

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-001

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Postal Rate and Fees Changes, 1997

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Docket No. R97-1

Motion to Accept Late-Filed Responses and
Responses of ABA/EEI/NAPM Witness Clifton to Interrogatories of
the United States Postal Service
(USPS/ABA/EEI/NAPM-T1-19-40)

(February 13, 1998)

Pursuant to the Commission's Rules of Practice, American Bankers Association ("ABA"), Edison Electric Institute ("EEI"), and National Association of Presort Mailers ("NAPM") hereby file the responses of their witness James A. Clifton to the interrogatories of the United States Postal Service, USPS/ABA/EEI/NAPM-T1-19-40. In addition, ABA/EEI/NAPM hereby move for acceptance of said responses two days late. The delay was occasioned by difficulties in coordinating the various, and sometimes conflicting, schedules of the individuals concerned.

Respectfully submitted,

American Bankers Association,
Edison Electric Institute, and
National Association of Presort Mailers

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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.

February 13, 1998


R. Brian Corcoran

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-19

In Table 17 (Page 37) of your testimony, you present historical cost coverages for First-Class workshared mail from 1980-1996, and then claim on page 36 that the Postal Service's proposed 283 % cost coverage for workshared letters in this docket is way out of line with the historical trend ("a record high" and "the highest mark-up over unit costs in the history of a postal re-organization").

- a. Please confirm that this cost coverage comparison was developed using different bases, because the Table 17 coverages were computed using the previous costing methodology, while the 283 % figure you cite was developed using the improved costing methodology proposed by the Postal Service in this docket. If not confirmed, please explain.
- b. Please confirm that in response to MMA/USPS-T32-15(B), cost coverages were recomputed using the previous attributable cost methodology, and that the coverage for First-Class workshared mail in TY 1998 reported therein was 241%. See Docket No. R97-1; Tr. 19/8787-96. If not confirmed, please explain.
- c. Please confirm that this cost coverage of 241 % is below the values presented in Table 17 for 1995 and 1996 (247 % and 261 % respectively). If not confirmed, please explain.

RESPONSE

19. a., b., & c. Confirmed that the 283% cost coverage is based on new costing methodology, but not confirmed that this changes my statements on page 36. Relative to the average cost coverage from USPS witness O'Hara's revised table, 283 % remains a record high at 1.59 times average, the same as the 1996 figure in Table 17. Note also the break point in cost coverages in Table 17, with actual coverages taking a discontinuous leap by comparison with the trendless period for 1980 to 1994, a pattern that continues with old methodology TY1998 coverage of 241 %.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
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USPS/ABA&EEI&NAPM-T1-20

Please refer to pages 3-4 of Technical Appendix C.2. These pages present First-Class workshared rates and Standard (A) Commercial rates under your "Alternate Proposal."

- a. This page includes alternate proposed rates for First-Class automated basic and 3/5-Digit flats. The body of your testimony makes no mention of flat rates. Are you intending to propose alternate flat rates? If so, what is the justification for your alternate proposal?
- b. This page also includes alternate proposed rates for workshared cards. The body of your testimony makes no mention of card rates. Are you proposing alternate card rates? If so, what is the justification for your alternate proposal?
- c. Please confirm that the alternate proposal proposes alternate rates for Standard Regular and ECR mail, but makes no alternate proposal for nonprofit rates. If not confirmed, please explain.
- d. Please confirm that your alternate proposal for Standard Regular and ECR mail reduces discounts by 1.2 cents across the board. If not confirmed, please explain.
 - i) What is your justification for reducing these Standard mail discounts?
 - ii) Please provide the average percentage rate increases under your Alternative Proposal for Standard Regular (all rate categories combined) and ECR (all rate categories combined) mail, respectively.
 - iii) Please explain the effect this reduction in discounts has on the mark-up over cost for Standard Regular workshared mail versus Standard Regular "nonworkshared" mail, that is, nonautomated basic letters and nonletters.
 - iv) Is the result obtained in (iii) above consistent with your recommended rates and mark-up approach for First Class? Please explain.
 - v) Please provide the comparable nonprofit Standard A rates using the same methodology you used in setting your other Standard A rates.
 - vi) Please provide the comparable nonprofit Standard A rates under the Revenue Forgone Reform Act.
 - vii) Please provide the percentage changes in nonprofit Standard A rates under the Revenue Forgone Reform Act.

