

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

RECEIVED

FEB 23 3 55 PM '00

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS THRESS TO INTERROGATORIES OF
THE MAJOR MAILERS ASSOCIATION,
REDIRECTED FROM WITNESS TOLLEY
(MMA/USPS-T6-1-4)

The United States Postal Service hereby provides the responses of witness Thress to the following interrogatories of the Major Mailers Association, redirected from witness Tolley: MMA/USPS-T6-1-4, filed on February 9, 2000.

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



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992 Fax -5402
February 23, 2000

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION
REDIRECTED FROM WITNESS TOLLEY**

MMA/USPS-T6-1 In Table 1 on page 5 of your prepared testimony, you provide volume projections for all subclasses of mail on a Before-Rates and After-Rates basis. For First-Class Single Piece you show a small decline, whereas for First-Class Workshared you show a significant gain.

(a) Is the volume growth in First-Class Workshared letters coming from the Single Piece category? Please explain your answer.

(b) Assuming your answer to part (a) is yes, is the migration from Single Piece to Workshared increasing, staying about the same, or decreasing? Please explain your answer.

RESPONSE:

(a) The projected growth in First-Class workshared letters volume is due, in part, to continued migration of some mail from single-piece to workshared First-Class letters.

(b) Single-piece and workshared First-Class letters volumes are forecasted using a number of variables, including time trends. Migration between these two categories, independent of changes in worksharing discounts and the effect of classification reform (MC95-1), is captured primarily through these trend terms. The trends are projected to continue to affect mail volume at approximately the same rate in the forecast period as has been true historically.

This is consistent with a constant migration of mail from single-piece to workshared First-Class letters over time, although no explicit projection of the rate at which First-Class letters shift from single-piece to workshared letters is made.

RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION
REDIRECTED FROM WITNESS TOLLEY

MMA/USPS-T6-2 On page 37 of your prepared testimony, you state, "It is estimated that a one percent increase in the average discount for workshared letters leads to a 0.139 percent decline in the volume of single-Piece letters."

(a) Is it true that your statement applies so long as the average discount for workshared letters remains within a certain, narrow range? Please explain your answer.

(b) For what range of average discount amounts does your estimate apply?

(c) Is there a minimum average discount amount at which point the elasticity will decrease very quickly, i.e., the discount will be so low that the Single Piece Volume will no longer decline? If so, please state what that discount amount is.

(d) Is there a maximum average discount amount at which point the elasticity will increase very quickly, i.e., the discount will be so high that the Single Piece volume will decline at a much greater rate? If so, please state what that discount amount is.

(e) What kinds of mail migrate from First-Class Single Piece to Workshared? Please provide all Postal Service studies, analyses, and other documents that discuss migration of mail from First-Class Single Piece to Workshared.

RESPONSE:

(a) In general, econometric estimates are most valid for data which falls within the range over which the econometric estimates are made. Econometric estimates may, however, continue to provide the best possible forecast, even if the data are significantly different from their historical range.

(b) The discount elasticity was estimated over a time period from 1983Q1 through 1999Q4. Over this time period, the average worksharing discount for First-Class letters, expressed in 1999 dollars (i.e., adjusting for inflation over this time period) has varied from just over 4.5 cents to just under 7.0 cents (in 1999 dollars). Both the Test Year before-rates and after-rates discounts, of 6.7 cents and 6.6 cents, respectively (in 1999 dollars), fall well within this range.

(c) If the worksharing discount were decreased, then, all other things being equal, the

RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION
REDIRECTED FROM WITNESS TOLLEY

volume of workshared First-Class letters would decline, and the volume of single-piece First-Class letters would increase. This is true at any discount level. Hence, the premise of your question, that the discount has to be low in order for single-piece letter volume to no longer decline, does not appear to me to be valid.

As the discount declines, mail will shift from workshared to single-piece First-Class letters. This will lead to an increasing volume of single-piece mail that could migrate to workshared First-Class letters in response to increases in the workshare discount. Hence, as the discount declines, a greater percentage of single-piece mail could be affected by future changes to the discount, so that, as the discount declines, the discount elasticity will increase.

(d) There likely exists some discount at which all mail that would ever be workshared will, in fact, be workshared. If such a discount were reached, then any further increase in the discount would have no additional effect on the volume of either single-piece or workshared First-Class letter volume. Therefore, to the extent that the discount elasticity of single-piece and workshared First-Class letters may not be constant at extreme values, it is most likely to be the case that the elasticity will decrease as the discount increases.

It does not appear that either of the scenarios described in sections (c) and (d) has occurred, given the discounts offered by the Postal Service historically. Therefore, I could not state with any degree of certainty at what, if any, discount levels the assumption of a constant discount elasticity would no longer be valid.

(e) I am unaware of any studies of the types of mail that migrate from single-piece to workshared First-Class Mail.

RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION
REDIRECTED FROM WITNESS TOLLEY

MMA/USPS-T6-3 On page 41 of your prepared testimony you discuss the increased role of presort bureaus as a major source for workshared letters.

(a) What portion off workshared letters will come from presort bureaus in the Test Year? Please support your answer.

(b) For First Class letters that you have found are increasingly being converted to prebarcoded automation letters by presort bureaus, please describe the degree of mail preparation such letters received and postal system entry methods single piece mailers used before such mail began to be commingled with other First Class letters by presort bureaus.

(c) How many bulk metered mail (BMM) letters will be sent out at the First-Class Single Piece rate in the Test Year?

RESPONSE:

I am unaware of any information of this type.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION
REDIRECTED FROM WITNESS TOLLEY**

MMA/USPS-T6-4 On page 39 of your testimony you note that MC95-1 imposed greater workshare requirements on mailers while also providing them with greater workshare discounts.

(a) Was one of those new workshare requirements to increase the minimum number of pieces needed to qualify for the to a 3-digit zip code discount, from 50 pieces to 150 pieces?

(b) Was one of those new workshare requirements to increase the minimum number of pieces needed to qualify for the 5-digit zip code discount, from 10 pieces to 150 pieces?

(c) Would the imposition of such new workshare requirements tend to shift mail from one presort category to another presort category, resulting in the mailer receiving a lower discount? If not, please explain your answer.

RESPONSE:

(a) Yes

(b) Yes

(c) All other things being equal, the imposition of new, more stringent workshare requirements would likely cause some mail to shift into a lower-discount presort category.

DECLARATION

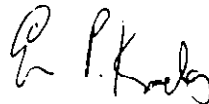
I, Thomas Thress, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.


(Signed)

4-23-00
(Date)

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.



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992 Fax -5402
February 23, 2000