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*Before the*

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

**UNITED STATES POSTAL RATE COMMISSION**

In the Matter of: **POSTAL RATE AND FEE CHANGE**

Docket No. **R2000-1**

**VOLUME 9**

DATE: **Thursday, April 20, 2000**

PLACE: **Washington, D.C.**

PAGES: **3550 - 3810**

**ANN RILEY & ASSOCIATES, LTD.**

1425 Connecticut Avenue, N.W., Suite 1014  
Washington, D.C. 20004  
(202) 842-0934

BEFORE THE  
POSTAL RATE COMMISSION

-----X  
In the Matter of: :  
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1  
-----X

Third Floor Hearing Room  
Postal Rate Commission  
1333 H Street, N.W.  
Washington, D.C. 20268

Volume IX  
Thursday, April 20, 2000

The above-entitled matter came on for hearing,  
pursuant to notice, at 9:33 a.m.

BEFORE:

HON. EDWARD J. GEILMAN, CHAIRMAN  
HON. GEORGE A. OMAS, VICE CHAIRMAN  
HON. W.H. "TREY" LeBLANC, COMMISSIONER  
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER  
HON. RUTH GOLDWAY, COMMISSIONER

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1		C O N T E N T S			
2	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
	GEORGE S. TOLLEY				
3	BY MR. KOETTING	3580			
	BY MR. FELDMAN		3668		
4	BY MR. WIGGINS		3672/3719		
	BY MR. RUSH		3707		
5	BY MR. RICHARDSON		3738		
	THOMAS E. THRESS				
6	BY MR. KOETTING	3740			
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14	Additional Designation of Written Cross-Examination of George S. Tolley, RIAA/USPS-T6-2	3672
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	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
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18	Designation of Written Cross-Examination of Gerald L. Musgrave, USPS-T-8	3557	3557
19	Library References I-111, I-112, I-113, I-114 and I-129	3579	3579
20	Direct Testimony of George S. Tolley, USPS-T-6	3581	3581
21	Library References I-120 and I-121	3581	3581
22	Designation of Written Cross-Examination of George S. Tolley, USPS-T-6	3582	3582
23	Designation of Written Cross-Examination of George S. Tolley, CRPA/USPS-T-6-16(a) (b) (c)	3669	3669
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## P R O C E E D I N G S

[9:33 a.m.]

CHAIRMAN GLEIMAN: Good morning. We continue our hearings today to receive testimony of Postal Service witnesses in support of Docket R2000-1.

Are there any procedural matters that anyone wishes to bring up this morning?

[No response.]

CHAIRMAN GLEIMAN: There do not appear to be any. Three witnesses are scheduled to appear today, Witnesses Tolley, Thress and Musgrave. No participant has indicated that it wished to conduct oral cross-examination of Witness Musgrave.

Mr. Koetting, I propose that we enter his testimony and any designated written cross-examination and any Category 2 Library References, and anything else that I forgot that needs to be entered into the record at this point, if you would like to proceed.

Do you have two copies of the verified -- two verified copies of Witness Musgrave's testimony available today?

MR. KOETTING: I do, Mr. Chairman, if by verified you mean that I have attached to them a copy of a declaration attesting that it his testimony.

CHAIRMAN GLEIMAN: That is what I mean.

1 MR. KOETTING: I have two copies and I will be  
2 happy to give those to the reporter and move that they be  
3 entered into evidence as the direct testimony of Gerald  
4 Musgrave.

5 CHAIRMAN GLEIMAN: If you will provide those  
6 copies to the reporter, I will direct that Witness  
7 Musgrave's testimony be admitted into evidence and not  
8 transcribed into the record.

9 [Direct Testimony of Gerald L.  
10 Musgrave, USPS-T-8, was received  
11 into evidence.]

12 CHAIRMAN GLEIMAN: Let's see, provide the  
13 reporter, while you are doing that, we are getting from both  
14 sides here, two copies of the designated written  
15 cross-examination. And I assume that a declaration has been  
16 filed with respect to that material also?

17 MR. KOETTING: Mr. Chairman, the declaration is  
18 filed with the material initially would still apply.

19 CHAIRMAN GLEIMAN: In which case, I will direct  
20 that the designated written-cross-examination of Witness  
21 Musgrave be received into evidence and transcribed into the  
22 record at this point.

23 [Designation of Written  
24 Cross-Examination of Gerald L.  
25 Musgrave, USPS-T-8, was received

1                   into evidence and transcribed into  
2                   the record.]  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS GERALD L. MUSGRAVE  
(USPS-T-8)

Party

United Parcel Service

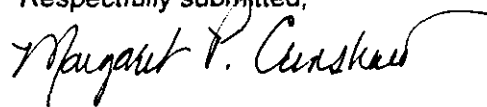
Interrogatories

DMA/USPS-T8-1-2

UPS/USPS-T8-1-7

UPS/USPS-T34-8 redirected to T8

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

DESIGNATED RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS GERALD L. MUSGRAVE (T-8)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

DMA/USPS-T8-1  
DMA/USPS-T8-2  
UPS/USPS-T8-1  
UPS/USPS-T8-2  
UPS/USPS-T8-3  
UPS/USPS-T8-4  
UPS/USPS-T8-5  
UPS/USPS-T8-6  
UPS/USPS-T8-7  
UPS/USPS-T34-8 redirected to T8

Designating Parties:

UPS  
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T8-1.** Please refer to the PFY 2000, Accounting Period (A/P) 4 (12/4/99-12/31/99) Financial and Operating Statements and note that PFY 2000, A/P 4 Priority Mail volume was up 18.3 percent over the same period last year (SPLY) and that year-to-date Priority Mail volume was up 3.9 percent over SPLY.

- a. Please confirm that between PFY 1999, A/P 4 and PFY 2000, A/P 4, the Postal Service raised Priority Mail rates by six percent. If not confirmed, by what percent did the Postal Service raise Priority Mail rates.
- b. Please confirm that year-to-date (through A/P 4) average revenue per piece for Priority Mail was approximately ten percent more than SPLY. If not confirmed, by what percent did average revenue per piece increase.
- c. Please confirm that between PFY 1999, A/P 4 and PFY 2000, A/P 4, the transitional weight between First-Class Mail and Priority Mail increased from 11 ounces to 13 ounces.
- d. If the transitional weight between First-Class Mail and Priority Mail had not increased between PFY 1999, A/P 4 and PFY 2000, A/P 4, approximately how much higher would Priority Mail volumes have been in PFY 2000, A/P 4? How much higher would year-to-date Priority Mail volumes have been?
- e. If Priority Mail rates had not been raised between PFY 1999, A/P 4 and PFY 2000, A/P 4, approximately how much higher would Priority Mail volumes have been in PFY 2000, A/P 4? Approximately how much higher would year-to-date Priority Mail volumes have been?
- f. To what do you attribute the significant growth in Priority Mail volumes between PFY 1999, A/P 4 to PFY 2000, A/P 4? Do you believe that this is a trend or a one-time event?

**Response:**

(a)-(f) The Priority Mail model is based on quarterly postal volume data. I do not use Accounting Period (AP) data in the model and cannot respond on that basis. However, quarter one data are available, they would cover the first three APs, and they are the closest available data to your question. I can respond on that basis. Furthermore, going beyond that and attempting to ascertain the impact of one or several additional four-week AP periods is not recommended because the AP data are quite volatile and subject to revision.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T8-1. Continued**

I hasten to add that appraising a model's forecasts based on one or several quarters' data is equally problematic. For example, in R97-1, for the first forecast quarter (97:3), the forecast was 2.1 percent high. However, the test year PFY 1998 was 3.8 percent low. Using the quarter to appraise or adjust the test-year forecast would have been in the wrong direction. When the revised data were used (i.e., actual rather than forecasted values of the exogenous variables), the volume forecast for PFY 1998 was approximately 1,168 million pieces and the actual value also was approximately 1,168 million pieces, see my Technical Appendix E, page 6.

- a. The increase in the Priority Mail fixed-weight price index from 1999:1 to 2000:1 is approximately 8.2 percent.
  - b. The increase in the average revenue from 1999:1 to 2000:1 is approximately 10 percent.
  - c. The weight limit was increased from 11 to 13 ounces.
  - d. The increase in volume would have been approximately 34 million pieces in 2000:1.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T8-1. Continued**

e. I have not made that calculation.

f. The "growth" in the first quarter has actually been negative, a decline of 1.9 percent in the volume between PFY1999:1 and PFY 2000:1. Two important volume reducing influences are the increase in rates and the increase in the weight limit. These influences are forecast to diminish in subsequent quarters and, combined with other factors, result in a positive growth for the year. Thus, I do not believe the first quarter's result is a trend.

---



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T8-2.** Please refer to Page 6 of your testimony and note that you are only projecting a 1.5 percent volume increase for Priority Mail from PFY 1999 to PFY 2000. Also, please refer to your response to question 1 above.

- a. Please confirm that if Priority Mail volumes for A/P 5-13 increase by more than 0.3 percent over SPLY, PFY 2000 Priority Mail volumes will be underestimated. If not confirmed, please explain.
- b. In light of your response to question (1) above, do you expect PFY 2000, NP 5-13 Priority Mail volumes to grow by only 0.3 percent over SPLY. If yes, please explain in detail why you expect this given YTD performance of Priority Mail volumes. If no, by what percent do you expect A/P 5-13 volumes to grow over SPLY?
- c. In light of your response to part (b) of this question, what is your current forecast of PFY 2000 Priority Mail volume? Please explain the method you used to develop this forecast.

**Response:**

(a)-(c) As indicated in response to question 1, the use of AP data, as well as the use of partial year data, is problematic in evaluating the annual forecast. Also, it is very difficult to extend AP or partial year results to make or improve annual forecasts.

- a. Based on the first quarter's results of 282.715 million pieces, the subsequent three quarters could sum to 923.157 million pieces. In that case, the annual total would be equal to our PFY 2000 forecast of 1205.872. In this case, there would be no underestimate. These three quarters would be approximately 2.6 percent higher over SPLY. If they were the actual values, they would be within approximately 1.2 of the forecast of 934.148 million pieces in my testimony.
-

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.**

**DMA/USPS-T8-2. Continued**

(b) and (c) Volumes in quarters two through four could grow at an average rate of 2.6 percent, over SPLY. I expect the volumes to be as stated in my testimony.

---

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

- UPS/USPS-T8-1.** (a) Is most Priority Mail volume sent by residential mailers?  
(b) Is most Priority Mail volume delivered to residential customers?  
(c) Is most Priority Mail volume either delivered to or sent by residential mailers?  
(d) Is most Priority Mail volume sent by business mailers?  
(e) Is most Priority Mail volume delivered to business customers?  
(f) Is most Priority Mail volume either delivered to or sent by business mailers?
- (g) Provide for BY 1998 (i) the volume of Priority Mail that was sent by residential customers, and, separately, (ii) the volume that was sent by businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.
- (h) Provide for BY 1998 (i) the volume of Priority Mail that was sent to residential customers, and, separately, (ii) the volume that was sent to businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.
- (i) Provide for Priority Mail the volume that was sent by businesses to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.
- (j) Provide for Priority Mail the volume that was sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.
- (k) Provide for Priority Mail the volume that was sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.
- (l) Provide for Priority Mail the volume that was sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**RESPONSE:**

- (a)-(f) The following responses are based on the data supplied in (g)-(l) below.
- a. No.
  - b. No.
  - c. No.
  - d. Yes.
  - e. Yes.
  - f. Yes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

(g)-(l) It is my understanding, based on figures provided by the Postal Service, that the best available estimates are provided below.

- g(i). The estimate for GFY 1998 is 141 million pieces.
- g(ii). The estimate for GFY 1998 is 1,033 million pieces.
- h(i). The estimate for GFY 1998 is 498 million pieces.
- h(ii). The estimate for GFY 1998 is 676 million pieces.
- i. The estimate for GFY 1998 is 393 million pieces.
- j. The estimate for GFY 1998 is 641 million pieces.
- k. The estimate for GFY 1998 is 36 million pieces.
- l. The estimate for GFY 1998 is 105 million pieces.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

**UPS/USPS-T8-2.** Refer to page 21 of your testimony, at lines 11-12, where you state, "[o]wn-price elasticity is estimated to be equal to -0.82 (-0.819), and is statistically significant with an estimated  $t = -5.47$ ." Please define what period of time you are referring to for this estimation.

**RESPONSE:**

The estimation period is postal quarter three of 1970 through postal quarter four of 1999.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

- UPS/USPS-T8-3.** (a) Is most Express Mail volume sent by residential mailers?  
(b) Is most Express Mail volume delivered to residential customers?  
(c) Is most Express Mail volume either delivered to or sent to residential mailers?  
(d) Is most Express Mail volume sent by business mailers?  
(e) Is most Express Mail volume delivered to business customers?  
(f) Is most Express Mail volume either delivered to or sent by business mailers?  
(g) Provide for BY 1998 (i) the volume of Express Mail that was sent by residential customers, and, separately, (ii) the volume that was sent by businesses. If this information is not available, provide the Postal Service's best estimate of such volumes.  
(h) Provide for BY 1998 (i) the volume of Express Mail that was sent to residential customers, and, separately, (ii) the volume that was sent to businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.  
(i) Provide the volume of Express Mail that was sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.  
(j) Provide the volume of Express Mail that was sent by businesses to residential customers in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.  
(k) Provide the volume of Express Mail that was sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.  
(l) Provide the volume of Express Mail that was sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**RESPONSE:**

- (a)-(f) The following responses are based on the data supplied in (g)-(l) below.  
a. No.  
b. No.  
c. No.  
d. Yes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE TO  
INTERROGATORIES OF THE UNITED PARCEL SERVICE**

e. Yes.

f. Yes.

(g)-(l) It is my understanding, based on figures provided by the Postal Service, that the best available estimates are provided below.

g(i). The estimate for GFY 1998 is approximately 25 percent.

g(ii). The estimate for GFY 1998 is approximately 75 percent.

h(i). The estimate for GFY 1998 is approximately 26 percent.

h(ii). The estimate for GFY 1998 is approximately 74 percent.

i. The estimate for GFY 1998 is approximately 62 percent.

j. The estimate for GFY 1998 is approximately 13 to 14 percent.

k. The estimate for GFY 1998 is approximately 13 percent.

l. The estimate for GFY 1998 is approximately 12 percent.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T8-4.** Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume or other data, and state in each instance why you used FY 1999 data instead of data for BY 1998.

**Response:**

The FY 1999 volume data are included in the data I used to estimate the coefficients of the Priority Mail and Express Mail models. (Therefore, FY 1999 data are included in my analysis of the estimated shift of mail caused by the change in the weight breakpoint between Priority Mail and First-Class letter mail, as described in detail in LR-I-114.) I used FY 1999 volume data to produce the volume forecasts for Priority Mail and Express Mail. I was instructed by the Postal Service to use these data.



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T8-5.** Refer to Technical Appendix A, TA A-I, of your testimony. Provide the details of all specification tests that were performed to justify the (log-log) functional form that you employ in your estimating equations.

**Response:**

Tests for incorrect functional form include the RESET (Regression Specification Errors Test), the Rainbow test, the Psi test and the CUSUM (Cumulative Sum of recursive residuals), (See Kmenta, *Elements of Econometrics*, pages 452-455 and pages 576-578). Library Reference I-232 contains the technical details of the econometric test results. All of our tests are conducted at the 5% level.

The RESET test and the Rainbow test are tests for incorrect functional form and also test that no relevant explanatory variables have been omitted from the regression equation. The computed F value for the RESET test is 0.427, the critical value is 2.716, and we cannot reject the null hypothesis of no specification error due to incorrect functional form. The computed F value for the Rainbow test is 1.056, the critical value is 1.716, and again we cannot reject the null hypothesis of no specification error due to incorrect functional form.

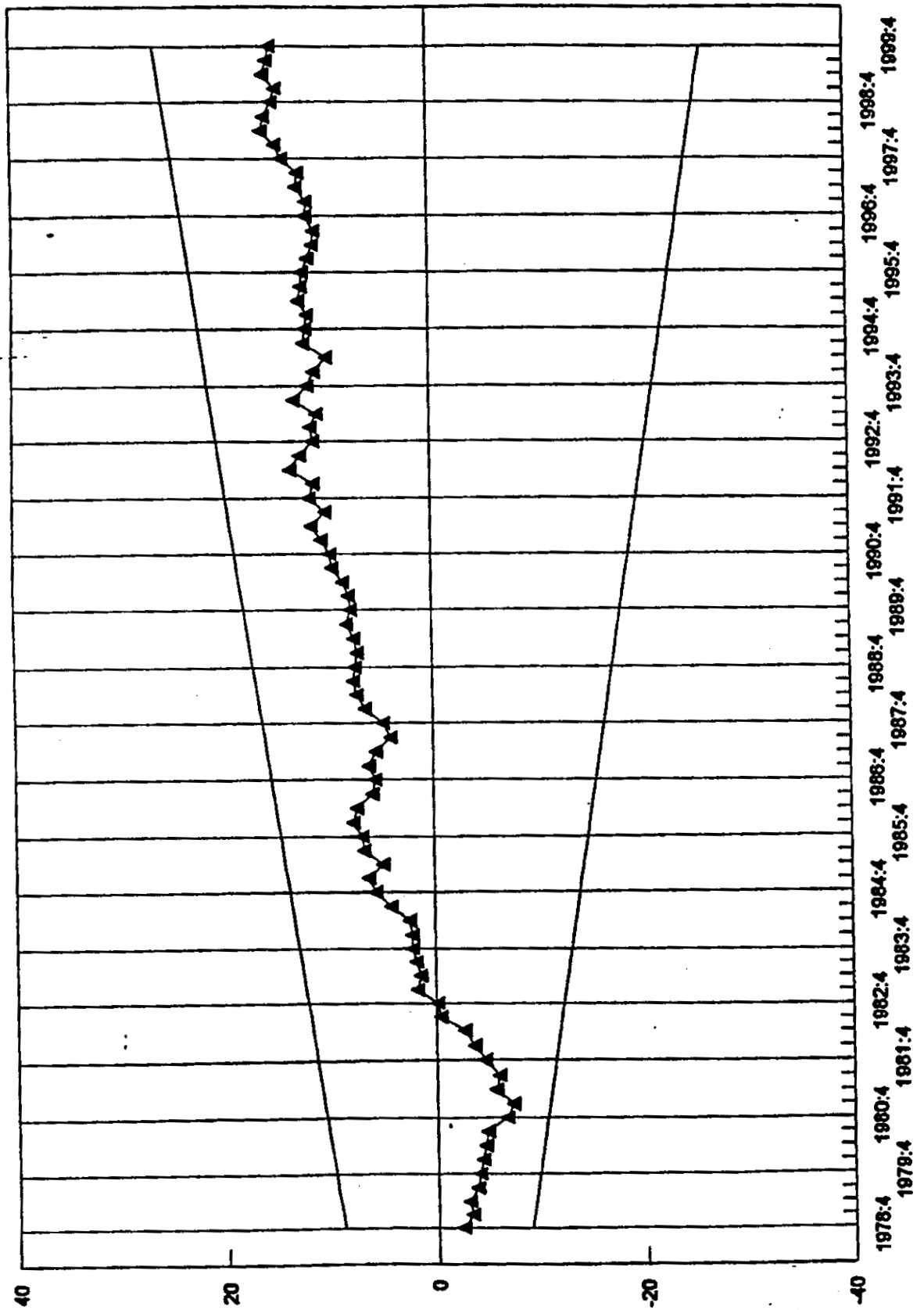
The PSI test is a test for incorrect functional form as well as systematic under prediction or over prediction. The computed test statistic is 1.631 and has a t distribution with the critical value of 1.989. Again we cannot reject the null hypothesis of no specification error.

Finally, the CUSUM test is a test for incorrect functional form leading to parameter instability. Parameter instability may also come from omitted variables and structural changes. CUSUM does not have one constant critical value. One computes

recursive residuals and statistical boundaries. If the CUSUM value crosses the boundary, the null hypothesis of no specification error is rejected. As can be seen from the graph, the computed value is within the boundaries.

