

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-1200

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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
(CRPA/USPS-T7-1 - 2a, 3 - 5)

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-T7-1 - 2a., 3-5, filed on March 29, 2000. Parts b-c of number 2 have been redirected to the Postal Service.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 12, 2000

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

CRPA/USPS-T7-1 In your response to CRPA/USPS-T6-2, you stated that 94% of regular Periodical mail felt the impact of new rates two or more quarters after a rate change. You then stated that 40.8% of nonprofit Periodical mail felt the impact of changes two or more quarters after a rate change. What is the explanation for the large discrepancy?

RESPONSE:

My exact quote was the following: "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." This is not the same as saying that "94% of regular Periodical mail felt the impact of new rates two or more quarters after a rate change."

I would be hesitant to offer an explanation for the difference in the lag structure of the price elasticities associated with Periodical regular and nonprofit mail, other than to point out that the mailers of Periodical nonprofit mail are generally not the same as the mailers of Periodical regular rate mail, and that I therefore would expect the demand characteristics of these two groups to differ somewhat. I have no preconceived ideas, however, about what these differences might be. The figures cited in my earlier response are a product of my econometric analyses of Periodical regular and nonprofit mail.

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CRPA/USPS-T7-2 In your response to CRPA/USPS-T6-4, you hypothesize that "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."

- (a)** If one subclass has lower piece distribution costs than another, is it not possible that the difference in costs would require a lower automation discount for the subclass with the lower piece distribution costs?
- (b)** Does the Cost and Revenue Analysis Report for the Base Year show a difference in cost per piece between a nonprofit periodical and a regular-rate periodical?
- (c)** Provide the same information provided in (b) above for each year from 1999 through the Test Year.

RESPONSE:

(a) I have no expertise in Postal Service costing issues, nor am I an expert in the setting of Postal Service discounts. My intention in citing the difference in automation discounts between Standard Regular and Standard Nonprofit mail was to merely point out a mathematical identity that, in many cases, Standard Regular discounts are greater than Standard Nonprofit discounts. I certainly did not intend to make any implications regarding the appropriateness of Postal Service discounts.

In spite of my limited knowledge on this subject, I can attempt to answer your question. It is my understanding that automation discounts are set by the Postal Rate Commission (PRC), and that the PRC has a great deal of discretion in setting these rates. As such, I do not believe that anything would "require" a lower automation discount for one subclass versus another. If, however, you replaced the word "require" with the word "justify" in your interrogatory, then I believe that the answer to your question would be yes.

(b) - (c) Redirected to the Postal Service.

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CRPA/USPS-T7-3 You also state in your response to CRPA/USPS-T6-4 that "Nonprofit mailers have higher costs associated with automation [than regular-rate mailers]".

What is the foundation for that assertion? Provide any studies, data or other information that USPS has that would substantiate your statement.

RESPONSE:

This statement was made on the basis of my econometric analysis of the proportion of First-Class and Standard A mail which have received worksharing discounts historically. This analysis is described in section IV of my testimony. In the cases of Standard Regular and Standard Nonprofit mail, see especially pages 172 - 179. As I said in my earlier response to you, "[t]he econometrically estimated mean user costs for Nonprofit automation letters ... 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)."

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CRPA/USPS-T7-4 Is it your understanding that most publishers, large or small, possess "automation equipment" (Response to CRPA/USPS-T6-4)? If your answer is affirmative, what "equipment" are you talking about, and what is the evidence that validates your statement?

RESPONSE:

I have no idea how many publishers, large or small, possess "automation equipment" under any definition of "equipment." In my response to CRPA/USPS-T6-4, I was referring generally to the equipment necessary to generate and spray barcodes on mail.

In an effort to be responsive to your earlier interrogatory, my answer included two possible hypotheses for the difference in the level of automation you observed. I am generally unfamiliar with the specific practices of any individual mailers. My analysis focuses on the overall level of automation within each subclass of mail, and does not distinguish between large or small mailers or between mailers who do their own presorting and automating and those who use a presort bureau.

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CRPA/USPS-T7-5

(a) What facts support your answer to CRPA/USPS-T6-4, where you state that "it may be more difficult for nonprofit mailers to use presort bureaus, many of whom are heavy users of automation, than regular mailers."?

(b) Is it your opinion that larger-volume publications, e.g., over 200,000 copies per issue, are more likely or less likely to have "in-house" fulfillment departments than are smaller-circulation periodicals? What is the foundation for your response?


RESPONSE:

(a) The statement you quote was a hypothesis on my part, for which I have no factual support.

(b) I really have no opinion on this subject.

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)

4-10-00

(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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