

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

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POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MITCHUM  
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T40--8-19)

The United States Postal Service hereby files the responses of Witness Mitchum to the above listed interrogatories, filed on June 2, 2006. Interrogatories OCA/USPS-T40-1 to 7 have been redirected to the Postal Service.

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 POSTAL SERVICE WITNESS MITCHUM  
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**OCA/USPS-T40-8.** Please confirm that the estimated Registered Mail before rates revenue for the test year 2008 is \$43,606,295 as shown in your Library reference LR-L-124, WP-8. If you do not confirm, please explain.

**RESPONSE:**

Confirmed.

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**OCA/USPS-T40-9.** Please confirm that a comparison of the Postal Service's base year before rates Registered Mail revenue to the base year before rates cost is a part of the basis for your conclusion in your testimony at page 41 that Registered Mail has been priced below its costs for the past few years. If you do not confirm, please explain.

**RESPONSE:**

Confirmed.

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**OCA/USPS-T40-10.** Please confirm that for the test year 2008, Registered Mail after rates costs are estimated at \$59,696,000. If you do not confirm, please explain.

**RESPONSE:**

Confirmed.

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**OCA/USPS-T40-11.** Please confirm that for the test year 2008, you estimate Registered Mail after rates revenues of \$60,606,732 as shown in your Library reference LR-L-124, WP-8. If you do not confirm, please explain.

**RESPONSE:**

Confirmed.

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**OCA/USPS-T40-12.** Please confirm that, for registry, the ratio of the estimated test year after rates revenue of \$60,606,732 to the estimated test year after rates costs of \$59,696,000 as indicated by witness Waterbury (T-10), Exhibit No. USPS-T10M, page D-1, (101.526 percent) reflects the application of your proposal for 102 percent cost coverage for Registered Mail. If you do not confirm, please explain.

**RESPONSE:**

Confirmed.

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**OCA/USPS-T40-13.** This interrogatory seeks to clarify the proposed pricing of Confirm service for First-Class Mail and Standard Mail. Please refer to your testimony at page 17, lines 7-10.

- a. Please confirm that for two mailpieces that are identical in every way (i.e., size, shape, weight, addressing quality, etc.), except that one mailpiece is marked First-Class Mail and the other Standard Mail, the cost per scan to the Postal Service is identical. If you do not confirm, please explain.
- b. Please explain the circumstances under which the cost per scan to the Postal Service might be different for First-Class Mail and Standard Mail pieces of different size, shape, weight, addressing quality, etc.

**RESPONSE:**

a.-b. Confirmed. Despite very similar mail piece characteristics (aside from markings and postage), cost per passive scan is the same. First-Class Mail and Standard Mail letters have significantly different unit revenue, cost coverages, and service standards.

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**OCA/USPS-T40-14.** This interrogatory seeks to clarify the proposed pricing of Confirm service for First-Class Mail and Standard Mail. Please refer to your testimony at page 17, lines 7-10.

- a. Please confirm that under your proposed fee schedule (see Table 4 in your testimony), the price per scan for a First-Class mailpiece in the 1<sup>st</sup> to 9<sup>th</sup> block of one million units will be \$0.00007  $((1 * 1) / 1,000,000 * \$70)$ . If you do not confirm, please explain.
- b. Please confirm that under your proposed fee schedule, a First-Class mailer purchasing 1,000,000 units in the 1<sup>st</sup> to 9<sup>th</sup> block will receive 1,000,000 scans. If you do not confirm, please explain.
- c. Please confirm that under your proposed fee schedule, the price per scan for a Standard Mail piece in the 1<sup>st</sup> to 9<sup>th</sup> block of one million units will be \$0.00035  $((1 * 5) / 1,000,000 * \$70)$ . If you do not confirm, please explain.
- d. Please confirm that under your proposed fee schedule, a Standard mailer purchasing 1,000,000 units in the 1<sup>st</sup> to 9<sup>th</sup> block will receive 200,000 scans. If you do not confirm, please explain.
- e. Please explain the rationale for the difference in price per scan for these two classes of mail.

