POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TOLLEY TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA (NAA/USPS–T6–1–10)

The United States Postal Service hereby provides the responses of witness Tolley to the following interrogatories of the Newspaper Association of America: NAA/USPS–T6–1–10, filed on March 14, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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NAA/USPS-T6-1   Please refer to Table 2 in your testimony on page 36.
Please cite the specific source containing the data used to calculate each of the
following percentages under the column "Percent Change in Variable."
    a.   Single-piece first class letters prices
    b.   Workshare discount price.
    c.   Single piece cards price.
    d.   Permanent income.
    e.   Transitory income (lag 3).
    f.   Adult population.

RESPONSE:

a.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-12, page 19,

under the column heading "PX01SP". These prices are deflated by dividing by the

implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26,

under column heading "PC").

b.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-12, page 19,

under the column heading "D1_3WS". These prices are deflated by dividing by the

implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26,

under column heading "PC").

c.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-13, page 20,

under the column heading "PX05SP". These prices are deflated by dividing by the

implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26,

under column heading "PC").

d.   USPS-T-7, Workpaper 1, Table 1-20, page 28, under the column heading

"YD92PERM".

e.   USPS-T-7, Workpaper 1, Table 1-18, page 26, under the column heading

"UCAP". The value for transitory income lagged three quarters for 1999 is calculated as

the weighted average of the values of UCAP in 1998Q2, 1998Q3, 1998Q4, and

1999Q1. The value for transitory income lagged three quarters for 1994 is calculated

as the weighted average of UCAP in 1993Q2, 1993Q3, 1993Q4, and 1994Q1.

f.   USPS-T-7, Workpaper 1, Table 1-18, page 26, under the column heading
"N22_PLUS".

NAA/USPS-T6-2   Please refer to Table 3 in your testimony on page 62.
Please cite the specific source containing the data used to calculate each of the
following percentages under the column "Percent Change in Variable."
a.   Workshared first class letters prices
b.   Workshare discount price. Note that the percent change given differs
      from that in Table 2. Why is that?
c.   Workshared cards price.
d.   Standard A Regular price.
e.   Transitory income.
f.   Adult population. Note that the percent change given differs from that in
      Table 2. Why is that?

RESPONSE:

a.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-12, page 19,

under the column heading "PX1_3WSU". These prices are deflated by dividing by the

implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26,

under column heading "PC").

b.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-12, page 19,

under the column heading "D1_3WS". These prices are deflated by dividing by the

implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26,

under column heading "PC").

The estimated effect of the worksharing discount on First-Class letters volume is

the combined effect of the current and lagged discount. The percent change in the

worksharing discount is then calculated as the average change in the discount that

would yield this change in volume (i.e., the percent change in the discount is an

average of the percent change in the current and lagged discount over the past five

years). Because the relative importance of individual lags of the discount on the long-

run discount elasticity differs between single-piece and workshared First-Class letters,

the percent change in the worksharing discount is calculated differently for these two

categories of mail.

c.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-13, page 20, under the column heading "PX5_7WSU". These prices are deflated by dividing by the implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26, under column heading "PC").

d.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-15, page 22, under the column heading "PX3R_NCRU". These prices are deflated by dividing by the implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26, under column heading "PC").

e.   USPS-T-7, Workpaper 1, Table 1-18, page 26, under the column heading "UCAP".

f.   USPS-T-7, Workpaper 1, Table 1-18, page 26, under the column heading "N22_PLUS". The estimated impact of each variable on volume is estimated for each quarter of the base year (i.e., 1999Q1, 1999Q2, 1999Q3, and 1999Q4). The estimated impact for the base year as a whole is then the weighted average of the four quarterly impacts. The percent change in the variable, e.g., adult population, is then calculated as the average change in the variable that would yield this change in volume, given the elasticity of mail with respect to the variable. In effect, therefore, the percent change in adult population is the weighted average of the percent change in adult population for the four quarters of 1999. In this case, the weights used to calculate this average are the volume of workshared First-Class letters in each quarter of 1999. In the case of single-piece letters, on the other hand, the weights used to calculate this average are the volume of single-piece First-Class letters in each quarter of 1999. The use of different weights to calculate this average yields different weighted averages for single-piece and workshared First-Class letters volumes.

NAA/USPS-T6-3   Please refer to Table 11 in your testimony on page 115. Please cite the specific source containing the data used to calculate each of the following percentages under the column "Percent Change in Variable."

a. Standard A Regular price. Note that the percent change given differs from that in Table 3. Why is that?

b. Workshared letters price. Note that the percent change given differs from that in Table 3. Why is that?

c. Consumption

d. Price of Newspaper Advertising. If this refers to data from the BLS, what was the specific BLS series used?

e. Computer Price.

