

BEFORE THE POSTAL RATE COMMISSION
WASHINGTON, DC 20268

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Complaint on Charges for the)
Bulk Parcel Return Service) Docket No. C99-4

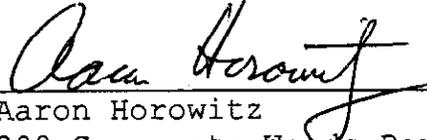
RESPONSES OF WITNESS LAWRENCE G. BUC FOR
THE CONTINUITY SHIPPERS ASSOCIATION
AND THE DIRECT MARKETING ASSOCIATION
TO THE INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE
(OCA/CSA-T1-6-16)

The Continuity Shippers Association and the Direct Marketing Association hereby provide responses of witness Lawrence G. Buc to the following interrogatories of the United States Postal Service: USPS/CSA-6-16, filed on January 12, 2000.

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

Dated: January 18, 2000

Respectfully Submitted,


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Attorney for the Continuity
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USPS/CSA-T1-6.

Please refer to your testimony at page 5, where you state: "when originally established, the coverage for BPRS was set at 156%. Under the 1998 BPRS cost study (as revised), the actual coverage is 168%."

- a. Please provide your understanding of the basis for establishing the original BPRS cost coverage at 156 percent.
- b. Please provide your understanding of the system-wide cost coverage at the time the BPRS cost coverage was originally set at 156 percent.
- c. Please provide your understanding of the system-wide cost coverage to which the 168 percent should be compared.

RESPONSE:

- a. I do not have any understanding for the basis for establishing the original BPRS cost coverage at 156%. I have been informed that the BPRS rate of \$1.75 was the result of a negotiation between the Postal Service and the Association for Postal Commerce (formerly the Advertising Mail Marketing Association). The attributable cost and cost coverage to comprise that \$1.75 was not part of the negotiation. After the parties agreed to the \$1.75 figure, the Postal Service derived cost figures and cost coverage figures that appeared in the MC97-4 case.
- b. I understand that the system-wide cost coverage at the time that the BPRS cost coverage was created was 156%.
- c. The cost coverage of 168% should be compared to the 135% cost coverage for Standard Mail (A) regular. As for a comparison to system-wide average, I would compare it to the 156% discussed above.

USPS/CSA-T1-7.

Please refer to your testimony at page 5 where you state that the appropriate cost coverage for BPRS is 135 percent, "the coverage applied to Standard A Regular mail."

- a. Please provide your understanding of the contents of BPRS and the contents of Standard Mail (A) Regular.
- b. Please confirm that the levels of mail preparation (criterion 6 of the pricing criteria set forth in section 3622(b)) are not identical for Standard Mail (A) Regular and BPRS.
- c. Please confirm that criterion 2 of the nine pricing criteria refers to the value of the mail to both the sender and the recipient.
 - i. If you do not confirm, please explain fully.
 - ii. If you do confirm, please explain how the value of returned pieces (in BPRS) is the same to the sender and recipient as the value of Standard Mail (A) Regular.

RESPONSE:

- a. The contents of BPRS are machinable Standard (A) parcels that weigh less than 16 ounces. In practice, BPRS parcels contain merchandise.
- b. There are several different mail preparation levels for Standard Mail (A) Regular, and thus BPRS could not be identical with all of them.
- c. Confirmed. The "value of service" is one of the nine factors under the Act that are used to determine the cost coverage. On an overall balance, both BPRS and Standard Mail (A) Regular should have the same cost coverage. In addition, BPRS and Standard Mail (A) Regular share several significant similarities under the "value of service" criterion, including the same mode of transportation, lower priority of service, etc.

USPS/CSA-T1-8.

Please refer to your testimony at page 5 where you refer to the comparison of the cost coverages for Bound Printed Matter and Standard Mail (A) to the cost coverage for BPRS. Please also refer to your testimony at page 9 where you state that ECSI value does not apply to BPRS.

- a. Confirm that the Commission has applied consideration of ECSI value to the development of rate levels for Bound Printed Matter.
 - i. If you cannot confirm, please explain fully.
 - ii. If you do confirm, please explain fully how ECSI value should be applied to returned material in BPRS.
- b. Confirm that the Commission does not apply consideration of ECSI value to the development of rate levels for Standard Mail (A). If you cannot confirm, please explain fully.

RESPONSE:

- a. Confirmed. ECSI value should not be applied to returned material under BPRS.
- b. Confirmed.

USPS/CSA-T1-9.

Please refer to your testimony at page 5 and your statement that the "Postal Service's assumption of costs at their upper bounds should lead to cost coverage at its lower bounds in order to maintain a fair and equitable schedule."

