

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

RATE AND SERVICE CHANGES TO IMPLEMENT
FUNCTIONALLY EQUIVALENT NEGOTIATED
SERVICE AGREEMENT WITH BRADFORD GROUP

Docket No. MC2007-4

RESPONSES OF POSTAL SERVICE WITNESS PARR
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-41-42)
(November 19, 2007)

The United States Postal Service hereby provides the responses of witness Parr to the following interrogatories of the Office of the Consumer Advocate, filed on November 5, 2007: OCA/USPS-T1-41-42.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Elizabeth A. Reed

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3179, Fax -6187
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OCA/USPS-T1-41. Please refer to your revised response to OCA/USPS-T1-36(b), where it states:

Because the only factor that is assumed to change between the before-rates and after-rates conditions in Appendix A is price, the correct way to evaluate the scenario described above is to set the before-rates and after-rates volumes equal to each other and use the resulting total USPS value from the “value” sheet of Appendix A.

- a. In the development of USPS value in Appendix C, Table 1 of your testimony, please confirm that “the only factor that is assumed to change between the before-rates and after-rates conditions in Appendix A is price.” If you do not confirm, please explain.
- b. In the development of USPS value in Appendix C, Table 1 of your testimony, please confirm that you “set the before-rates and after-rates volumes equal to each other and use[d] the resulting total USPS value from the ‘value’ sheet of Appendix A.” If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. To elaborate on my answer to OCA/USPS-T1-36(b), the sole purpose of the model presented in Appendix A to my testimony is to evaluate the financial impact on the Postal Service of a change in volume caused by offering discounts to a customer. The model is not designed to, nor can it easily accommodate, changes due to non-price factors. Thus, the only difference between the before-rates and after-rates volume forecasts should be the difference caused by the discounts. Because the only difference between the two forecasts in the model is assumed to be price, any other changes in assumptions in the forecast should be represented as a change in the before-rates forecast, rather than the after-rates forecast.

I have attached a version of the Appendix A model (filed electronically as Appendix_A_Assumption_Changes.xls), which includes an additional set of calculations on the “Vol” sheet that should show what I mean. Starting with the original USPS forecast for Year 1 (cell G20), any assumptions about changes in the forecast due to non-price factors can be input (cell G21), creating a new before-rates forecast, which is then transferred to the Standard Mail Letter before-rates forecast line (cell G7). Any

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additional assumption about changes due to price can be entered in cell G23 to calculate a new after-rates forecast, which is transferred to cell G12. A similar table is included for flats.

The net effect of this change for the scenarios proposed in OCA/USPS-T1-36 is to move the discounts paid to the customer from the "Incremental Discounts" line on the "Value" tab to the "Exposure" line. The net value originally calculated by the OCA is correct, however.

The attachment also contains a corrected version of OCA Exhibit 1, adjusted to reflect the correct before-rates forecasts for each scenario.

Bradford Group	Assumption Changes - Provided in Response to OCA/USPS-T1-41-42					
Negotiated Service Agreement						
Appendix A, page 2	FY 2004	FY 2005	FY 2006	Year 1	Year 2	Year 3

Volume calculations (1)	Forecast Volumes (2)					
Before Rates (BR)						
Standard Mail (SM) Letters	177,622,695	189,048,495	169,496,701	168,000,000	147,600,000	147,000,000
Standard Mail (SM) Flats	50,687,755	52,562,984	56,942,096	53,500,000	54,400,000	57,000,000
Total	228,310,450	241,611,479	226,438,797	221,500,000	202,000,000	204,000,000
After Rates (AR)						
SM Letters	177,622,695	189,048,495	169,496,701	168,000,000	147,600,000	147,000,000
SM Flats	50,687,755	52,562,984	56,942,096	58,000,000	58,000,000	60,000,000
Total	228,310,450	241,611,479	226,438,797	226,000,000	205,600,000	207,000,000

- (1) Bradford Group Billing Determinants (CBCIS)
- (2) Docket No. MC2007-3, Bradford T-2, p9

Letters

USPS Before-rates forecast	146,500,000	147,600,000	147,000,000
+ Change due to non-price factors	21,500,000		
= New Before-rates forecast	168,000,000	147,600,000	147,000,000
+ Change due to price			
= New After-rates forecast	168,000,000	147,600,000	147,000,000

Flats

USPS Before-rates forecast	53,500,000	54,400,000	57,000,000
+ Change due to non-price factors			
= New Before-rates forecast	53,500,000	54,400,000	57,000,000
+ Change due to price	4,500,000	3,600,000	3,000,000
= New After-rates forecast	58,000,000	58,000,000	60,000,000

Assumption Changes - Provided in Response to OCA/USPS-T1-41-42
OCA Exhibit 1 - Corrected
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1

		After Rates Letter Volume						
Volumes (millions)		154.0	161.3	164.6	168.0	176.4	184.8	195.0
% Change		(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%
Before Rates Letter Volume	154.0	5.1%	\$ 289,737					
	161.3	10.1%		\$ 159,137				
	164.6	12.4%			\$ 91,937			
	168.0	14.7%				\$ 19,737		
	176.4	20.4%					\$ (190,263)	
	184.8	26.1%						\$ (439,263)
	195.0	33.1%						

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OCA/USPS-T1-42. Please refer to your revised response to OCA/USPS-T1-36(b), where it states:

Because the only factor that is assumed to change between the before-rates and after-rates conditions in Appendix A is price, the correct way to evaluate the scenario described above is to set the before-rates and after-rates volumes equal to each other and use the resulting total USPS value from the “value” sheet of Appendix A.