RESPONSE

- a. In Technical Appendix C.2, the rates for First-Class workshared cards have been kept at their current rates instead of being set at the rates in the USPS proposal. I am not adopting this as part of my formal proposal; my proposal addresses the issues of cost coverages, discounts, and rates for First-class workshared letters.
- b. In Technical Appendix C.2, the rates for First-Class workshared cards have been kept at their current rates instead of being set at the rates in the USPS proposal. I am not adopting this as part of my formal proposal; my proposal addresses the issues of cost coverages, discounts and rates for First-Class workshared letters.
- c. Confirmed. Please see my response to VP-CW/ABA/EEI/NAPM-T1-7.
- d. My formal proposal relates to First-Class workshared letter discounts and an increase in the cost

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
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coverage for Standard A commercial mail, not a decrease in discounts per se. Technical Appendix C.2 simply shows one of several possibilities in which my proposed increase in cost coverage for Standard A commercial mail could be accomplished: by decreasing the discounts for Standard A commercial mail uniformly by 1.2 cents.

- i) The discounts for Standard A commercial mail are uniformly decreased to meet the test year revenue requirement with my proposed First-Class workshared letter rates.
- ii) Technical Appendix C.2, pages 3 and 4 present rates for the various types of Standard A Regular and the various types of Standard A ECR. There is no overall rate for Standard A Regular mail. One cannot mail a Standard A Regular piece; one can mail one of the various types of Standard A Regular mail. Similarly, there is no overall rate for Standard A ECR mail. There are rates for the various types of Standard A ECR mail.
- iii) There are no separate unit costs for Standard A Regular workshared mail and Standard A Regular nonworkshared mail (nonautomated basic letter and nonletters) in the CRA. The only unit cost figure in the CRA is for Standard A Regular as a whole. Since there are no separate cost figures for the detailed types of Standard A mail, a meaningful cost coverage for these two types of mail cannot be computed.
- iv) Yes. Please see my response to part iii above.
- v) See my response to VP-CW/ABA/EEI/NAPM-T1-7.
- vi) Please see my response to part v above.
- vii) Please see my response to part v above.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-21

Please confirm that the only difference between your Technical Appendix C.2 and your Technical Appendix D is that Technical Appendix D incorporates the effect of your additional-ounce proposal, as set forth in your other testimony, ABA&NAA-T1. If not confirmed, please explain.

RESPONSE

Confirmed.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-22

Please refer to pages 3-4 of Technical Appendix D. These pages presents (sic) rates under your "Alternate Proposal."

- a. Please confirm that the only rate differences between these two pages and pages 3-4 of your Technical Appendix C.2 are in: (i) the First-Class additional ounce rates for the second and third ounces of workshared mail, and (2) the rates for Standard Regular and ECR rates. If not confirmed, please explain any other differences by rate category.
- b. Please confirm that the alternate proposal proposes alternate rates for Standard Regular and ECR mail, but makes no alternate proposal for nonprofit rates. If not confirmed, please explain.
- c. Please confirm that your alternate proposal for Standard Regular and ECR mail reduces discounts by 1.6 cents across the board. If not confirmed, please explain.
 - i) What is your justification for reducing these Standard mail discounts.
 - ii) Please provide the average percentage rate increases under your Alternate Proposal for Standard Regular (all rate categories combined) and ECR (all rate categories combined) mail, respectively.
 - iii) Please explain the effect this reduction has on the mark-up over cost for Standard Regular workshared mail versus Standard Regular "nonworkshared" mail, that is, nonautomated basic letters and nonletters.
 - iv) Is the result obtained in (iii) above consistent with your recommended rates and mark-up approach for First Class? Please explain.
 - v) Please provide the comparable nonprofit Standard A rates using the same methodology you used in setting your other Standard A rates.
 - vi) Please provide the comparable nonprofit Standard A rates under the Revenue Forgone Reform Act.
 - vii) Please provide the percentage changes in nonprofit Standard A rates under the Revenue Forgone Reform Act.