- a. Please provide the basis for this statement.
- b. Please provide any reference to past Commission Opinions in which this principle was applied or referred to.
- c. Is it your testimony that this principle should be applied to any and all rate level development?
- d. Is it your testimony that the opposite is also true, that when costs have been measured using incomplete information with the possibility that they are actually higher, the cost coverage should be set higher in order to compensate. Please explain fully.

RESPONSE:

- a. The rate for any rate cell is a function of both the attributable costs and the cost coverage. Where either element is skewed (either upwards or downwards), the other should be adjusted to obtain the appropriate rate and thus maintain a fair and equitable schedule.
- b. I am not aware of any references to this principle in past Commission Opinions.
- c. See response to a.
- d. See response to a.

USPS/CSA-T1-10.

Please refer to your testimony at pages 5 and 6 where you refer to the value of service for BPRS being lower than that of Standard Mail (A) Regular.

- a. Is it your understanding that recipients of Standard Mail (A) Regular materials, specifically advertising materials, value unsolicited Standard Mail (A) to the same degree that they do BPRS merchandise? Please provide the basis for your understanding.
- b. Please confirm that recipients of Standard Mail (A) Regular advertising materials do not, in general, return to the sender the advertising materials that they do not value.
- c. Please confirm that recipients of Standard Mail (A) Regular advertising materials have often done nothing to ensure that they received those materials (such as request a catalog or place their names on mailing lists). If you do not confirm, please explain fully.

RESPONSE:

- a. I do not know. If the advertising provides information on products that they would like to purchase, the recipient may consider the advertising piece to be more valuable than the BPRS merchandise. If the advertising piece provides information on products that they would not like to purchase, they may consider the advertising piece to be less valuable than the BPRS merchandise.

The recipient of BPRS merchandise considers the merchandise to be more valuable on the outbound leg than the return leg. On the outbound leg, the recipient is receiving merchandise that they may purchase (which occurs much more frequently than returns). On the return leg, the BPRS merchandise is shown not be of value to the original recipient.

- b. Confirmed.
- c. Confirmed.

USPS/CSA-T1-11.

Please refer to your testimony at page 7 where you describe the return of merchandise as representing the "conclusion of a business relationship." Is it your understanding that the sending of unsolicited Standard Mail (A) advertising materials constitute the beginning of a "business relationship?" If so, please explain fully. If not, please explain the circumstances under which non-merchandise Standard Mail (A) Regular materials would represent the beginning or continuance of a "business relationship."

RESPONSE:

The advertising piece may be the beginning or continuation of a business relationship. It provides information on products to which the recipient may respond.

USPS/CSA-T1-12.

What percent of Standard Mail (A) Regular advertising mail is discarded without being read? Please provide the basis for this understanding.

RESPONSE:

According to the Postal Service Household Diary Study for the fiscal year 1998, 18.2% of advertising mail was discarded. This percentage relates to the value of the mail on the outgoing, rather than the return, leg.

USPS/CSA-T1-13.

Please refer to your testimony at pages 7 and 8 where you describe the additional costs to Cosmetique of handling and/or re-introducing product into inventory. Please confirm that Cosmetique would not be re-introducing product into inventory were it not cost-effective for Cosmetique to do so. If you cannot confirm, please explain fully.

RESPONSE:

Confirmed. This is also true for any return service.

USPS/CSA-T1-14.

