

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORIES OF THE MAJOR MAILERS ASSOCIATION
(MMA/USPS-T40-1-7)
(July 5, 2006)

The United States Postal Service hereby provides the responses of witness Mitchum to the above listed interrogatories of the Major Mailers Association, filed on June 20, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF POSTAL SERVICE WITNESS MITCHUM
TO INTERROGATORY OF THE MAJOR MAILERS ASSOCIATION

MMA/USPS-T40-1

Please refer to page 18 of your direct testimony where you discuss your proposed new fee structure and fees for Confirm Service.

- A. Please confirm your proposed annual charges shown in the table below for First Class Confirm Service users with one ID code. If you cannot confirm, please make corrections.

Number of First-Class Scans (Millions)	Total Annual Charge (\$)	Cost Per Million Scans (\$)
1	5,000	5,000.00
2	5,070	2,535.00
10	5,630	563.00
11	5,665	515.00
50	7,030	140.60
100	8,780	87.80
101	8,798	87.10
250	11,405	45.62
500	15,780	31.56
1,000	24,530	24.53
2,000	42,030	21.02
5,000	94,530	18.91
7,500	138,280	18.44
10,000	182,030	18.20

- B. Please confirm the annual charges shown in the table below for a platinum First-Class Confirm Service user with one ID code under the current fees and fee structure. If you cannot confirm, please make corrections and explain.

Number of First-Class Scans (Millions)	Total Annual Charge (\$)	Cost Per Million Scans (\$)
1	10,000	10,000.00
2	10,000	5,000.00
10	10,000	1,000.00
11	10,000	909.09
50	10,000	200.00
100	10,000	100.00
101	10,000	99.01
250	10,000	40.00
500	10,000	20.00
1,000	10,000	10.00
2,000	10,000	5.00
5,000	10,000	2.00
7,500	10,000	1.33
10,000	10,000	1.00

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- C. Please confirm that, for current platinum level Confirm Service users who have one ID code and purchase the number of First Class scans shown in Column 1 of the following table, your proposed rates will increase or reduce their total charges by the percentages shown in Column 2. If you cannot confirm, please make corrections and explain.

Number of First-Class Scans (Millions)	Proposed increase
1	-50%
2	-49%
10	-44%
11	-43%
50	-30%
100	-12%
101	-12%
250	14%
500	58%
1,000	145%
2,000	320%
5,000	845%
7,500	1283%
10,000	1720%

- D. Is it your belief that a Confirm User who used 1 billion First Class scans in BY 2005 will purchase the same number of scans in TY 2008 even if the Confirm User's total cost increases by 145%? Please explain your answer.
- E. Is it your belief that a Confirm User who used 10 billion First Class scans in BY 2005 will purchase the same number of scans in TY 2008 even if the Confirm User's total cost increases by 1720%? Please explain your answer.

RESPONSE:

- a. Confirmed
- b. Confirmed
- c. Not Confirmed. The proposed change for the user of 7.5 billion scans would be a 1286 percent increase, not 1283 percent, in this hypothetical

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example. However, to date, no subscriber has used even one-seventh of the scans in this example.

d-e. To date there are no subscribers that use even 1 billion scans, so these hypotheticals appear to be unrealistic. Specifically, in the 10 billion scan example, assuming 2.37 scans per piece (see my response to OCA/USPS-T40-24), the subscriber would be monitoring more than 4.2 billion pieces, or over 4 percent of all First-Class Mail mailpieces. Even at the lowest proposed price (a 5-digit automation letter), this would entail over \$1.3 billion in postage, compared to the \$182,000 Confirm charge (or 0.01% of the postage). Despite the high percentage increase (which is based on the current price of \$10,000), this seems like a small price to pay to monitor over 4 percent of all First-Class Mail.

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MMA/USPS-T40-2

Please refer to Library References USPS-LR-L-124 WP-4 Confirm, where you derive test year revenues for Confirm Service at your proposed fees, and USPS-LR-L-75, page 32.