RESPONSE

- a. Confirmed
- b. Confirmed. See my response to VP-CW/ABA/EEI/NAPM-T1-7.
- c. I have not proposed any discounts or reductions in discounts for Standard A commercial mail per se; rather, I have proposed an increase in the cost coverage for that mailstream. Since rates are developed from the "bottom up" for Regular and ECR subclasses, the implication of my cost coverage proposal is some modest increase in rates. However, accepting your terminology, please refer to Table 13, where I examine recent changes in discounts. The increase in "discounts" for Standard A Regular by identical worksharing category has greatly exceeded that for First-Class workshared mail, and my proposal could rectify that inequity and inefficiency.
 - i). The discounts for Standard A commercial mail are uniformly decreased to meet the test year revenue requirement with my proposed First-Class workshared letter rates.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
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ii) Technical Appendix D, pages 3 and 4 present rates for the various types of Standard A Regular and the various types of Standard A ECR. There is no overall rate for Standard A Regular mail. There is not an overall Standard A regular piece, but there are various types of Standard A regular pieces. Similarly, there is no overall rate for Standard A ECR mail since there is no overall Standard A ECR piece. There are rates for the various types of Standard A ECR mail as shown on page 3 and 4 of Technical Appendix D.

iii) See my response to USPS/ABA&EEI&NAPM-T1-20c iii.

iv) See my response to USPS/ABA&EEI&NAPM-T1-20c. iii.

v) See my response to VP-CW/ABA/EEI/NAPM-T1-7.

vi) Please see my response to part v above.

vii) Please see my response to part v above.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-23

In Table 22, page 43 of your testimony, you present your proposed rates for automation letters:

- a. Please confirm that your proposed 3-Digit rate of 24.4 cents is: (i) 3.9 percent, or 1.0 cents, below its current level, and (ii) 7.6 percent, or 2.0 cents, below the level established in the last omnibus rate case, Docket No. R94-1. If not confirmed, please explain.
- b. Please confirm that your proposed 5-Digit rate of 22.8 cents is: (i) 4.2 percent, or 1.0 cents below its current level, and (ii) 11.6 percent, or 3.0 cents, below the level established in Docket No. R94-1. If not confirmed, please explain.

RESPONSE

a. & b. Confirmed; and it is also confirmed that total unit attributable costs for First-Class workshared mail have fallen by 10.9% since FY1994. As discussed in my testimony, rates should not be increased when costs have fallen.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-24

The last omnibus rate case was Docket R94-1.

- a. In comparison to Docket R94-1, please confirm that the USPS proposal in Docket No. R97-1 increases the 3-Digit letter discount from 5.6 cents per piece to 6.5 cents per piece.
- b. In comparison to Docket No. R94-1, please confirm that the USPS proposal in Docket No. R97-1 increases the 5-Digit letter discount from 6.2 cents to 8.1 cents.

RESPONSE

Confirmed; and it is also confirmed that city and rural carrier unit delivery costs for First-Class workshared mail have fallen by 15.4% since FY1994, while unit mail processing costs have fallen by 13.8% over the same time period for First Class workshared letters. Why should discounts for First-Class workshared mail be cut (or remain the same) when mail processing and delivery costs have fallen?

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-25

In his response to ABA/USPS-T32-1 (Docket No. R97-1; Tr.4/1404-05), witness Fronk stated the following:

Unit cost trends can be difficult to interpret for a number of reasons. For instance, they are sensitive to the base year and the length of time period selected for study. As an example, a review of five-year trends might produce different results than a review of three year trends. In addition, they can be influenced by how operational programs in the process of being implemented affect various types of mail over time. For example, an automation program that was now fully implemented would affect the historic trend, yet it would be doubtful that the trend would continue. I believe that the roll-forward model provides a better indicator of the effect of future programs on costs.

Cost trends can also be influenced by changes in mail preparation requirements, and they can be affected by any changes in cost methodology or data collection practices. Finally, reduced costs may already be reflected in lower rates.

Do you agree with witness Fronk's response? Please explain.

RESPONSE

I agree in part with USPS witness Fronk. One has to examine what is driving a historic trend to conclude whether or not, and if so to what degree, it will continue into the future. Even the Postal Service's roll-forward models use some continuing historic trends such as conversion to DPS and volume mix adjustment away from non-automation to automation. The models, however, neglect other continuing historic trends, such as when the cost reducing impact of July 1, 1996 reclassification requirements likely occurred, and make errors in calculating the impact of some factors on costs such as the volume mix adjustment. I do not see how reduced costs since R94-1 are reflected in current rates since cost coverage for First-Class workshared mail is at an historic high of 261 % through FY1996.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-26

On page 24, lines 6-12, of your testimony, you reject the use of the bulk metered benchmark because it has been corrected.