The model passes all of the tests.

CUSUM TEST for PMR00



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T8-6.** Refer to your testimony, page 7, where you state, "[a] change in deflated price is estimated to lead to a volume response in the quarter in which the price change occurs and the three following quarters." Provide the details of all sensitivity tests that were performed to justify your assumption that all volume responses to changes in deflated prices occur within one year.

**Response:**

To determine if all volume responds to changes in deflated prices within one year, we performed statistical tests for the significance of additional explanatory variables. The F test statistic is described in Kmenta, *Elements of Econometrics*, page 248. We begin by expanding the lag in the current model to one additional quarter, two additional quarters and finally three additional quarters. Library Reference I-232 contains the technical details of the econometric test results. All of our tests are conducted at the 5% level. When the fourth quarter is added, the computed F test statistic is 2.196 and the critical value is 2.484. We therefore cannot reject the null hypothesis that one additional quarter does not improve the model. When the fourth and fifth quarters are added, the computed F test statistic is 1.112 and the critical value is 2.063. We therefore cannot reject the null hypothesis that two additional quarters do not improve the model. When the fourth, fifth and six quarters are added, the computed F test statistic is 1.002 and the critical value is 1.891. We therefore cannot reject the null hypothesis that three additional quarters do not improve the model. As the statistical importance of each additional lag became smaller, we stopped. It appears that the current specification of the lag structure is sufficient to capture the volume response.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

**UPS/USPS-T8-7. (a) Explain what event the "binary shift variable" described on pages 23-24 of your testimony is designed to capture.**

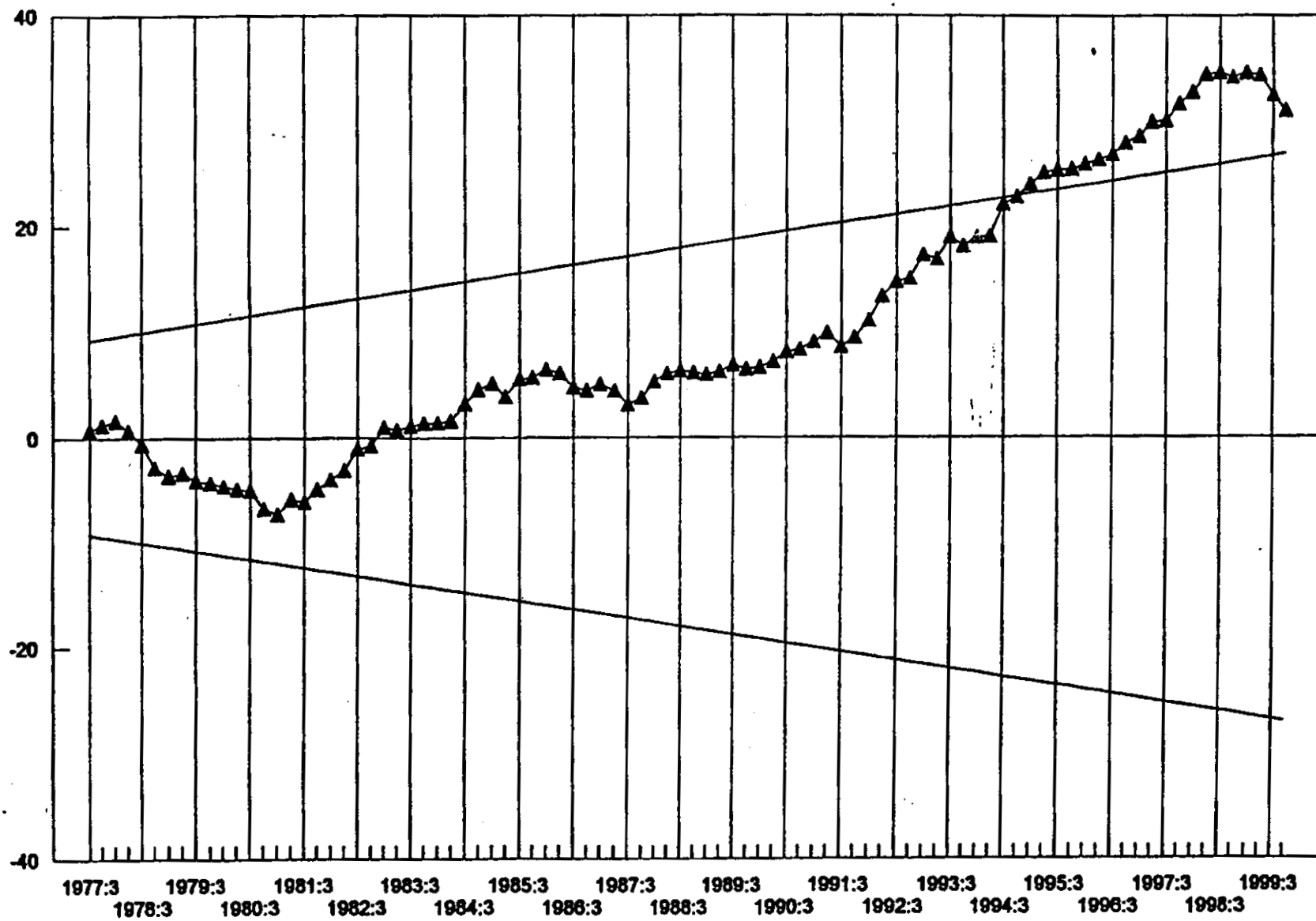
**(b) If the event in question is the Priority Mail rate increase of 1991, explain why the effect of this rate increase (but not others) is presumed to last more than four quarters.**

**Response:**

**(a) The event was a change in the pricing behavior of UPS. Prior to that period, UPS real price increases were generally less than 10 percent on a SPLY basis. Beginning in 91:3, they were double digit and continued generally to be larger than those of Priority Mail. We can see the result with a second Psi test. Library Reference I-232 contains the technical details of the econometric test results. All of our tests are conducted at the 5% level. Here the binary variable in question was omitted from the model. In this case, the computed Psi t value is 3.268 and the critical value is 1.987. We reject the null hypothesis that there is not an omitted relevant explanatory variable. Also, a second CUSUM is presented where the binary variable in question was omitted from the model. The positive slope of the graph in the CUSUM test, beginning in 91:3, coincides with this period. Comparing the graphs of the CUSUM test, with and without the binary variable, shows that the current formulation with the binary variable passes the test and without it, it would not pass.**

**(b) Not Applicable.**

# CUSUM TEST for PMR00 excluding DUPS



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MUSGRAVE  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(Redirected form Witness Robinson, USPS-T34)**

**UPS/USPS-T34-8.** (a) Provide for the period from January 10, 1999 to the end of FY 1999, and, separately, for the period from January 10, 1999, to the most recent date for which such information is available, the volume of pieces that switched from Priority Mail to First Class Mail as a result of the classification change in Docket No. R97-1 which reclassified pieces weighing more than 11 ounces but not more than 13 ounces from Priority Mail to First Class Mail.

(b) Provide the Postal Service's best estimate of the number of pieces of mail that will shift from Priority Mail to First Class Mail in (i) FY 2000 and, separately, (ii) in the Test Year, as a result of the reclassification from Priority Mail to First Class Mail of pieces weighing more than 11 ounces but not more than 13 ounces.

**Response:**

(a) From January 10, 1999 to the end of FY 1999, the estimate of the transferred volume is approximately 90 million pieces. (See LR-I-114, Section A, page 5, Step 2, part d.) To obtain the sum of the transfer volume from January 10, 1999 to the most recent date, one would add quarter one of FY 2000 to the above figure and the estimate of the transferred volume would be approximately 123 million pieces. (See LR-I-114, page 8.)

(b) The best estimate of the transfer volume for FY 2000 is 150 million pieces. (See LR-I-114, page 8.) The best estimate of the test year GFY 2001 before-rates transfer volume is 165 million pieces and the test year after-rates GFY 2001 transfer volume is 157 million pieces. (See LR-I-114, page 8 for before-rates and page 15 for after-rates transfer volume.)

1 MR. KOETTING: And there are some Category 2  
2 Library References associated with Dr. Musgrave's testimony.  
3 Those would be Library References I-111, I-112, I-113, I-114  
4 and I-129, and the Postal Service would move those into  
5 evidence, sponsored by Dr. Musgrave.

6 CHAIRMAN GLEIMAN: It is so ordered, those Library  
7 References are entered into evidence and will not be  
8 transcribed into the record.

9 [Library References I-111, I-112,  
10 I-113, I-114 and I-129 were  
11 received into evidence.]

12 CHAIRMAN GLEIMAN: If you would please make sure  
13 that Witness Musgrave reviews today's transcript and submits  
14 any necessary transcript corrections, I would appreciate  
15 that.

16 MR. KOETTING: I will be sure to do that, Mr.  
17 Chairman.

18 CHAIRMAN GLEIMAN: And we will proceed with the  
19 cross-examination of our other scheduled witnesses. Mr.  
20 Koetting, if you would like to call your first witness.

21 MR. KOETTING: The Postal Service calls as its  
22 next witness Dr. George Tolley.  
23 Whereupon,

24 GEORGE S. TOLLEY,  
25 a witness, having been called for examination and, having



1     been first duly sworn, was examined and testified as  
2     follows:

3                             DIRECT EXAMINATION

4                     BY MR. KOETTING:

5             Q     Dr. Tolley, I have handed you two copies of a  
6     document entitled "Direct Testimony of George Tolley on  
7     Behalf of the United States Postal Service," which has been  
8     designated as USPS-T-6 in this proceeding. Are you familiar  
9     with that document?

10            A     Yes, I am.

11            Q     Was it prepared by you or under your supervision?

12            A     Yes, it was.

13            Q     If you were to testify orally today, would that be  
14     your testimony?

15            A     Yes, it would.

16                     MR. KOETTING: Mr. Chairman, the Postal Service  
17     moves that USPS-T-6, the direct testimony of Dr. George S.  
18     Tolley, be accepted into evidence.

19                     CHAIRMAN GLEIMAN: Is there any objection?

20                     [No response.]

21                     CHAIRMAN GLEIMAN: Hearing none, I will direct  
22     counsel to provide the reporter with two copies of the  
23     direct testimony of Witness Tolley. The testimony is  
24     received into evidence and will not be transcribed into the  
25     record.

1 [Direct Testimony of George S.  
2 Tolley, USPS-T-6, was received into  
3 evidence.]

4 CHAIRMAN GLEIMAN: Mr. Koetting, is Witness Tolley  
5 sponsoring any Category 2 Library References?

6 MR. KOETTING: He is, Mr. Chairman.

7 BY MR. KOETTING:

8 Q Dr. Tolley, on the list attached to Presiding  
9 Officer's Ruling R2000-1-13, and as modified by subsequent  
10 Postal Service pleadings, you have been identified as the  
11 sponsor of Library References I-120 and I-121. Are you  
12 prepared to sponsor those into evidence?

13 A Yes, I am.

14 CHAIRMAN GLEIMAN: That being the case, the two  
15 Library References in question are entered into evidence.  
16 They will not be transcribed into the record.

17 [Library References I-120 and I-121  
18 were received into evidence.]

19 CHAIRMAN GLEIMAN: Dr. Tolley, have you had an  
20 opportunity to examine the packet of designated written  
21 cross-examination that was made available earlier today?

22 THE WITNESS: Yes, I have.

23 CHAIRMAN GLEIMAN: And if those questions were  
24 asked of you today, would your answers be the same as those  
25 you previously provided in writing?

1 THE WITNESS: They would.

2 CHAIRMAN GLEIMAN: That being the case, if counsel  
3 would provide two copies of the designated written  
4 cross-examination to the reporter, I will direct that the  
5 material be received into evidence and transcribed into the  
6 record.

7 [Designation of Written  
8 Cross-Examination of George S.  
9 Tolley, USPS-T-6, was received into  
10 evidence and transcribed into the  
11 record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS GEORGE S. TOLLEY  
(USPS-T-6)

<u>Party</u>	<u>Interrogatories</u>
Amazon.com, Inc.	AMZ/USPS-T6-1-3
Association of American Publishers	AAP/USPS-T6-1-6, 9, 13, 15-17, 20
Coalition of Religious Press Associations	CRPA/USPS-T6-1, 5-15
Mail Order Association of America	AAP/USPS-T6-4-6 NAA/USPS-T6-8
National Newspaper Association	CRPA/USPS-T6-10 NNA/USPS-T6-1-6, 8-12 PB/USPS-T6-1
Newspaper Association of America	NAA/USPS-T6-1-11 UPS/USPS-T6-9
Parcel Shippers Association	PSA/USPS-T6-1 RIAA/USPS-T6-1 UPS/USPS-T6-12
Recording Industry Association of America, Inc.	RIAA/USPS-T6-1

United Parcel Service

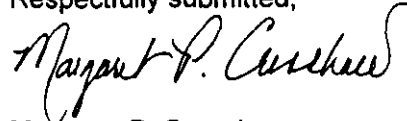
AAP/USPS-T6-4, 6, 18

AMZ/USPS-T6-1-3

PSA/USPS-T6-1

UPS/USPS-T6-1-9, 12

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with a large, sweeping initial "M".

Margaret P. Crenshaw  
Secretary

DESIGNATED RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS GEORGE S. TOLLEY (T-6)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

AAP/USPS-T6-1  
AAP/USPS-T6-2  
AAP/USPS-T6-3  
AAP/USPS-T6-4  
AAP/USPS-T6-5  
AAP/USPS-T6-6  
AAP/USPS-T6-9  
AAP/USPS-T6-13  
AAP/USPS-T6-15  
AAP/USPS-T6-16  
AAP/USPS-T6-17  
AAP/USPS-T6-18  
AAP/USPS-T6-20  
AMZ/USPS-T6-1  
AMZ/USPS-T6-2  
AMZ/USPS-T6-3  
CRPA/USPS-T6-1  
CRPA/USPS-T6-5  
CRPA/USPS-T6-6  
CRPA/USPS-T6-7  
CRPA/USPS-T6-8  
CRPA/USPS-T6-9  
CRPA/USPS-T6-10  
CRPA/USPS-T6-11  
CRPA/USPS-T6-12  
CRPA/USPS-T6-13  
CRPA/USPS-T6-14  
CRPA/USPS-T6-15  
NAA/USPS-T6-1  
NAA/USPS-T6-2  
NAA/USPS-T6-3  
NAA/USPS-T6-4  
NAA/USPS-T6-5

Designating Parties:

AAP  
AAP  
AAP  
AAP, MOAA, UPS  
AAP, MOAA  
AAP, MOAA, UPS  
AAP  
AAP  
AAP  
AAP  
UPS  
AAP  
Amazon, UPS  
Amazon, UPS  
Amazon, UPS  
CRPA  
CRPA  
CRPA  
CRPA  
CRPA  
CRPA  
CRPA  
CRPA, NNA  
CRPA  
CRPA  
CRPA  
CRPA  
CRPA  
NAA  
NAA  
NAA  
NAA  
NAA

NAA/USPS-T6-6	NAA
NAA/USPS-T6-7	NAA
NAA/USPS-T6-8	MOAA, NAA
NAA/USPS-T6-9	NAA
NAA/USPS-T6-10	NAA
NAA/USPS-T6-11	NAA
NNA/USPS-T6-1	NNA
NNA/USPS-T6-2	NNA
NNA/USPS-T6-3	NNA
NNA/USPS-T6-4	NNA
NNA/USPS-T6-5	NNA
NNA/USPS-T6-6	NNA
NNA/USPS-T6-8	NNA
NNA/USPS-T6-9	NNA
NNA/USPS-T6-10	NNA
NNA/USPS-T6-11	NNA
NNA/USPS-T6-12	NNA
PB/USPS-T6-1	NNA
PSA/USPS-T6-1	PSA, UPS
RIAA/USPS-T6-1	PSA, RIAA
UPS/USPS-T6-1	UPS
UPS/USPS-T6-2	UPS
UPS/USPS-T6-3	UPS
UPS/USPS-T6-4	UPS
UPS/USPS-T6-5	UPS
UPS/USPS-T6-6	UPS
UPS/USPS-T6-7	UPS
UPS/USPS-T6-8	UPS
UPS/USPS-T6-9	NAA, UPS
UPS/USPS-T6-12	PSA, UPS

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T6-1** On pages 167 and 168 of your testimony, you state that "Much of this long-term growth in Bound Printed Matter ("BPM") volume is due to the mail order boom and the expansion of the catalog industry." Please identify and provide all studies, reports, data or other evidence that you relied upon to support this statement.

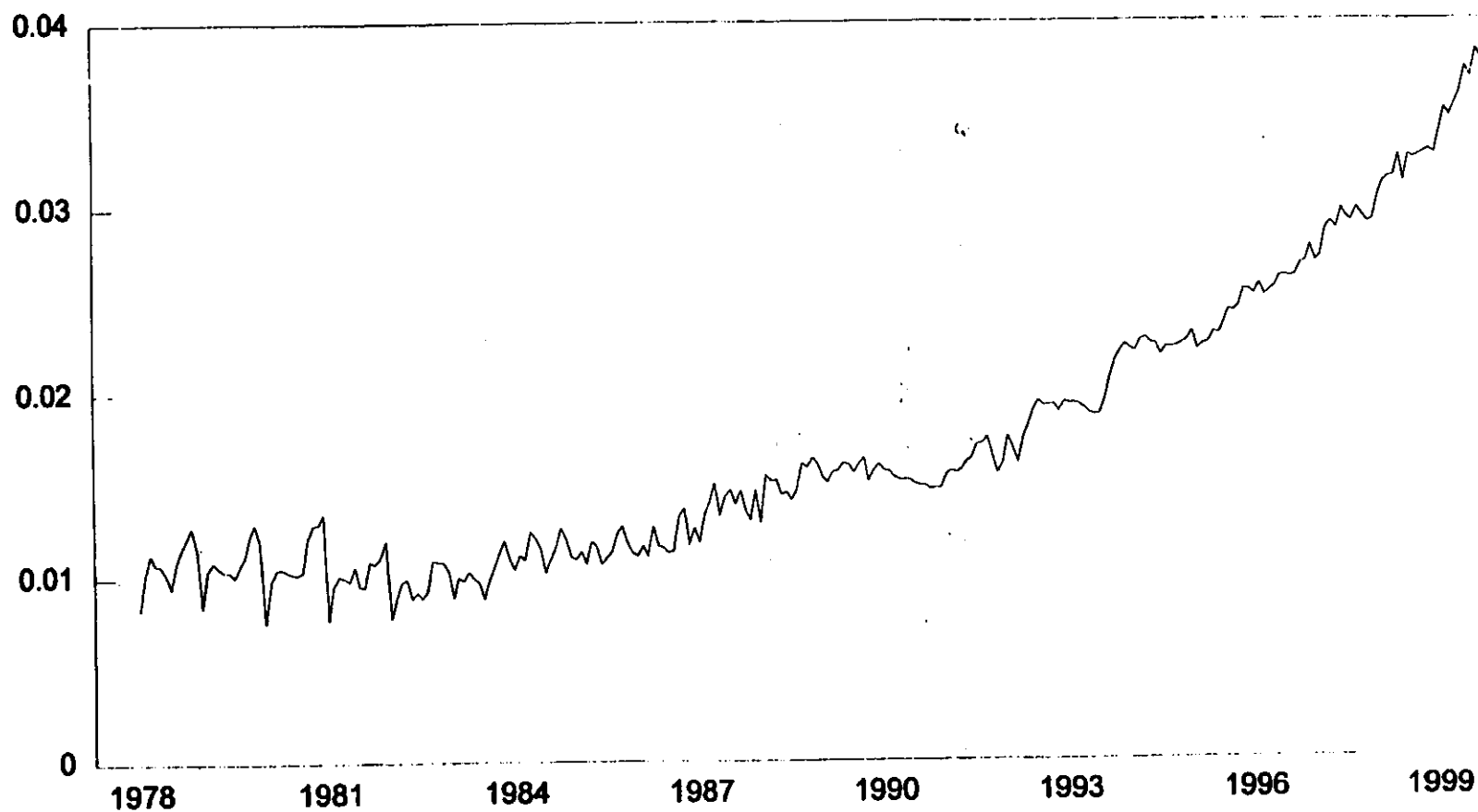
**RESPONSE:**

Since bound printed matter contains catalogs and mail-order deliveries, an expansion of the mail-order and catalog industry can be expected to lead to an increase in bound printed matter volume. The attached chart shows real per-capita mail-order retail sales from 1978 through 1999, indicating that real per-capita mail-order retail sales have increased by a factor of four since 1978.



