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

POSTAL RATE AND FEE CHANGES	Docket No. R2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 12
(September 7, 2006)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 12, issued August 24, 2006. Responses to Questions 5, 8, 9, and 15 are forthcoming. The following witness is sponsoring the identified responses to this POIR:

Witness Berkeley	Question 14
Witness Mitchum	Questions 1-4, 6-7, 10-13

Each question 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 POIR NO. 12

1. Please verify that witness Mitchum is incorrectly referring to MC2002-3 (Experimental Periodicals Co-Palletization Dropship Discounts) rather than MC2002-1 (Classification and Fees for Confirm). USPS-T-40 at 19.

RESPONSE:

Confirmed.

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2. Under the proposed changes to Confirm, two fees exist: (1) the fee per block of one million units, and (2) the fee per scan, which is dependant on the class of the mailpiece scanned (one unit per First-Class Mail scan, and five units for all other classes of mail). In the proposed Fee Schedule 991, the fee per scan is inconspicuously located in the Schedule Notes. Please provide a fee schedule where both the block and scan fees are prominently located in the main body.

RESPONSE:

See the attached alternative version of Fee Schedule 991. In it, the ratios are presented in the body of the schedule (rather than in a footnote). However, since the units-per-scan ratios are not “fees” that the customer pays, but instead are how units that have previously been purchased are used, I continue to prefer the original presentation. In any event, in this alternative version, I have purposely aligned the ratios so that they do not appear under the “Fees” heading.

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FEE SCHEDULE 991

CONFIRM

Current Description	**Fees**
Silver Subscription	
Subscription Fee (3 months)	$2,000.00
Additional ID Codes (lesser of 3 months or end of subscription term)	500
Additional Scans (block of 2 million)	500
Gold Subscription	
Subscription Fee (12 months)	4,500.00
Additional ID Codes (lesser of 3 months or end of subscription term)	500
Additional Scans (block of 6 million)	750
Platinum Subscription	
Subscription Fee (12 months)	10,000.00
Additional ID Codes (lesser of 3 months or end of subscription term)	500

Alternative to Proposed

Annual Subscriber Fee	$5,000.00
Additional ID Codes	
Annual	2,000.00
Quarterly	750.00
Additional Blocks of One Million Units	
1st to 9th	70.00
10th to 99th	35.00
100th or more	17.50
Number of Units per Scan	

First-Class Mail	1
Other Classes	5

3. Please confirm that seeking authorization and subscribing are two separate acts (one must be authorized and then subscribe to the service, rather than becoming a subscriber upon authorization without having paid the subscription fee). Assuming that the above is true, does the following underscored DMCS language better capture that they are separate acts?

> 991.31 <u>Mailers may subscribe to Confirm after</u> [Mailers become Confirm subscribers by] applying to and being authorized by the Postal Service. Authorization requires that a customer demonstrate the capabilities of producing mailpieces with Confirm-compatible barcodes as specified by the Postal Service.

RESPONSE:

Yes, I believe it does.

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4. For the following questions, please refer to Table 4 of Mitchum's testimony (USPS-T-40 at 18), and the proposed Fee Schedule 991 for Confirm.

a. In the proposed Fee Schedule 991, would changing the heading First ID Code (Annual) to Annual Subscriber Fee be more accurate since the $5,000 is for a subscription to the service and includes one million units as well as the first ID code? USPS Request, Attachment A at 81. *See also* USPS-T-40 at 17: ". . . annual user fee of $5000, which includes one million units."

b. Would changing the heading Blocks of One Million Units to Additional Blocks of One Million Units: (1) clarify that the block of units included with a subscription is not the 1st block of the 1st -9th block threshold that must be met for a price reduction, and (2) bring the heading into conformity with the heading Additional ID Codes?

RESPONSE:

a-b. I believe that these recommendations would be improvements, and they are included in the alternative Fee Schedule 991 presented in the response to question 2 of this Presiding Officer's Information Request.