- a. At this point, are you aware of any additional computational problem with the benchmark? If so, please explain. If not, please explain why the correction of a computational error disqualifies the use of a benchmark?
- b. Would you apply the same standard to any number in your testimony that may require correction?

RESPONSE

- a. No. It disqualifies its use in this rate case because USPS witness Fronk based his rates on a benchmark which had a large error in it.
- b. No. The same standard cannot be applied to testimony which must be completed in a matter of weeks under strict budgets in the face of numerous changes in USPS methodology, as can fairly be applied to testimony which can take months to complete under no apparent budget restraint whatsoever, given the complexity of the USPS filing and the number of witnesses and technical changes.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
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USPS/ABA&EEI&NAPM-T1-27

In its Opinion and Recommended Decision in Docket No. MC95-1, the Commission stated, "The Commission concludes that cost differentials should reflect costs avoided by required worksharing alone, since the primary purpose of the discount is to maximize productive efficiency within postal markets" (paragraph 4210, at page IV-95).

- a. Do you agree with the Commission's conclusion? Please explain.
- b. Is it your contention that the discounts reflected in your proposed letter automation rates (Table 22, at page 43) are consistent with the commission's conclusion? Please explain.

RESPONSE

- a. In the calculation of discounts, yes, but what has been defined as legitimate to count under worksharing has varied over the years.
- b. Yes, they are consistent with the caveat that I do not believe, having set the appropriate level of discounts, that USPS rate witnesses should have the apparent discretionary freedom they now have to set outlandish cost coverages of 283% for First-Class workshared mail when the cost coverage of Standard A Regular workshared mail is set, for example, at 154%.

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USPS/ABA&EEI&NAPM-T1-28

Your proposed letter automation rates, as presented in Table 22 (page 43), are the result of taking the rates in Table 21 (page 42) and performing cost coverage adjustments to reduce the final cost coverage.

- a. Please show the underlying calculations that were performed to derive the rates in Table 22 from the rates in Table 21. If the calculations are already contained in your workpapers or appendices, please provide specific citations.
- b. Does this calculation result in rates and discounts that are consistent with the Commission's conclusion from Docket No. MC95-1 (paragraph 4210) quoted above in USPS/ABA&EEI&NAPM-T1-27? Please explain.

RESPONSE

- a. As I discuss in my testimony, the First-Class workshared cost coverage implied by the corrected discounts in Table 21 is 286% which is too high. In order to lower this cost coverage to a more reasonable (although still high) 276% (revised testimony 2/12/98, page 42, line 28), I developed my proposed rates in Table 22. These rates were not developed according to a strict algorithm. Besides producing a cost coverage of 276%, the proposed rates each are lower than the USPS proposal, and have at least a one cent difference between 3-digit and basic automation letters to encourage worksharing.
- b. Yes. I do not see any statutory authority which allows rates to be set inefficiently and inequitably with a cost coverage of 283%, notwithstanding the discount calculation.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-29

On page 26, lines 11-12, of your testimony, you state, "There is probably more potential conversion mail to First-Class from Standard A regular mail than from bulk metered First-Class mail." Please explain this statement.

RESPONSE

See my answer to VP-CW/ABA/EEI/NAPM-T1-6..

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-30

In Table 15, page 34, of your testimony, "conservatively corrected USPS discounts" are presented. Please provide the underlying calculations which develop these corrected discounts. If the calculations are already shown in your workpapers or technical appendices, please provide the specific citations.

RESPONSE

See attachment to USPS/ABA/EEI/NAPM-T1-4 (revised 2/12/98).

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-31

On page 23, lines 20-32, of your testimony, you quote from the Commission's Opinion and Recommended Decision in Docket No. MC95-1, which states in part, "Since the cost of the bulk metered component of single-piece mail has not been provided on this record, the Commission has reduced the passthrough of the cost differential between the single-piece benchmark and the basic automation tier from 100 percent to 78 percent."

- a. Please confirm that the bulk metered cost has been provided in this docket. If not confirmed, please explain.
- b. Please confirm that in developing your proposed letter rates, you used this same 78 percent figure used by the Commission. If not confirmed, please explain.
- c. Please discuss why you think it is also appropriate to apply 78 percent in this docket.
- d. Please explain why you consider 78 percent is more appropriate here than, for example, 75 percent or 73 percent.