**RESPONSE:**

a-d. Actually, the Confirm subscriber that purchases the units does not identify itself as a “First-Class mailer” or a “Standard mailer”; the customer is purchasing units, and the average number of units per scan depends on the class-mix of the mail that the customer wishes to monitor with Confirm. However, the math in the question is correct.

e. The difference in price is consistent with the long-standing practice of treating First-Class Mail and Standard (formerly third-class) Mail differently. First-Class Mail has features that are different from Standard Mail, and it is my understanding that the pricing reflects these differences.

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**OCA/USPS-T40-15.** This interrogatory seeks to clarify the proposed pricing of Confirm service. Please refer to LR-L-124, spreadsheet tab “WP-4 Confirm.”

- a. Please confirm that under your proposed fee schedule (see Table 4 in your testimony), the price per block of one million units for the 1<sup>st</sup> to 9<sup>th</sup> block of \$70 is not based on the actual cost per scan or per unit to the Postal Service. If you do not confirm, please explain and provide all calculations showing the cost per scan or cost per unit on which your proposed prices are based.
- b. Please confirm that under your proposed fee schedule (see Table 4 in your testimony), the price per block of one million units for the 10<sup>th</sup> to 99<sup>th</sup> block of \$35 is not based on the actual cost per scan or per unit to the Postal Service. If you do not confirm, please explain and provide all calculations showing the cost per scan or cost per unit on which your proposed prices are based.
- c. Please confirm that under your proposed fee schedule (see Table 4 in your testimony), the price per block of one million units for the 100<sup>th</sup> or more block of \$17.50 is not based on the actual cost per scan or per unit to the Postal Service. If you do not confirm, please explain and provide all calculations showing the cost per scan or cost per unit on which your proposed prices are based.
- d. Please explain on what cost per unit basis to the Postal Service your proposed prices for each block of one million units are based, and show all calculations that develop your cost per unit.
- e. Please confirm that your proposed 1) price per block of one million units for the 1<sup>st</sup> to 9<sup>th</sup> block of \$70; 2) price per block of one million units for the 10<sup>th</sup> to 99<sup>th</sup> block of \$35; and, 3) price per block of one million units for the 100<sup>th</sup> or more block of \$17.50 represents “value pricing.” If you do not confirm, please explain.

**RESPONSE:**

a-d. The prices for the blocks of units are based upon, but are not directly tied to, the average cost per scan in that there is not a “markup” of the scan cost to obtain the prices. However, enough revenue must be obtained by the prices for Confirm service to cover its total cost. I have proposed that the revenue be obtained in part from a fixed participation fee, and in part from an element that varies according to how much information the participant gains from the service. Total cost for this product with contingency is \$1,200,890. USPS-T-40, page 19. If one were to divide all of these costs by the estimated total number of blocks to

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be purchased in the test year (28,152), the average cost per block of units is \$42.66 (or  $\$1,200,890 / 28,152$ ).

e. Not confirmed. The prices I propose for this product are designed to minimize the impact on all users while still managing to generate sufficient revenue to cover the costs of the product. As this product has a cost that varies very slightly with increases in volume, it is necessary to develop a pricing structure that covers costs, while maintaining some consistency with the existing pricing structure. The prices developed for this product have a moderate cost coverage of 126 percent. USPS-T-40, page 19. The prices for the blocks of units, along with the annual user fee, are designed to be fair and equitable, and allow the Postal Service to offer the product.

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**OCA/USPS-T40-16.** This interrogatory seeks to determine the impact of the proposed fee schedule on Confirm subscribers. Please refer to your testimony at page 17, lines 11-13. Please explain the rationale for eliminating the three subscription tier levels.

**RESPONSE:**

The rationale for the elimination of the three subscription levels is to allow the product to better meet the pricing criteria as noted in my testimony on page 20.

As my testimony states, this pricing structure is more fair and equitable than the three-tier system, and is less complicated. Additionally, the proposed pricing structure is intended to generate revenue adequate to cover Confirm costs, which would not have been accomplished under the current pricing. With the new approach the Postal Service can continue offering Confirm service.