6. The following questions seek an understanding of the relationship between the proposed increase in fees for Confirm services and the forecast change in volume of Confirm scans. For each subpart, please show all necessary calculations.

a. Please provide the proposed average percentage rate increase for Confirm, including the annual subscription fee and the cost of additional blocks. Also provide the average percentage rate increases for volumes currently in the Silver, Gold and Platinum subscription levels separately. Please indicate the basis on which the average percentage increases are calculated (e.g., average revenue per scan, average revenue per user, or some other basis).

b. Please explain why the Silver, Gold and Platinum subscribers will all respond the same to the average percentage rate increases provided in response to part a. above.

c. In response to the proposed increase, a 10 percent decrease in scans for each customer is forecast. Please explain the relationship between the size of the proposed rate increase and the resulting reduction in scans purchased. For example, would an increase twice as large as the proposal lead to a 20 percent reduction in scans for each customer, and would an increase half as large as the proposal lead to a 5 percent reduction in scans for each customer? If not, please provide the TYAR volume of scans for an increase twice as large as the proposal and an increase half as large as the proposal.

RESPONSE:

a. *Overall increase for the full product* - As noted in my response to MMA/USPS-T40-2(d) the overall revenue increase would be 49 percent. This is derived by using the following equation:

$$\text{Increase} = \frac{\text{After Rates Revenue}}{\text{Before Rates Revenue}} - 1$$

where the After Rates Revenue is $1,517,295 and the Before Rates Revenue is $1,018,250 as shown in LR-124. This would indicate the impact of my fee proposal on the average customer.

Please note that the subscription level analysis is based on the current subscription period data that were available at the time of my analysis, as mentioned in my response to POIR 4, question 3. As such, 22 of the subscribers had no usage history for the current subscription period and I assumed they would use the average number of scans for all users during the test year.

Silver Subscribers –

It is difficult to measure a percentage change for Silver subscriptions because the term of the subscription is currently only three months, but the proposed subscription term is a full year. A Silver subscriber will see a wide range of percentage changes depending upon how many successive subscriptions he purchases. For instance, for the 12 month period between February 1, 2005 and January 31, 2006 there were 19 subscriptions held by 8 subscribers (it was not possible to identify the number of Silver subscribers for the base year). Three of the subscribers renewed each quarter and purchased 4 subscriptions each, 2 subscribers purchased 2 subscriptions each, and 3 of the subscribers during that period purchased only 1 subscription. In an effort to provide the best information available, I will calculate the average increase for these subscribers for this period. While this will not be strictly comparable with the data provided in my library reference, I believe it provides a better example of how the actual subscribers are affected. The average fee for the 8 subscribers under the current fee schedule was $5,000, and under the proposed fee schedule the average fee would be $5,123, an increase of 2 percent.

Gold Subscribers

The average increase per subscriber would be 26 percent (5,660 / 4,500 – 1).

Platinum Subscribers

The average increase per subscriber would be 53 percent (15,290 / 10,000 – 1).

b. Given the lack of data showing how a subscriber will react to a price change for Confirm service, and that the service is still relatively new, I felt that the 10 percent across-the-board reduction assumption was a reasonable adjustment.

c. The pricing structure I proposed was intended to generate $1.5 million of revenue. I did not have any information with regard to price sensitivity available, and as such I made a reasonable assumption that was intended to reduce the risk of the product not covering its costs in the future. I was not implying that there was a linear relationship with regard to price increases and demand. While no effort was made on my part to determine how scan volumes would change at different prices, I have no reason to differ from those posited in this question.

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7. Under the proposal for Confirm fees, users who purchase scans for mail other than First-Class Mail will pay significantly more in fees than users who purchase a like number of scans for First-Class Mail. Please explain how this fact entered into the analysis underlying the rationale for assuming that all users, regardless of the class of mail scanned, would respond to the proposal with equal percentage reductions in scans. If this was not taken into consideration, please explain why not.