# Figure accompanying response to AAP/USPS-T6-1

Real Mail-Order Sales per Adult, Seasonally Adjusted



RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS

AAP/USPS-T6-2 On page 168 of your testimony, you state that the "pattern of volume growth of Bound Printed Matter is consistent with a market penetration Z-variable."

(a) Please explain fully, with numerical examples, how volume growth in BPM is consistent with "a market penetration Z-variable."

(b) Please explain in particular what "market" is being analyzed using a "market penetration Z-variable" for BPM.

(c) Please provide a complete explanation with supporting references of the theoretical basis you relied upon to justify this use of a "market penetration Z-variable" used for BPM.

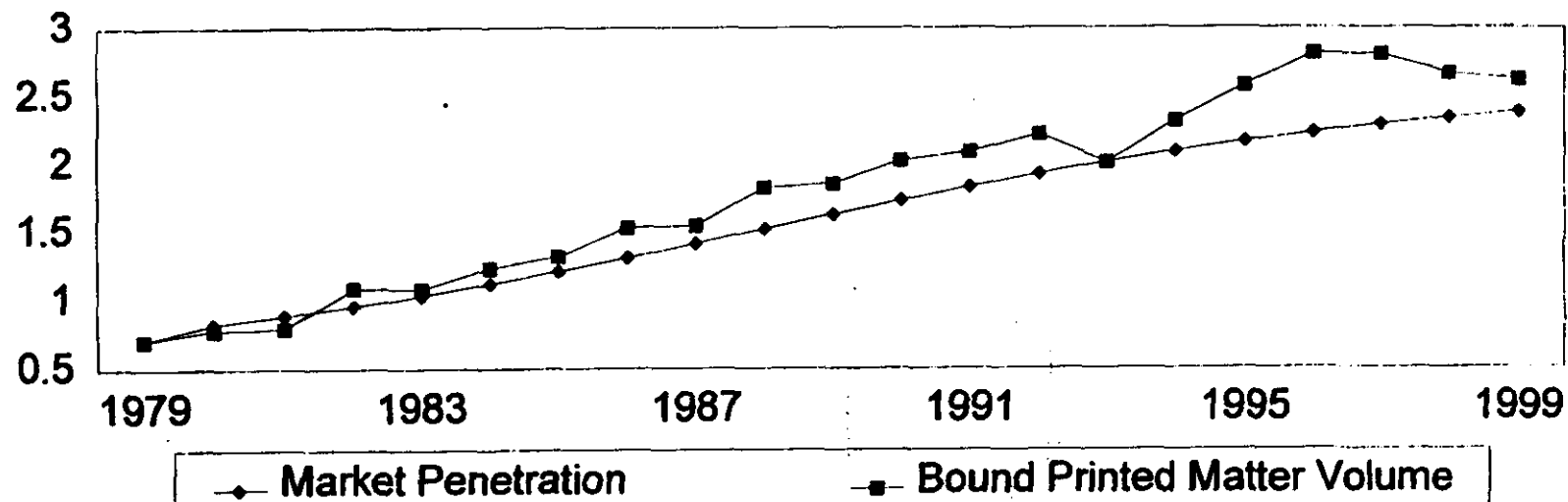
RESPONSE:

(a) Please see the attached figure which presents bound printed matter volume per adult as well as the "market penetration Z-variable" used to forecast bound printed matter volume for the time period 1979 through 1999. It is apparent that the market penetration variable tracks bound printed matter volume relatively closely. The market penetration variable is not the only factor affecting bound printed matter volume, which is also affected by permanent income, the price of bound printed matter, and several dummy variables, as described in my testimony.

(b) The "market" here represents the market for bound printed matter.

(c) Please see the testimony of witness Thress, USPS-T-7, in this case, at pages 124 through 128, for a description of the market penetration variable. This "market penetration Z-variable" construction is based on the marketing theory of new product diffusion. This theory is discussed, for example, in "New product diffusion models in marketing: A review and directions for research" by V. Mahajan, E. Muller, and F. M. Bass, in *Journal of Marketing*, 54, 1 (January, 1990), pp. 1 - 26.

**Figure accompanying response to AAP/USPS-T6-2(a)**



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T6-3** On page 170 of your testimony, you state that "Ultimately Sears replaced its large catalog with smaller catalogs, many of which were also sent as Bound Printed Matter."

(a) Please identify and provide copies of all documents, studies, reports, data or other evidence relied upon to support this statement.

(b) Please state how many smaller catalogs were sent as BPM is 1996, 1997, 1998 and 1999.

**RESPONSE:**

(a) In January of 1993, Sears announced that they were ceasing publication of their main catalog. From the second quarter of 1993 through the first quarter of 1994 (note that Postal years begin in September of the previous calendar year; the time period cited here, 1993Q2 through 1994Q1, went from December 12, 1992 through December 10, 1993), bound printed matter volume declined by 8.6 percent over the same period one year earlier. This decline in bound printed matter volume was attributed to the cancellation of the Sears catalog.

The following four quarters (1994Q2 through 1995Q1), bound printed matter volume grew by 22.0 percent. This phenomenon is apparent in the figure accompanying my response to interrogatory 2 above.

The quote which you cite on page 170 represents my hypothesis to explain this phenomenon.

(b) I do not have these figures.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T6-4** On page 170 of your testimony, you state that "Bound Printed Matter Volume experienced a sudden decline beginning in 1998q1." Please provide an explanation for the decline. If no explanation can be provided by you, identify any other USPS witnesses who may be able to provide the explanation for the decline.

**RESPONSE:**

I am unaware of the cause of this decline. I am unaware of any Postal Service witnesses who would be able to provide an explanation.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS

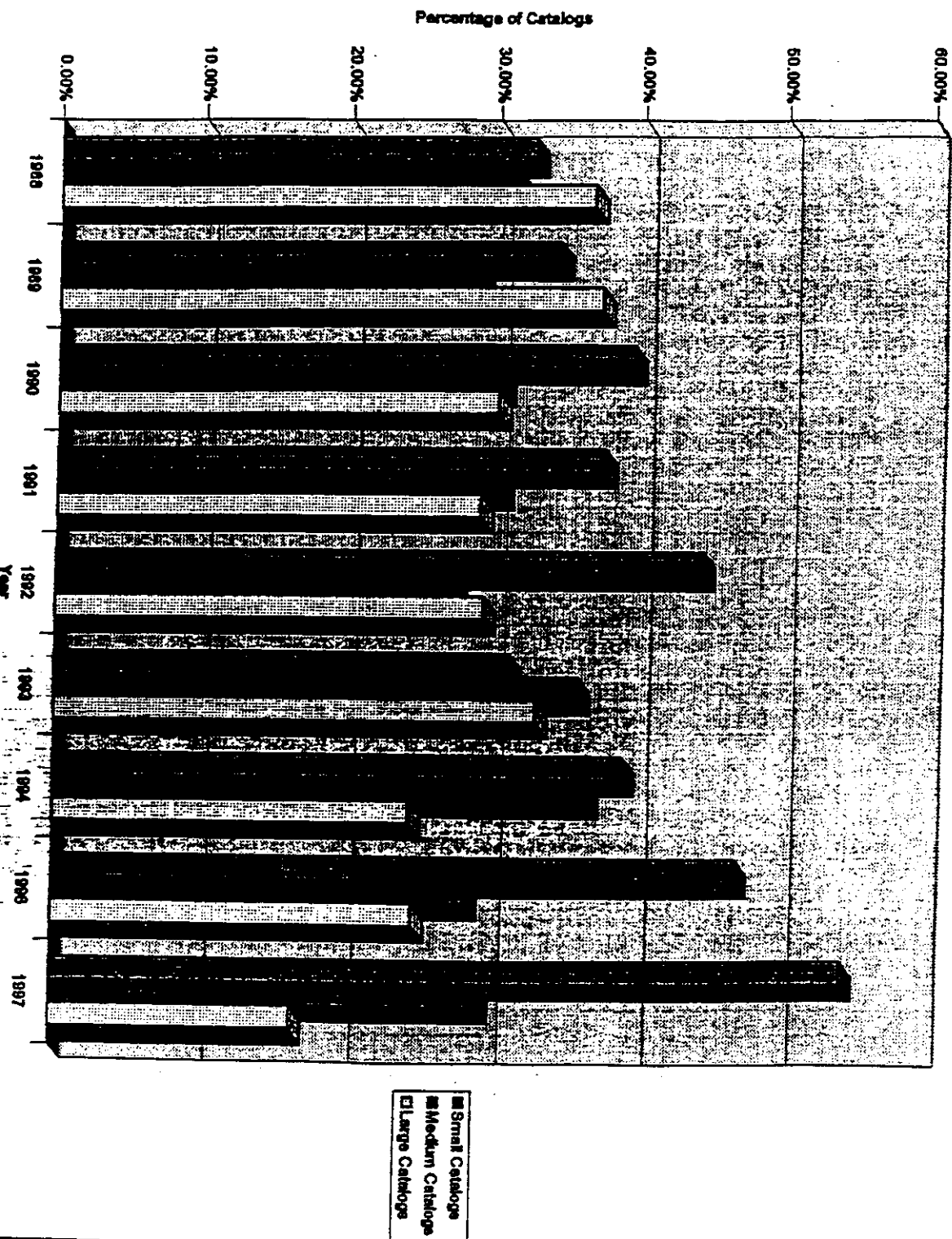
AAP/USPS-T6-5 Please identify and provide all documents, studies, reports, data or other evidence upon which you relied to conclude that the "Other Factors" described at page 171 of your testimony related in any way to the delivery trends in catalogs you describe on pages 171 and 172 of your testimony.

RESPONSE:

Included in the discussion of "Other Factors" are references to articles from *Traffic World* and *Traffic Management* (provided in my response to your interrogatory 7), a discussion of employment trends (provided in my responses to your interrogatories 8 and 9), and a review of information regarding the shift from larger to smaller catalogs obtained from several of the Direct Marketing Association, *Statistical Fact Books* and summarized in the table accompanying this response.

Figure accompanying response to AAP/USPS-T6-5

NUMBER OF PAGES IN PRIMARY CATALOG



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAPP/USPS-T6-6** On page 171 (lines 6-7) of your testimony, you state that "One of the major components of Bound Printed Matter is catalogs weighing between one and ten pounds." With respect to this statement:

- (a) Please list all of the other known components of BPM.
- (b) Please state the volume of BPM that consists of catalogs for each of the years 1994-1999. Include source references to support your response.
- (c) Please state the volume of BPM that consists of books for each of the years 1994-1999. Include source references to support your response.
- (d) Please state the volume of BPM that consists of components that are not catalogs and are not books for each of the five years (1994-1999). Include source references to support your response.

**RESPONSE:**

- (a) In addition to catalogs, another component of bound printed matter is books. Matter which is bound and printed, but would not be characterized as either catalogs or books, can also be sent as *bound printed matter*.
- (b) According to the Household Diary Study, the following percentage of bound printed matter received by households was characterized as catalogs for each year from 1994 through 1998 (the 1999 Household Diary Study is not available at this time).

**Percentage of Bound Printed Matter  
That Are Catalogs**

1994	27.5%
1995	39.3%
1996	36.8%
1997	44.3%
1998	29.4%
1994 - 1998	35.6%

- (c) According to the Household Diary Study, the following percentage of bound printed matter received by households was characterized as books for each year from



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

1994 through 1998 (the 1999 Household Diary Study is not available at this time).

**Percentage of Bound Printed Matter  
That Are Books**

1994	66.0%
1995	41.9%
1996	41.7%
1997	44.1%
1998	63.7%
1994 - 1998	50.7%

(d) According to the Household Diary Study, the following percentage of bound printed matter received by households was characterized as neither catalogs nor books for each year from 1994 through 1998 (the 1999 Household Diary Study is not available at this time). The numbers in 1994 sum to greater than 100 percent because 1.2 percent of bound printed matter was classified as both catalogs and books that year.

**Percentage of Bound Printed Matter  
That Are Neither Catalogs Nor Books**

1994	7.7%
1995	18.7%
1996	21.5%
1997	11.6%
1998	6.9%
1994 - 1998	14.0%

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

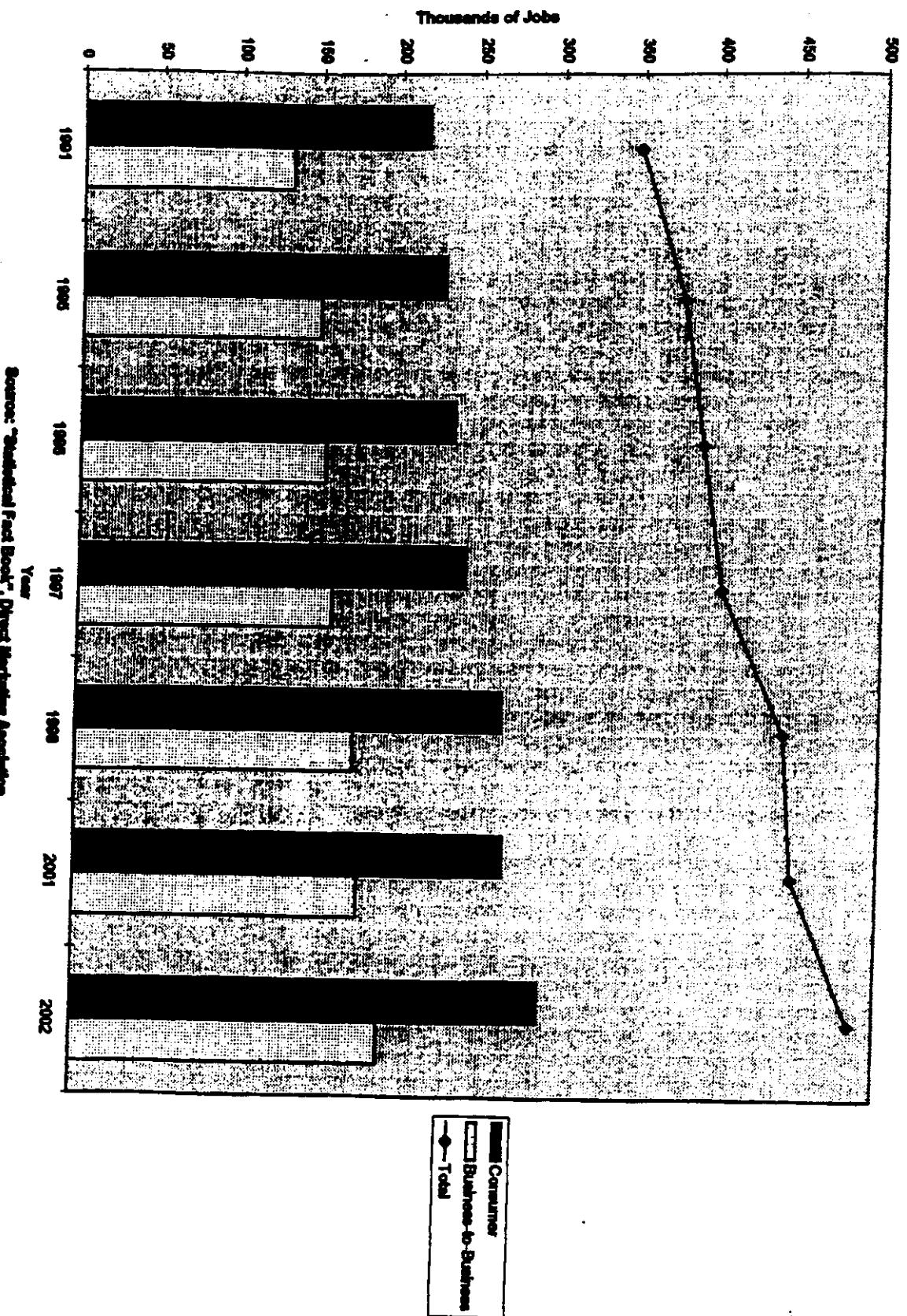
**AAP/USPS-T6-9** On page 171 (lines 19-29) of your testimony, you state that "[d]espite the predicted growth in the Internet and other high tech sales media, catalog employment is still expected to increase." Please identify and provide all documents, studies, reports, data or other evidence that you relied upon to support this statement.

**RESPONSE:**

The accompanying figure shows projections of U.S. catalog employment from the Statistical Fact Book of the Direct Marketing Association.

Figure accompanying response to AAP/USPS-T6-9

U.S. CATALOG EMPLOYMENT BY MARKET



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T6-13** With respect to the "market penetration Z-variable" for BPM, please state the causal factors which you believe have brought about changes in the value of this variable for the period 1994 through 1999.

**RESPONSE:**

Growth in mail order sales and shifts from Standard B Special Rate mail may have contributed to changes in the value of the z-variable over this period.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T6-15 Please state whether and how you gave specific consideration to recent trends in E-commerce in developing the forecasted values used for the individual variables that appear in the econometric model of BPM in order to derive the TYBR and TYAR BPM volumes set forth in your Testimony. Please identify and provide all documents, studies, reports, data or other evidence you relied upon in this regard.**

**RESPONSE:**

I did not develop the forecasted values of the individual variables that appear in the bound printed matter econometric model used in the volume forecast of bound printed matter. These values are projected by DRI, with two exceptions. First, the postage rate that is proposed by the Postal Service. Second, values of the z-variable were extrapolated to future time periods using the econometrically estimated parameters describing the path of the z-variable. As noted in my response to your interrogatory AAP/USPS-T6-13, growth in mail-order sales has apparently contributed to the z-variable and almost surely reflects trends in E-commerce.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T6-16** On page 11 of your testimony you state "[t]he testimony is based on the belief that past behavior of mail volumes provides the most valuable source of information about what is likely to happen in the future, particularly if the reasons for past volume changes can be understood and used as the basis for forecasting." With respect to this statement as it applies to your volume forecasts for BPM, please explain how you determined that the reasons for past volume changes in BPM could now be used as the basis for forecasting future BPM volumes in R2000-1. Provide any statistical tests used or relied upon in making this determination.

**RESPONSE:**

The econometric demand equation for bound printed matter estimated by Postal Service witness Thress provides an explanation of the past volume behavior of bound printed matter. The t-values for estimated elasticity coefficients of income, price, and the Z-variable are in excess of 2.0 and are thus highly statistically significant. The adjusted r-squared of the equation is 0.97 indicating that the variables included explain 97 percent of the historical variation in bound printed matter volumes.

My discussion of "Factors Affecting Volume" beginning at page 168, line 4, shows how each variable has impacted bound printed matter volume in the recent past. In addition, the Forecast Error Analysis results for bound printed matter, presented in Table A-21 of my Technical Appendix, support the reliability of the estimated demand equation. Taken together, this analysis suggests that the past responses of bound printed matter volume to changes in real postage rates, income, and population, along with the estimated impact of the market penetration Z-variable can be used to reliably predict the future response of the volume of this subclass to changes in these variables.

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**AAP/USPS-T6-17** On page 12 of your testimony you state that developments in electronic communications are "having both negative and positive effects on mail volumes." With respect to this statement:

(a) Please explain whether such developments are having negative, positive or both negative and positive effects on BPM volumes.

(b) Please explain how these developments have been quantified in your equations and forecasts of TYBR and TYAR volumes for BPM.