RESPONSE

- a. Several bulk metered costs have been presented in this case, but the wrong one was supplied to USPS witness Fronk, who relied on it in setting his rates for First-Class workshared mail.
- b. Confirmed.
- c. For this case at least, the credibility of the proposed bulk metered benchmark has been hurt beyond repair, so I cannot rely on it and revert instead to the Commission's MC95-1 methodology.
- d. 78% is a recent figure reflecting recent circumstances, but I am not wedded to it, to 75%, or to USPS witness Fronk's original 113% passthrough. Relying on the Commission's methodology seemed less arbitrary than trying to develop my own.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-32

Please refer to pages 6 and 10 of your Technical Appendix C.2. These pages show that under your proposal for First-Class workshared rates, the volume of single-piece letters and flats falls 3.6 percent and the associated costs fall 3.6 percent. However, the volume of workshared letters and flats increase by 6.4 percent while the associated costs increase by only 2.0 percent. Please explain.

RESPONSE

In my analysis, total costs for a type of mail are the unit costs for that type of mail multiplied by volume for that type of mail. Unit costs are shown at the bottom of page 10 of Technical Appendix C.2. As noted there, adjustments have been made to the unit cost for First-Class workshared mail proposed by the USPS to incorporate continuing declines in mail processing costs and forwarding cost savings. Thus, as shown on the bottom of page 10 on the left hand side, the corrected unit cost for First-Class workshared mail is lower in my alternate proposal than in the USPS proposal. As a result, my total costs for First-Class workshared mail will not increase by as much as volume does when compared to the USPS proposal.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-33

Table 22 (page 43) in your testimony presents proposed workshare rates for First-Class letters. By how much do these proposed rates reduce First-Class revenues, as compared with the USPS proposal? Please explain.

RESPONSE

The analysis of the proposed rates in Table 22 is shown in Technical Appendix C.2. Specifically, the change in revenue from these rate changes is shown on page 8 of that Appendix.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-34

On page 44, lines 17-18, of your testimony, you state, "Notably, my proposal raises the revenue contribution that Standard A commercial mail makes to the Postal Service by about \$469 million."

- a. Please provided the revenue and cost numbers that result in this net change of \$469 million.
- b. How does this \$469 million relate to "very small revenue loss of \$139 million" shown on page 43, line 19, of your testimony? Please explain.

RESPONSE

a. The \$469 million increase in the contribution of Standard A commercial mail to the Postal Service is shown in Technical Appendix C.2, page 8, last line of the third column.

b. In the analysis of my proposed discounts and rates before adjusting the cost coverage for Standard A commercial mail, the revenue loss to the Postal Service as a whole, *i.e.*, the net deficit, is \$117.0 million (see Technical Appendix C.1, page 5, revised 2/12/98). The difference and relationship between the \$469 million increase in the contribution of Standard A commercial mail in one analysis and the \$117 million revenue loss are clear. The \$117 million revenue loss is the difference between total Postal Service revenues and total Postal Service costs before adjusting the cost coverage for Standard A commercial mail. The \$469 million is a revenue increase from a single type of mail after adjusting the cost coverage for Standard A mail and does not take into account changes in revenues from other types of mail and changes in costs for all types of mail.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-35

On pages 14-16 of Technical Appendix D, fixed weight price indices for your alternate proposal are presented. Please provide the calculations leading to these indices.

RESPONSE

a. The fixed weight price indices including user cost are the sums of their respective fixed weight price indices excluding user cost (page 15) and user costs (p.16). The data for the fixed weight price indices excluding user cost and user costs under the USPS Proposed R97-1 are obtained from USPS witness Thress' workpapers (specifically the Excel file SF_R97AR.xls) and are the average of the 1998 quarterly figures presented there.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-36

Technical Appendix D, pages 20-26, of your testimony presents your volume forecasting and share forecasting models.

- a. Please confirm that you use long-run price elasticities instead of current and lagged price elasticities in your model. If confirmed, please explain why. If not confirmed, please explain.
- b. Please confirm that you model single-piece letters as a function of Standard bulk mail volume lagged four quarters. If confirmed, please explain why. If not confirmed, please explain.
- c. Please confirm that you treat the aggregate price of First-Class letters as being constant between the Postal Service's proposal and your proposal when calculating cross-price effects on First-Class cards and Standard regular mail. If confirmed, please explain why. If not confirmed, please explain.