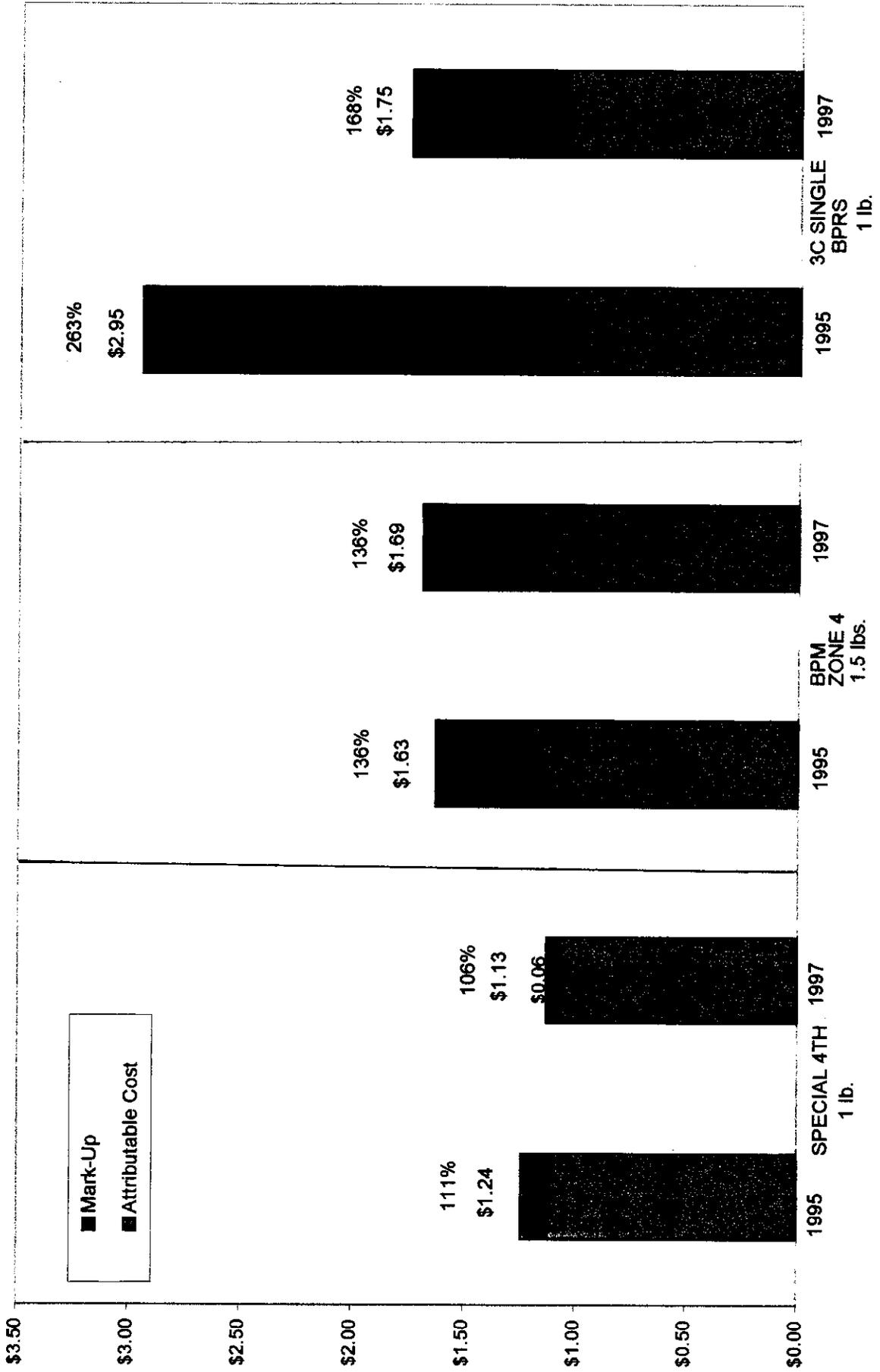
Please refer to your testimony at page 8 where you discuss criterion 4 of the pricing criteria.

- a. Please confirm that the introduction of the BPRS fee represented a significant decrease in the rates or fees paid by continuity mailers for the return of their rejected materials. If you cannot confirm, please explain fully.
- b. Please provide your understanding of any rate increases or decrease which have been applied to the other rate categories or subclasses which you use as the basis for comparison to the cost coverage for BPRS since the time that the BPRS fee was introduced.

RESPONSE:

- a. Confirmed. In January 1995, the Third Class single piece rate (which applied to these returns prior to BPRS) increased by 165% in the higher weight limits. In October 1997, BPRS was created which represented a significant decrease in rates.
- b. See Chart #1 Attached.

COMPARISON OF RATES FOR RETURN SERVICES



USPS/CSA-T1-15.

Please provide your understanding of the basis upon which the Commission set the cost coverage for Standard Mail (A) Regular at 135 percent.

RESPONSE:

The Commissions discussion of this subject can be found at pages 433-436 in its Recommended Decision from R97-1.

USPS/CSA-T1-16.

Please refer to your response to OCA/CSA-T1-5 where you confirm that mailers without economically realistic alternatives would exhibit a low elasticity of demand. You state that "BPRS users do not have a realistic economic alternative or available substitutes for the outbound Standard (A) mail delivery either." It is your understanding that the Commission did or did not take into account the elasticity of demand for outbound Standard Mail (A) when setting the cost coverage for Standard Mail (A)? Please explain your response fully.

RESPONSE:

I understand that the Commission took into account the elasticity of demand for outbound Standard Mail (A) when setting the coverage. The point is that the same low elasticity of demand applies to both BPRS and to outbound Standard Mail (A) (along with numerous other characteristics which are the same). Given the sameness between the outbound Standard Mail (A) Regular and the return under BPRS, the same cost coverage should apply to both.

DECLARATION

I, Lawrence G. Buc, do hereby declare under penalty of perjury that the answers to the foregoing Docket No. C99-4 interrogatories are true to the best of my knowledge, information and belief.

Dated: January , 2000


Lawrence G. Buc

CERTIFICATE OF SERVICE

This will certify that the foregoing Answers to the Postal Service Interrogatories 6-16 were served on January 18, 2000, by first class mail, on the following:

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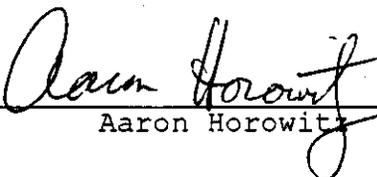
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