**RESPONSE:**

(a) Electronic communication generally refers to E-mail, fax, electronic funds transfers (EFT), and electronic data interchange (EDI). I have not found reason to expect that bound printed matter volume is particularly affected by developments in these areas.

On the other hand, if electronic communication is taken to refer to E-commerce more generally, E-commerce can be expected to have both positive and negative impacts on bound printed matter volume. On the positive side, E-commerce may increase the total volume of mail order sales (of books, for example) leading to increases in bound printed matter. However, as discussed in the section of my testimony on Standard A Regular mail at page 120 to 123, catalog shipments may have been negatively affected by greater use of the Internet and company Web pages as a means for ordering advertising and merchandise.

(b) As stated in my response to (a), the effects of electronic communication and E-commerce have been both positive and negative. The effects of electronic communication and the Internet on bound printed matter are among the influences reflected in the z-variable.

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**AAP/USPS-T6-18** On page 13 of your testimony, you describe the *Household Diary Study* which give cross-sectional data at a point in time. Please provide complete copies of the three most recent *Household Diary Studies*.

**RESPONSE:**

The Study for 1998 has been filed as USPS-LR-I-116. The Study for 1996 will be filed as USPS-LR-I-215, and the Study for 1997 will be filed as USPS-LR-I-216.



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**AAP/USPS-T6-20** Please refer to your response to AAP/USPS-T6-1. With respect to your response:

- (a) Please confirm that other than the chart produced, you did not rely upon any study, report, data or other evidence to support your statement, on pages 167 and 168 of your testimony, that "[m]uch of this long-term growth in Bound Printed Matter ("BPM") volume is due to the mail order boom and the expansion of the catalog industry." Please explain any response which does not confirm this statement.
- (b) Please identify the underlying data and sources upon which you relied to create the chart attached to your response.
- (c) Please explain what, exactly, constitutes "mail-order retail sales" as that phrase is used in your response.

**RESPONSE:**

- (a) Generally confirmed, though general reading about mail order and catalogs have contributed to my understanding of this topic.
- (b) The variable identified as "mail-order retail sales" in the figure accompanying AAP/USPS-T6-1 was calculated from a variable obtained from DRI/McGraw-Hill named S5961NS, which is identified as "Retail Sales - Total Mail orders." DRI identifies the source of this variable as "U.S. Department of Commerce, Bureau of the Census, Current Business Report, 'Monthly Retail Trade'." In the figure accompanying AAP/USPS-T6-1, values of the variable were deflated and divided by adult population before plotting.
- (c) The Census Bureau defines "mail-order retail sales" (S5961NS) as sales generated by "establishments with normally 50 or more employees primarily engaged in the retail sale by catalog and mail order of a general line of merchandise similar to that sold by department stores" and "establishments primarily engaged in the retail sale of a specialized or limited line of merchandise such as food, automotive merchandise, apparel, books stationery, etc., by catalog and mail order."

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**AMZ/USPS-T6-1.**

- a. Please confirm that in Docket No. R97-1, TYAR 1998 Standard B Parcel Post volume was estimated to be 231.879 million pieces (USPS-T-6, Docket No. R97-1) while the actual 1998 Parcel Post (Inter-BMC, Intra-BMC and DBMC) volume was 319.991 million (USPS-T-6, Docket No. R2000-1, p. 154, Chart 4, 1998 data). If you do not confirm, please provide the correct volumes.
- b. To what do you attribute the additional 38 percent volume that occurred?
- c. Have any changes been made in your volume projection methodology as a result? If so, please describe these changes.

**RESPONSE:**

- a. Confirmed.
- b. The two numbers cited in your question are not comparable for three reasons.

First, R97-1 rates were not implemented until January 10, 1999. Hence, a more meaningful comparison would be between the R97-1 Test Year Before-Rates volume forecast and actual volume in 1998. The Test Year Before-Rates volume forecast of Standard B Parcel Post volume in R97-1 was 241.555 million pieces (USPS-LR-H-295, Attachment B, page 2).

Second, the Test Year for Docket No. R97-1 was Government Fiscal Year 1998, which ran from October 1, 1997 through September 30, 1998. The actual 1998 Parcel Post volume cited in your question is for Postal Fiscal Year 1998, which ran from September 13, 1997 through September 11, 1998. The before-rates volume forecast of Standard B Parcel Post mail for Postal Fiscal Year 1998 in R97-1 was equal to 240.087.

Finally, and most importantly, the Parcel Post volume data which was used as the base volume in making the R97-1 volume forecast was restated by the Postal Service as a result of a change in the methodology for counting parcel post volume in the RPW system. The actual 1998 Parcel Post volume reported in my testimony uses

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the restated data.

It may be noted that in Docket No. R97-1, the base volume used to forecast parcel post volume was 220.034 million pieces in the last two quarters of 1996 and the first two quarters of 1997. The restated Parcel Post volume for this time period was equal to 275.024 million pieces (see USPS-T-7, Workpaper 1, Table 1-10, page 16, column headed "GVOL25"). If the R97-1 forecast were updated to use this new base volume, but without changing any of the other forecasting parameters, the before-rates volume forecast of Standard B Parcel Post mail for Postal Fiscal Year 1998 in R97-1 would have been equal to 313.406. This differs from the actual volume presented in my testimony by 2.1 percent.

c. All of the work presented in this case by me and my colleague, Mr. Thress (USPS-T-7), uses the restated parcel post volume data.

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- **AMZ/USPS-T6-2. Please refer to page 154 of your testimony, Chart H. Is FY 1999 DDU and DSCF destination entry Parcel Post included in the Chart H data? If so, where is it reported?**

**RESPONSE:**

**Yes. The final column should be identified as "Destination Entry" rather than "DBMC" as this column includes DSCF and DDU volumes for 1999.**

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**AMZ/USPS-T6-3.**

- a. Please refer to Attachment A of your testimony. Does "Destination Entry" within Parcel Post consist of DBMC, DSCF and DUU Parcel Post? If not, please identify all of the constituent elements of "Destination Entry" Parcel Post.
- b. Please provide DBMC, DSCF, and DUU Parcel Post estimated volumes following the format of Attachment A.

**RESPONSE:**

- a. Yes.
- b. I did not make separate forecasts of DBMC, DSCF, and DDU Parcel Post volumes.

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**CRPA/USPS-T6-1** Please refer to page 84 of your testimony where you write, "Periodicals are given expeditious distribution, dispatch, transit handling and delivery, preceded only by First-Class, Priority Mail and Express Mail." Please provide evidence to support this claim, showing that the Postal Service's implementation of its "expeditious treatment" (a) compares favorably with its own service standards pertaining to the delivery of periodicals-Class mail and (b) compares favorably with Standard A mail.

**RESPONSE:**

My only intent in making this statement was to reflect the description of the Periodicals mail class reflected in the Domestic Mail Manual, D210.1.0, and the Domestic Mail Classification Schedule, section 452. No information on the extent to which the Postal Service adheres to these provisions was necessary for this purpose, and I have none.

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**CRPA/USPS-T6-5**

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

<b>Base Year PFY 1999</b>	<b>Test Year Before-Rates GFY 2001</b>	<b>Test Year After-Rates GFY 2001</b>
<b>Nonprofit Periodicals</b>		
2,136.552 million pieces	2,095.809 million pieces	2,052.208 million pieces
<b>Regular Rate Periodicals</b>		
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

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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.



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**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.**

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**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.**

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**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.

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**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.

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**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

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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."

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**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.**

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**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.**



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**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.**

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**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.

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**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 mainstream 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

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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.

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**NAA/USPS-T6-1** Please refer to Table 2 in your testimony on page 38. 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

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**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".**

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**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.

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- 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.
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**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**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.

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

**NAA/USPS-T8-4** 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-T8-2(f) and NAA/USPS-T8-3(c).
-

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

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

**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 1998Q1 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.

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

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

**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.

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

**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.

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

**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.



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

**NAA/USPS-T6-11 Please refer to USPS-LR-I-121, specifically to the file  
vf\_ar.wk4, to the sheet "NonRate Data". Column X refers to a variable called "PC".  
Please give the source from which the values of this column were obtained.**

**RESPONSE:**

The variable PC comes from DRI/McGraw-Hill, who identify this variable as PIDC. DRI defines PIDC as the "implicit price deflator - personal consumption expenditures (chained)." DRI identifies the source of historical values of this variable as "U.S. Department of Commerce, Bureau of Economic Analysis, National Income & Product Accounts - underlying detail." Forecasted values of PIDC are calculated by DRI.

**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.

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

**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.

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

**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.

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

**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.

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

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.

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

**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.

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

**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.



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

**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.

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

**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.

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

**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

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

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.

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

**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.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T6-1** Please refer to your testimony at page 7, lines 18-20, where you state that

Rather than occurring immediately, response to price occurs over a period of time. A change in real or deflated price is estimated to lead to a volume response in the quarter in which the price change occurs *and in subsequent quarters.* (Emphasis added.)

a. Do the Test Year volume forecasts for all the classes and subclasses of mail contained in Table 1 at pages 6-7 of your testimony reflect the full impact that the recommended rates are expected to have? If so, what are the extent of the lags in the various models that you use to forecast volumes?

b. Alternatively, would any of your forecasting models project further responses to price changes to occur over periods subsequent to the end of Test Year 2001 owing to the lagged effect discussed in your above-quoted testimony? That is, do any of the lagged effects extend beyond the end of the Test Year? If your answer to this question is affirmative for any of the forecasts contained in your Table 1, please indicate the extent of further volume adjustments expected for each of the volume forecasts contained in your Table 1.

**RESPONSE:**

a. The after-rates Test Year volume forecasts assume that R2000-1 rates are implemented on the first day of the Test Year, October 1, 2000 (in the first quarter of fiscal year 2001). Some categories of mail are affected by changes in price as long ago as three quarters earlier. Hence, the full impact of the R2000-1 rate change will not be felt until as late as the fourth quarter of the Test Year for some categories of mail.

The specific lag price elasticities used in my forecasts are presented in the testimony of my colleague, Thomas Thress (USPS-T-7). See particularly, Tables II-2 through II-25 on pages 31 - 34, 42 - 45, 58 - 60, 73 - 76, and 81 - 88 of Mr. Thress's testimony.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF PITNEY BOWES**

b. Because R2000-1 rates are not expected to take effect until the first day of the Test Year, virtually all of my forecasting models would project further responses to price changes to occur over periods subsequent to the end of Test Year 2001.

The impact of the Postal Service's proposed prices on mail volume in Government Fiscal Year 2002 can be ascertained by comparing the Postal Service's before- and after-rates volume forecasts for 2002, which are presented in USPS-LR-I-121 at pages 16 - 19.

The after-rates volume forecasts for GFY 2002 should reflect the full impact of the recommended R2000-1 rates on mail volumes. In total, my testimony shows that after-rates total domestic mail volume is 1.7 percent lower than before-rates volume in GFY 2001, while it would appear, based on an examination of the GFY 2002 forecasts appearing in LR-I-121, that after-rates total domestic mail volume is 2.3 percent lower than before-rates volume in GFY 2002.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION**

**PSA/USPS-T6-1** On page 157 of your testimony you state that, in 1998, Federal Express, United Parcel Service, and Parcel Post combined accounted for over 90% of the "domestic package market."

(a) Please provide the total number of packages, and the number of the packages carried by each of the three that, combined, equal 90% of the "domestic package market."

(b) In computing that statistic, did you include Standard (A) Parcels (under 1 pound), and what the Postal Service regards as the parcel component of Priority Mail?

(c) If the answer to (b) is in the negative, please explain why you have excluded the Standard (A) and Priority Mail Parcels from your calculation.

(d) If the answer to (b) is in the negative, please supply the Postal Service's share of the "domestic package market" if the package market is defined to include packages meeting the definition of Standard (A) Parcels (under 1 pound) and Priority Mail Parcels.

**RESPONSE:**

(a) Figures on the number of packages shipped by different carriers in 1998 are shown below. (sources: Colography Group and figures provided by the Postal Service)

	Total Parcels (millions of pieces)			
	Overnight	2-3 Day	Ground	Total
UPS	126	225	2,437	2,788
FedEx / RPS	261	225	349	836
Postal Service	66	1,182	1,902	3,150
Others	199	77	121	396
Total	601	1,725	4,138	7,170

The 1,902 figure for Postal Service Ground consists of approximately 322 million Parcel Post, 868 million Standard A Parcels, and 706 million other Standard B parcels. Overnight USPS is equivalent to Express Mail and 2-3 Day USPS is equivalent to Priority Mail. Both of these figures (as well, possibly, as the figures for UPS and FedEx Overnight and 2-3 day) include letters and flats as well as parcels.

If the domestic market is defined as UPS, FedEx, and Parcel Post, plus Others, then the combined total number of packages for UPS, FedEx, and Parcel Post is 3,946



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION**

(2,788 + 836 + 322), out of a total of 4,342 (3,946 + 396), giving a market share of 3,946 / 4,342, or 90.9 percent.

(b) No.

(c) In this section of my testimony, I was focusing on Parcel Post.

(d) If all of Express Mail and Priority Mail (as well as UPS and FedEx) were considered to be part of the domestic package market (i.e., including letters and flats), then the Postal Service's share of the total domestic package market would be equal to 3,150 / 7,170, or 43.9 percent.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF RECORDING INDUSTRY ASSOCIATION OF AMERICA**

**RIAA/USPS-T6-1** Do your Test Year After Rates (for example, Table 1 of USPS-T-6 at page 5) consider that the parcel surcharge proposed by witness Moeller (USPS-T-35 at 6-8) might result in the migration of eligible pieces (such as audio and video recordings) from the Standard A class of mail to Media Mail?

(a) If so, what do you calculate the amount of that migration to be and where does the migration effect appear in your testimony or supporting documents?

(b) If not, why not?

**RESPONSE:**

**No.**

(a) Not applicable.

(b) The parcel surcharge was first introduced in Standard A in the second quarter of 1999, with the implementation of R97-1 rates. There has not been enough data since the implementation of R97-1 to enable one to quantify what, if any, migration may have occurred between Standard A and other classes of mail as a result of the imposition of this parcel surcharge.

It appears that, even with the parcel surcharge, it would be cheaper to send parcels weighing less than one pound as Standard A mail rather than as Media Mail in the overwhelming majority of cases, so I would not expect much migration anyway.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS-T6-1. Refer to page 154 of your testimony at line 24, where you state, "The estimated own-price elasticity of Parcel Post volume in the period is -1.229." Please define what period of time you are referring to when you use the phrase "in the period" in that sentence.**

**ANSWER:**

**As stated at lines 20 through 22 of page 154 of my testimony, the period of time being discussed is the most recent five years, 1994 through 1999.**

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS-T6-2. Refer to page 154 of your testimony at lines 26-27, where you refer to "the estimated long-run price elasticity." Please provide the numerical value of "the estimated long-run price elasticity" to which you there refer.**

**ANSWER:**

The term "long-run price elasticity" at lines 26-27 is synonymous with the term "own-price elasticity" at line 24, where the value is identified as being equal to -1.229.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS-T6-3.** Refer to page 155 of you testimony, at lines 4-7, where you state that "Parcel Post is used most heavily by residential customers."

**(a)** Is it your testimony that most Parcel Post volume is sent by residential mailers?

**(b)** Is it your testimony that most Parcel Post volume is delivered to residential customers?

**(c)** Provide for BY 1998 (i) the volume of Parcel Post that was sent by residential customers, and, separately, (ii) the volume that was sent by businesses.

**(d)** Provide by rate category (inter-BMC, intra-BMC, DBMC, DSCF, and DDU) the volume of Parcel Post that was sent to residential customers in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(e)** Provide by rate category (inter-BMC, intra-BMC, DBMC, DSCF, and DDU) the volume of Parcel Post that was sent by residential customers in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(f)** Provide by rate category (inter-BMC, intra-BMC, DBMC, DSCF, and DDU) the volume of Parcel Post that was sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(g)** Provide by rate category (inter-BMC, intra-BMC, DBMC, DSCF, and DDU) the volume of Parcel Post that was sent by businesses to residential customers in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(h)** Provide by rate category (inter-BMC, intra-BMC, DBMC, DSCF, and DDU) the volume of Parcel Post that was sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(i)** Provide by rate category (inter-BMC, intra-BMC, DBMC, DSCF, and DDU) the volume of Parcel Post that was sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(j)** Provide for all of Parcel Post the volume that was sent by businesses to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(k)** Provide for all of Parcel Post the volume that was sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(l)** Provide for all of Parcel Post the volume that was sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(m)** Provide for all of Parcel Post the volume that was sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

(n) Provide for all of Parcel Post the volume that was accepted via window service in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**ANSWER:**

(a) No

(b) Yes

(c) Please see my answers to parts (j) - (m) below.

(d) - (i) I am unaware of any information which breaks down parcel post volume in this way.

(j) I am informed by the Postal Service that its "best estimate" is that approximately 60 percent of parcel post volume was sent from businesses to residences in 1997.

(k) I am informed by the Postal Service that its "best estimate" is that approximately 30 percent of parcel post volume was sent from businesses to businesses in 1997.

(l) I am informed by the Postal Service that its "best estimate" is that approximately 2 percent of parcel post volume was sent from residences to businesses in 1997.

(m) I am informed by the Postal Service that its "best estimate" is that approximately 8 percent of parcel post volume was sent from residences to residences in 1997.

(n) I am informed by the Postal Service that its "best estimate" is that approximately 12-15 percent of Parcel Post volume was accepted via window service in 1998.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS-T6-4. Refer to page 155 of your testimony at lines 1-11. Does the 18.54% increase in the volume of Parcel Post referred to by you on line 11 include the 9.90% increase in Parcel Post volume referred to by you at lines 2-3, or is the 18.54% increase on top of (in addition to) the 9.90% increase?**

**ANSWER:**

**The 18.54% increase attributable to increases in UPS's residential surcharge is in addition to the 9.90% increase attributable to increases in UPS's commercial ground parcel rates.**

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS-T6-5. Refer to page 25 of your testimony, at lines 22-23, where you state that "Nonhousehold entities, primarily businesses are involved in the preponderance of First-Class Mail."**

**(a) Is it your testimony that most First Class letter mail volume is sent by business mailers?**

**(b) Is it your testimony that most First Class letter mail volume is delivered to business customers?**

**(c) Is it your testimony that most First Class letter mail volume is either delivered to or sent by business mailers?**

**(d) Provide for BY 1998 (i) the volume of First Class letter mail that was sent to residential customers, and, separately, (ii) the volume that was sent by businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(e) Provide for BY 1998 (i) the volume of First Class letter mail that was sent to residential customers, and, separately, (ii) the volume that was sent to businesses. If the information is not available, provide the Postal Service's best estimates of such volumes.**

**(f) Provide for First Class letter mail the volume that was sent by businesses to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(g) Provide for First Class letter mail the volume that was sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(h) Provide for First Class letter mail the volume that was sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(i) Provide for First Class letter mail the volume that was sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(j) Is it testimony that most single piece First Class letter mail volume is sent by business mailers?**

**(k) Is it your testimony that most single piece First Class letter mail volume is delivered to business customers?**

**(l) Is it your testimony that most First Class letter mail volume is either delivered to or sent by business mailers?**

**(m) Provide for BY 1998 (i) the volume of single piece First Class letter mail that was sent by residential customers, and, separately, (ii) the volume that was sent by businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(n) Provide for by 1998 (i) the volume of single piece First class letter mail that was sent to residential customers, and, separately, (ii) the volume that was sent to businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.**



**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

(o) Provide for single piece First Class letter mail the volume that was sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

(p) Provide for single piece First Class letter mail the volume that was sent by businesses to residential customers in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

(q) Provide for single piece First Class letter mail the volume that was sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

(r) Provide for single piece First Class letter mail that was sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**RESPONSE:**

(a) No

(b) No

(c) Yes

(d) - (i) According to the 1998 Household Diary Study, Table 4-32, First-Class letter mail can be distinguished between households and nonhouseholds as follows (0.5% of First-Class letters are unidentified by origin or destination according to the Household Diary Study). Nonhouseholds include nonprofit and government organizations.

