

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 TOLLEY TO INTERROGATORIES OF
THE NATIONAL NEWSPAPER ASSOCIATION
(NNA/USPS-T6-1 - 12)

The United States Postal Service hereby provides the responses of witness Tolley to the following interrogatories of the National Newspaper Association: NNA/USPS-T6-1 - 12, filed on March 10, 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 24, 2000

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T6-1 Do you assume that the in-county mailstream constitutes a similar mix of mail (i.e., newspapers and magazines) as the regular rate periodicals mailstream? Please explain your response.

RESPONSE:

No. Neither my Periodicals regular nor my Periodicals within-county forecast are dependent upon an assumption about the relative mix of newspapers and magazines.

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NNA/USPS-T6-2 Do you believe the mix of mail (e.g., such as newspapers, magazines, newsletters and other products, without regard to work-sharing factors) in the periodicals mailstream has changed substantially since 1985? Please explain your response.

RESPONSE:

I do not know. Please see my response to NNA/USPS-T6-1.

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NNA/USPS-T6-3 Please provide any data you may have that indicates what percentage of the in-county mailstream comprises newspapers.

RESPONSE:

I do not have specific percentages.

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NNA/USPS-T6-4 Would a change in speed and reliability of mail service that occurs between a base year and a test year have an effect upon volume? Please explain your response.

RESPONSE:

A change in speed and reliability of mail service could have some effect on volume, as for example by affecting the use of the Postal Service relative to alternate delivery, without however necessarily being great enough to significantly affect the volume forecast.

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NNA/USPS-T6-5 Please refer to your testimony, page 86, lines 15-17. What changes in reporting procedures caused a spike in volume totals in 1985?

RESPONSE:

It is my understanding that prior to 1985, some within-county mail was mistakenly counted as regular rate or nonprofit mail, but I am not familiar with the details.

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NNA/USPS-T6-6 Please explain how you determined that in county volume was under-reported prior to 1985.

RESPONSE:

I was informed by the Postal Service that this was the case. I do not recall with whom I discussed this issue nearly fifteen years ago.

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NNA/USPS-T6-7 Is the Household Diary Study the sole source for your statement on page 89, line 22-23 about declining newspaper circulation? If not, please provide citations to other sources.

RESPONSE:

The only evidence I used in cited in my testimony.

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NNA/USPS-T6-8. If you had relied upon Fiscal Year '98 within county volumes with a base year total of 923,865, would your forecast have been 896,883? If not, please provide the total and explain your response.

RESPONSE:

No. In the first place, had I used a base period of 1998Q1 through 1998Q4, the base volume of Periodical within county mail would have been 920.217 million. Then, had I used the same elasticities as I used in this case, which were estimated using data through 1999Q4, the Test Year before-rates forecast for Periodical within-county mail would have been 882.352 million pieces, and the Test Year after-rates forecast for Periodical within-county mail would have been 872.100 million pieces. If 1999 data were to be disregarded entirely, this would have required my colleague, witness Thress, to re-estimate the demand equation for Periodical within-county mail only using data through 1998Q4, which there has been no occasion to do.

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NNA/USPS-T6-9 If the true value of in-county volume in Fiscal Year '99 is 933,256, at the upper limit of the 95% confidence interval, what would be your forecast of test year in-county volume? Please explain your response.

RESPONSE:

It is not clear to me what confidence interval you are referring to. I can state that, if the base volume used in my forecast for Periodical within county mail were the figure referred to by you of 933.256 million pieces for the four quarters of 1999, instead of the base volume of 920.217 which I used, then the test-year before-rates volume forecast would be 909.996 million pieces and the test-year after-rates volume forecast would be 899.423 million pieces. These are amounts calculated by applying projection factors to the base volume by the method described in section III.B. of my Technical Appendix.

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NNA/USPS-T6-10 Do you believe prepaid subscriptions to which you attribute lag time in nonprofit and regular rate periodical volumes also appears in in-county?

RESPONSE:

I have no reason to believe that it does not also appear in within-county mail, although the econometric estimate suggests that there is not a significant effect of lagged prices on within-county mail volume.

Workpaper 3 accompanying witness Thress's testimony (USPS-T-7), at page 3-305 estimated the periodical within-county equation including prices lagged one through three quarters. This equation found that no more than 10 percent of the total effect of changes in the price of Periodical within-county mail occurred two or more quarters after a price change.

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NNA/USPS-T6-11 Please state why you believe a periodical will attempt to recover postage increases through increases in subscription rates.

a. Would your answer be different if the periodical contained a high percentage of advertising?

b. Would your answer be different if it were distributed to readers free of charge, such as through requester mail?

RESPONSE:

I am not sure what part of my testimony you are referring to. I do not believe that I have asserted a belief that periodicals recover postage increases exclusively through increases in subscription rates.

An increase in postage rates will increase the cost of preparing and distributing a periodical. As a mathematical equality, this will lead to a decrease in profits for the periodical unless periodical revenues are increased. Periodical revenues could be increased by either increasing subscription rates, newsstand rates, or advertising rates. The choice from among these options will be made by each individual periodical publisher. It seems reasonable that some publishers would choose to recoup at least some of the increased costs associated with postage increases through increases in subscription rates.

In addition, an increase in postage rates may ultimately lead to a decrease in Periodical mail volume by encouraging some publishers to distribute their periodicals by means other than the Postal Service, so that the number of periodicals distributed by the publisher is not reduced, but merely the share of those periodicals that are delivered by the Postal Service.

(a) No

(b) No. Further, in the case of free periodicals, even if publishers chose to absorb postage increases in the form of reduced profits, this could still be expected to lead to a reduction in the volume of Periodical mail. It seems reasonable that a

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response to an increase in the costs of distributing a publication which is not recouped through a price increase will be to send fewer of the publications. The marginal cost of sending the publications has risen, and the marginal benefit from sending them remains unchanged. A rise in marginal cost, with no change in marginal benefit, gives an incentive to reduce quantity.

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NNA/USPS-T6-12 Please explain why it would not be more appropriate to assume an increase in paper costs would create an impact on smaller, lighter-weight periodicals rather than reduced numbers of subscribers or pieces in the mailstream.

RESPONSE:

The volume forecasts assume that a rise in paper costs will tend to increase the price of periodicals to readers whose response will be to reduce purchases of magazines, including those received through the mail. I do not understand why one would want to assume that there would be impacts on smaller, lighter weight periodicals "rather than" reduced subscriptions or mailstream pieces, since any such effects are likely to occur together. That is, impacts on smaller, lighter weight periodicals will presumably lead to mailstream reductions. Furthermore, I do not understand why smaller, lighter weight periodicals are singled out for attention. Periodicals of any size or weight may be affected. No assumptions regarding distribution of effects by size and weight classifications are needed or used in my analysis.

DECLARATION

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


(Signed)

3-22-00

(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
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