

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

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS MAYES TO INTERROGATORIES OF
THE ASSOCIATION OF AMERICAN PUBLISHERS
(AAP/USPS-T32-1-10)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of the Association of American Publishers: AAP/USPS-T32-1-10, filed on March 12, 2000.

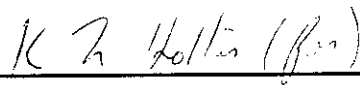
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

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.

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March 16, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-1. On page 5 (lines 7-8) or [sic] your testimony, you state that "[t]he lower (in absolute value) the own price elasticity, the higher the value of service." On the basis of the long-run own-price demand elasticities that are shown in Table 2 on page 6 of your testimony, it appears that Bound Printed Matter ("BPM") exhibits lower own-price demand elasticity than any of the following sub-classes: First Class Cards – Stamped, First Class Cards – Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR Mail and Parcel Post. With respect to the own-price demand elasticities shown on Table 2:

(a) Please confirm that the own-price demand elasticities shown in Table 2 for BPM are lower than the own-price elasticities shown for any of the following subclasses: First Class Cards – Stamped, First Class Cards – Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR Mail and Parcel Post.

(b) Please confirm that, on the basis of the own-price demand elasticities shown in Table 2, BPM is a more highly valued service as per criterion 2 of Section 3622(b) of the Postal Reorganization Act than any of the following subclasses: First Class cards – Stamped, First Class Cards – Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR Mail and Parcel Post.

Response:

(a) Confirmed.

(b) Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-2. On page 8 of your testimony, you discuss criterion 4 of Section 3622(b) of the Postal Reorganization Act. You state that this criterion "provides for consideration of the effect of rate increases on mailers and private-sector competitors of the Postal Service." In view of the rate increase proposed for Bound Printed Matter ("BPM") in this case, please explain fully how you considered the effect of the proposed rate increase on BPM mailers. In particular, please explain if any lower rate increases for BPM were ever considered by the Postal Service.

Response:

Please refer to Exhibit USPS-14M at page 20 where the TYAR unit volume-variable cost for Bound Printed Matter is shown as 91.3 cents. Please also refer to the Commission's Opinion and Recommended Decision from Docket No. R97-1 at Schedule 1 of Appendix G where the unit cost for Bound Printed Matter is shown as 67.327 cents. This increase of almost 36 percent from the cost upon which the current rates were developed to the costs upon which the proposed rates were developed in this case reflects some differences in costing methodology. A comparison of the Cost and Revenue Analysis reports for FY 1996 (the base year for Docket No. R97-1) and FY 1998 as calculated using the Commission's costing methodology shows an increase of 45 percent in Bound Printed Matter attributable costs. With regard to either cost comparison, a proposed increase in the rates of 18 percent represents significant mitigation in the rate impact. Had the same markup been applied to Bound Printed Matter in this case as was recommended by the Commission in Docket No. R97-1, the rate increase would have been over 30 percent rather than the 18 percent that

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Response to AAP/USPS-T32-2, cont'd

resulted when the markup was cut by half relative to the Commission's R97-1 recommendation. Please also refer to Library Reference LR-I-149 where the comparison of markup indices demonstrates that the markup index for Bound Printed Matter dropped from .644 as recommended by the Commission in R97-1 to the .259 as implied by the proposals in this case.

In developing the proposals for this case, I also considered that in Docket No. R97-1, Bound Printed Matter received a rate increase of 5% and that the volume growth had been tapering off in recent years, turning to a loss of volume in FY 1998 relative to FY 1997. I also considered the volume impact of the rate increase, shown as a loss of about 3 percent of Bound Printed Matter from TYBR to TYAR.

In the iterative process of developing rate levels in order to achieve financial breakeven consistent with the pricing criteria, many different percent changes were considered for most subclasses, some of them lower than the ones proposed. In most instances, the lower rate increases from earlier iterations had to be replaced with higher rate increases when it became clear that financial breakeven would not be achieved.

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AAP/USPS-T32-3. On page 9 of your testimony, you discuss criterion 5 of Section 3622(b) of the Postal Reorganization Act. You states [sic] that "[t]his criterion requires the consideration of the availability, at reasonable cost, of alternative means of sending and receiving mail." With respect to this criterion, please explain whether the estimation of "cross-price" elasticities identify and measure the considerations applicable to this criterion. If not, please explain how alternative means of sending and receiving mail are identified and measured.

Response:

It is my understanding that witnesses Tolley's (USPS-T-6) and Thress's (USPS-T-7) forecasting model does not include any cross-price elasticities for Bound Printed Matter. For the most part, the identification of alternatives is the result of accumulation of qualitative information and does not represent a measurable variable.