RESPONSE:

a. Please see my responses to NAA/USPS-T6-2(b) and 2(d) above.

b. Please see my responses to NAA/USPS-T6-2(a) and 2(b) above.

c. USPS-T-7, Workpaper 1, Table 1-18, page 26, under the column heading "C92C".

d. USPS-T-7, Workpaper 1, Table 1-19, page 27, under the column heading "WP_NWS". This is BLS series WPI09310221NS.

e. The effect of computer prices on Standard Regular volume is the combined effect of the price of computer equipment and the price of computer equipment squared on Standard Regular volume. These variables can be found in USPS-T-7, Workpaper 1, Table 1-19 ("P_CMP") and Table 1-20 ("P_CMP_SQ") on pages 26 and 27, respectively.

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NAA/USPS-T6-4   Please refer to Table 12 in your testimony on page 132. Please cite the specific source containing the data used to calculate each of the following percentages under the column "Percent Change in Variable."
    a.   Standard A ECR price.
    b.   Consumption. Note that the percent change given differs from that in Table 11. Why is that?

RESPONSE:

a.   Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-15, page 22, under the column heading "PX3R_CR". These prices are deflated by dividing by the implicit personal consumption deflator (USPS-T-7, Workpaper 1, Table 1-18, page 26, under column heading "PC").

b.   Please see my responses to NAA/USPS-T6-2(f) and NAA/USPS-T6-3(c).

NAA/USPS-T6-5   Please refer to your testimony on page A-13:

    a.   Please confirm that you do not use any net trends for Standard A
          Regular and ECR subclasses.

    b.   Does this indicate that you felt it unnecessary to apply a net trend
          term to these subclasses?

    c.   How did you choose which subclasses to apply Net Trends to and
          which subclasses not to apply net trends to (e.g., you have a net
          trend for Standard A nonprofit subclasses but not Standard A, as
          described in your testimony on page A-13)?

RESPONSE:

a.   Confirmed.

b.   Yes.

c.   Net trends were only used to forecast categories for which a single set of

elasticities was estimated for multiple mail categories. For example, a single set of

elasticities was estimated for Standard Nonprofit and Nonprofit ECR mail. Separate net

trends were then used to forecast these two subclasses as a means of reflecting

differences in the recent growth rates associated with these two subclasses.

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NAA/USPS-T6-6   Please refer to pages A-20 and A-21 of your testimony,
where you state that "P0 is the weighted average of deflated prices for 1999Q1 through
1999Q4 ... P1 is the weighted average of deflated prices for 1998Q4 through 1999Q3,
P2 is the weighted average of deflated prices for 1998Q3 through 1999Q2, P3 is the
weighted average of deflated prices for 1998Q2 through 1999Q1."

        a.   Why did you use the weighted average of four quarters and lag one
                quarter, rather than, say, use just the quarter average and lag one
                quarter?

        b.   Does Witness Thress in USPS-T-7 use the same methodology (i.e.,
                weighted average of four quarters for prices, with one quarter lags) for
                creating his prices and his lagged prices? If so, please cite the source for
                your answer. If not, please explain why you chose a different
                methodology than used by Witness Thress.

RESPONSE:

a.   My purpose is to calculate average prices over the Base Year. The average

price lagged one quarter is the average of the price lagged one quarter for each of the

four quarters of the Base Year. I do not understand what you mean by "weighted

average of four quarters and lag one quarter" and "the quarter average and lag one

quarter."

b.   No. Witness Thress does not calculate average prices over a Base Year. His

purpose is to run regressions that give estimates of response coefficients explaining

mail volume behavior. The regressions use quarterly data without averaging. My

purpose is to develop forecasts of changes in mail volume from a base year to a test

year. The forecasting approach requires obtaining average values of variables in the

base year.

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NAA/USPS-T6-7   Please confirm that you do not provide separate estimates of Standard A piece-rated and pound-rated pieces in your analysis. Please explain why not.

RESPONSE:

Confirmed. My forecasts are made at the level of detail requested by the Postal Service. The Postal Service did not ask that I make separate forecasts for Standard A piece-rated and pound-rated pieces.

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NAA/USPS-T6-8   Please confirm that your volume calculations do not allow for the possibility of migration between Standard A piece-rated and pound-rated pieces. If you cannot confirm, please explain why not.

RESPONSE:

Not confirmed. Since I do not make separate volume calculations for Standard A piece-rates and pound-rated mail nor constrain them in any way, my forecast is not inconsistent with the existence of migration between these two categories.

NAA/USPS-T6-9   Please refer to page 26, Chart B, of your testimony. Please indicate what proportion of the 42.7 percent of First Class Mail that is "Nonhouseholds to Other Nonhouseholds" mail consists of:

a.   Advertising Only.
b.   Notice of Order.
c.   Bill/Invoice/Premium.
d.   Invitation or Announcement.

RESPONSE:

I do not have these proportions.

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NAA/USPS-T6-10   Please refer to page 126, lines 10-22 of your testimony. Are you aware of, or have you relied upon, any reports more recent than 1996 regarding the demand for catalogs weighing more than 3 ounces?

RESPONSE:

No. The only evidence I used was cited in my testimony.

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)

_3-28-00_
(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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