

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

OFFICE OF CONSUMER ADVOCATE INTERROGATORIES
TO UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT
(OCA/USPS-T1-17-21)
(September 6, 2005)

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/USPS-T2-1-5 dated July 27, 2005, are hereby incorporated by reference.

Respectfully submitted,

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OCA/USPS-T1-17. Please refer to your response to POIR No. 1, Question 1(c), where it states, “However, witness Yorgey’s analysis of the book industry as described in her testimony does not indicate that any particular portion of Bookspan’s mail is likely to exhibit demand characteristics that differ fundamentally from those of the subclass to which it belongs.” Also, please refer to the response of witness Posch to OCA/USPS-T1-1, where it states, “There is only one category of marketer that produces this ‘massive multiplier effect’—clubs operating pursuant to the Federal Trade Commission’s Negative Option Rule. See 16 C.F.R. § 425.1.”

- a. Please describe and provide any analysis of the volumes, revenues and costs, or any other financial modeling conducted by the Postal Service concerning negative option marketers operating pursuant to the FTC’s Negative Option Rule.
- b. Please explain why the Postal Service did not propose a time-limited experimental niche classification for negative option marketers operating pursuant to the FTC’s Negative Option Rule.
- c. Assuming the Bookspan NSA is not recommended by the Commission, and the 5.4 percent rate increase proposed in Docket No. R2005-1 is implemented by the Postal Service, please confirm that Bookspan’s TYBR 2006 elasticity of demand for its Standard Regular Mail letter-size pieces is $-0.4688 \left(\frac{78 \text{ million} - 80 \text{ million}}{(80 \text{ million} + 78 \text{ million}) / 2} \right) / 0.054$, as shown in the table below. If you do not confirm, please explain and provide your estimate of Bookspan’s elasticity for TYBR 2006 for the assumptions given.

ELASTICITY OF BOOKSPAN			
Test Year Before Rates 2006			
(Assumes 5.4 percent rate increase, without NSA)			
Elasticity of Bookspan, TYBR 2006	-0.4688	[1]	
TYBR Letter-Size Volume, before 5.4% rate increase	80,000,000	[2]	
TYBR Letter-Size Volume, after 5.4% rate increase	78,000,000	[3]	
TYBR Change in Rates, R2005-1	5.4%	[4]	
Notes & Sources:			
[1]	= $(([3] - [2]) / (([2] + [3]) / 2)) / [4]$		
[2]	Response of Bookspan Witness Epp to POIR No. 1, Question 4(a), at 2.		
[3]	Bookspan -T-2 (Epp,) at 11.		
[4]	Docket No. R2005-1		

OCA/USPS-T1-18. Please refer to the response to OCA/USPS-3(d), where it states that “many customers’ mail volumes would be expected to grow independently of any price incentive to do so.”

- a. Please explain how the Postal Service determined that Bookspan is not such a customer whose mail volumes would be expected to grow independently of any price incentive to do so. Please provide all financial and other analysis supporting your explanation.
- b. Please confirm that the explanation and analysis provided in response to subpart a. of this interrogatory is to be applied to functionally equivalent NSAs. If you do not confirm, please explain.
- c. Please confirm that the explanation and analysis provided in response to subpart a. of this interrogatory could be applied to negative option marketers operating pursuant to the Federal Trade Commission’s Negative Option Rule. See 16 C.F.R. § 425.1. If you do not confirm, please explain.

OCA/USPS-T1-19. Please refer to your response to OCA/USPS-T1-7(b)-(c).

- a. Please identify and describe the objective standards to be used for evaluation of the multiplier effect for a functionally equivalent NSA assuming current postal personnel would no longer conduct the evaluation.
- b. Please confirm that in the absence of objective standards for evaluation of the multiplier effect for a functionally equivalent NSA, the use of the multiplier effect as a qualification for potential mailers seeking a functionally equivalent NSA is arbitrary. If you do not confirm, please explain.
- c. Please define the phrase “multiplier effect mailings at a level notably less than Bookspan’s.”
- d. Your response states, “a customer’s multiplier effect is theoretically a function of the frequency, class, weight, zone, subclass, shape, and perhaps other characteristics of a customer’s mail. This complexity makes quantitative comparison between customers impracticable.” If quantitative comparison between customers is impracticable, please confirm that use of the multiplier effect as a qualification for potential mailers seeking a functionally equivalent NSA is arbitrary. If you do not confirm, please explain.

OCA/USPS-T1-20. Please refer to your response to OCA/USPS-T1-1, where it states, “In the event that the Bookspan agreement is implemented, the Postal Service will further evaluate the empirical results to attempt to isolate the effect of declining block rate prices on Bookspan’s mail volume by comparing actual volume growth with

benchmarks that may include other direct marketing companies, Standard Mail more generally, and media spending by booksellers.”

- a. Please confirm that in order to evaluate the results of declining block rate prices (discounts) on Bookspan’s volumes, the Postal Service must calculate the contribution from new letter volume less the foregone revenue associated with discounts given to letter volume that would have been sent in the absence of the discounts. If you do not confirm, please explain.
- b. Please explain how the Postal Service plans to distinguish Bookspan’s new letter volumes induced by the discounts from letter volumes that would have been mailed in the absence of the discounts. Please show all calculations and provide citations to sources.

OCA/USPS-T1-21. In PRC Op. MC2002-2, at para. 9025, the Commission states:

[9025] Witness Plunkett testifies that the Postal Service will use other data not enumerated in the Data Collection Plan to assess the success of the [Capital One] NSA.

Data regarding potential factors such as movements in interest rates, GDP, unemployment rates, bankruptcy rates, and other macroeconomic variables which might help explain deviations from the baseline are always readily available. Trends specific to the broader credit card industry can be gleaned from trade press reports, and similar research sources. Certainly the Postal Service will be closely monitoring potential factors such as the overall rates of adoption of electronic bill presentation and payment.

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Please describe and discuss (in more detail than the response to OCA/USPS-T1-2(b) – (c)) the Postal Service’s work to date in assessing the success of the Capital One NSA

using data not enumerated in the Data Collection Plan recommended by the Commission.