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**OCA/USPS-T40-17.** This interrogatory seeks to determine the impact of the proposed fee schedule on Confirm subscribers. Please refer to LR-L-124, spreadsheet tab “WP-4 Confirm.”

- a. Comparing the “Silver” subscription service fee with the proposed fee schedule, please confirm that the current 16 subscribers of the “Silver” subscription service will pay higher total fees under your proposed fee schedule. If you do not confirm, please explain and show all calculations supporting your answer.
- b. Comparing the “Silver” subscription service fee with the proposed fee schedule, please confirm that you are assuming that the current 16 subscribers of the “Silver” subscription service will all become subscribers at the proposed higher user fee. If you do not confirm, please explain. If you do confirm, please explain the basis for your assumption.
- c. Please explain how you have adjusted your revenue model to account for the fact that not all 16 subscribers of the “Silver” subscription service will become subscribers under your proposed higher fee schedule.

**RESPONSE:**

- a. Not confirmed. There are sixteen subscriptions, rather than subscribers. In some cases, individual subscribers have purchased four sequential subscriptions, a new one each quarter. In such an instance, a subscriber is likely to pay less as a result of the new pricing structure. Given that the current prices are not covering costs, as the revenue in FY 2005 was \$1,159,500 (LR-L-77, page k-14) and the costs were \$4,479,006 (LR-L-59, Confirm.xls sheet, cell H71), increases overall are required to meet the statutory requirement that revenues cover costs.
- b.-c. Not confirmed. I am assuming that if the proposed pricing structure goes into effect that the number of subscriptions will be the same as in the base year. I am not assuming that the 180 subscribers in the test year will be the same as those in the base year. It is quite possible that some existing subscribers will choose to no longer use the Confirm product, or may choose to contract with another direct subscriber to receive the service. At the same

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time it is expected that new subscribers will sign up, since the product is still relatively new and is becoming better known.

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**OCA/USPS-T40-18.** This interrogatory seeks to determine the impact of the proposed fee schedule on Confirm subscribers. Please refer to LR-L-124, spreadsheet tab “WP-4 Confirm.”

- a. Comparing the “Gold” subscription service fee with the proposed fee schedule, please confirm that the 119 subscribers to the “Gold” subscription service will pay higher total fees under your proposed fee schedule. If you do not confirm, please explain and show all calculations supporting your answer.
- b. Comparing the “Gold” subscription service fee with the proposed fee schedule, please confirm that you are assuming that the current 119 subscribers of the “Gold” subscription service will all become subscribers under your proposed fee schedule. If you do not confirm, please explain. If you do confirm, please explain the basis for your assumption.
- c. Please explain how you have adjusted your revenue model to account for the fact that not all 119 subscribers of the “Gold” subscription service will become subscribers under your proposed higher fee schedule.

**RESPONSE:**

a. Confirmed.

b.-c. Not confirmed. See the response to OCA/USPS-T40-17(b-c).

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**OCA/USPS-T40-19.** This interrogatory seeks to determine the impact of the proposed fee schedule on Confirm subscribers. Please refer to LR-L-124, spreadsheet tab “WP-4 Confirm.”

- a. Comparing the “Platinum” subscription service fee with the proposed fee schedule, please confirm that the 45 subscribers of the “Platinum” subscription service will pay higher total fees under your proposed fee schedule. If you do not confirm, please explain and show all calculations supporting your answer.
- b. Comparing the “Platinum” subscription service fee with the proposed fee schedule, please confirm that you are assuming that the current 45 subscribers of the “Platinum” subscription service will all become subscribers under your proposed fee schedule. If you do not confirm, please explain. If you do confirm, please explain the basis for your assumption.
- c. Please explain how you have adjusted your revenue model to account for the fact that not all 45 subscribers of the “Platinum” subscription service will become subscribers under your proposed higher fee schedule.

**RESPONSE:**

- a. Not Confirmed. First of all, I am not assuming that the exact same entities will be subscribers in the test year. But, in any event, the total expenditure will depend on usage level. It is quite possible that some current “Platinum” subscribers will see a price decrease given their level of usage.
- b.-c. Not confirmed. See the response to OCA/USPS-T40-17(b-c).