- A. Please confirm that, for base year 2005, 180 Confirm subscribers provided the Postal Service total revenues of \$1,159,500. If you cannot confirm, please provide the correct number of subscribers and total revenue.
- B. Please confirm that you project that there will be 180 Silver, Gold and Platinum subscribers for the test year before rates, the same number as in base year 2005. If you cannot confirm, please provide the correct number of subscribers and explain. If you can confirm, please explain the bases for this projection.
- C. Please confirm that you project that there will be 180 Confirm users in the test year after rates and explain the bases for your projection. If you cannot confirm, please state the number of Confirm Subscribers you do project and explain the bases for your projection.
- D. Please confirm that your proposed rates are expected to generate \$1,517,295, a rate increase of 49%, from the same number of subscribers that you expect would generate \$1,018,250 in the test year before rates. If you cannot confirm, please correct these figures and explain.
- E. Please explain why the Confirm Service FY 2005 revenues of \$1,159,500, as shown in Library Reference USPS-LR-L-75, are \$141,250 higher than the Test Year Before Rates revenues of \$1,018,250, as shown in Library Reference USPS-LR-L-124, WP-4.
- F. Please provide the total number of First Class Mail scans performed for (1) Silver Subscribers, (2) Gold Subscribers, and (3) Platinum Subscribers during base year 2005. Please provide the sources for your answers.
- G. Please provide the total number of Standard Mail scans performed for (1) Silver Subscribers, (2) Gold Subscribers, and (3) Platinum Subscribers during base year 2005. Please provide the sources for your answers.

RESPONSE:

a. Confirmed.

b-c. Confirmed. See my response to question 3 of Presiding Officer's Information Request (POIR) No. 4.

d. Not confirmed. There would be a revenue increase of 49 percent (to \$1,517,295), not a rate increase of 49 percent. Under the proposed pricing structure, the resulting price increase depends on individual usage. Some

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existing subscribers may experience a decrease in the amount they pay for Confirm service under the new pricing structure.

e. The number of additional IDs purchased by existing subscribers has decreased significantly as Confirm users determined that there were other ways to uniquely identify individual mailpieces. Combining this with the expanded number of characters available for use if customers use a 4-state barcode, I determined that mailers would be unlikely to buy additional IDs when they were no longer necessary, resulting in a reduction in the number of additional IDs.

f-g. These data are not available. See my response to OCA/USPS-T40-24.

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MMA/USPS-T40-3

Please refer to Library Reference USPS-LR-L-124 WP-4 Confirm where you derive test year revenues for Confirm Service at your proposed fees.

- A. Please confirm that from the 180 Confirm Service users in TY 2008, you project sales of (1) 919 blocks of 1 million units to users requiring 1-9 additional blocks of 1 million units, (2) 4,365 blocks of 1 million units to users requiring 10-89 additional blocks of 1 million units, and (3) 22,868 blocks of 1 million units to users requiring more than 99 additional blocks of 1 million units. If you cannot confirm, please explain.
- B. Please provide the derivation and sources for the number of additional blocks of 1 million units referenced in part (A) of this interrogatory.
- C. Please confirm that, of the \$1,517,295 total revenues projected for Confirm Service, \$900,000 or 59.3% originates from the user fee of \$5,000 per year and \$617,295 or 40.7% originates from users based on the number of units purchased. If you cannot confirm, please explain.
- D. Please confirm that, in TY 2008, you project no revenues from Confirm subscribers who require additional ID codes. If you cannot confirm, please provide the total estimated for TY 2008 revenues from Confirm users who require additional ID codes and explain. If you do confirm, please explain why Confirm Subscribers who purchased additional ID codes during FY 2005 will not have a need to purchase additional ID codes during TY 2008.

RESPONSE:

- a. Confirmed.
- b. See my response to question 3 of Presiding Officer's Information Request No. 4.
- c. Confirmed.
- d. Confirmed. See my response to MMA/USPS-T40-2(e).

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MMA/USPS-T40-4

Please refer to Library Reference USPS-LR-L-124 WP-4 Confirm where you derive test year revenues for Confirm Service at your proposed fees.

- A. Please confirm that, where you have indicated “NA” in the column under percent increase, you did not compute the anticipated percent increase. If you cannot confirm, please explain.
- B. Did you perform any computations of the proposed percentage increase for representative users of Confirm Service? If not, why not? If so, please provide those computations.

RESPONSE:

- a. Confirmed. Footnote 2 of WP-4 Confirm explains the content of the percentage change column. For those rows with an “N/A” it was not possible to calculate a percentage change, as there was either no current fee or no proposed fee, since the new and old pricing structures are not completely comparable.
- b. I did develop computations on the percentage change for levels of Confirm usage. The table is provided below.

