

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

RECEIVED  
MAR 8 4 40 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 ASSOCIATION OF AMERICAN PUBLISHERS,  
(AAP/USPS-T7-1 - 7)

The United States Postal Service hereby provides the responses of witness Thress to the following interrogatories of AAP: AAP/USPS-T7-1 - 7, filed on February 23, 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  
March 8, 2000

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-1** On page 68 of your testimony, you state that "Generally, bound printed matter falls into one of three categories: catalogs, books (including telephone books in some areas), and direct mail advertising weighing sixteen ounces or more." With respect to this statement:

(a) Please identify and provide all studies, reports, data or other evidence that you relied upon to support this statement.

(b) Please provide any actual data or estimates available that show the amount of Bound Printed Matter ("BPM") that falls into each of the three major categories of BPM identified by your testimony.

**RESPONSE:**

(a) This statement was made based on my understanding of what types of material are mailed as bound printed matter, based on conversations with various Postal Service personnel over the years.

(b) Please see Dr. Tolley's response to AAP/USPS-T6-6.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-2** On page 69 of your testimony, you explain that the effect of the gradual migration from Special Rate mail into BPM after 1979Q1 is "modeled by including logistic market penetration variables in the demand equations for bound printed matter and special rate mail volumes." With respect to this statement, please explain if this gradual migration is the only effect captured by the market penetration z-variables in the BPM and in Special Rate demand equations or if there are additional effects captured by the use of these variables. If additional effects are captured, please list all such additional effects and quantify the extent to which the market penetration variables in BPM and Special Rate capture each additional effect.

**RESPONSE:**

I would say that this gradual migration is the primary effect captured by the market penetration variable in the Special Rate demand equation. In the case of bound printed matter, however, it appears that the z-variable is also taking account of some general growth in the number of catalogs through the 1980s and 1990s.

The volume growth in bound printed matter due to the z-variable is comparable in magnitude to the volume loss for special rate mail due to that z-variable through 1987. Hence, until that time, the z-variables are both consistent with a simple shift between these two subclasses. Since 1988, however, the positive z-variable in the bound printed matter equation is much stronger than the negative z-variable in the special rate equation. This implies that some other factor, or factors, such as the growth in the mail-order retail sales industry over this time period (see, for example, Dr. Tolley's response to AAP/USPS-T6-1), is being explained by the z-variable since 1988. This additional factor, or factors, being picked up by the bound printed matter z-variable, explain approximately a 40 percent increase in the volume of bound printed matter, primarily from 1988 until 1996.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-3** On page 70 (lines 10-11) of your testimony, you state that with respect to the BPM demand equation, a dummy variable equal to one (1) has been included since 1998Q1 "to account for an otherwise unexplained decline in bound printed matter of 10-11 percent since 1998." With respect to this statement, please describe any attempts to explain this decline using alternative model specifications or alternative data. In addition, please provide any actual equations that were estimated in these attempts and explain why each attempt to explain this decline was ultimately rejected.

**RESPONSE:**

I made no additional attempts to explain this downturn other than to include the dummy variable that was ultimately included in my testimony.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-4** With respect to the three parameters used in calculating the z-variable for BPM in Table II-14 listed on page 74 of your testimony (lines 14-17), please explain why three parameters were estimated for BPM and state the basis used to estimate each of these three parameters.

**RESPONSE:**

Please see my testimony at pages 124 through 128, especially page 127, lines 11 through 18, where the three parameters used to fit the z-variables estimated in my testimony are described in more detail.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-5** With respect to the three parameters used in calculating the z-variable for Standard Special Rate in Table II-15 listed on page 75 of your testimony (lines 13-16), please explain why these three parameters differ from the three parameters used for BPM shown in Table II-14 listed on page 74 of your testimony (lines 14-17).

**RESPONSE:**

Please see my response to AAP/USPS-T7-4.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-6** At lines 18-19 of page 126 of USPS-T-7, you state that the z-variables used for BPM and Special Rate mail "model more pure market penetration from special rate mail into bound printed matter." With respect to this statement:

(a) Please explain, in detail, what is meant by use of the phrase "more pure market penetration."

(b) Do these z-variables measure only (i.e. pure) market penetration into BPM from Special Rate Matter or do these z-variables explain something else in addition to market penetration into BPM from Special Rate? Explain your answer fully.

**RESPONSE:**

(a) My intention here was to indicate that these z-variables account for an explicit shift of mail directly from the special rate subclass to the bound printed matter subclass, in approximately a one-for-one shift, as opposed to my use of a z-variable in the private First-Class cards equation, which reflects a shift between types of advertising media, which can be translated into a shift in mail volume only indirectly.

(b) Please see my response to AAP/USPS-T7-2.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-7** Please identify and provide all workpapers and computer analyses relied upon to estimate the market penetration variables for BPM and for Special Rate Mail set forth on page 126 of your testimony (17-23).

**RESPONSE:**

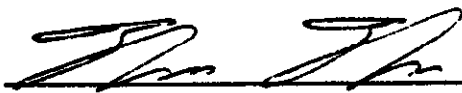
The computer programs used to develop the demand equations for bound printed matter and special rate mail were filed in Library Reference LR-I-122. See, in particular, the files, DEQN.SAC, PROGGUTS.SAC, VOL28.SAC, and VOL29.SAC, which are run using SORITEC for Windows 95. The specific portion of the program used to estimate the market penetration variables is found in the program PROGGUTS.SAC, and is printed at pages 215 - 217 of Library Reference LR-I-122, within the macro zcalc.

The regression output for bound printed matter and special rate mail is presented in Workpaper 1 accompanying my testimony at pages 135 through 147.



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)

March 6, 2000  
(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.

A handwritten signature in black ink, appearing to read "E. P. Koetting", is written over a horizontal line.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992 Fax -5402  
March 8, 2000