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AAP/USPS-T32-4. On page 11 of your testimony, you discuss criterion 8 of Section 3622(b) of the Postal Reorganization Act. You state that, in the past, the criterion 8 has been applied by the Commission "in setting rate levels for First Class Letters, Regular Periodicals, Special Standard Mail and, to some degree, Bound Printed Matter." With respect to this statement:

- (a) Please explain why criterion 8 is only applied to BPM "to some degree." To what extent or degree is criterion 8 not applied to BPM?
- (b) Please explain the extent or degree to which criterion 8 has been applied by the Commission in setting rate levels for First Class Letters, Regular Periodicals and Special Standard Mail.
- (c) Please explain the differences, if any, in the extent or degree of application of criterion 8 to Special Standard Mail as compared to BPM.
- (d) Please explain the differences, if any, in the degree of application of criterion 8 to Regular Periodicals as compared to BPM.

Response:

Bound Printed Matter contains books and directories, both of which would warrant ECSI value consideration. It also contains catalogs that would not warrant ECSI value consideration.

I am unaware that the Commission ever indicated how many points of cost coverage it was shaving in deference to ECSI value consideration for any subclass of mail. Thus, I cannot specify the degree or extent to which the Commission has applied ECSI value to one subclass more than another. However, please refer to the Commission's Opinion and Recommended Decision in Docket No. R94-1 at V-127 and V-128 where it states:

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

Response to AAP/USPS-T32-4, cont'd

In Docket No. R90-1, the Commission allowed the markup for bound printed matter to decline to slightly below the systemwide average in recognition of the migration of books into this subclass. PRC Op. R90-1, para. 6519. By this action, the Commission gave weight to section 3622(b)(8). Nevertheless, the Commission stated that, on balance, there should be a "generally similar markup for third-class regular rate and bound printed matter." *Id.*, para. 6520. (PRC Op. R94-1, para. 5388)

Please also refer to PRC Op. R94-1, para. 5370 where the Commission states that "Special-rate fourth class is normally entitled to a cost coverage below parcel post due to section 3622(b)(8)." Please also refer to the same Recommended Decision where the Commission states:

In the past, the Commission has identified the letter subclass of First-Class Mail as one to which the ECSI considerations of subsection 3622(b)(8) are applicable. The Commission's recommendations for First-Class letters reflect this factor by recognizing the importance of an affordably-priced communications medium for the general public and for businesses and organizations. PRC Op. R94-1, para. 5068.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-5. On page 43 of your testimony, you state that the "average" rate increase proposed for BPM in this case is 18.1%. You also state that the proposed rate increase for BPM is "the highest rate increase proposed for any subclass in this case." With respect to this statement, please identify and provide all calculations or data that show how the "average" percentage increase for BPM was calculated.

Response:

Please refer to the testimony of witness Kiefer, USPS-T-37, Tables 17 and 18.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-6. On page 43 (lines 19-20) of your testimony you state "[i]n common with Parcel Post, the intrinsic value of service for Bound Printed Matter is relatively low (criterion 2)." With respect to this statement, please confirm that the own-price demand elasticity shown for Parcel Post (-1.230) in Table 2 of your testimony is more than three times the own-price demand elasticity shown in the same Table for BPM (-.392).

Response:

Confirmed. I would note that the own-price elasticities are usually referred to as measures of "economic value of service" and not "intrinsic value of service," with the latter being more closely associated with the value of service for a particular subclass relative to the service provided for other *postal* services.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-7. On page 43 (lines 20-22) of your testimony, you compare the own-price demand elasticity of BPM with the own-price demand elasticity of Standard Mail A. With respect to this comparison, please confirm that the own price elasticities shown for Standard Mail A Regular (-0.570) and Standard Mail A ECR (-0.808) in Table 2 of your testimony are, respectively, more than 45.4% higher (Standard Mail A Regular) and 106.1% higher (Standard Mail A ECR) than the own-price demand elasticity shown in Table 2 for BPM (-.392).

Response:

Confirmed.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-8. On page 44 (lines 21-22) of your testimony, you state that with respect to Bound Printed Matter "[s]ome of the uses for catalogs and directories may be satisfied by internet access to the material and listings." Please identify and provide all studies, reports, data or other evidence that you relied upon to support this statement.

Response:

I did not rely upon any studies or reports to support that statement. I personally use websites to look up phone numbers rather than relying on hard-copy telephone directories or calling telephone company information services. My undergraduate university published its alumni directory as a website rather than as a hard-copy book. I have also used websites to access material that otherwise would have been sent in a hard-copy catalog. Some large catalogs, such as for industrial or automotive parts, not only provide ordering capability on-line, but also permit the on-line customer to request a hard-copy catalog. It is my understanding that some publications that would otherwise have been produced in book format have been published instead as downloadable material.

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO AAP INTERROGATORIES

AAP/USPS-T32-9. On page 45 (lines 1-2) of your testimony, you state that "[o]ver a period of years, a substantial number of books have been mailed as Bound Printed Matter." Please identify and provide all studies, reports, data or other evidence that you relied upon to support this statement.