Refer to your testimony, Appendix C, Table 1, entitled Value to Volume Sensitivity Matrix Based on Year 1, an extract of which, showing only the “Before Rates Letter Volume” row of 146.5 million, is reproduced below.

Appendix C
Value to Volume Sensitivity Matrix
Based on Year 1

Table 1:

		After Rates Letter Volume							
		Volumes (millions)	154.0	161.3	164.6	168.0	176.4	184.8	195.0
		% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	17.3%
Before Rates Letter Volume	146.5	0.0%	\$ 0.9	\$ 1.5	\$ 1.7	\$ 1.9	\$ 2.4	\$ 2.9	\$ 3.5

Also, please refer to the following table entitled “OCA Exhibit 1, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors,” based upon a “Before Rates Letter Volume” of 146.5 million, and the accompanying electronic Excel file “OCA Exh1_App C_Analysis.”

OCA Exhibit 1
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1

		After Rates Letter Volume							
		Volumes (millions)	154.0	161.3	164.6	168.0	176.4	184.8	195.0
		% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%
Before Rates Letter Volume	146.5	0.0%	\$ 289,737	\$ 159,137	\$ 91,937	\$ 19,737	\$ (190,263)	\$ (439,263)	\$ (745,263)

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The following questions ask you to assume only two factors change between the before-rates and after-rates conditions in Appendix A:

1. Price incentives (rate discounts) are offered, as proposed in the Bradford Group NSA; *and*
 2. Changes in actual After Rates Letter Volume are caused by non-price factors. That is, possible differences between the After Rates Volume forecast of 168.0 million and the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million, as shown in OCA Exhibit 1, above, are caused solely by non-price factors.
- a. During Year 1 of the Bradford Group NSA, please confirm that possible actual After Rates Letter Volume could be 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million. If you do not confirm, please explain.
 - b. During Year 1 of the Bradford Group NSA, please confirm that possible actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million could be caused by the price incentives of the NSA. If you do not confirm, please explain.
 - c. During Year 1 of the Bradford Group NSA, please confirm that possible actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million could be caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.
 - d. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will “pay” discounts to the Bradford Group if the actual After Rates Letter Volume is 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million. If you do not confirm, please explain.
 - e. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will “pay” discounts to the Bradford Group if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by the price incentives of the NSA. If you do not confirm, please explain.
 - f. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will “pay” discounts to the Bradford Group if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.
 - g. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will receive contribution if the actual After Rates Letter Volume is 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million. If you do not confirm, please explain.
 - h. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will receive “new” contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by the price incentives of the NSA. If you do not confirm, please explain.

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- i. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will receive contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA; however, the contribution received is not “new” as it cannot be attributed to the price incentives of the NSA. If you do not confirm, please explain.
- j. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will “pay” discounts to the Bradford Group and receive “new” contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by the price incentives of the NSA. If you do not confirm, please explain.
- k. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will “pay” discounts to the Bradford Group and receive contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA; however, the contribution received is not “new” as it cannot be attributed to the price incentives of the NSA. If you do not confirm, please explain.
- l. Assume a Before Rates Letter volume of 146.5 million. During Year 1 of the Bradford Group NSA, please confirm that the net contribution to the Postal Service will increase if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million, as shown in the extract of Appendix C, Table 1 from your testimony, above, is caused by the price incentives of the NSA. If you do not confirm, please explain.
- m. Assume a Before Rates Letter volume of 146.5 million. During Year 1 of the Bradford Group NSA, please confirm that the net contribution to the Postal Service will decrease if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million, as shown in OCA Exhibit 1, above, is caused by non-price factors, since the actual After Rates Letter Volume generating the contribution would have occurred in any event because the actual After Rates Letter Volume is independent of the price incentives of the NSA. If you do not confirm, please explain.
- n. Please confirm that OCA Exhibit 1, above, assumes only two factors change between the before-rates and after-rates conditions in Appendix A: 1) Price incentives (rate discounts) are offered; *and*, 2) Changes in the actual After Rates Letter Volume are caused by non-price factors. If you do not confirm, please explain.
- o. Please confirm that OCA Exhibit 1, above, shows the change in net contribution to the Postal Service from the “payment” of discounts to the Bradford Group and the absence of “new” contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.

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RESPONSE:

- a. Confirmed, although the likelihood of any of these projections is in inverse proportion to its distance from the after-rates forecast of 168 million pieces.
- b. Confirmed.
- c. Confirmed, although the likelihood of any of these projections is in inverse proportion to its distance from the before-rates forecast of 146.5 million pieces.
- d. Confirmed.
- e. Confirmed, although the Postal Service will not know how much of the actual volume is due to the price incentives of the NSA or to other factors.
- f. Confirmed, but see my response to part e of this interrogatory.
- g. Confirmed.
- h. Confirmed.
- i. Confirmed.
- j. Confirmed that the Postal Service will pay the discounts. Confirmed that the Postal Service will earn “new” contribution to the extent that volume growth is induced by the price incentives of the NSA.
- k. Confirmed that the Postal Service will pay the discounts. Confirmed that the Postal Service will not earn “new” contribution to the extent that volume above the discount threshold is caused by non-price factors.
- l. Confirmed.
- m. Not confirmed. If “[v]olume generating the contribution would have occurred in any event,” then the before-rates and after-rates volume in the model should be identical. See my response to USPS/OCA-T1-41(b).
- n. Confirmed. However, as explained in my answer to USPS/OCA-T1-41(b), Appendix A will only evaluate changes due to price incentives; it cannot incorporate changes due to non-price factors.
- o. Not confirmed. See my response to USPS/OCA-T1-41(b).