

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 PLUNKETT
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-17-21)**

The United States Postal Service hereby provides the responses of witness Plunkett to the following interrogatories of the Office of the Consumer Advocate, filed on September 6, 2005: OCA/USPS-T1-17-21.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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

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 $((78 \text{ million} - 80 \text{ million}) / ((80 \text{ million} + 78 \text{ million}) / 2)) / 0.054$, 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

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OCA/USPS-T1-17 Response

- a. The Postal Service has not attempted to isolate or analyze customers based on whether they are subject to this rule.
- b. The question does not state what the point of such an experiment would be, but please see my response to part (a) above and the Postal Service's response to OCA/USPS-8.
- c. Not confirmed. See my response to OCA/USPS-T1-16 part d.

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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-T1-18 Response

- a. The analysis and research that support this conclusion are embodied in the testimony of witness Yorgey (USPS-T-1).
- b. Confirmed that in considering a functionally equivalent NSA with another mailer, the Postal Service would analyze, as it did here, whether the customer’s mail volumes would be expected to grow independently of any price incentive to do so.
- c. Confirmed to the extent that any such company conforms to the requirements for functional equivalence, which are yet to be determined. The fact that a customer operates under the negative option rule does not seem to have a particular bearing on whether the customer’s mail volumes would grow independently of a price incentive. That would seem to depend more on the mailer’s product line, other particulars of its business, and other market factors that would have to be examined. See also my response to NAA/USPS-T1-8(b).

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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-T1-19 Response

- a. I have described the qualitative criteria that I think ought to be applied when considering functionally equivalent NSAs. If I were to be replaced, I would expect my eventual successor to apply his/her judgment to improve upon my admittedly limited wisdom.
- b. Not confirmed. I do not accepted the stated premise of the question that objective standards are absent or the implied premise of the question that for a standard to objective, it must be quantitative.
- c. This phrase refers to the fact that direct mail advertising often leads to future mail based transactions between a mailer and its customers (for instance a customer may join an organization which then sends an annual newsletter to its members). Arguably any such cause and effect relationship could be termed a multiplier effect; however, it is notably not on the level of Bookspan’s.

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- d. Again, the question implies that any decision that cannot be made quantitatively is necessarily arbitrary. I do not agree.

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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-T1-20 Response

- a. Confirmed.
- b. The Postal Service will attempt to estimate what Bookspan’s volumes would have been after the first reporting period is complete. At that time we will have the benefit of experience, and will know which – if any – unforeseeable events would cause our expectations to change.

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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.

Tr. 4/767-8

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.

OCA/USPS-T1-21 Response.

In addition to Capital One’s mail volume, the Postal Service researches the mail volume and marketing practices of the major credit card banks. When the fiscal year is ended, we expect to compare Capital One’s actual mail volumes with a number of different possible benchmarks based on research and analysis that is still ongoing. In doing so, we expect to establish a better basis for assessing the impact of the price incentives, than is available from a before rates forecast completed months – if not years – before. I should point out that this will not create “certainty” nor will it eliminate the use of judgment in evaluating results.

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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