(d) (i) 15.1%

(d) (ii) 84.4%

(e) (i) 45.8%

(e) (ii) 53.7%

(f) 39.6%

(g) 44.8%

(h) 8.9%

(i) 6.2%

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

(j) No

(k) No

(l) Please see my answer to part (c) above.

(m) - (r) According to the 1998 Household Diary Study, Table 4-35, single-piece First-Class letter mail can distinguished between households and nonhouseholds as follows (0.4% of single-piece First-Class letters are unidentified by origin or destination according to the Household Diary Study). Nonhouseholds include nonprofit and government organizations.

(m) (i) 26.8%

(m) (ii) 72.9%

(n) (i) 32.8%

(n) (ii) 66.9%

(o) 51.1%

(p) 21.8%

(q) 11.0%

(r) 15.8%

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS-T6-6.** Refer to page 71 of your testimony, at lines 21-23, where you state, "Private cards are used for short notices and greetings and are sent by households, respondents to firms that engage in business-reply advertising, utility companies and other firms."

**(a)** Is it your testimony that most single piece Private Card volume is sent by residential mailers?

**(b)** Is it your testimony that most single piece Private Card volume is delivered to residential customers?

**(c)** Is it your testimony that most single piece Private Card volume is either delivered to or sent to residential mailers?

**(d)** Provide for BY 1998 (i) the volume of single piece Private Cards that were sent by residential customers, and separately, (ii) the volume that were sent by businesses. If this information is not available, provide the Postal Service's best estimate of such volumes.

**(e)** Provide for BY 1998 (i) the volume of single piece Private Cards that were sent to residential customers, and, separately, (ii) the volume that were sent to businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(f)** Provide the volume of single piece Private Cards that were sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(g)** Provide the volume of single piece Private Cards that were sent by businesses to residential customers in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(h)** Provide the volume of single piece Private Cards that were sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**(i)** Provide the volume of single piece Private Cards that were sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.

**RESPONSE:**

**(a)** No

**(b)** No

**(c)** No

**(d) - (i)** Information from Tables 4-38 and 4-41 of the 1998 Household Diary Study can be combined to distinguish single-piece First-Class cards volume between households and nonhouseholds as follows (0.4% of single-piece First-Class cards are

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

unidentified by origin or destination according to the Household Diary Study).

Nonhouseholds include nonprofit and government organizations.

(d) (i) 11.8%

- (d) (ii) 87.9%

(e) (i) 50.8%

(e) (ii) 48.9%

(f) 42.7%

(g) 45.2%

(h) 5.6%

(i) 6.2%

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS -T6-7. (a) Provide for BY 1998 (i) the volume of First Class Mail that was sent by residential customers, and, separately, (ii) the volume that was sent by businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(b) Provide for BY 1998 (i) the volume of First Class Mail that was sent to residential customers, and, separately, (ii) the volume that was sent to businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(c) Provide the volume of First Class Mail that was sent by businesses to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(d) Provide the volume of First Class Mail that was sent by businesses to residential customers in BY 1998. If this information is not available provide the Postal Service's best estimates of such volumes.**

**(e) Provide the volume of First Class Mail that was sent by residential customers to residences in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**(f) Provide the volume of First Class Mail that was sent by residential customers to businesses in BY 1998. If this information is not available, provide the Postal Service's best estimates of such volumes.**

**RESPONSE:**

According to the 1998 Household Diary Study, Table 4-1, First-Class Mail can be distinguished between households and nonhouseholds as follows (0.5% of First-Class Mail is unidentified by origin or destination according to the Household Diary Study). Nonhouseholds include nonprofit and government organizations.

**(a) (i) 14.8%**

**(a) (ii) 84.8%**

**(b) (i) 46.8%**

**(b) (ii) 52.8%**

**(c) 44.1%**

**(d) 40.7%**

**(e) 6.1%**

**(f) 8.7%**

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

UPS/USPS-T-6-8. Refer to page 155 of your testimony, at lines 4-7, where you state that "Parcel Post is used most heavily by residential customers."

(a) Is it your testimony that most Parcel Post volume is either delivered to or sent by residential mailers?

(b) Provide for BY 1998 (i) the volume of Parcel Post that was sent to residential customers, and, separately, (ii) the volume that was sent to businesses. If this information is not available, provide the Postal Service's best estimates of such volumes.

**RESPONSE:**

Please see my response to UPS/USPS-T6-3.

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO  
UNITED PARCEL SERVICE INTERROGATORIES**

**UPS/USPS-T6-9** Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

**RESPONSE:**

The base volumes used by me to make volume forecasts were 1999 volumes. This is consistent with past practice in the forecasting area of using the most recent available volume data.

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**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO UPS INTERROGATORIES**

**UPS/USPS-T6-12. Refer to Chart H on page 154 of your testimony. That chart shows total Parcel Post volume of approximately 291.6 million pieces, whereas the Postal Service's Cost and Revenue Analysis report for FYI 997 shows total Parcel Post volume of approximately 236 million pieces.**

- (a) Explain this discrepancy.**
- (b) Are the volume figures in your Chart H restated in any way to take into account the Postal Service's use in FY1998 of information from postage statements in estimating RPW volumes, rather than relying solely on the DRPW system for estimating Parcel Post volumes?**

**ANSWER:**

- (a) When the Postal Service updated its methodology for counting parcel post volume in the RPW system in 1999, the parcel post volume for FY 1997 that you have cited was also restated. The restated data are presented in Chart H on page 154 of my testimony.**
- (b) Yes. Please see my response to part (a) above.**



1 MR. KOETTING: I will be happy to do that, Mr.  
2 Chairman. I would note that Coalition of Religious Press  
3 Associations Interrogatory 16 was an interrogatory that Dr.  
4 Tolley responded to part of and part was redirected and  
5 answered by the Postal Service as an institutional response.  
6 The Coalition of Religious Press did designate at least  
7 portions of that and they are not in the packet. And I have  
8 advised counsel of that, and I believe we are going to take  
9 care of that shortly, but they are not in the packet.

10 CHAIRMAN GLEIMAN: I think counsel is about to  
11 provide you the copies of that material so that we --

12 MR. FELDMAN: Thank you, Mr. Chairman. I have  
13 CRPA/USPS-T-6-16, parts (a) (b) and (c), which Dr. Tolley  
14 responded to, and I would request that they be entered into  
15 the written cross-examination packet.

16 CHAIRMAN GLEIMAN: Inasmuch as they were not in  
17 the packet, if you could please share a copy right now with  
18 Dr. Tolley.

19 MR. FELDMAN: Of course.

20 CROSS-EXAMINATION

21 BY MR. FELDMAN:

22 Q Dr. Tolley, if you would just take a moment,  
23 please, to review the interrogatory to which I just referred  
24 and your answer therefor, and if you would affirm that this  
25 is your answer and would be your answer today?

1           A     Yes, I see, this is (a), (b) and (c). As I  
2 recall, (d) was redirected, so I did not answer (d).

3           Q     Actually, (d) was redirected and we are treating  
4 your response as your answers to (a) through (c), but if  
5 those, of course, are not your answers to (a) through (c),  
6 we accept your characterization.

7           A     No, they are my answers to (a) through (c), I am  
8 just emphasizing I did not answer (d) because it was  
9 redirected.

10           MR. FELDMAN: Very good. Mr. Chairman, I would  
11 then move that the response to CRPA/USPS-T-6-16(a)(b)(c) by  
12 Dr. Tolley be included in the written cross-examination.

13           CHAIRMAN GLEIMAN: If you would please provide two  
14 copies to the reporter, I will direct that the material be  
15 received into evidence and transcribed into the record.

16                               [Designation of Written  
17 Cross-Examination of George S.  
18 Tolley, CRPA/USPS-T-6-16(a)(b)(c),  
19 was received into evidence and  
20 transcribed into the record.]  
21  
22  
23  
24  
25

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

**CRPA/USPS-T6-16**

In your response to CRPA/USPS-T6-1, you were unable to completely answer CRPA's request that you provide evidence that "the Postal Service's implementation of its "expeditious treatment" (a) compares favorably with its own service standards pertaining to the delivery of periodicals-Class mail and (b) compares favorably with Standard A mail."

- (a) Would the actual service received from the Postal Service when it delivers periodicals to readers affect the elasticity of the Periodicals class or classes? If the answer is either yes or no, please explain.
- (b) Would the service publishers receive from the Postal Service affect the volume growth or decline of periodicals of the respective periodicals subclasses? If you [sic] answer is either yes or no, please explain.
- (c) If your answer to either (a) or (b) or both is (are) affirmative, should you not change your statement that "No information on the extent to which the Postal Service adheres to these provisions [service standards for periodicals] was necessary for this purpose, and I have none."?
- (d) If you do not have any information about the actual achievement of service goals for periodicals by the Postal Service, please identify a witness who can provide this information, and who will produce the information, or refer the interrogatory to the Postal Service for an institutional response and provision of the requested data.

**RESPONSE:**

(a) The elasticity of the Periodicals subclasses measure peoples response to changes in price. This is a function of the value which people place upon Periodical mail. To the extent that the service publishers receive from the Postal Service may affect the value placed on these periodicals, the effect of service is already imbedded in my elasticity estimates.

If actual service were to change, this may cause some recipients of periodicals to value these periodicals more or less highly, which may affect these recipients' price elasticity for periodicals. This may indirectly affect the own-price elasticity of Periodical mail volume.

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

(b) If actual service were to decline, and an alternate delivery provider was available to deliver these periodicals, some publishers may choose to shift their periodical mailings from the Postal Service to this alternate delivery provider, thereby reducing the volume of periodicals mail delivered by the Postal Service. Alternatively, if actual service were to improve, some publishers may choose to shift periodical mailings from alternate delivery providers and to the Postal Service, increasing the volume of periodicals mail delivered by the Postal Service.

(c) The specific service standards associated with Periodical mail are irrelevant to my answers to parts (a) and (b) above. Rather, the relevance is whether there has been any change to those service standards over time. I have no information on changes in actual Periodical service standards over time, nor do I have reason to believe they have changed. Moreover, the estimated own-price elasticities associated with Periodical mail have generally remained stable over time. Therefore, it was not deemed necessary to estimate any effect of changes in service standards on Periodical mail volume.

(d) Re-directed to the Postal Service.

1 MR. FELDMAN: Thank you.

2 CHAIRMAN GLEIMAN: Is there any additional written  
3 -- designated written cross-examination? Mr. Wiggins?

4 MR. WIGGINS: Thank you, Mr. Chairman. Frank  
5 Wiggins for the Recording Industry Association of America.

6 CROSS-EXAMINATION

7 BY MR. WIGGINS:

8 Q Dr. Tolley, I have handed you a document styled  
9 "Response of United States Postal Service Witness Tolley to  
10 Interrogatory of the Recording Industry Association of  
11 America, RIAA/USPS-T6-2." Have you had a chance to review  
12 that?

13 A Yes, I have.

14 Q And if I were to ask you today the two questions  
15 that are posed in that single interrogatory, would your  
16 answer be the same?

17 A They would.

18 MR. WIGGINS: Thank you.

19 Mr. Chairman, I ask that those be entered into the  
20 record as part of Dr. Tolley's testimony.

21 CHAIRMAN GLEIMAN: If you would please provide two  
22 copies to the reporter, I will direct that they be entered  
23 into evidence and transcribed into the record.

24 [Additional Designation of Written  
25 Cross-Examination of George S.

1 Tolley, RIAA/USPS-T6-2, was  
2 received into evidence and  
3 transcribed into the record.]  
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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

RECEIVED  
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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TOLLEY TO INTERROGATORY OF  
THE RECORDING INDUSTRY ASSOCIATION OF AMERICA  
(RIAA/USPS-T6-2)

The United States Postal Service hereby provides the response of witness Tolley to the following interrogatory of the Recording Industry Association of America: RIAA/USPS-T6-2, filed on April 3, 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

  
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(202) 268-2992 Fax -5402  
April 17, 2000

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF RECORDING INDUSTRY ASSOCIATION OF AMERICA**

**RIAA/USPS-T-6-2**

(a) Please confirm that at the proposed rates, a Standard A parcel weighing .617246596 pounds (9.875945537 ounces) will pay postage of 68 cents if entered at the 3/5-Digit pound plus per piece rate set out at Request the United States Postal Service for a recommended decision on changes in rates of postage and fees for Postal services, attachment B page 13 calculated as follows (.617246596 [weight] \* 66.1 [pound rate]) plus 12.2 [per piece rate] plus 15 [ surcharge less barcode discount]. If you do not confirm, please show the calculation by which you determine the correct postage for mail of that weight in that rate cell.

(b) Accept, subject to check, that table 13 of USPS-LR-I-102 shows that there are 374,484,000 Standard A regular parcels weighing 10 ounces or more and representing 46.141847 percent of the total Standard A regular parcels reported for FY 1998. Are these data consistent with your answer to RIAA/USPS-T-6-1(b)? Please explain.

**RESPONSE:**

(a) Confirmed that a non-dropshipped prebarcoded 3/5-digit presorted Standard A regular parcel weighing 9.875945537 ounces would cost 68 cents under the Postal Service's proposed rates in this case.

(b) I can confirm that Table 13 of USPS-LR-I-102 shows that there were 374,484,000 Standard A regular parcels weighing 10 ounces or more in 1998. These data are consistent with my answer to RIAA/USPS-T-6-1(b).

Not all Standard A regular parcels weighing 10 ounces or more could be sent less expensively as Standard B Media Mail. In order for mailers of Standard A parcels to find Standard B Media Mail rates more attractive, these parcels would have to be presorted to the 5-digit level and would have to be sent as part of a mailing which contained at least 500 pieces, all of which were presorted to the 5-digit level. It is my understanding that these requirements significantly limit the number of Standard A parcels that might find it advantageous to shift to Standard B Media Mail under the Postal Service's proposed rates. In addition, because of dropship discounts, which are




**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF RECORDING INDUSTRY ASSOCIATION OF AMERICA**

available for Standard A mail but are not available for Standard B Media Mail, some Standard A Regular parcels weighing 10 ounces or more will be priced below Standard B Media Mail, regardless of presort level. Finally, some Standard A parcels, that would otherwise be possible candidates to migrate to Standard B Media Mail as a result of the Postal Service's proposed rates, may not qualify for Standard B Media Mail due to content restrictions associated with Standard B Media Mail.

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## 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)  
4-14-00  
(Date)

1 CHAIRMAN GLEIMAN: Anyone else?

2 [No response.]

3 CHAIRMAN GLEIMAN: If not, that brings us to oral  
4 cross-examination. Three parties have requested oral  
5 cross-examination, however, one of those parties,  
6 Amazon.com, has informed us that it has no oral cross for  
7 this witness. The others requesting oral cross were the  
8 Coalition of Religious Press and the Recording Industry  
9 Association of America.

10 Is there any other party that wishes to  
11 cross-examine the witness?

12 MS. RUSH: Mr. Chairman, the National Newspaper  
13 Association has just a few questions for Dr. Tolley.

14 CHAIRMAN GLEIMAN: Okay. Anyone else?

15 [No response.]

16 CHAIRMAN GLEIMAN: If not, unless there has been  
17 some agreement to the contrary, we will begin  
18 cross-examination with the Coalition of Religious Press.

19 CROSS-EXAMINATION

20 BY MR. FELDMAN:

21 Q Good morning, Dr. Tolley, I am Stephen Feldman,  
22 counsel for the Coalition of Religious Press Associations.  
23 If you would turn to your response to CRPA/USPS-T6-1,  
24 please.

25 A Right. I have that.

1           Q     Thank you. This interrogatory asks you, in  
2     reference to your characterization of periodicals being  
3     given expeditious distribution in comparison with other mail  
4     classes, except for First Class, Priority and Express. We  
5     asked you to provide evidence to support this claim. You  
6     referred then to the Domestic Mail Manual and to the DMCS  
7     sections on priority of delivery. The question was whether  
8     periodicals are given expeditious distribution, dispatch,  
9     transit handling and delivery, preceded only by First Class,  
10    Priority Mail and Express Mail. Would it be fair to say  
11    that your answer is that you don't know?

12           A     Yes. We took the information from the manual and  
13    had no reason to question it, right.

14           Q     Well, the manual sets forth, if I can use the word  
15    "standards" or "targets," is that correct?

16           A     Well, I don't know, it just says they are given  
17    expeditious distribution. I don't know whether that is the  
18    standard or target, it says they are given.

19           Q     But you don't know whether, in fact, those  
20    standards are complied with?

21           A     I certainly did not investigate that, no.

22           Q     I see. Thank you. If you would move on to the  
23    fifth interrogatory, T6-5, directed to you by CRPA.

24                     This question asked you to explain, if you could,  
25    while regular rate periodical volume has gone up from the

1 base year, whereas nonprofit periodical volume has declined  
2 during those intervals.

3 Your answer referred to the elasticities for the  
4 respective subclasses. Is it your answer that simply  
5 because elasticities or the equations that produced the  
6 elasticities are completed that that in effect explains why  
7 the volume of one subclass goes up and the other goes down?

8 A Well, yes. The causal factors are reflected in  
9 those coefficients, yes.

10 Q But the elasticities themselves don't explain  
11 anything, do they? They are just numbers.

12 A The elasticities reflect the causal factors.

13 Q But in and of themselves they don't explain  
14 anything.

15 A I am afraid I don't understand that question.

16 Q If I write a number on a piece of paper, "minus  
17 .18" and I tell you it's an elasticity, would you agree I am  
18 telling you what the elasticity of that product is but I am  
19 not telling you why that product has an elasticity of minus  
20 .18?

21 A I think that is an entirely different question. I  
22 think you say if the elasticity with respect to income or  
23 price is what you mean, so if you tell me that is the  
24 elasticity the I believe that that is estimated from  
25 probably the econometric study that puts in hypotheses about

1 causal factors.

2 Q In your testimony was any comparison done of why  
3 nonprofit periodical volume since the base year has been  
4 declining, whereas regular rate volume has been projected to  
5 increase?

6 MR. KOETTING: Could I get a clarification? You  
7 keep using the tense that would suggest it has declined. In  
8 fact, you are talking about it's forecasted to decline? Is  
9 that the context we are talking about, moving from the base  
10 year to the test year?

11 BY MR. FELDMAN:

12 Q Mr. Tolley, to clarify the question perhaps you  
13 might refer to the Interrogatory T6-5, which in fact set  
14 forth volume figures derived from your Table 1 at page 5 of  
15 your testimony, which indicates that starting in the base  
16 year a certain volume of nonprofit periodicals will decline  
17 in the test year before rates and it will decline the test  
18 year after rates, is that correct?

19 A If you are reading from --

20 Q Yes, I am trying to not read a lot of numbers, but  
21 just to clarify the basis for the statement that the volume  
22 has declined or will decline -- excuse me.

23 In fact, that is in your own table.

24 A So what is the question?

25 Q The question is why.

1           A     Okay. In the interrogatory this brings out the  
2 fact that there are these elasticities and in the case of  
3 nonprofits, they led to a decline and in the case of regular  
4 rate they led to an increase, and there are four  
5 elasticities involved there. I don't think we want to -- I  
6 am perfectly willing to go into the details, but the short  
7 answer is because the elasticities came out that way -- so  
8 you are probably asking more than that.

9           Q     Don't -- well, we won't speculate on whether I am  
10 or not.

11          A     Oh, fine. That's my answer. That's fine.

12          Q     In your response in T6-5, you do explain in the  
13 second paragraph of your answer that transitory income  
14 accounts for an expected decline in periodical nonprofit  
15 mail volume of 2.2 percent from the base year to the test  
16 year, and while transitory income accounts for an expected  
17 decline of only 0.1 percent for periodical regular rate over  
18 this same period, can you briefly -- and if you can't do it  
19 briefly take all the time you need, give an explanation for  
20 this lay audience of transitory income.