RESPONSE:

I was unable to determine what share of an individual user's scans was used for First-Class Mail or other classes. I tried to control for this by assuming an across-the-board 10 percent reduction in scan usage for all users. I also assumed a small increase in the First-Class Mail share of all scans, basically rounding up the 53 percent that were First-Class Mail (based on the data that I had available) to 55 percent. This effectively increased the spread between the shares of First-Class Mail and other classes by about 5 percent. The assumption on decreased demand is fluid enough under the proposed fee schedule to allow the decrease to be treated as total scans being reduced by 10 percent. A different assumption (that the distribution of the foregone scans is not uniform) would not greatly affect the revenue generated. As shown in LR-124, WP-4 Confirm, 81 percent of all additional blocks of units are expected to be purchased at $17.50 each, and this category accounts for nearly two-thirds of all revenue from additional blocks of units. Even if there were a shift toward more of the least expensive blocks being purchased, the potential revenue leakage is limited to $217,105, the total revenue from the purchase of the first to the 99th additional blocks of units. Much of this revenue cannot be shifted away, as larger users must buy these blocks before moving up to the lowest priced blocks.

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10. Mitchum's testimony indicates that the proposed fee changes for Insurance will not impact competitors because "the competitors offer insurance with different characteristics." USPS-T-40 at 28-29. What characteristics differentiate the insurance that competitors offer from the Postal Service's insurance?

RESPONSE:

The Postal Service, unlike its competitors, allows customers to purchase mail service without insurance. The competitors include insurance up to $100 in the price of their products.

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11. Mitchum's testimony proposes that Return Receipt and Restricted Delivery would be available only for items insured for more than $200.00. USPS-T-40 at 24. Are there any objections to changing the $50.00 to $200.00 in Domestic Mail Classification Schedule §§ 943.251 b. and c., 945.121 c., 946.21 c., and 951.51 c. and d.?

RESPONSE:

No, there are no objections.

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12. Please refer to USPS-LR-L-124, sheet "WP-2 Address Correction." In the volume projections for First-Class Address Corrections, witness Mitchum uses the volumes from First-Class Mail Automated Presort, First-Class Mail Nonautomated Presort, Automated Presort Cards, and Nonautomated Presort Cards. Unlike in R2005-1, First-Class single-piece letters and parcels, Stamped Cards, and single-piece Cards volumes are not used for the projections. However, Mitchum distributes Address Correction fees to First-Class single-piece letters and parcels, Stamped Cards, and single-piece Cards, as shown in USPS-LR-L-123, sheet "Fee Summary TYAR."

a. Is Address Correction Service purchased with First-Class single-piece letters and parcels, Stamped Cards, and/or single-piece Cards?

b. If so, please explain why USPS-LR-L-124 excludes the above-listed categories of First-Class Mail in its calculations. If not, please explain why Address Correction fees are distributed to First-Class single-piece letters and parcels, Stamped Cards, and single-piece Cards.

RESPONSE:

a. While it is possible that Address Correction Service could be used with items mailed at single piece rates, the share of Address Correction Service items in these groups is sufficiently small that it is reasonable to omit these mailpieces from the calculation of the Address Correction Service revenue estimates. Thus, I did not apply any of the revenue from the service to the single-piece First-Class Mail categories.

b. I believe there may have been a miscommunication between myself and witness Berkeley. The fee revenue should not have been distributed to those subclasses.

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13. Please explain the discrepancies between the proposed language for DMCS § 353 found in Mitchum's testimony, USPS-T-40 at 48-49, and the USPS Request, Attachment B at 19-20.

RESPONSE:

The final version of the proposed changes to the DMCS was not incorporated into my written testimony.

RESPONSE OF POSTAL SERVICE WITNESS BERKELEY
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14. Currently, language in the business reply mail section in the DMCS is inconsistent. Section 931.11 and Fee Schedule 931 refer to permits and permit holders, while §§ 931.5 through 931.55 refer to licenses. Could the DMCS be clarified by replacing "license" with "permit" in §§ 931.5 through 931.55?

RESPONSE TO QUESTION 14:

Yes. Additionally, the reference, in DMCS 931.54 to "the license to mail" Business Reply Mail (by the permit holder) could be changed to "the permit to distribute" for both accuracy and consistency.