RESPONSE

a. The basis of my volume forecasts are the volume regression estimated by USPS witness Thress. As I explain in my Workpaper 1 on pages 10 and 11, Thress estimated his equations on a quarterly basis while my analysis is on an annual basis. Since my analysis is annual, I have used the sums of the quarterly price coefficients presented in Thress' testimony.

b. Confirmed. The term in Thress' quarterly regression is for Standard Regular volume lagged one quarter. Since my analysis is on an annual basis, I cannot lag a variable one quarter. The choices are to make the variable contemporaneous or use its value in the previous period, *i.e.*, the previous year. Thress (USPS-T-7, pp. 22-26) discusses the inclusion of Standard Regular volume in his equations for First-Class letters (both single-piece and workshared). In the case of a First-Class single-piece letter, the First-Class single-piece letter is in response to a previously mailed Standard A Regular piece. Thus, the more appropriate of the choices of contemporaneous value or lagged value is the lagged value.

c. Not confirmed. The price used in the volume forecasts for First-Class private cards and Standard Regular is the price for First-Class single piece letters. The price of First-Class single piece letters is 33 cents in both the Postal Service's proposal and my alternative analyses. Thus, the First-class single-piece letter rates in the USPS proposal and my alternate proposal shown in Technical Appendix D are the same. In a hypothetical analysis of a hypothetical change in the First-Class single-piece letter rate, the rates shown under the USPS proposal and my alternate proposal would be different.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-37

On page 44 (lines 20-21) of your testimony, you claim that "the new own price elasticity for workshared First-Class mail indicates that there are competitive alternatives to the Postal Service for this mailstream." Please explain this statement.

RESPONSE

While all the germane own price elasticities (First-Class single piece, First-Class workshared, Standard A Regular, Standard A ECR) are inelastic, indicating limited competitive alternatives, the modestly less inelastic figures for Standard A have been used to justify much lower rates for those subclasses over the years on the grounds the elasticity indicates the presence of competitive alternative. The fact of absolute price inelasticity, indicating limited competitive alternatives for advertising mail, has been all but forgotten in the regulatory debate. Now, we are supplied for the first time by USPS with an own price elasticity for First-Class workshared mail which is closer to Standard A Regular mail than heretofore known (-0.289 vs. -0.382) and somewhat less price inelastic than First-Class single piece mail (-0.289 vs. -0.189).

Using the same logic that has been applied to Standard A mail rates for years, the less inelastic figure for First-Class workshared mail compared to single piece indicates the presence of competitive alternatives, and warrants somewhat lower rates than existing rates. The major competitive alternative I see for First-Class workshared mail is the growth of direct debit services that bypass use of the Postal Service.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-38

What are the "competitive alternatives to the Postal Service" for workshared First-Class letters? Do these competitive alternatives also exist for single-piece First-Class letters? Please explain any negative answer.

RESPONSE

See my response to USPS/ABA&EEI&NAPM-T1-37.

**RESPONSES OF ABA/EEI/NAPM WITNESS CLIFTON
TO INTERROGATORIES OF USPS**

USPS/ABA&EEI&NAPM-T1-39

Postal Service witness Thress made the following statement in oral cross-examination:

"[T]he goal of econometrics is to estimate the impact on in this case volume of a change in a particular factor, holding all other factors constant."

[Docket No. R97-1;Tr. 13/6827]

- a. Do you agree with this statement?
- b. With respect to the own-price elasticity of workshared First-Class letters estimated by witness Thress and cited by you on page 44 at line 23, what "other factors" are assumed to be held constant?
- c. If the price of workshared First-Class letters were increased by one percent, by what percentage would the price of single-piece First-Class letters have to increase in order for workshared First-Class letters volume to decline by exactly 0.289 percent?

RESPONSE

a. This may be a goal, but it is certainly not the only goal of econometrics. The goals of econometrics are much broader. For example, Henri Theil states that a goal of econometrics is, "the empirical determination of economic laws." (Henri Theil, Principles of Econometrics, New York: John Wiley & Sons, Inc., 1971, page 1). If this is the meaning that USPS witness Thress intends, then I agree with his statement.

b. The other factors held constant would be all other factors which could affect the volume of First-Class workshared mail. Only the price of First-Class workshared mail should vary if one wishes to measure solely the effect of the price of First-Class workshared mail on its volume.

