

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Rate and Service Changes to  
Implement Baseline Negotiated  
Service Agreement with Bookspan

Docket No. MC2005-3

PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(Issued July 26, 2005)

The proponents are requested to provide the information described below to assist in developing a record for the consideration of their request. In order to facilitate inclusion of the requested material in the evidentiary record, either the Postal Service or Bookspan, as appropriate, is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers. The answers are to be provided by August 9, 2005.

1. Please refer to USPS-T-2, Section IV. A. (pages 7-10) which describes the Postal Service's evaluation of Bookspan's before rates Standard Mail volume forecasts as comparable to that performed in evaluating previous NSAs. Also please refer to the May 18, 2005 Revised Declaration of Michael K. Plunkett in support of the Postal Service's Reconsideration Memorandum in Docket No. MC2004-3.
  - a. In Section C of his declaration, Plunkett states that the Postal Service extrapolates the mailer's volume history in a linear fashion into the future, generating separate trend analyses for subsets of volume, and (in the case of Bank One) running a simple regression to identify correlation between the categories of mail. In evaluating Bookspan's before rates Standard Mail volume forecast, did the Postal Service:
    - i. Develop any independent estimates of future before rates volumes using trend analysis? If so, please provide them, including

- supporting documents and electronic workpapers (e.g., Excel spreadsheets).
- ii. Perform separate trend analysis for the subsets of Bookspan's mail (e.g., letters and flats)? If so, please provide the results, including supporting documents and electronic workpapers.
  - iii. Run any regressions to identify any correlation between different categories of Bookspan's mail volume (e.g., letters and flats)? If so, please provide the results, including supporting documents and electronic workpapers.
- b. In Section D of his declaration, Plunkett describes the derivation of a demand function specific to marketing mail for Bank One based on economic variables. Did the Postal Service derive a demand function specific to Bookspan's mail volume based on economic variables? If so, please provide the model specification and results, including diagnostic statistics. Also please include supporting documents and electronic workpapers explaining the selection of the functional form, the development of the model specification, and the data used.
  - c. In Section E of his declaration, Plunkett describes the development of a demand function for total marketing mail based on the total number of accounts. Did the Postal Service derive a demand function specific to Bookspan's (or its industry's) mail volume based on the number of memberships (or a similar measure)? If so, please provide the model specification and results, including diagnostic statistics. Also please include supporting documents and electronic workpapers explaining the selection of the functional form, the development of the model specification, and the data used.
2. Refer to USPS-T-2, Appendix A, pages 4 and 6. Please provide electronic workpapers showing the development of the TYBR 2006 Total Unit Cost figures in columns 1 and 9 of each of these two tables.

3. Please refer to USPS-T-2, Appendix A, pages 5 and 6. The calculation of Bookspan's average unit cost for non-letters assumes that for each category (presort level) Bookspan's unit cost is equal to the USPS average. In contrast, the calculation of Bookspan's average revenue per piece for non-letters utilizes unit revenues that, for each category (presort level), are below the USPS average. For example, both the USPS and Bookspan unit cost of Standard Regular Auto 3/5 Digit non-letters is 26.0 cents, whereas the USPS unit revenue for that category is 28.9 cents and the Bookspan unit revenue for that category is 23.9 cents. This implies that, while the Postal Service receives an average contribution of 2.9 cents ( $28.9 - 26.0$ ) for Standard Regular Auto 3/5 Digit non-letters, it receives an average contribution of *negative* 2.1 cents ( $23.9 - 26.0$ ) for mail in the same category sent by Bookspan.
  - a. Please discuss the rationale for assuming that the cost of Bookspan's non-letters for each presort level is equal to the average for the Postal Service, when Bookspan's revenue for each presort level is significantly lower than the average for the Postal Service.
  - b. Please provide an electronic copy of the billing determinants that lead to the development of the Bookspan revenues per piece for non-letters in column 1 of USPS-T-2, Appendix A, page 5.
  - c. Please also provide an electronic copy of the billing determinants that lead to the development of the Bookspan revenues per piece for letters in column 1 of USPS-T-2, Appendix A, page 3.
  
4. Bookspan witness Epp states that the significant drop in the before rates volume forecast for the first year of the agreement is "primarily due to the anticipated 5.4% increase in postage rates." Bookspan-T-2, page 11, lines 12-13.
  - a. Please provide a set of before and after rates volume estimates (separately for letters and flats) for each year of the agreement assuming that rates remain at current levels.

- b. The unit costs and revenues utilized to estimate the financial impact of the agreement in Appendix A are from the (R2005-1) test year before rates and base year, respectively. They therefore reflect the set of rates currently in effect.
    - i. Please explain the rationale for applying unit costs and revenues that do not reflect the effects of implementing the R2005-1 proposal to volumes that do reflect the effects of the R2005-1 proposal.
    - ii. Please provide a version of Appendix A using unit costs and revenues that reflect the effects of implementing the R2005-1 proposed rates.
  - c. Please provide historical volumes that, as nearly as practicable, reflect the Standard Mail volumes (separately for letters and flats) of Bookspan in the year before and the year after the implementation of the R2001-1 rate increase.
5. Please refer to USPS-T-2, Appendix A, page 9. Line 5 (Total Incremental Discounts) refers to line 4 of page 7 (Discount Earned) – an amount that includes discounts on both incremental volume and before rates volume. Please confirm that line 5 (Total Incremental Discounts) should be set equal to line 4 of page 7 minus line 10 of page 7 (Total Exposure).

George Omas  
Presiding Officer