21          A     Transitory income is the index of capacity  
22 utilization of the Federal Reserve Board and it is put in  
23 there as a measure of business fluctuations as an influence  
24 on mail volume.

25          Q     And that would be for the economy as a whole?

1 A Yes.

2 Q So knowing the transitory income based on the  
3 Reserve Board data, would you say that is one factor that  
4 goes into the elasticities that helps to explain the decline  
5 in volume?

6 A That is -- the elasticity with respect to that  
7 variable is one of the causal factors, yes.

8 Q Are you aware of any specific studies that have  
9 analyzed the impact of transitory income on publications or  
10 the publishing industry generally?

11 A No, I am not. Our analysis was of the mail volume  
12 only.

13 Q And in the paragraph that follows, paragraph 3 of  
14 your response, you specify time trend accounts for an  
15 expected decline in periodical nonprofit mail of 3.3 percent  
16 from the base year to the test year and then you point out  
17 that regular rate mail expects to have a decline of 1.3  
18 percent.

19 What data is the time trend based on?

20 A Well, the time trend comes from the econometric  
21 regression and time is put in as an independent variable so  
22 you number the quarters of each year, give them a number,  
23 consecutive numbers, and you see if there's any -- after you  
24 have standardized for everything else -- the other  
25 independent variables, if there is any correlation left with



1 time.

2 Q What are the factors that you are correlating?

3 A Well, you have the econometric equation. It is  
4 the other factors that we are talking about in this  
5 question.

6 Q Which are?

7 A Transitory income, permanent income, and price.

8 Q Are there other factors that you didn't include --  
9 I will rephrase that.

10 Could there be other factors that you did not  
11 include in your regression analysis that would also account  
12 for the decline in nonprofit volume as well as the modest  
13 increase in regular rate volume?

14 A There could always be other factors. We just do  
15 the best we can. We took the measured variables that we  
16 could measure reasonably accurately and put those in, and  
17 then --

18 Q But the regression was not the result of an  
19 exhaustive study of market trends, demand factors, and  
20 income of the publishing industry in and of itself?

21 A I am not sure about that. We reviewed a lot of  
22 material. Those were the only variables -- the variables  
23 for the econometrics have to be accurate variables and they  
24 have to be measured for each quarter so they tend to be  
25 official theories, so if you just have casual information

1 about something you can't put it in the regression.

2 Q No, I didn't ask about casual information. I  
3 asked if there were any specific market studies, income  
4 studies, sales analysis of the publications or publishing  
5 industry specifically that were used as a variable in your  
6 regression analysis.

7 A I am just characterizing that material as casual  
8 in terms of not being issued on a quarterly basis. It may  
9 be quite valuable information but it was not usable in the  
10 regressions.

11 Q In other words only data that can be expressed in  
12 a quarterly basis is included in your regression analysis?

13 A That is correct.

14 Q Thank you, appreciate that.

15 If you'd move on to the next CRPA interrogatory,  
16 T6-6, you state that in applying before and after rates to  
17 nonprofit periodical mail you use the rate schedule provided  
18 by Witness Taufigue for proposed periodical nonprofit rates.

19 Are you aware that that rate schedule for  
20 nonprofit rates is identical to the rate schedule proposed  
21 for regular rate periodicals with the exception that  
22 editorial content in nonprofit mail is discounted by five  
23 percent?

24 A I have had conversations to that effect but I  
25 haven't looked at it in detail.

1           Q     If you had been provided with a separate set of  
2 rates to calculate the before and after test year volumes,  
3 separate rates for nonprofit periodicals, would the volumes  
4 have differed from the volumes that you projected using  
5 Witness Taufique's rate schedule?

6           A     I am not sure I understand that. The situation is  
7 very simple. I used this rate schedule that was given to  
8 me. I didn't inquire further about it. I didn't know --  
9 when I did it I didn't know that there was a 5 percent  
10 factor, that kind of thing.

11          Q     Simply by applying different rates to the same  
12 subclass of mail, you are going to come up with different  
13 volumes in the test year, aren't you?

14          A     Can you repeat that again?

15          Q     If you apply two different rate schedules to the  
16 same subclass for before and after test year rates, will the  
17 volumes be different in each case?

18          A     Given the price elasticity of demand if you assert  
19 different prices you will get different volume predictions,  
20 yes.

21          Q     Okay. I was about to ask you a question, saying  
22 all other things being equal, but there was an economist  
23 here the other day who said that was a bad thing to do, so I  
24 won't ask you.

25          A     Well, I am used to the phrase. Let's put it that

1 way.

2 Q Okay, thank you. Let's move on to the next  
3 interrogatory, T-6-7.

4 [Pause.]

5 We asked you to provide all compilations and  
6 collections of user costs that you used to create the fixed  
7 weight index.

8 Would user costs, as you utilized the phrase,  
9 include the costs of preparing the mail?

10 A Preparing the mail to be mailed, yes, it will.

11 Q Why didn't you include them in your periodical  
12 fixed weight price indices?

13 A Well, in the case of the First Class and Standard  
14 A, the discounts there are an important part of the proposed  
15 rate schedule.

16 So it's seems it is important to figure out what's  
17 happening to them, and what the response would be to those.

18 I don't believe that issue arises with  
19 periodicals.

20 Q Aren't there worksharing and automation discounts  
21 applicable to the periodical subclasses as well?

22 A I believe there are. They are not given to me, to  
23 us, when we're doing the price analysis.

24 Q I'll try to get this clear: You were given that  
25 data for First Class and Standard A, but you weren't given

1 that data for periodicals?

2 A We were given the discounts, yes.

3 Q The discounts?

4 A Yes.

5 Q Are there -- to your knowledge -- I mean, you  
6 can't read other people's minds and I'm not asking you to,  
7 but just in terms of your own experience, did anyone explain  
8 why you were receiving discount information about First  
9 Class and Standard A and not receiving that information for  
10 periodicals?

11 A That issue was not discussed. All of the concerns  
12 -- the major concern, the concern over discounts has been  
13 with First Class and Standard mail, so that's what all the  
14 discussion was about.

15 Q Is the phrase, the major discussion about  
16 discounts, is that your characterization of the situation,  
17 or is that how someone at the Postal Service characterized  
18 it to you?

19 A It's my characterization.

20 Q But it's simply based on your dealings with the  
21 staff of the Postal Service?

22 A Yes, I think that's right.

23 Q Thank you. Let's move to T-6-8, please.

24 [Pause.]

25 Was the decision not to include additional net

1 trends in periodical mail forecasts made by your or by  
2 Witness Thress?

3 A I think we made it jointly.

4 Q It was a matter that was specifically discussed?

5 A We discussed the net trends, yes, all the time.

6 Q Sure.

7 And you discussed the issue of net trends as  
8 applied or not applied to periodical volume forecasts?

9 A Well, they were discussing in going through the  
10 net trends.

11 Q Why are net trends not applied to periodicals?

12 A Periodicals, like most of the mail classes, after  
13 we put in the econometric trend variables, the net trends  
14 term is very small, and it's so close to one, to having no  
15 net trend, that it seemed better just to let it go.

16 Q Could you give me an example, if one readily come  
17 to mind, of a product or mail subclass where the net trend  
18 is large enough so that it would enter into the volume  
19 projection forecast?

20 A In this proceeding, every time that we had a  
21 separate equation for a subclass category of mail, it turned  
22 out that the net trends were very small.

23 There were three cases where we had to combine  
24 categories and run a single equation, for instance, for  
25 private cards, automated and basic cards had to be in the

1 same regression.

2 Then if we apply these, we do the analysis there,  
3 we find that there were some substantial negative net trend,  
4 I believe, for basic cards, and a positive net trend for  
5 automation.

6 So, in that case, there we had to run one  
7 equation, whereas the net trend for the total category was  
8 effectively zero for the individual categories, and there  
9 were two other cases like that. Otherwise, there were no  
10 net trends.

11 Q In that example about the cards, do you have any  
12 explanation for why the net trend tended to be more positive  
13 than negative?

14 A Well, we find that as a phenomenon. For instance,  
15 in First Class letters, we can run the separate equations,  
16 and we definitely find a trend there.

17 I think this has to do with these changing user  
18 costs, the user costs of automating, seem to be coming down,  
19 and that's one important consideration.

20 There is a substitution going on, it would appear,  
21 between automated and non-automated.

22 Q But, again, going back a couple of questions, you  
23 did not apply users costs to periodicals, whereas you did to  
24 First Class?

25 A That's correct.

1           Q     If you will turn to CRPA/USPS-T-6-9, please?  
2     There you refer to data about periodicals which were  
3     collected no later than 1997 and reliance on the Household  
4     Diary Study. You stated that you were unaware of any  
5     industry directories or databases which provide information  
6     on the number of magazines and newspapers received by mail.  
7     You are not testifying that there may not be industry  
8     directories or databases which do provide that information  
9     more recently than 1997, are you?

10          A     Well, it is always possible that there are. We  
11     looked extensively for such information and didn't find it.

12          Q     The phrase "received by mail," and the number of  
13     magazines and newspapers, do you think it would be fair to  
14     equate that with the word "subscribers"? In other words,  
15     newspapers and magazines received by mail means newspapers  
16     and magazines received by subscribers?

17          A     I haven't thought about it in detail, but it seems  
18     reasonable.

19          Q     So that if your research had been more directed to  
20     what information is out there about subscribers, you might  
21     have come up with more recent data, isn't that correct?

22          A     If it had been there. We find it frustrating the  
23     way that most of the information is about circulation, and  
24     we do not find it broken down by subscribers and  
25     non-subscribers.



1 Q Do you know, in the context of the publishing  
2 industry, what ABC means?

3 A Is that the Audit Bureau of Circulation?

4 Q Yes, sir, that is absolutely correct. You may or  
5 may not be familiar with the next acronym, and if you are  
6 not, I will quickly explain it, BPA.

7 A I may have heard that, but it doesn't come to  
8 mind.

9 Q It is quite all right. It is the Business  
10 Publications Audit. Those two organizations do collect  
11 subscriber information on a twice a year basis. So that it  
12 is possible, if you had consulted those directories, you may  
13 have had more recent data concerning subscribers for  
14 magazines and newspapers, isn't that correct?

15 A We actually did, a few years ago, an extensive --  
16 we went to the Audit Bureau of Circulation, and all we found  
17 there was the totals, and we got the mail, non-mail division  
18 at that time by taking periodicals volumes and subtracting  
19 that from total circulation. Now, if the Audit Bureau has  
20 some information on subscriptions that we didn't get, that  
21 might be useful information. I am not sure it would have  
22 affected our forecast.

23 Q But, in any event, in this case, you didn't refer  
24 to the ABC or BPA 1998 or 1999 data, is that correct?

25 A Well, from other sources, we were able to get the

1 total circulation figures.

2 Q The circulation figures are only up to 1997,  
3 correct?

4 A No, the Household Diary Study is up to 1997. We  
5 didn't get any circulation figures, this is mail received.

6 Q By the household?

7 A Yeah.

8 Q But where did your information about the number of  
9 the volumes sent?

10 A Well, circulation figures, we would have to check.  
11 There are standard sources, I think the statistical abstract  
12 has total circulation figures for example.

13 Q Well, wouldn't the Postal Service revenue, pieces  
14 and weight reports which come out on a periodic basis  
15 provide you with that information?

16 A Well, they supply very up-to-date information on  
17 mail volumes. That is the basic variable that we are  
18 analyzing in this.

19 Q Including periodicals?

20 A Yes. But not on total circulation.

21 Q But if you took the RPW and you took another  
22 source that collected that non-mail circulation, that would  
23 give you the total picture, wouldn't it?

24 A That is one way of getting it. Another way is to  
25 take the total circulation and subtract the mail volume, and

1 then you get the non-mail volume.

2 Q Well, then the question is, what is total  
3 circulation? But we may be going in circles here.

4 A Well, you have three numbers, and if you get any  
5 two of them, you know the third one. It is a question of  
6 where you get the numbers.

7 Q I think we have come to an agreement.

8 THE REPORTER: It is a question of whether you get  
9 the what?

10 THE WITNESS: Let's see, you have three numbers,  
11 and if you know any two of them, you can get the third  
12 number.

13 BY MR. FELDMAN:

14 Q You are not making any assumption, though, are you  
15 that the users of the mail who incur user costs necessarily  
16 rely on three <sup>year old</sup> ~~rule~~ data when making business decisions,  
17 whether it involves mailing magazines or any other type of  
18 mail, are you?

19 A I am not. You are talking about three year old  
20 data. I don't know what you are talking about, frankly.

21 Q Well, the Household Diary Study is 1997, and we  
22 are now, depending on who you ask, in the 21st Century, or  
23 in the last year of the 20th Century, so would that be three  
24 years?

25 A Well, it would be three years, but I certainly

1 would be very surprised if that was a major source of  
2 information on which magazine and newspaper publishers based  
3 their decisions.

4 Q Are you sure?

5 A It would be my strong hypothesis.

6 Q All right. If that is your final answer, we will  
7 take it.

8 A My strong hypothesis is that magazine publishers,  
9 newspaper publishers pay attention to a lot more than the  
10 Household Diary Study.

11 Q I didn't ask about the Household Diary Study, I  
12 said, do they pay attention to contemporary and current  
13 data, as opposed to three year old data, like the Household  
14 Diary Study?

15 A I don't know like to be disrespectful. That  
16 sounds like a loaded question to me. I think you have my  
17 answer.

18 Q Okay. If you would turn to 6-11, please, CRPA.  
19 In your testimony about magazines and newspapers, on page 91  
20 of your testimony, --

21 A Do you want me to look at that?

22 Q Yes, please take a moment. That involves the  
23 non-profit sector of the magazine and newspaper business.

24 A Okay.

25 Q All right. Based on your response to CRPA

1 Interrogatory 6-11, you state that you don't have access to  
2 more recent data than the 15 year old Postal Rate Commission  
3 study which is referred to page 91 of your testimony. Was  
4 there any particular purpose in using this information on  
5 page 91?

6 A Well, as I said in this interrogatory, it was  
7 background information. To me personally, the more I know  
8 about the mailstream, the better I feel. And if it is old  
9 data, that is too bad, but if it is the most recent data,  
10 still, I know more about this mail than if I didn't look at  
11 that data.

12 Now, I cannot say that it was used specifically,  
13 but when you look at those figures, they may well changed,  
14 and I think it is absolutely right. You see that it was  
15 from 1986 and you have to take that into account and know  
16 that it is not exactly the same today. Still, I know more  
17 about this mailstream than if I didn't look at that.

18 Q And according to that study in 1986, were  
19 religious organizations the largest single component of  
20 non-profit mail?

21 A That is what Chart E says, yes.

22 Q Thank you. Why don't we move then 6-13, and this  
23 is just a clarification question which may reflect counsel's  
24 lack of mathematical aptitude. In part (c), we asked you if  
25 a 22 percent increase in the real price of periodical

1 non-profit mail over a five year period was in excess of the  
2 Consumer Price Index. And your answer, after some  
3 explanation, was that the real increase in periodical  
4 non-profit rates, as measured by me, meaning you, Dr.  
5 Tolley, would have been approximately 3.4 percent over this  
6 time period.

7 I do realize you then go on to explain the  
8 derivation of the 3.4 percent figure over five years, as  
9 opposed to 22 percent. I would ask your indulgence to  
10 simply explain orally the derivation of the 3.4 percent  
11 figure and its significance in that that is the number you  
12 prefer use?

13 A Can I have a minute to look at this?

14 Q Of course. Take all the time you like.

15 [Pause.]

16 THE WITNESS: Now excuse me, what is the question?

17 BY MR. FELDMAN:

18 Q The question is, again, it may well be counsel's  
19 lack of arithmetic understanding, is why is it important to  
20 you that the real increase in periodical nonprofit rates is  
21 3.4 percent over five years and not 22 percent? To put it  
22 another way, where did you get 3.4 percent?

23 A Right. Well, this is saying that had the Consumer  
24 Price Index been used, one would have gotten that. We are  
25 talking about deflation, so you take the nominal, the price

1 that you and I look at, the nominal price and then you  
2 divide it by an index of inflation and that gives you the  
3 real price, so the issue here is what we are going to  
4 deflate by, how we are going to measure the rate of  
5 inflation, and we use one measure of the rate of inflation,  
6 which is from the National Income Accounts, and then there  
7 is the Consumer Price Index, which is another measure, and  
8 they do not always give the same answer. I think that is  
9 the point of this.

10 Q I do understand that, and I thank you for your  
11 answer. Would you want to venture an opinion as to whether  
12 the Consumer Price Index is useful at all in describing  
13 postal increases over a period of time, so that the public  
14 can determine whether or not postal rates are high, low, or  
15 some magnitude that has some meaning to the public.

16 A Well, that is an interesting, a difficult  
17 question. If I may say so, we had to choose a deflater, and  
18 feasibility if nothing else suggests that we use the same  
19 deflater for everything, and the personal consumption  
20 deflater has some advantages connected with it. It is  
21 consistent with the National Income Accounts and it is more  
22 rigorous, in my opinion.

23 I don't want to -- I don't think this is the place  
24 to get into a discussion of why there are differences  
25 between the Consumer Price Index and the personal

1 consumption deflater and I certainly don't know that the  
2 public looks either at the CPI or the personal consumption  
3 deflater but I don't have a strong opinion on what you are  
4 saying.

5 Q Are you aware that the Postal Service when it  
6 files a rate case including this rate case puts out press  
7 releases that compare the magnitude of the proposed rate  
8 increase to the Consumer Price Index?

9 A I probably am aware of that but I have not  
10 participated in that.

11 Q Do you think that is a bad idea?

12 A No, I don't.

13 Q But in projecting the volumes for the various  
14 subclasses in these rate cases you prefer to use the --

15 A We had to choose a deflater and we went through  
16 that many years ago. We keep coming back to it and we keep  
17 coming up that the National Income Account deflators are  
18 conceptually preferable for our work.

19 Q Does the deflater include in effect the -- well,  
20 one of its components is the nominal price?

21 A Nominal price of?

22 Q Of the product.

23 A Of all products?

24 Q Of all products.

25 A Yes, all products that consumers buy, yes.



1 Q And then how do you get the corresponding nominal  
2 price for a postal product to make a comparison?

3 A That is just the rate that you and I pay at the  
4 Postal Service.

5 Q And that is an unadjusted rate for inflation,  
6 correct.

7 A That is correct.

8 Q Thank you. If you turn to 6-14, please, perhaps  
9 we can make an attempt to do this as a yes or no answer,  
10 your Table A on page 97 shows that the after rates, postal  
11 rate impact on periodical nonprofit mail, is minus 2.25  
12 percent and Table 10-A on page 106 of your testimony shows  
13 the same impact on the regular rate periodical subclass as  
14 minus 1.03 percent.

15 Is minus 2.25 percent more than twice of minus  
16 1.03 percent?

17 A Yes. I would agree with that.

18 Q I think we can agree there. Does that mean that  
19 just comparing the two subclasses, regular rate and  
20 nonprofit, that nonprofit is twice as -- well, more than  
21 twice as elastic as regular rate periodicals?

22 A The answer is no.

23 Q Okay, why?

24 A I tried to give the answer in the interrogatories.

25 Q I understand and I appreciate it and unfortunately

1 I am still left asking the question why.

2 A Okay. The elasticity is the percentage change in  
3 quantity in response to a one percent change in price. Now  
4 a major thing that is going on here is that the change in  
5 price of the two products, percentage change in price in the  
6 two products was not the same over this five-year period, so  
7 that is a major reason.

8 Another reason is that there are lags in response,  
9 and so it takes some time for these to work out and they  
10 have, some of the effects have not yet fully occurred, so to  
11 me the more straightforward comparison is to look at the  
12 elasticity estimates there that give the elasticity and  
13 those are the figures that I have quoted and referred to as  
14 being in Table 8 on page 96.

15 It says the elasticity, if you just standardize  
16 and say what is the effect of a 1 percent increase in price,  
17 it is for regular -- is this right? -- no, it is for  
18 nonprofit. It is minus .236 and for regular it is minus  
19 .148, so those are not -- that is less than twice as much.

