

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

RECEIVED
APR 6 4 41 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 TOLLEY TO INTERROGATORIES OF
THE COALITION OF RELIGIOUS PRESS ASSOCIATIONS
(CRPA/USPS-T6-5 - 15)

The United States Postal Service hereby provides the response of witness Tolley to the following interrogatories of the Coalition of Religious Press Associations:
CRPA/USPS-T6-5 - 15, filed on March 23, 2000.

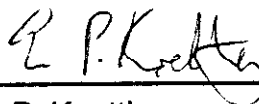
The interrogatory is stated verbatim and is followed by the response.

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
April 6, 2000

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

CRPA/USPS-T6-5

Please note the following data found in Table 1, at p. 5 of your testimony:

Base Year PFY 1999	Test Year Before-Rates GFY 2001	Test Year After-Rates GFY 2001
Nonprofit Periodicals		
2,136.552 million pieces	2,095.809 million pieces	2,052.208 million pieces
Regular Rate Periodicals		
7,205.661 million pieces	7,410.104 million pieces	7,351.808 million pieces

Please compare the increase in volume of regular rate periodicals between the base year and the test year (after-rates) with the decrease in volume of nonprofit periodicals during the same interval. Why has regular rate volume gone up and nonprofit volume declined during these identical intervals?

RESPONSE:

The principal differences between the Periodical nonprofit and regular rate forecasts in my testimony are due to the differences between the elasticities associated with transitory income (0.94 for Periodical Nonprofit versus 0.03 for Periodical Regular Rate) and the time trend (-0.004 for Periodical Nonprofit versus -0.002 for Periodical Regular Rate). These elasticities are found in Tables 8 and 10 of my testimony.

Transitory income accounts for an expected decline in Periodical nonprofit mail volume of 2.2 percent from the Base Year to the Test Year, while transitory income accounts for an expected decline of only 0.1 percent for Periodical regular rate mail volume over this same time period.

The time trend accounts for an expected decline in Periodical nonprofit mail

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

volume of 3.3 percent from the Base Year to the Test Year, while the time trend accounts for an expected decline of only 1.3 percent for Periodical regular rate mail volume over this same time period.

The modest decline in Periodical regular rate mail volume predicted by these two variables is more than offset by expected increases in Periodical regular rate mail volume due to predicted growth in permanent income and adult population, leading to an overall prediction for Periodical regular rate mail volume of an increase of 2.8 percent from the Base Year to the Test Year.

On the other hand, the larger declines in Periodical nonprofit mail volume predicted by these two variables offset the expected increases in Periodical nonprofit mail volume due to predicted growth in permanent income and adult population, leading to an overall prediction for Periodical nonprofit mail volume of a decline of 1.9 percent from the Base Year to the Test Year.

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

CRPA/USPS-T6-6

In applying "before" and "after" rates to Nonprofit Periodical Mail, what rate schedule did you apply to Nonprofit Mail, given that Witnesses Mayes and Taufique provide an identical rate schedule for regular rate and for nonprofit periodicals, with the exception of a limited 5% discount for nonprofit periodicals.? If you did not apply the Mayes-Taufique rate schedule, identify the schedule that you did use and provide a copy of it.

RESPONSE:

I used the rate schedule provided by witness Taufique for proposed Periodical nonprofit rates.

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

CRPA/USPS-T6-7

Provide all compilations and collections of "user costs" that you used to create the fixed weight index (FWI).

RESPONSE:

User costs are not included in my Periodical fixed-weight price indices. The user costs added to the prices for workshared First-Class and Standard A Regular and Nonprofit mail were calculated by witness Thress (USPS-T-7) in section IV of his testimony.

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

CRPA/USPS-T6-8

On p. 20 you discuss the impact of recent non-econometric influences on mail volume. You then state that "For most mail categories, it is found that econometric considerations satisfactorily account for changes in mail volumes." Are periodicals the kind of categories that are accounted for primarily by econometric considerations, or by net trend terms?

RESPONSE:

Periodicals mail volumes are forecasted using only factors included in the econometric equations provided to me by witness Thress (USPS-T-7). No additional net trends are included in the Periodicals mail volume forecasts, although the Periodicals forecasts do include trend terms, which were also included in witness Thress's econometric equations.

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

CRPA/USPS-T6-9

On p. 84, you refer to data about periodicals which were collected no later than 1997. Why were more recent data not used, and why do you rely on the Household Diary Study for these data instead of more recent industry directories or databases that are more recent?

