

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

**RESPONSES OF POSTAL SERVICE WITNESS YORGEY  
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T2-7-10)**

The United States Postal Service hereby provides the responses of witness Yorgey to the following interrogatories of the Office of the Consumer Advocate, filed on July 29, 2005: OCA/USPS-T2-7-10. Interrogatory OCA/USPS-T2-6 was redirected to witness Plunkett.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 12, 2005

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

OCA/USPS-T2-7. Please refer to your testimony at Appendix A, page 2, the After Rates (AR) "New Membership Std Flat-size" volumes. Also, please refer to the Request at Attachment A and Attachment F. Is there a requirement in the proposed DMCS or NSA that Bookspan enter no more than the AR Standard Mail flat-size volumes of 120 million, 110 million and 110 million for Fiscal Years 2006, 2007, and 2008, respectively? Please explain.

RESPONSE:

7. No. The NSA provides no incentive for Bookspan to reverse the trend of declining flats volumes.

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OCA/USPS-T2-8. Please refer to your testimony at page 5, the “Annual Adjustment Mechanism for Volume Commitments,” lines 6-14. Also, please refer to Tables 1 and 2, below.

- a. Refer to Table 1, below. Under the Bookspan NSA, please confirm that where the Year 1 actual volume increases by the percents shown in column [3], the Year 2 Adjusted Volume Commitment (AVC) will increase by the percents shown in column [6]. If you do not confirm, please explain. (Note: Table 1, Line 7 displays the example at USPS-T-2, page 5.)

TABLE 1  
Bookspan NSA: Year 1  
Percent Increase in Actual Volume Above Year 1  
Negotiated Volume Commitment (NVC) and Resulting  
Year 2 Adjusted Volume Commitment (AVC)  
(Figures in thousands, except percents)

| Line No. | Year 1: | Year 1: | Increase  | Year 2: | Year 2: | Percent     |
|----------|---------|---------|-----------|---------|---------|-------------|
|          | NVC     | Actual  | in Year 1 | NVC     | AVC     | Increase in |
|          | [1]     | [2]     | [3]       | [4]     | [5]     | Year 2      |
|          |         |         |           |         |         | AVC         |
|          | [1]     | [2]     | [3]       | [4]     | [5]     | [6]         |
| 1        | 94,000  | 105,280 | 12.00%    | 95,000  | 100,140 | 5.4%        |
| 2        | 94,000  | 106,220 | 13.00%    | 95,000  | 100,610 | 5.9%        |
| 3        | 94,000  | 107,160 | 14.00%    | 95,000  | 101,080 | 6.4%        |
| 4        | 94,000  | 108,100 | 15.00%    | 95,000  | 101,550 | 6.9%        |
| 5        | 94,000  | 109,040 | 16.00%    | 95,000  | 102,020 | 7.4%        |
| 6        | 94,000  | 109,980 | 17.00%    | 95,000  | 102,490 | 7.9%        |
| 7        | 94,000  | 110,000 | 17.02%    | 95,000  | 102,500 | 7.9%        |
| 8        | 94,000  | 110,920 | 18.00%    | 95,000  | 102,960 | 8.4%        |
| 9        | 94,000  | 111,860 | 19.00%    | 95,000  | 103,430 | 8.9%        |
| 10       | 94,000  | 112,800 | 20.00%    | 95,000  | 103,900 | 9.4%        |

Columns:

- [1] Request, Attachment F, Section II.A.1.
- [2] [1] \* (1 + [3])
- [3] Request, Attachment F, Section II.A.2.a.
- [4] Request, Attachment F, Section II.A.2.
- [5] ([2] + [4]) / 2
- [6] [5] / [4] - 1

- b. Refer to Table 2, below. Under the Bookspan NSA, please confirm that where the Year 2 actual volume increases by the percents shown in column [3], the Year 3 AVC will increase by the percents shown in column [6]. If you do not confirm, please explain.

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TABLE 2  
Bookspan NSA: Year 2  
Percent Increase in Actual Volume Above Year 2  
Negotiated Volume Commitment (NVC) and Resulting  
Year 3 Adjusted Volume Commitment (AVC)  
(Figures in thousands, except percents)

| Line No. | Year 2: | Increase              |                         | Year 3: | Year 3: | Percent                |
|----------|---------|-----------------------|-------------------------|---------|---------|------------------------|
|          | NVC     | Year 2: Actual Volume | in Year 2 Actual Volume | NVC     | AVC     | Increase in Year 3 AVC |
|          | [1]     | [2]                   | [3]                     | [4]     | [5]     | [6]                    |
| 1        | 95,000  | 106,400               | 12.00%                  | 105,000 | 105,700 | 0.7%                   |
| 2        | 95,000  | 107,350               | 13.00%                  | 105,000 | 106,175 | 1.1%                   |
| 3        | 95,000  | 108,300               | 14.00%                  | 105,000 | 106,650 | 1.6%                   |
| 4        | 95,000  | 109,250               | 15.00%                  | 105,000 | 107,125 | 2.0%                   |
| 5        | 95,000  | 110,200               | 16.00%                  | 105,000 | 107,600 | 2.5%                   |
| 6        | 95,000  | 111,150               | 17.00%                  | 105,000 | 108,075 | 2.9%                   |
| 7        | 95,000  | 112,100               | 18.00%                  | 105,000 | 108,550 | 3.4%                   |
| 8        | 95,000  | 113,050               | 19.00%                  | 105,000 | 109,025 | 3.8%                   |
| 9        | 95,000  | 114,000               | 20.00%                  | 105,000 | 109,500 | 4.3%                   |