20 Q Yes, but using this standardized, the standardized  
21 elasticities, even after the adjustment for different rate  
22 impacts, the nonprofit mail still is more elastic than the  
23 regular mail?

24 A Yes, that is our estimate.

25 Q The other part of your response which I did not

1 understand and I ask your indulgence is that you pointed out  
2 that the numbers we originally compared of minus 2.25  
3 percent with minus 1.03 percent refer to a test year period  
4 over which the long-run volume effects have not yet fully  
5 occurred.

6           Nevertheless, the test year is the year in which  
7 the Commission is being asked to determine rates for, isn't  
8 that correct?

9           A     Yes, that's correct.

10          Q     So that in that year, granted that the full impact  
11 of the full rate impact for the subclasses hasn't occurred,  
12 taking that into account for the test year, isn't the  
13 elasticity for nonprofit more than twice as much as regular  
14 rate mail?

15          A     I don't know. See, there are two effects going  
16 on. One is the difference in the percentage change in the  
17 price, so we would have to disentangle those two effects in  
18 that.

19          Q     Well, what is the significance then of the phrase  
20 "postal rate impact" of minus 2.25 percent, if it is not the  
21 actual elasticity, what is it?

22          A     It reflects two things. Basically it is not the  
23 elasticity, because the percentage change in prices for the  
24 two subclasses were not the same, so that is something that  
25 is going on here, probably the major thing that is going on.

1 Q Okay. I think you have explained what it is not.

2 Could you explain what minus 2.25 percent is or  
3 what it represents?

4 A Okay. You take the percentage change in price and  
5 you multiply that I believe by this long-run elasticity, and  
6 we use long-run because it is a five year period and  
7 certainly over five years that is -- you are going to have  
8 all the effects, so you multiply it by this long-run  
9 elasticity and that is what the minus 2.25 is, the  
10 percentage change in price over the five year period times  
11 the long-run elasticity. That is the 2.25 percent.

12 Q Which actually reduces nonprofit mail volume by  
13 2.25 percent?

14 A Yes.

15 Q Which is more than twice the decline in periodical  
16 regular rate volume, correct, for the same period?

17 A Yes, but that's not the same as saying that the  
18 elasticity is more than twice.

19 Q I do understand that, but the percentage of volume  
20 losses stand in relationship to one another in an  
21 approximately 2:1 ratio; correct?

22 A Well, I'm not sure I understood that question. In  
23 the interrogatory, you asked about the elasticity, and the  
24 answer was in terms of the elasticity.

25 Q That's why we're doing this followup. The

1 question may not have been as precise as it should have  
2 been, and so I think our dialogue is helpful in narrowing  
3 down what that question should be.

4 So, just to wrap this up, the question is that the  
5 decline in volume over five years after taking long-range  
6 elasticity into account, is more than twice as much for  
7 nonprofit periodicals as for regular rate periodicals,  
8 correct?

9 A The decline due to price, yes.

10 Q Yes.

11 A Yes.

12 Q I think we have solved the problem, and I thank  
13 you very much for your assistance.

14 If you could refer to CRPA-T-6-15(c), this is  
15 another question that goes to how recent the studies were or  
16 are that you refer to in developing your testimony.

17 This particular question was, do you have any  
18 reason to doubt that the overwhelming majority of nonprofit  
19 and of regular rate periodicals, using your phrase, are,  
20 quote, "small scale specialty magazines," end quote, or  
21 regional or local newspapers?

22 And your response was, you have no reason either to  
23 doubt or not to doubt that the overwhelming majority of  
24 nonprofit and of regular rate periodicals are small scale  
25 magazines or regional or local newspapers, and you didn't

1 see the relevance to the testimony.

2 Leaving relevance aside, which I guess is the  
3 Commission's job, in the end, to determine, did you happen  
4 to review any studies done by the Postal Service in Docket  
5 MC-95-1, which was a reclassification case involving the  
6 periodicals class?

7 A Well, I participated in testimony. I don't recall  
8 reviewing it recently.

9 Q Okay, and do you recall any stratified studies of  
10 volume levels measured against the number of periodicals in  
11 the periodical regular rate subclass?

12 A No. I suspect that wasn't the part that I worked  
13 on. I don't recall that.

14 Q Moving along to the interrogatory that I showed  
15 you right after you were sworn in, CRPA/USPS-T-6-16, this is  
16 for some clarification.

17 The Part (d) has been referred to the Postal  
18 Service for response, 16(d). Your answer to T-6-16 on the  
19 page that is going into the record, refers to Part (a), but  
20 does not refer to Parts (b) and (c).

21 Just for the record, are you willing to state that  
22 your response to (a) is your response to (b) and (c)?

23 MR. KOETTING: I'm totally lost here.

24 MR. FELDMAN: Well, the page -- it's a four-part  
25 question. One part has been referred to the Postal Service

1 for response, leaving three parts. Dr. Tolley answered Part  
2 (a), and there is no indication one way or the other, that  
3 he has answered (b) and (c).

4 MR. KOETTING: Are you looking at the same page  
5 I'm looking at?

6 MR. FELDMAN: May I approach Postal Service  
7 counsel?

8 CHAIRMAN GLEIMAN: Certainly, if it will clarify  
9 what is going on.

10 MR. FELDMAN: There may or may not be a  
11 typographical error situation here.

12 [Pause.]

13 MR. FELDMAN: It's a technicality problem, Mr.  
14 Chairman, that will enable us to drop the question and move  
15 on.

16 I thank Postal Service counsel for his assistance.

17 Dr. Tolley, I think that is all we have for you  
18 this morning and I thank you very much for your  
19 clarifications and your patience.

20 THE WITNESS: Thank you.

21 CHAIRMAN GLEIMAN: I think at this point we will  
22 take our mid-morning break for ten minutes and come back at  
23 quarter of the hour.

24 [Recess.]

25 CHAIRMAN GLEIMAN: Ms. Rush?

1 MS. RUSH: Thank you, Mr. Chairman.

2 CROSS EXAMINATION

3 BY MS. RUSH:

4 Q Dr. Tolley, I am Tondra Rush. I represent the  
5 National Newspaper Association.

6 I believe all of my questions for you are  
7 contained within your testimony on pages 88 through where  
8 you are discussing the trend lines that you see for  
9 in-county mail.

10 A I have that.

11 Q Thank you. Dr. Tolley, you are I think seen as  
12 sort of the Dean of Witnesses in these cases. We have  
13 certainly had a chance to talk with you on many occasions.

14 Do you remember what year you actually began  
15 examining periodicals trends?

16 A That phrase bothers me. It makes me nervous. I  
17 think it was R80.

18 Q All righty, okay. As you have gone through your  
19 work in this area in forecasting, you have built a body of  
20 knowledge that you carry from case to case to some extent,  
21 have you not?

22 A Yes.

23 Q And as you go through one case after another, do  
24 you go back and re-examine your source data and try to add  
25 some things and subtract some things to see if you can



1 clarify your own understanding?

2 A Yes.

3 Q Can you recall whether you have made any  
4 substantial change in the source data that you use with  
5 respect to the within county trends since the last rate  
6 case?

7 A Are you thinking of the regressions?

8 Q Yes -- oh, I am speaking of your understanding of  
9 the reasons for the trend and for the decline that you have  
10 cited in the volumes.

11 A Right. Okay, because that's two different things.  
12 The regression equations -- and I don't think the regression  
13 equations -- well, they have been the subject of some  
14 change, though in recent years not drastic change. We have  
15 begun putting econometric trends in and I frankly don't  
16 recall whether we did that in the last rate case or not, but  
17 over the years we started doing that, but for some time now  
18 the econometric specifications have not changes basically.

19 Q Thank you. You made a reference on the top of  
20 page 90 to the percentage of adults who read a daily  
21 newspaper and you pointed out that your sources show that  
22 there was a decline from 64.8 percent to 58.6 percent  
23 between 1987 and 1998.

24 Have you ever examined any data that tell you to  
25 what degree that decline is attributed to the closing of

1 afternoon daily newspapers?

2 A We haven't seen anything on that. The trend  
3 incidentally has been going on for a long, long time, so  
4 that might be a factor. Of course, there's causality as to  
5 why did the newspapers go down.

6 Q So it wouldn't be possible for you with the data  
7 that you have presently, notwithstanding the Household Diary  
8 Study, to remove the effect of the closing of those  
9 afternoon newspapers and examine the trend independent of  
10 that variable?

11 A Well, I don't think -- I am just thinking out loud  
12 now -- we have the decline in the people who are reading  
13 newspapers. If we are trying to relate that to relate that  
14 to the closing of the evening newspapers I suppose one might  
15 be able to -- it would take a detailed study and I don't  
16 think we would probably consider needing it for our  
17 testimony -- some kind of detailed study relating to the  
18 decline in that, in newspaper circulation, afternoon  
19 newspaper circulation, but I would just point out two  
20 things.

21 One, there is cause and effect here. People --  
22 the afternoon dailies closed partly because people were  
23 reading less, so there is that causality involved in it, and  
24 as I say, I feel sure -- it is my strong hypothesis that  
25 afternoon dailies would not explain the entirety of this by

1 any means.

2 Q Do you have any information that shows, I am  
3 taking the beginning of your trend here in 1987 as you have  
4 used in your testimony, do you have any information that  
5 would tell us what percentage of the mail, of the  
6 circulation, the total circulation of those daily newspapers  
7 was actually in the mail as opposed to delivered by other  
8 means?

9 A Let's see. We some time ago, as I was saying  
10 earlier this morning, we got data from the Audit Bureau of  
11 Circulation, and we did exactly this kind of calculation.  
12 We have not been using it recently because we haven't found  
13 it that useful.

14 Q You have not found it useful. Is that because it  
15 was a low percentage of mailed copies?

16 A No, I don't think so. I don't think it is a low  
17 percentage but --

18 Q You don't believe that it is a low percentage?

19 A Let me not try to recall.

20 Q Okay. Let me ask you in a different way. Are you  
21 aware of any data that show that daily newspapers <sup>rely</sup> heavily  
22 upon the mail for delivery?

23 A Well, we go back to that old Audit Bureau work and  
24 it might. I don't know. Also, it is kind of common  
25 knowledge that the national dailies, the Wall Street Journal

1 and the New York Times, USA Today and so forth are heavily  
2 in the mails.

3 Q And that would explain three out of what may be  
4 1400 daily newspapers?

5 A Well, that is certainly right. It's just one more  
6 factor -- just one more consideration.

7 Q I understand. I understand. But in your own  
8 experience, do the daily newspapers that you subscribe to  
9 arrive to your house by the mail, with the exception of  
10 possibly the Wall Street Journal or the New York Times?

11 A No, most of them -- in my experience, no.

12 Q They arrive by private carriers?

13 A Yes.

14 Q So in preparing this testimony you didn't have any  
15 specific information that would have said that the  
16 percentage of mail circulation by these dailies would have  
17 changed one way or the other between 1987 and 1998, is that  
18 correct?

19 A Yes, that's correct.

20 Q So if the circulation of a daily newspaper  
21 declined and that circulation was completely home carrier  
22 delivered, not in the mail, it wouldn't necessarily show up  
23 in your calculations in any way, is that correct.

24 A Yes, that is correct. We were of course referring  
25 to the weekly, the in-county newspapers mainly.

1 Q Yes.

2 A And there are these national dailies so it is not  
3 completely --

4 Q Would you expect the national dailies to be using  
5 this subclass of mail?

6 A Uses regular rate.

7 Q The in-county? Okay, so you would not expect to  
8 see an effect from their involvement in within-county  
9 subclass?

10 A I think no longer. That is correct.

11 Q You would not at this point?

12 A No.

13 Q Okay, thank you. You said in the beginning of  
14 this section of your testimony that the mail mix in this  
15 total class consists of newspapers, magazines and other  
16 periodicals. Is it correct that you don't have any data,  
17 the Postal Service hasn't provided you any data, that would  
18 tell you what the percentages are of newspapers versus  
19 magazines or any other sort of periodical?

20 A That's correct.

21 Q That's correct?

22 A Yes.

23 Q And so would that also be true for within-county?

24 A I thought you asked about within-county. It is  
25 true for all of them.

1 Q It is true for all periodicals?

2 A Yes.

3 Q So you can't tell us particularly whether the  
4 within-county subclass is mostly magazines, mostly  
5 newspapers, mostly newsletters, any other kind of  
6 periodical?

7 A Not with certainty, that's correct.

8 Q Would you expect that weekly newspapers dominate  
9 the subclass?

10 A I would think they would be very important, yes.

11 Q Is that the reason that it is the only reference  
12 you have made to a periodical in this part of your section?

13 I am looking on page 90 in your second paragraph.  
14 You have just discussed on this page the declining  
15 circulation of daily newspapers and then you make a mention  
16 that weekly newspapers are more likely to be mailed at  
17 in-county rates?

18 A Right.

19 Q Have you looked more closely at them because you  
20 expect to see their behavior influencing the subclass?

21 A Not really, recently, if I may interject what we  
22 are doing here.

23 These subclasses' equations are rather similar,  
24 except the trends are different and we see that the  
25 in-county is going down the most and the nonprofit a little

1 less and regular rate not very much, so this discussion is  
2 trying to get at some understanding of why that is happening  
3 but it is, you know, it is just a research project to do  
4 that. It is not a three-year study of the industry.

5 Q I understand. Do you have any data that show  
6 weekly circulations growing or declining?

7 A Not at hand, no. There may be -- now we have this  
8 figure on -- let's look at the testimony. What did we say  
9 there about weekly newspapers?

10 That is from the Household Diary Study.

11 Q Anything independent of the Diary Study that you  
12 would be aware of?

13 A No. There may have been years ago, but for this  
14 testimony this is it.

15 Q Can you remember, you said you went to visit the  
16 Audit Bureau of Circulation to ask them some questions about  
17 mail use. Can you remember asking the Audit Bureau what  
18 percentage of its membership was weekly newspapers?

19 A I don't remember that. I do remember that the  
20 Audit Bureau covers only larger publications.

21 Q So you wouldn't expect to see a lot of data about  
22 weekly newspaper circulation from that source at least?

23 A I'd have to go back. I don't know.

24 Q Mr. Feldman asked you questions about other  
25 circulation auditor companies. Have you consulted any

1 others with respect to this area?

2 A No.

3 Q I appreciated your comment that you like to have  
4 all the data you can find to understand the mail stream. Do  
5 you feel that you fully understand the within-county  
6 subclass and the reasons for this apparent downward trend?

7 A Well, "fully understand" is a -- I don't think  
8 anyone will ever fully understand things like that.

9 Q Thank you for that. Neither do we. Let me ask it  
10 in a different way. If you were to try to --

11 A May I just add --

12 Q Yes.

13 A -- it's a pretty simple exercise. We saw these  
14 differences in these trends and we like to check out and say  
15 is this reasonable or is this not reasonable. We looked and  
16 it is awfully difficult to get hard information on this.

17 The information we got seemed consistent with  
18 these differences in trends and so we had no reason to alter  
19 the trends. That was the philosophy we were using.

20 Q I understand. Let me ask this in a different way.  
21 If pursuing a better understanding of this question were not  
22 one of many, many, many large tasks that you undertake for  
23 this testimony and you were able to drill down into it, what  
24 else would you like to know to explain this trend?

25 A Well, I would like to have half a day and come



1 back to you with a refined research proposal and I can  
2 assure you we would learn all about it if you would give us  
3 enough resources to do it. Some of the factors you are  
4 mentioning. There are many other factors.

5 I think more information on the circulation of  
6 these various types of periodicals would be the first place  
7 and you need them over time.

8 Q Can you recall encountering any major questions  
9 that you looked at during your work in this area and said,  
10 gee, I would like to have the answer to that but no one  
11 seems to know?

12 A Oh, yes.

13 Q Can you tell me anything about what those  
14 questions might have been?

15 A Well, the kinds of questions you are asking. What  
16 is the nature of these -- of the mail streams, more  
17 specifically, and how have they been changing over time? A  
18 snapshot is good but to really understand what is going on  
19 you need changes over time.

20 Finding out -- we look at use of time studies,  
21 which I consider very informative, but they do not go into  
22 enough detail, so more detail on that.

23 Q That would be use of time by the adult population?

24 A Yes, and of course you need it by age groups. We  
25 think there is a demographic shift going on here and we

1 would like more information about that.

2 Q Understanding the nature of the mail in this  
3 subclass would be one of the questions you would like to  
4 have a better answer to, is that correct?

5 A Through all the subclasses. I would like to  
6 understand them all. We do the best we can.

7 Q Dr. Tolley, how do you use the revenue, piece and  
8 weight reports in your work?

9 A Let's see, we -- how do we use them?

10 Q Yes.

11 A The volume, we take volume data from the Postal  
12 Service and we take price data from the Postal Service.  
13 There are the fixed weight indexes, and I believe they use  
14 some RPW data.

15 Q With respect to piece counts and volumes, do you  
16 rely solely upon the revenue, piece, weight reports?

17 A We basically rely on what the Postal Service gives  
18 us.

19 Q Okay. And you don't know whether there is another  
20 source besides the RPW reports that gives you that  
21 information?

22 A Well, my impression is that that is only one of  
23 the sources, and it is for some of the classes of mail. I  
24 have seen that information, but I haven't studied it for  
25 this testimony.

1 Q Okay. So you have not engaged in any independent  
2 examination of the bases that the Postal Service uses to  
3 provide you these volume data?

4 A That is not our mission.

5 Q It would be beyond the scope of your work to look  
6 beyond the face of an RPW report, for example, to see how  
7 those numbers were compiled?

8 A It is beyond our mandate. I think we are involved  
9 in discussions of those kinds of things, but it is not our  
10 responsibility, no.

11 Q If the numbers that you were given were  
12 inaccurate, it would affect your forecast, would it not?

13 A Yes, I think it could be a little bit or a lot.  
14 My impression is -- well, let me not go into that. I think  
15 you are right, it could affect it.

16 Q If you were told that the Postal Service compiles  
17 data on the within-county mail from a very <sup>small</sup> percentage of  
18 rural post offices whose data are gathered through a  
19 sampling process, would it cause you to have any questions  
20 about the sources of the data?

21 A Well, it might well, but it is not our role. We  
22 are asked to take these data and analyze them, and that is  
23 what we do.

24 Q I understand. If you were told by the Postal  
25 Service that the piece data you were given for this subclass

1 was derived in substantial part by sampling 25 out of 26,000  
2 post offices, would it cause you to have questions about the  
3 reliability of the data you started with?

4 A It might. It might. Of course, you can often get  
5 an awful lot of information from a small sample, so I would  
6 just say it might. I would like to know more about that,  
7 but you have my --

8 MS. RUSH: Thank you, Dr. Tolley, you have been  
9 very helpful.

10 Thank you, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Mr. Wiggins.

12 MR. WIGGINS: Thank you, Mr. Chairman.

13 FURTHER CROSS-EXAMINATION

14 BY MR. WIGGINS:

15 Q Dr. Tolley, I am Frank Wiggins, here for the  
16 Recording Industry Association of America. RIAA asked you,  
17 in its first interrogatory, if you would like to get that in  
18 front of you.

19 A I have it.

20 Q Whether there might -- the parcel surcharge might  
21 result in migration of eligible pieces from a Standard A  
22 class of mail to media mail, and you rather succinctly  
23 rejoined "no." We then followed up a bit to say, if not,  
24 why not? And you said, "It appears that even with" -- I am  
25 reading just the last piece of your answer -- "It appears

1 that even with the parcel surcharge, it would be cheaper to  
2 send parcels weighing less than one pound as Standard A mail  
3 rather than as media mail in the overwhelming majority of  
4 cases."