RESPONSE:

The 1997 Household Diary Study was the most recent Household Diary Study available to me at the time my testimony was prepared. I am unaware of any industry directories or databases which provide information on the number of magazines and newspapers received by mail.

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

CRPA/USPS-T6-10

You refer to "long-term changes in newspaper and magazine reading habits", p.89, and in particular competition from TV and computers as contributing to a decline in reading periodicals. Is not the presence of "newspaper and magazine material on the Internet" a factor that could increase reading? If your answer is yes, doesn't that mean that the downward influences on periodical volume to which you refer is not a decline in reading as such, but a decline, if it exists at all, in reading traditional hard copy publications in favor of reading editorial content on the Internet?

RESPONSE:

Regarding your first question, the presence of newspaper and magazine material on the Internet could conceivably be a consideration increasing reading, but the reading would have to be a net increase rather than merely a substitution away from hard copy, which most such Internet reading may be.

Regarding your second question, whether or not the Internet has made for more reading than would otherwise have occurred has no implications for whether Periodical mail volume declines represent the substitutions you mention there from hard copy to the Internet. The former phenomenon is an increase in reading with no implications for mail volume. The latter would be a factor making for volume decline, as I have already recognized in my testimony. In the same paragraph that you quote on page 89, I state: "Use of personal computers as an alternative use of time, as well as availability of newspaper and magazine material on the Internet, continue the downward influences on volume.

If the point of these questions is that the downward trend in Periodicals volume is not due entirely to substitutions of Internet for hard-copy reading, I agree. Declines in newspaper and magazine circulation have been occurring at least since the 1970s. The declines began long before any influence of the Internet. More importantly, please see the part of my testimony from line 24, page 104 to line 14, page 105, which reviews

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

evidence on online publishing and time spent on the Internet. I state that, "although increases in Internet publishing have been dramatic in percentage terms and might be thought to be a negative influence, it is not clear that incursions of Internet publishing into mail circulation have been significant."

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

CRPA/USPS-T6-11

Please explain your use of data from a 15 year old Postal Rate Commission study to demonstrate the purported distribution of periodical nonprofit mailings, when your firm, given its academic and professional expertise, must have access to more recent data or could compile those data using current hard copy and electronic sources.

RESPONSE:

Neither I nor the firm I work with have access to more recent data on the distribution of periodical nonprofit mailings. It does not appear possible to compile the data using current hard copy and electronic sources. The study required special tabulations of Postal Service data, which apparently have not been replicated since. It may be noted that the figures were supplied in my testimony as background information and were not used in making my volume forecasts.

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

CRPA/USPS-T6-12

How meaningful and how reliable, in your opinion, are the 15 year old data in the Preferred Rate Study in a regulatory proceeding attempting to establish postal rates for the year 2001?

RESPONSE:

Please see my response to CRPA/USPS-T6-11.

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

CRPA/USPS-T6-13

You point out on p. 94 that over the last five years, the "real price" of Periodicals Nonprofit mail has increased by 22%.

- (a) By real price, do you mean price as adjusted for inflation? If not, please define the term.
- (b) Is the price to which you refer the price of postage, or postage plus other factors. If other factors, please identify what they are.
- (c) Is a 22% increase over the five year period to which you refer in excess of the Consumer Price Index? If it is, please provide the increase over the same period of time if the CPI had limited the extent of price increase for these periodicals.

RESPONSE:

- (a) Yes.
- (b) The price of postage only.
- (c) The 22% increase in the real price of Periodicals nonprofit mail is 22% in excess of the personal consumption deflator which is the measure of inflation that I use instead of the Consumer Price Index. As implied by part (a) of your question, an increase in the real price is the percentage increase above the rate of inflation. Had Periodical nonprofit rates increased at the same rate as the Consumer Price Index, the real increase in Periodical nonprofit rates, as measured by me, would have been approximately 3.4 percent over this time period, which is the difference in the inflation rate as measured by the Consumer Price Index and the inflation rate as measured by the personal consumption deflator over the past five years.

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

CRPA/USPS-T6-14

Table 8A on p. 97 shows that the After-Rates "Postal Rate Impact" on Periodicals Nonprofit Mail is -2.25%. Table 10A on p. 106 of your testimony shows the same impact on the regular rate periodicals subclass is -1.03%. Does this mean that nonprofit periodicals have an elasticity that is more than twice as much as regular rate periodicals? If not, please explain the correct interpretation of comparing the two percentages.