Columns:

- [1] Request, Attachment F, Section II.A.2.
- [2]  $[1] * (1 + [3])$
- [3] Request, Attachment F, Section II.A.3.a.
- [4] Request, Attachment F, Section II.A.3.
- [5]  $([2] + [4]) / 2$
- [6]  $[5] / [4] - 1$

RESPONSE:

a.-b. Confirmed.

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OCA/USPS-T2-9. Please refer to your testimony at page 5, the “Annual Adjustment Mechanism for Volume Commitments,” lines 15-20.

- a. If Bookspan’s actual mail volume is 5 percent below the Year 1 negotiated volume commitment, or 89.3 million ( $94 \text{ million} * (1.00 - 0.05)$ ), please confirm that the Year 2 adjusted volume commitment will be 90.25 million ( $95 \text{ million} - (95 \text{ million} * 0.05)$ ). If you do not confirm, please explain.
- b. If the Year 2 adjusted volume commitment is 90.25 million, and Bookspan mails 90.25 million pieces, please confirm that Bookspan would be paid discounts of \$105,000 ( $(90.25 \text{ million} - 85 \text{ million}) * 0.02$ ). If you do not confirm, please explain.
- c. If Bookspan’s actual mail volume is 5.26 percent (0.052631578947) below the Year 1 negotiated volume commitment, or 89.053 million ( $94 \text{ million} * (1.00 - 0.0526)$ ), please confirm that the Year 2 adjusted volume commitment will be 90 million ( $95 \text{ million} - (95 \text{ million} * 0.0526)$ ). If you do not confirm, please explain.
- d. If the Year 2 adjusted volume commitment is 90 million, and Bookspan mails 90 million pieces, please confirm that Bookspan would be paid discounts of \$100,000 ( $(90 \text{ million} - 85 \text{ million}) * 0.02$ ). If you do not confirm, please explain.
- e. If Bookspan’s actual mail volume is 5 percent below the Year 2 negotiated volume commitment, or 90.25 million ( $95 \text{ million} * (1.00 - 0.05)$ ), please confirm that the Year 3 adjusted volume commitment will be 99.75 million ( $105 \text{ million} - (105 \text{ million} * 0.05)$ ). If you do not confirm, please explain.
- f. If the Year 3 adjusted volume commitment is 99.75 million, and Bookspan mails 99.75 million pieces, please confirm that Bookspan would be paid discounts of \$57,500 ( $(99.75 \text{ million} - 94 \text{ million}) * 0.01$ ). If you do not confirm, please explain.
- g. If Bookspan’s actual mail volume is 10.48 percent (0.104761904762) below the Year 1 negotiated volume commitment, or 85.048 million ( $95 \text{ million} * (1.00 - 0.1048)$ ), please confirm that the Year 3 adjusted volume commitment will be 94 million ( $105 \text{ million} - (105 \text{ million} * 0.1048)$ ). If you do not confirm, please explain.
- h. If the Year 3 adjusted volume commitment is 94 million, and Bookspan mails 94 million pieces, please confirm that Bookspan would be paid discounts of \$0 ( $(94 \text{ million} - 94 \text{ million}) * 0.01$ ). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed
- b. Not confirmed. The refund is \$104,999.98. The calculation is based on the difference between 85,000,001 and 90,250,000 (5,249,999) times \$0.02.

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- c. Confirmed.
- d. Not confirmed. The refund is \$99,999.98. The calculation is based on the difference between 85,000,001 and 90,000,000 (4,999,999) times \$0.02.
- e. Confirmed.
- f. Not confirmed. The refund is \$57,499.99. The calculation is based on the difference between 94,000,001 and 99,750,000 (5,749,999) times \$0.01.
- g. The calculations cannot be confirmed without knowing the Year 2 actual volumes.
- h. Confirmed.

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OCA/USPS-T2-10. Please refer to your testimony at Appendix D.

- a. Please confirm that the contribution to the Postal Service would increase if 100 percent of Bookspan's After Rates Standard Mail solicitation letter volume consisted of new letters. If you do not confirm, please explain.
- b. Please explain why it is in the financial interest of the Postal Service to induce the conversion of Standard Mail flats to letters when the largest contribution to the Postal Service occurs where 100 percent of Bookspan's After Rates Standard Mail solicitation letter volume consists of new letters.

RESPONSE:

- a. Confirmed.
- b. The Bookspan NSA is designed to provide incentives that will increase solicitation volume. The Postal Service recognizes that Bookspan has been converting flats to letters for some time and has incentives to continue to do so independent of the NSA. My analysis recognizes this and attempts to quantify the value of the NSA assuming that trend continues. As I have demonstrated, the net contribution increases when flats are converted to letters, even given the incentives in the NSA.

## **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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