

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

RESPONSE OF POSTAL SERVICE WITNESS PARR
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-43)
(December 10, 2007)

The United States Postal Service hereby provides the response of witness Parr to the following interrogatory of the Office of the Consumer Advocate, filed on November 26, 2007: OCA/USPS-T1-43.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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December 10, 2007

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OCA/USPS-T1-43. Please refer to your response to OCA/USPS-T1-41(b), where it states:

The net effect of this change for the scenarios proposed in OCA/USPST1-36 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.

Also, please refer to the following table from your response entitled "OCA Exhibit 1 - Corrected, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors," which assumes the same before-rates and after-rates volumes, and the electronic Excel file Appendix_A_Assumption__Changes."

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In addition, 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							
		154.0	161.3	164.6	168.0	176.4	184.8	195.0	
	Volumes (millions)								
	% 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)

- a. Please confirm that your table “OCA Exhibit 1 – Corrected” shows the value to the Postal Service of the Bradford Group NSA where changes in volume are caused by non-price factors. If you do not confirm, please explain.
- b. Please confirm that the value figures in the diagonal cells of your table “OCA Exhibit 1 – Corrected,” which assumes the Before Rates Letter Volume forecast and actual After Rates Letter Volume equal 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million, are identical to the value figures in the table “OCA Exhibit 1,” which assumes a Before Rates Letter Volume forecast of 146.5 million and actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million. If you do not confirm, please explain.
- c. Please confirm that a comparison of your electronic Excel file “Appendix_A_Assumption_Changes” and the electronic Excel file “OCA Exh1_App C_Analysis” shows that as a result of non-price factors, the value to the Postal Service in Year 1 of the Bradford Group NSA is the same for two reasons: 1) the absence of any contribution from new Standard Mail letters, and 2) an increase in total exposure for letters from \$0 to \$105,000, \$235,600, \$302,800, \$375,000, \$585,000, \$834,000, and \$1,140,000 if actual After Rates Letter Volume is 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million, respectively. If you do not confirm, please explain.
- d. Please confirm that a comparison of your table “OCA Exhibit 1 – Corrected” and table “OCA Exhibit 1” shows that the value to the Postal Service is the same regardless of the Before Rates Volume forecast. If you do not confirm, please explain.

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- e. Please confirm that because the Year 1, \$0.015 discount threshold is set at 147 million, the Before Rates Volume forecast is irrelevant to the value of the Bradford Group NSA to the Postal Service. If you do not confirm, please explain.
- f. Please confirm that "OCA Exhibit 1" shows the change in net contribution to the Postal Service from the "payment" of discounts to the Bradford Group (or increase in "exposure" to the Postal Service) and the absence of "new" contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 168.0 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.

RESPONSES:

- a. Confirmed.
- b. It is confirmed that the value figures are identical. However, if assuming changes in after-rates due to non-price factors, after-rates will be equal to before-rates since the model only assumes changes in after-rates due to price incentives.
- c. Confirmed.
- d. Not confirmed. Please see response to OCA/USPS-T1-43(b).
- e. Not confirmed. The before-rates and threshold volumes contribute to the determination of incremental volume, discount exposure, and therefore final Bradford Group NSA value to the Postal Service.
- f. Not confirmed. Although in this case, the net value to the Postal Service is the same, the methodology used to develop "OCA Exhibit 1" is conceptually flawed. Following long-standing PRC rate-litigation procedures, the financial model contained in my Appendix A is designed to use a before-rates and after-rates forecast which differ only by the volume effect of the proposed price change (in this case, the discounts on offer). Under these procedures, all other factors are assumed to be identical in the before-rates and after-rates forecasts. In a case

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where the assumed change due to price is zero, therefore, the before-rates and after-rates forecasts should be identical, and any assumed difference in a non-price factor should be represented as an identical change to both the before-rates forecast and the after-rates forecast.