RESPONSE:

Please see Table 8 on page 96 of my testimony where the long-run price elasticity for periodical nonprofit mail is given as -0.236 and Table 10 on page 103 where the long-run price elasticity of periodical regular rate is given as -0.148. The nonprofit elasticity is less than twice as high as the regular rate elasticity. The figures you quote are affected by the facts that the percentage rate increases proposed in this rate case for periodicals nonprofit and regular rate differ and that they refer to a Test Year period over which the long-run volume effects have not yet fully occurred.

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

CRPA/USPS-T6-15

(a) You cite your own testimony in Docket R97-1, which relied on data prior to 1997, to justify the claim made in your current testimony, p. 104, that periodicals regular rate volumes may rise by servicing the growing demand for "specialty titles". You also refer to the "growth of the number of small scale specialty magazines" as a "positive influence on regular rate volume". Given that your own volume projections show negligible growth of regular rate volumes between the Base Year and the Test Year, and that you show declining volumes in nonprofit periodical volumes, what "positive influence" has growth in the number of specialty magazines had regular rate and on nonprofit rate volumes?

(b) Have you reviewed any current studies (i.e., studies published since January 1999) which would explain and quantify the growth and influence of specialty magazines or journals, either regular or nonprofit rate-qualified, or both, in the mailstream or in the publishing industry generally? If you have, please produce these studies. If you have not, is it because you believe such studies either do not exist or are irrelevant?

(c) Do you have any reason to doubt that the overwhelming majority of nonprofit and of regular rate periodicals are "small scale specialty magazines" or regional or local newspapers? Please explain and document if necessary your response.

(d) Is it possible that the use of stale data in studying an industry and the effect of postal rate increases upon it would lead to incorrect net trends calculations and/or elasticities?

(e) Would the kind of trend data that you use to predict volumes and elasticities become obsolete more rapidly if the industry or product analyzed were one affected by a new technology and medium like the Internet?

RESPONSE:

(a) The implication is that volumes would have been greater than they were if these influences had not existed.

(b) In preparing my testimony, I looked and found no studies of the type you refer to that could be of use to my testimony.

(c) I have no reason either to doubt or not to doubt that the "overwhelming majority of nonprofit and of regular rate periodicals are 'small scale specialty magazines' or regional or local newspapers", nor do I see the relevance to my testimony. You may

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

wish to note that, even if your implication were correct that the majority of periodicals are small scale specialty magazines or regional or local newspapers, it could still be the case that the majority of periodical mail volume is sent by large publications, though here too the relevance to my testimony is not clear.

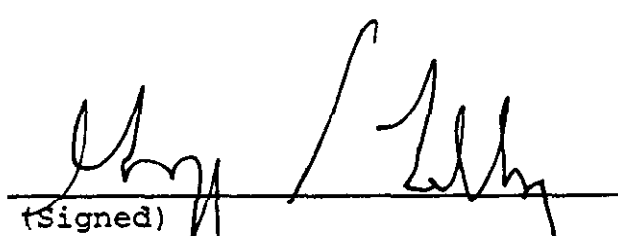
(d) I am unfamiliar with the expression "stale data." As with other subclasses, the most recently available data have been used in forecasting periodicals mail volumes. Lack of recent data has not been a particular hindrance in the forecasting of periodicals volumes. The primary data sources were 1) those used in the econometric estimates, which are the most recent available and 2) the most recent Household Diary Study data as referred to in my response to your interrogatory CRPA/USPS-T6-9. Also please see my response to your interrogatory CRPA/USPS-T6-11 on the Preferred Rate Study.


(e) For the first two quarters of 2000, total Periodical mail volume has been 4.725 billion pieces versus my forecast of 4.726 billion (Attachment A of my testimony). This difference of 1 million pieces of Periodical mail volume represents a year-to-date forecast error of 0.03 percent.

Of course, all forecasts are always subject to a certain amount of uncertainty, and may become inaccurate if the underlying market being analyzed undergoes fundamental changes in the forecast period. I see no evidence, however, that my forecasts for Periodical mail in this case are in any significant danger of becoming obsolete between now and the Test Year. Please see my answer to your interrogatory CRPA/USPS-T6-10 which indicates that my testimony has addressed the effects of the Internet on periodicals mail volumes.

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)


(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
(202) 268-2992 Fax -5402
April 6, 2000