Confirm

Impact of Different Cost Levels for Selected Levels of Scan Usage

Scans Used	Current	Proposed	
	Price to Customer	Price to Customer	Percent Increase
1,000,000,000	\$10,000	\$56,048	460%
750,000,000	\$10,000	\$43,798	338%
500,000,000	\$10,000	\$31,548	215%
250,000,000	\$10,000	\$19,298	93%
100,000,000	\$10,000	\$11,948	19%
50,000,000	\$4,500	\$9,498	111%
25,000,000	\$4,500	\$7,730	72%
10,000,000	\$4,500	\$6,260	39%
1,000,000	\$4,500	\$5,140	14%

Note: The table assumes 55 percent of the scans will be used for First-Class Mail mailpieces and 45 percent will be for Other classes.

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MMA/USPS-T40-5

Please refer to Library Reference USPS-LR-L-124 WP-4 Confirm.

- A. Please confirm that, during FY 2005, Silver Confirm subscribers did not purchase any additional ID codes. If you cannot confirm, please provide the number of Silver subscribers who purchased additional ID codes and the total number of 3-month (or lesser time period) ID codes they purchased.
- B. Please confirm that, during FY 2005, Gold Confirm subscribers did not purchase any additional ID codes. If you cannot confirm, please provide the number of Gold subscribers who purchased additional ID codes and the total number of 3-month (or lesser time period) ID codes they purchased.
- C. Please confirm that, during FY 2005, Platinum Confirm subscribers purchased a total of 292 additional 3-month ID codes. Whether you confirm or not, please provide the total number of Platinum Confirm subscribers who purchased additional ID codes and the number of additional 3-month (or lesser time period) ID codes each user purchased.
- D. Please provide, for FY 2005, the total number of Platinum Confirm subscribers who used (1) only one of the 3 ID codes included in their basic subscription package, (2) two of the 3 ID codes included in their basic subscription package, and (3) all of the 3 ID codes included in their basic subscription package.

RESPONSE:

a-c. Unfortunately, the data for FY2005 do not allow for allocating the additional ID revenue to subscription tier. As mentioned in my response to MMA/USPS-T40-2(e), the revenue from additional IDs is not a major portion of the total revenue, and in the test year I have assumed it is even less important. (In fact, it is assumed to be zero.) So while these data would be interesting, and it is my understanding that future data reports will enable such a calculation, the relative use of additional IDs is not significant in my fee design.

d. As we do not retain scan data beyond a period of 120 days, we have no way of determining how many ID codes were used by Platinum subscribers in FY 2005.

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MMA/USPS-T40-6

For each fiscal year or portion thereof that Confirm service has been offered, please provide the following information:

- A. The total number of Silver, Gold, and Platinum subscribers at the end of the fiscal year;
- B. Total Subscription Fee revenues received from (1) Silver, (2) Gold and (3) Platinum subscribers for the period;
- C. Total additional ID code revenues received from (1) Silver, (2) Gold and (3) Platinum subscribers for the period; and
- D. Total revenues derived from sales of additional scan blocks to (1) Silver and (2) Gold subscribers.

RESPONSE:

The only fiscal year for which these data are available is FY 2005, which is presented in LR-L-77, page K-14.

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MMA/USPS-T40-7

Please refer to Table 3, entitled "Current Confirm Fee Structure," which appears on page 15 of your direct testimony and Table 4, entitled "Proposed Confirm Fee Structure," which appears on page 18 of your direct testimony.

- A. Please confirm that, for Gold Subscribers and Platinum Subscribers, the current fee for Additional ID codes (lesser of 3 months or end of subscription term) is \$500, not \$2,000 as you indicate in Table 3. If you cannot confirm, please explain.
- B. Please confirm that the \$2,000 annual fee you propose for each additional ID code, as shown in Table 4, is equal to the effective annual charge for each additional ID code under the current Confirm fee structure. If you cannot confirm, please explain.

RESPONSE:

a. Not confirmed. Currently there are two options for the purchase of Additional ID codes, quarterly or annually. Under the annual option the fee is \$2,000, while the fee for the quarterly option is \$500.

b. Confirmed.