Response:

The most recent data of which I am aware indicated that in FY 1997 about 52 percent of Bound Printed Matter pieces, including both bulk and single-piece, were classified as "books." The comparable figure for FY 1996 was also 52 percent. In addition, please refer to the Commission's Opinion and Recommended Decision from Docket No. R90-1 at V-373 through V-377 for the discussion of eligibility of books as Bound Printed Matter. In particular, the Commission notes that "Witness Pello, representing Time Warner and AAP-RIAA, testifies that most of the major publishers have already completed their migration to bound printed matter." (PRC Op. R90-1, V-374 at [6503]).

REVENUE, PIECES, AND WEIGHT REPORT ADJUSTMENT SYSTEM
 GOVERNMENT MAIL
 GOVERNMENT FISCAL YEAR 1996
 TOTAL PIECES

DATE: 04/18/97

CLASS CATEGORY	MAIL CATEGORY	DOMESTIC PROBABILITY (COL 1)	INTERNATIONAL SIRVO (COL 2)	REGISTERED COD-ADJUSTMENT (COL 3)	SUM OF COLUMNS 1, 2, & 3	TOTAL * BOOK REV ADJ FACTOR	NONCOUNTABLE PIECES	GRAND TOTAL PIECES
9540	4201 4 BPM SP AG	33,054			33,054	41,803	1,145,087	1,188,890
9541	4221 4 BPM BLK BA AG	1,173			1,173	1,101	0	1,101
9542	4251 4 BPM SP BOOKS AG	30,911			30,911	41,760	0	41,760
9543	4271 4 BPM BLK BA BOOKS AG	7,639			7,639	7,541	0	7,541
9550	4231 4 BPM BLK CR AG	0			0	0	0	0
9551	4281 4 BPM BLK CR BOOKS AG	0			0	0	0	0

	B	C	D	E	F
5	Y RPW DATA - SORTED BY MAIL CATEGORY CODE WITHIN TWO-PAGE CATEGORY CODE				
6	YEAR 1997, Quarter 7 (**records should be rows 10-774**)				
7					
8	MAILCAT	REVENUE	PIECES	WEIGHT	LABEL
9					
10	4210	9,415	0	0	STD B BPM COMB ENCL
11	4220	126,572,636	148,650,089	358,224,347	STD B BPM BULK RATE
12	4221	2,957,903	1,195,513	4,239,275	AGN STD B BPM BULK RATE
13	4222	0	0	0	CONGR FRANK STD B BPM BULK RATE
14	4223	0	0	0	OTH FRANK STD B BPM BULK RATE
15	4230	54,784,337	87,994,064	195,999,182	STD B BPM BULK RATE CRT
16	4231	0	0	0	AGN STD B BPM BULK RATE CRT
17	4232	0	0	0	CONGR FRANK STD B BPM BULK RATE CRT
18	4233	0	0	0	OTH FRANK STD B BPM BULK RATE CRT
19	4250	25,259,656	14,489,696	35,636,042	STD B BPM BOOKS
20	4251	63,949	35,663	124,716	AGN STD B BPM BOOKS
21	4252	0	0	0	CONGR FRANK STD B BPM BOOKS
22	4253	0	0	0	OTH FRANK STD B BPM BOOKS
23	4260	275,923	0	0	STD B BPM COMB ENCL BOOKS
24	4270	211,901,808	239,938,649	589,616,050	STD B BPM BULK RATE BOOKS
25	4271	162	191	596	AGN STD B BPM BULK RATE BOOKS
26	4272	0	0	0	CONGR FRANK STD B BPM BULK RATE BOOKS
27	4273	0	0	0	OTH FRANK STD B BPM BULK RATE BOOKS
28	4280	11,480,948	18,536,625	30,066,577	STD B BULK RATE BPM CRT BOOKS
29	4281	0	0	0	AGN STD B BPM BULK RATE CRT BOOKS
30	4282	0	0	0	CONGR FRANK STD B BULK RATE BPM CRT BOOKS
31	4283	0	0	0	OTH FRANK STD B BPM CRT BOOKS

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AAP/USPS-T32-10. On page 45 (lines 3-4) of your testimony, with respect to BPM, you assert that the Postal Service "has given the subclass some ECSI consideration in setting rate levels, and the Postal Service proposal in this proceeding does so as well (criterion 8)." With respect to this statement:


- (a) Please explain fully what is meant by "some" ECSI consideration with respect to BPM.
- (b) Please explain the extent to which the number of books sent as BPM is considered in determining the extent or degree of ECSI consideration given to BPM.
- (c) Please confirm that the number of books sent as BPM affects the degree of ECSI consideration given to BPM.

Response:

- (a) Please see my response to your AAP/USPS-T32-4.
- (b) – (c) I would expect that if the share of books overwhelmingly dominated the subclass, ECSI value consideration would become more important in rate design. However, I think that examination of the Commission's treatment of such subclasses as First-Class Letters or Periodicals where the mail consists of both material which would warrant ECSI value consideration (personal correspondence or editorial content, for example) as well as advertising or other matter which would not warrant ECSI value consideration could be instructive.

DECLARATION

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


Virginia J. Mayes

Dated: 3-16-00