

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

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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 COALITION OF RELIGIOUS PRESS ASSOCIATIONS,
REDIRECTED FROM WITNESS TOLLEY
(CRPA/USPS-T6-2 - 4)

The United States Postal Service hereby provides the response of witness Thress to the following interrogatories of the Coalition of Religious Press Associations: CRPA/USPS-T6-2 -4, filed on March 9, 2000, and redirected from witness Tolley.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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March 23, 2000

**RESPONSE OF POSTAL SERVICE WITNESS THRESS
TO INTERROGATORIES OF COALITION OF RELIGIOUS PRESS ASSOCIATIONS
REDIRECTED FROM POSTAL SERVICE WITNESS TOLLEY**

CRPA/USPS-T6-2 Please refer to your testimony on page 96 where you present a volume forecast for periodicals nonprofit mail. You acknowledge that "the Base Year rates are a mix of R97-1 rates and the rates that prevailed before R97-1 took effect." The impact of new postal rates upon periodicals volume is, as you know, typically delayed because subscriptions sold under the prior rates have several months to run before they expire. And only later, when those subscriptions are renewed, do they include the cost of increased postage.

When you combined partial-year data from each portion of the Base Year (i.e., a before-R97-1 portion and a post-R97-1 portion) to calculate this forecast, did you allow for the delayed impact of new rates on periodicals due to the fact that the existence of subscriptions defers the impact of new rates on postal volumes?

RESPONSE:

The delayed impact of new rates on periodicals is accounted for through the inclusion of lags of the price variables in the Periodicals demand equations. For Periodical Regular mail, 94.0 percent of the impact of changes in prices is felt two or more quarters after a rate change. For Periodical nonprofit mail, 40.8 percent of the impact of changes in prices is felt two quarters after a rate change. For Periodical classroom mail, 85.7 percent of the impact of changes in prices is felt two or more quarters after a rate change.

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CRPA/USPS-T6-3 Please refer to page 103 of your testimony where you recognize the impact of wholesale pulp and paper prices on the volume of regular-rate periodicals mail. Why is no comparable recognition of the impact of wholesale pulp and paper prices to be found in your analysis of factors which affect the volume of nonprofit periodicals mail?

RESPONSE:

The wholesale price of pulp and paper was investigated in the Periodical nonprofit equation prior to R97-1. The results were reported in Workpaper 3 accompanying my testimony in that case (R97-1, USPS-T-7) at pages 229 and 245.

At that time, the price of pulp and paper had an incorrect (positive) sign. Hence, the variable was not included in the final specification used in that case.

In this case, if the wholesale price of pulp and paper is added to the Periodical nonprofit demand equation presented in my testimony, the estimated elasticity of Periodical nonprofit mail with respect to the price of pulp and paper is -0.023 with a t-statistic of -0.035. This is not significantly different from zero, and was therefore not included in the Periodical nonprofit equation presented in my testimony and used by Dr. Tolley to make volume forecasts. Further, this value is so low that it is unlikely that including it would have any noticeable impact on Dr. Tolley's volume forecasts presented in this case.

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CRPA/USPS-T6-4 Please refer to Chart F (p. 111) and to Chart G (p. 137) of your testimony. Over the span of twelve years (1988 - 1999) regular-rate, non-carrier-route, bulk mail has become increasingly automated, reaching a high of 83.6% automated in 1999. Only about one-sixth of this mail remains nonautomated.

Over this same period nonprofit, non-carrier-route, bulk mail has also become more automated, but at a slower pace. In 1999, almost one-third of nonprofit, non-carrier-route, bulk mail remained nonautomated. Can you identify any factors which would account for the slower implementation of automation for nonprofit, Standard A mail as compared to regular-rate, Standard A mail?

RESPONSE:

One possible explanation for some of the difference in the amount of regular versus nonprofit mail that is automated is that automation discounts are somewhat lower for nonprofit mail than for regular rate mail. For example, Regular automation basic letters are priced 5.2 cents lower than Regular nonautomated basic letters, while Nonprofit automation basic letters are priced only 5.0 cents lower than Nonprofit nonautomated basic letters. Also, Regular automation 3-digit letters are priced 3.1 cents lower than Regular nonautomated presort letters, while Nonprofit automation 3-digit letters are priced only 2.8 cents lower than Nonprofit nonautomated presort letters.

In addition, it appears that Nonprofit mailers have higher user costs associated with automation. The econometrically estimated mean user costs for Nonprofit automation letters, for example, are 2 - 4 cents higher than the econometrically estimated mean user costs for Regular automation letters (see Table IV-3, page 184 of my testimony, USPS-T-7). This may be because Regular mailers may be larger and more regular mailers who are better able to afford automation equipment, which can cost several hundred thousand dollars. It may also be more difficult for nonprofit mailers to use presort bureaus, many of whom are heavy users of automation, than regular mailers.

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.



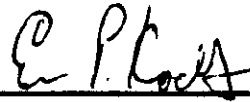
(Signed)

3-20-00

(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.



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