A simple example may be helpful. Suppose the variable one wished to study was determined by only two factors, A and B. A regression containing both factors A and B as explanatory variables allows several analyses. One could determine the effect of changing only factor A and keeping factor B constant. Alternatively, one could determine the effect of changing only factor B and keeping factor A constant. A third possible analysis is to change both factor A and factor B and examine the result. In the analyses presented in my Technical Appendices C.1 and C.2, my alternate proposal includes more than one change from the USPS proposal and all the changes are properly accounted for in my volume forecasts and in the rest of the analysis.

c. If the price of First-Class workshared letters increase by one percent, then the elasticity of -0.289 estimated by USPS witness Thress would imply that the volume of First-class workshared letters should decline by 0.289 percent, holding other factors which influence this volume constant.

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Suppose that First-Class letter rates were increased by 10 percent across the board.

- a. Please confirm that all worksharing discounts for First-class letters would increase by 10 percent.
- b. Please confirm that, based on Postal Service witness Thress's estimated own-price elasticity of -0.189, this 10 percent increase in the price of single-price First-Class letters would lead to a decline of 1.89 percent in the volume of single-piece First-Class letters.
- c. Please confirm that, based on Postal Service witness Thress's estimated discount elasticity of -0.164, this 10 percent increase in the worksharing discount for First-class letters would lead to a decline of 1.64 percent in the volume of single-piece First-Class letters.
- d. Please confirm that the combined effect of the changes in parts b. and c. above would be for single-piece First-Class letters volume to decline by 3.5 percent.
- e. Please confirm that, based on Postal Service witness Thress's estimated own-price elasticity of -0.289, this 10 percent increase in the price of workshared First-Class letters would lead to a decline of 2.89 percent in the volume of workshared First-Class letters.
- f. Please confirm that, based on Postal Service witness Thress's estimated discount elasticity of 0.22, this 10 percent increase in the worksharing discount for First-Class letters would lead to an increase of 2.22 percent in the volume of workshared First-Class letters.
- g. Please confirm that the combined effect of the changes in parts e. and f. above would be for workshared first-Class letters volume to decline by 0.7 percent
- h. Would it be correct to interpret the result in section d. above as indicating that single-piece First-Class letters have an elasticity with respect to the price of First-Class letters equal to -0.35? If not, why not?
- i. Would it be correct to interpret the result in section g. above as indicating that workshared first-Class letters have an elasticity with respect to the price of First-Class letters equal to -0.07? If not, why not?
- j. Please confirm that single-piece First-Class letters are less price inelastic than workshared First-Class letters with respect to the price of First-Class letters. Please explain any negative response.
- k. Does this suggest that single-piece First-Class letters have more competitive alternatives than workshared First-Class letters? Please explain any negative answer.

RESPONSE

Note that your hypothetical is not possible under the whole cent rounding convention for single piece which would produce the hypothetical rate of 35.2 cents.

a.-g. Confirmed.

h. No. USPS witness Thress' volume regression for First-Class single-piece mail produces an elasticity of -0.189, holding other factors, including worksharing discounts, constant. The hypothetical has not held other factors constant; it also has changed the First-Class workshared discount. Please see my response to 39 b. above for a discussion of the inclusion of more than one factor in a regression analysis.

i. No. USPS witness Thress' volume regression for First-Class workshared mail produces an elasticity of -0.289 with respect to the First-class single-piece price, holding other factors, including

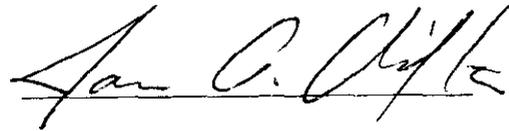
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worksharing discounts, constant. The hypothetical has not held other factors constant; it also has changed the First-Class workshared discount. Please see my response to 39 b. above for a discussion of the inclusion of more than one factor in a regression analysis.

DECLARATION

I, James A. Clifton, declare under penalty of perjury that the answers to interrogatories
USPS/ABA/EEI/NAPM-T-1-19-40 of the United States Postal Service are true and
correct, to the best of my knowledge, information and belief.

Executed FEB 13, 98

A handwritten signature in black ink, appearing to read "James A. Clifton", written over a horizontal line.

James A. Clifton