred to your testimony at page 12, lines 14-17, where it states:

To the extent that the after-rates volume forecasts underestimate Bradford Group's volume response to the price incentives, the benefits to the Postal Service will exceed those presented in this case.

OCA/USPS-T1-17 also posed the following question:

Please confirm that to the extent any of the Bradford Group's volume response is caused by non-price factors, the benefits to the Postal Service will be less than those presented in this case. If you do not confirm, please explain.

Your response stated:

Not confirmed. Given that non-price factors can have both negative and positive effects on volume response, benefits to the Postal Service can be less than or exceed those presented in this case.

- a. Please confirm that non-price factors provide the same benefits to the Postal Service regardless of discounts. If you do not confirm, please explain.
- b. In your testimony at page 12, lines 14-17, please confirm you were referring to the situation where the Bradford Group's after-rates volume forecasts underestimate Bradford Group's volume response. If you do not confirm, please explain.
- c. Please confirm that where the Bradford Group's after-rates volume forecasts underestimate Bradford Group's volume response, the Bradford Group's actual after-rates volumes will exceed the after-rates volume forecast. If you do not confirm, please explain.
- d. Please confirm that in response to the price incentives, if the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast, the Bradford Group will earn discounts that exceed the estimated amount of discounts presented in your testimony. If you do not confirm, please explain.
- e. Please confirm that in response to the price incentives, if the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast, the benefits to the Postal Service will exceed the benefits presented in your testimony. If you do not confirm, please explain.
- f. Please confirm that in response to non-price factors, one possible response is that the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast presented in your testimony. If you do not confirm, please explain.
- g. Please confirm that in response to non-price factors, if the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast, the benefits to the Postal Service will be less than the benefits presented in your testimony. If you do not confirm, please explain.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

RESPONSE:

- a. Not confirmed. See my response to OCA/USPS-T1-7(a).
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. Not confirmed. This is true only when Bradford Group's actual after-rates volumes exceed the top volume tier.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-35. Please refer to your response to OCA/USPS-T1-18(b), which states “the provision for termination upon 30 days’ notice in the contract provides a disincentive for any potential NSA partner to overestimate their Before-Rates volume forecasts, thereby reducing the risk of discount exposure to the Postal Service.”

- a. Please confirm that the Bradford Group is an NSA partner of the Postal Service. If you do not confirm, please explain.
- b. Please confirm that the Bradford Group is an NSA partner of the Postal Service because it has a signed negotiated service agreement (contract) with the Postal Service (see Request, Attachment F). If you do not confirm, please explain.
- c. Please confirm that the phrase “potential NSA partner” refers to any mailer that does not have a signed negotiated service agreement (contract) with the Postal Service. If you do not confirm, please explain.
- d. Please confirm that at the time the Bradford Group and Postal Service signed the negotiated service agreement (see Request, Attachment F), the Bradford Group’s Before-Rates forecast volume (see Appendix A, Page 2) was known to the Postal Service. If you do not confirm, please explain.
- e. Please confirm that at the time the Bradford Group and Postal Service signed the negotiated service agreement (see Request, Attachment F), the “discount exposure” to the Postal Service resulting from the Bradford Group’s Before-Rates forecast volume (see Appendix A, Page 2) was known to the Postal Service. If you do not confirm, please explain.
- f. Please confirm that at the time the Bradford Group and Postal Service signed the negotiated service agreement (see Request, Attachment F), the Bradford Group’s After-Rates forecast volume (see Appendix A, Page 2) was known to the Postal Service. If you do not confirm, please explain.
- g. Assume the Bradford Group NSA is recommended by the Commission and implemented by the Postal Service as proposed in its Request, please identify any event that would cause the Postal Service to exercise its unconditional right to terminate the agreement, and explain how such exercise will “reduce[] the risk of discount exposure” during the three year term of the agreement.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

- g. The Postal Service could exercise its unconditional right to terminate the agreement if actual volume behavior is inconsistent with the Before-Rates volume forecast.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-36. Please refer to your response to OCA/USPS-T1-33(a)-(b), and to your testimony, Appendix C, Table 1, entitled Value to Volume Sensitivity Matrix Based on Year 1, a portion of which, showing only the “Before Rates Letter Volume” row of 146.5 million, is reproduced below.

**Appendix C
Value to Volume Sensitivity Matrix
Based on Year 1**

Table 1:

		After Rates Letter Volume							
		Volumes (millions)	154.0	161.3	164.6	168.0	176.4	184.8	195.0
		% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	17.3%
Before Rates Letter Volume	146.5	0.0%	\$ 0.9	\$ 1.5	\$ 1.7	\$ 1.9	\$ 2.4	\$ 2.9	\$ 3.5

a. Please confirm that the table above accurately displays the row and column headings and the estimated total USPS value (in millions) for the selected row extracted from Appendix C, Table 1. If you do not confirm, please explain.

Also, please refer to the following table entitled “OCA Exhibit 1, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors,” and the accompanying electronic Excel file “OCA Exh1_App C_Analysis.”

b. In the row, “%Change,” showing the total percentage change in actual After Rates Letter Volume of (8.3%), (4.0%), (2.0%), **0.0%**, 5.0%, 10.0%, and 16.0%, assume that the total percentage change is caused by non-price factors, rather than the price incentives of the NSA. Please confirm that the estimated total USPS value is shown in the table below: If you do not confirm, please explain, show all calculations in electronic form that supports your explanation, and provide citations to all sources.

**OCA Exhibit 1
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1**

		After Rates Letter Volume							
		Volumes (millions)	154.0	161.3	164.6	168.0	176.4	184.8	195.0
		% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%
Before Rates Letter Volume	146.5	0.0%	\$ 289,737	\$ 159,137	\$ 91,937	\$ 19,737	\$ (190,263)	\$ (439,263)	\$ (745,263)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

RESPONSE:

- a. Confirmed.
- b. Confirmed that the calculations arrived at in electronic Excel file “OCA Exh1_App C_Analysis” are correct under the stated scenario. As I understand the posited scenario, you are assuming that actual volumes will deviate from forecast volumes as a result of factors other than the discount offered, but that volume will not change as a result of the discount. However, my testimony (Appendix C, Table 1) presents a scenario in which price does cause a volume response. Additionally, the before and after-rates volume forecasts are consistent with achieving incremental actual volume and the USPS values presented in my testimony.