5 And we thought that last little bit was pretty  
6 strong talk -- overwhelming majority of pieces. So, we  
7 followed up a little bit in the second interrogatory posed  
8 to you by RIAA, in which you confirmed that a parcel, a  
9 Standard A parcel weighing rounded 9.9 ounces, would pay  
10 postage of 68 cents if entered at the three, five digit,  
11 pound plus per piece rate. And the interesting thing about  
12 68 cents is that that would be the media mail rate for the  
13 same piece, right? Did you understand that?

14 A Yes.

15 Q And that is accurate, isn't it?

16 A I will take your word for it.

17 Q Okay. You actually confirmed that in your  
18 response.

19 A Yes, right. Yes, yes. Yes. So, I do confirm --  
20 I did confirm it and I do.

21 Q Okay. Good. We then, with that in mind, said,  
22 gee, are you aware that there are 374,500,000 rounded  
23 Standard A parcels that weight 10 ounces or more? And you  
24 confirmed that as well. And our suggestion was that those  
25 10 ounce or heavier Standard A pieces would do better

1 migrating away from Standard A into media mail, and that is  
2 essentially what we asked you.

3 And you offered, as I read it, three explanations  
4 for why that would not happen. And I am going to take them  
5 up in sort of the reverse order that you offered them, if  
6 you don't mind. You first said -- or you last said, "Some  
7 Standard A parcels may not qualify for Standard B media mail  
8 due to content restrictions." Do you have that at the very  
9 end of your answer?

10 A Yes.

11 Q The Recording Industry Association of America is  
12 made up, as its name hints, of people who sell sound  
13 recordings. Do you know whether sound recordings are  
14 consistent with the content restrictions of Standard B mail?  
15 Can sound recordings be entered as Standard B mail?

16 A As media mail.

17 Q Media mail, media mail.

18 A Yes. Yes. My understanding is that they can.

19 Q Okay. So that reason isn't really applicable to  
20 that part of the mail that might migrate that is associated  
21 with my clients, is that right? I represent to you that  
22 they mail sound recordings.

23 A Yes, right.

24 Q Okay. You also suggest that the bulk requirement,  
25 the requirement that there be 500 pieces in a mailing might

1 restrict eligibility for the media mail migration. Did I  
2 read that right?

3 A Yes.

4 Q Is that what your reference to 500 pieces means?

5 A Yes.

6 Q Some of the RIAA members are record clubs. Do you  
7 have a notion of the number of mail pieces annually that  
8 large record clubs mail?

9 A No. I imagine it is quite large.

10 Q Would 30 or 40 million pieces a year, parcels a  
11 year, surprise you?

12 A I can believe it. It might surprise me, but I can  
13 believe it.

14 Q Okay. I am not asking for social commentary, Dr.  
15 Tolley. And if that is an accurate number, 30 or 40 million  
16 pieces a year, would you be surprised if every one of the  
17 mailings that was made consisted of more than 500 pieces?

18 A I am not sure every one would. I mean it is a  
19 large industry, there must be a lot of specialty deals going  
20 on. But certainly a lot of them would be.

21 Q It would be many of the mailings at least that  
22 would consist of more than 500 pieces.

23 A Yes. Yes.

24 Q So that that restriction might not be a terribly  
25 important one.

1 A Right.

2 Q And finally, that is two of your reasons, and,  
3 finally, you say, "Not all Standard A" -- I'm sorry, they  
4 have to -- the parcels, in order to get the 68 cent media  
5 mail rate would have to be presorted to the five digit level  
6 and that is right, the media mail A rate is 68 cents. Do  
7 you have any basis for concluding that sorting to the five  
8 digit level would be a problem for a large record club?

9 A Well, that is a pretty fine level of sortation.  
10 So I would say it is a pretty fine level of sortation, it  
11 might well be a limit.

12 Q Do you have a sense of, for a national mailing  
13 basis, and these record clubs are national in scope, do you  
14 have a notion of how many mail pieces per mailing would  
15 likely be required to get to densities necessary to get down  
16 to five digits?

17 A I would have to think about, I don't know.

18 Q You didn't have that in mind when you made this  
19 answer? You didn't have a number in mind when you made  
20 this?

21 A I didn't have a number in mind, no.

22 Q And you have to deliberate on it a bit before you  
23 could derive a number?

24 A Yes.

25 Q Your answer to Number 1 was a little bit broader



1 than I characterized it initially. It says there has not  
2 been enough data to quantify what, if any, migration may  
3 have occurred between Standard A and other classes of mail.

4 Did you mean there to encompass all of the parcel  
5 classes, no migration, you think, to any of the parcel  
6 classes, not just media mail?

7 A Well, since there has not been enough data to  
8 study the migration.

9 Q Do you have a view, as you sit here today, whether  
10 migration to other parcel classes is likely?

11 A There may be some.

12 Q Can you quantify some?

13 A No, I could not quantify.

14 Q Is some a little bit as opposed to a lot?

15 A It's probably a little bit, but I couldn't  
16 quantify it.

17 Q I appreciate that, Dr. Tolley.

18 MR. WIGGINS: Mr. Chairman, I have no further  
19 questions.

20 CHAIRMAN GLEIMAN: Is there any followup?

21 [No response.]

22 CHAIRMAN GLEIMAN: Questions from the Bench?  
23 Commissioner Goldway?

24 COMMISSIONER GOLDWAY: I was looking at your  
25 response to CRPA/USPS-6-15, and there was a phrase there

1 that interested me.

2 It is 6-15. Of course, all forecasts are always  
3 subject to a certain amount of uncertainty and may become  
4 inaccurate if the underlying market being analyzed undergoes  
5 fundamental changes in the forecast period.

6 We're all concerned about the migration of mail to  
7 electronic billing, and I wondered, in particular, whether  
8 the Postal Service's announcement concerning eBillPay  
9 affects your thinking regarding electronic diversion trends.

10 And would this announcement of a highly visible  
11 financial player and one that is in a competing field as  
12 well, alter your view and make you consider whether your  
13 forecasts have included the effects of electronic billpaying  
14 migration to an adequate degree?

15 THE WITNESS: Right. Well, we've thought about  
16 this question because we were directed to, and were very  
17 interested in it in any case.

18 So the actual projected volume for eBillPay is  
19 simply not very great. I mean, one figure is that it's \$25  
20 million, and that might be 75 million pieces, but not all of  
21 those are going to be diverted because some of eBillPay will  
22 still be checks written by the company, that go through the  
23 mail.

24 So, if you come to 25 to 50 million pieces, that  
25 is such a small percentage of mail that it doesn't really

1 affect our forecasts appreciably.

2 COMMISSIONER GOLDWAY: But wouldn't those 25  
3 million or 50 million really take away a larger number of  
4 Postal Service transactions, because people are combining  
5 billpaying? There may be one transaction for a customer,  
6 but in the billpaying, in the electronic billpaying, but  
7 that might count for several transactions that would  
8 otherwise be done in the hardcopy mail?

9 THE WITNESS: Well, I think the 75 million, if  
10 every one were taken away, then that would -- if I'm  
11 following you, that would do that. But, of course, not  
12 every one is taken away.

13 And, incidentally, it's also possible that this  
14 eBillPay is going to take away from other online services,  
15 and not necessarily from the Postal Service. When one gets  
16 down into it, it's very difficult to predict exactly.

17 COMMISSIONER GOLDWAY: And then I have another  
18 question for you, also related to CRPA. This one was  
19 T-6-13.

20 And it's just really for my own edification. In  
21 the discussion you were having about the difference between  
22 the Consumer Price Index and the Personal Consumption  
23 Deflator --

24 THE WITNESS: Right.

25 COMMISSIONER GOLDWAY: -- is what you're saying

1 that with the Personal Consumption Deflator, has indicated  
2 that there has been a lower inflation over time, or a higher  
3 inflation rate over time, in terms of how it impacts people?

4 THE WITNESS: Now, let's see, the real price went  
5 up more, so it would say that the Personal Consumption  
6 Deflator says that there's been a lower rate of inflation.

7 COMMISSIONER GOLDWAY: So from your perspective in  
8 the documents that you use, there has actually been a lower  
9 rate of inflation than what the Consumer Price Index shows?

10 THE WITNESS: That's what this would imply, yes.

11 COMMISSIONER GOLDWAY: Okay, fine, thank you.

12 Now, there have also been questions about  
13 periodical data. And you've mentioned that you rely on the  
14 Household Diary Study, and that you have not used other  
15 industry documents. You don't think that they're  
16 satisfactory.

17 On page 84 of your testimony, you refer to the  
18 Household Diary Studies for 1997. Do you have that there?

19 THE WITNESS: Let me get it.

20 [Pause.]

21 Okay.

22 COMMISSIONER GOLDWAY: And you say that 56.1  
23 percent of all periodicals were sent to households, and this  
24 is a reduction from 77.8 percent.

25 Yet, in your discussions, you were talking about

1 the comparability of subscriptions and mailing, and I have  
2 some information from the Magazine Publishers of America.  
3 They do a report on at least major mailers.

4 And their indication is that in 1998, 82 percent  
5 of total circulation was from magazine subscriptions, and  
6 single-copies amounted to the remaining 18 percent.

7 If the Household Diary were wrong, and, in fact,  
8 the percentages were more like the percentages in the  
9 Magazine Publishers of America statistics, would that change  
10 your elasticity formulas and the outcomes that have resulted  
11 from them?

12 THE WITNESS: I can't think of any way that it  
13 would. This is an illustrative figure.

14 I would like to point out that magazines are not  
15 newspapers, so that could be a part of the -- and large  
16 magazines, and that could be a part of the reason.

17 COMMISSIONER GOLDWAY: Yes, that's true.

18 THE WITNESS: But I can't think of any way. As I  
19 say, we estimated the equations econometrically, which does  
20 not depend on this kind of thing.

21 And then the major thing we found was that the  
22 trends were different. And most of our discussion was on  
23 how we interpreted those differences in trends.

24 So, just thinking out loud, I can't think of any  
25 reason why a discrepancy in that number would particularly

1 have affected our interpretation.

2 COMMISSIONER GOLDWAY: I guess all of us are a  
3 little bit -- laypeople, anyway -- not quite certain how the  
4 econometric formulas work. Oh, that's just my own aside.

5 COMMISSIONER OMAS: Could you speak a little  
6 louder?

7 COMMISSIONER GOLDWAY: I was just saying that many  
8 of us who are laypeople are not certain about how the  
9 econometric formulas work and whether such a large  
10 difference in a trend -- in what I perceive to be a trend  
11 might impact your resulting formulas.

12 THE WITNESS: Well, I think an advantage of the  
13 econometrics is that they are completely objective, and they  
14 sort out, according to formulas and so forth, the effects of  
15 these different variables.

16 So we have found those to be very reliable, on the  
17 whole, and so we place major reliance on those, and we  
18 depart from those only if we have strong reasons.

19 And if we find a result like this that we think  
20 needs interpretation, then we go out and see if -- really,  
21 we try to see, are the reasons that these interpretations  
22 might not be correct; that's really what we're trying to do.

23 COMMISSIONER GOLDWAY: Well --

24 THE WITNESS: So we're not trying to do a -- we  
25 couldn't possibly do a full-blow research study on the

1 periodical industry.

2 COMMISSIONER GOLDWAY: All right, let me try  
3 another question: In CRP/USPS-T-6-16, there you talk about  
4 the elasticity of periodical subclasses and the possible  
5 relationship to service.

6 You say if actual service were to change, this may  
7 cause some recipients of periodicals to value these  
8 periodicals more or less highly, which may affect these  
9 recipients' price elasticity for periodicals, and this may  
10 indirectly affect the own price elasticity of periodical  
11 mail.

12 I would assume that that would -- that same  
13 principle would apply for other classes of mail, as well?

14 THE WITNESS: Yes.

15 COMMISSIONER GOLDWAY: And would this effect be  
16 relatively more pronounced on mail where mailers want  
17 expedited service such as Periodicals Express or Priority?

18 THE WITNESS: It might be, yes.

19 COMMISSIONER GOLDWAY: Now, you use the phrase, if  
20 actual service were to change. What about perceived change  
21 in level of service?

22 THE WITNESS: All of that, all of these  
23 hypotheses, we can speculate at length about these  
24 possibilities.

25 COMMISSIONER GOLDWAY: Could a perceived change in

1 service level or a change in service level be so great as to  
2 significantly affect a volume forecast?

3 THE WITNESS: It could be. My personal opinion is  
4 that that's not an important consideration here; that's just  
5 my opinion.

6 COMMISSIONER GOLDWAY: My hypothetical focuses on  
7 the perceived difference between Priority Mail, which is  
8 perceived to be delivered faster than First Class mail, but  
9 may not be. And if those perceptions changed dramatically,  
10 would there be significant changes, since there is a very  
11 high price elasticity with Priority Mail?

12 THE WITNESS: Yes, now we are moving away from  
13 periodicals into Priority Mail.

14 COMMISSIONER GOLDWAY: Yes.

15 THE WITNESS: Fortunately, I don't predict -- we  
16 don't forecast Priority Mail. But I would agree with what  
17 you are saying. But their expeditious service is extremely  
18 important.

19 COMMISSIONER GOLDWAY: Okay. Then I was trying to  
20 understand the underlying content of the formulas you use,  
21 and it seems to be income and --

22 THE WITNESS: Price.

23 COMMISSIONER GOLDWAY: Price, and two other basic  
24 factors. I was wondering whether there is any input in your  
25 formulas for the impact of advertising. And, generally, as



1 a principle in these kinds of econometric forecasting that  
2 you do, whether it is mail or some other product, is the  
3 impact of advertising taken into account when measuring  
4 price elasticities?

5 THE WITNESS: Well, let's see, there are two  
6 questions. Do we take -- are we interested in --

7 COMMISSIONER GOLDWAY: Yes. Why don't you do the  
8 second one and then we will do the first.

9 THE WITNESS: Well, let's see. Let's talk about  
10 advertising mail, Standard B mail. Standard B mail is  
11 somewhat more price elastic.

12 COMMISSIONER GOLDWAY: No, no. No, I am not  
13 talking about advertising mail. What I am talking about is  
14 when you are measuring the price elasticity of a product, --  
15 milk might be one, I know that from having been involved in  
16 the Milk Advisory Board in California. What is the impact  
17 of advertising of that product on the own price elasticity  
18 of the product? And when you are developing formulas,  
19 models for measuring price elasticity, do you factor in  
20 expenditures on advertising and the impact of advertising,  
21 et cetera?

22 THE WITNESS: Right. Let's see, the advertising,  
23 the major effect of advertising, if it has an effect, is to  
24 shift the demand curve, whether it affects the elasticity,  
25 to my mind is moot. That would not be the first

1 consideration that comes to mind. And so, as I say, the  
2 effect of advertising on the total demand, shifting the  
3 curve, is conceivably important, and we are concerned about  
4 the relative costs of advertising by different media because  
5 it affects -- advertising mail is so important as a medium.  
6 So we are concerned all the time about advertising.

7 I don't think that we try to take account of the  
8 effect of more or less advertising on the elasticity. I  
9 would be surprised if that effect is great, but that is just  
10 my initial reaction.

11 COMMISSIONER GOLDWAY: So you think that  
12 advertising works to increase demand regardless of price and  
13 it doesn't impact price elasticity?

14 THE WITNESS: At a given price, it increases  
15 demand, it tries to increase demand at a given price.

16 COMMISSIONER GOLDWAY: At any given price.

17 THE WITNESS: Yes.

18 COMMISSIONER GOLDWAY: But it would not have an  
19 effect on whether people were willing to pay more for a  
20 product or not?

21 THE WITNESS: Well, that is still a different  
22 question. If it increases the demand, then they probably  
23 are willing to pay more at a given quantity, but that still  
24 doesn't mean that the elasticity has changed.

25 COMMISSIONER GOLDWAY: It doesn't mean that they

1 would think that if the price went up, we might not want to  
2 buy as much, and that is why there is price elasticity,  
3 because when prices go up, people choose to pay -- not to  
4 buy it? Isn't that price elasticity?

5 THE WITNESS: Yes, right. But the price response  
6 -- or the quantity response to the price could still be the  
7 same in relative terms. Elasticity could still be the same.

8 COMMISSIONER GOLDWAY: I guess what I am trying to  
9 get at is whether the Postal Service spending \$300 million a  
10 year on advertising impacts the volume of mail and where one  
11 would look to measure the effectiveness of that, if it isn't  
12 in price elasticity?

13 THE WITNESS: Well, I would come back and  
14 respectfully say, if there is an effect, it probably is in  
15 shifting the demand, and that is where I would look first.

16 COMMISSIONER GOLDWAY: Shifting the demand from  
17 where to where?

18 THE WITNESS: Well, making the demand larger at a  
19 given price. I mean that is -- I think it is what the  
20 Postal Service and most advertisers are trying to do. So  
21 they are really, they are just trying to increase the  
22 demand. They are not looking at the response if they raise  
23 the price, they are not trying to influence that. And I  
24 don't know of any studies that would suggest that that is a  
25 major impact.

1 COMMISSIONER GOLDWAY: Are there any studies to  
2 measure the effectiveness of advertising on volume growth?

3 THE WITNESS: Well, they try. The main thing is  
4 to try to explain the level of advertising expenditures of  
5 private industry. I think that the studies that  
6 successfully explain the effect of advertising on volume --  
7 well, we are getting into a whole area. If you are  
8 competitive advertiser, and this is not my field  
9 particularly, if you are in a competitive industry, if you  
10 are in the soap industry or something, you have got to  
11 advertise to get the business away from your competitors.  
12 But we may be getting afield.

13 COMMISSIONER GOLDWAY: Well, not necessarily.  
14 That could explain some of the Postal Service advertising.  
15 Well, thank you for enlightening me.

16 THE WITNESS: I hope so. I hope I did.

17 CHAIRMAN GLEIMAN: As Commission Goldway said in  
18 her aside, we lay people have difficulty with the concept  
19 sometimes.

20 I don't want to belabor the issue of diversion of  
21 mail into electronic media, but I do want to make sure I  
22 understand the situation. It is your understanding that in  
23 the test year \$25 million in revenue is anticipated to be --  
24 I don't know whether it is lost or diverted, or whatever,  
25 involving some 75 million pieces?

1 THE WITNESS: Yes.

2 CHAIRMAN GLEIMAN: You said, you followed that up  
3 by saying that, of course, not all of this would be lost to  
4 the Postal Service because some of the bills that people  
5 anticipate are going to be paid electronically at some  
6 ~~people~~ <sup>point</sup> are going to wind up in the hard copy mailstream  
7 because apparently the creditor doesn't accept electronic  
8 payment. Do you have any sense of how many of the 75  
9 million pieces?

10 THE WITNESS: No. I would just point out, if none  
11 of that, if the whole 75 million were diverted, it still  
12 would be quite small.

13 CHAIRMAN GLEIMAN: I understand that. I am just  
14 trying to get a feel for what is going on. I spoke with  
15 somebody about the Postal Service's eBillPaying venture and  
16 characterized it as, and so I will explain this is not a  
17 pejorative, as cannibalization, as opposed to absolute  
18 diversion, because, in effect, rather than losing a piece of  
19 mail and the related revenues entirely, the Postal Service,  
20 theoretically, would be keeping some of the mail in the  
21 system that would otherwise be diverted to another party.  
22 And what I am wondering is, whether this \$25 million, \$75  
23 million pieces, is a number above and beyond what you built  
24 into the system when you were looking at diversion to other  
25 electronic bill paying?

1 THE WITNESS: Yes, it is above and beyond.

2 CHAIRMAN GLEIMAN: Above and beyond. Okay. So  
3 these pieces that, theoretically, would otherwise stay in  
4 the mailstream but for the Postal Service entering the  
5 electronic bill paying, these particular pieces that we  
6 talking about?

7 THE WITNESS: Yes.

8 CHAIRMAN GLEIMAN: Okay. I needed to understand  
9 that a little better, get it squared away in my own mind. A  
10 question about the own price elasticities that you have  
11 presented in the R2000 docket. They appear to me, relative  
12 to the numbers that you presented in the R97 docket, to be  
13 significantly different in a number of cases. In the case  
14 of single piece First Class, it has gone from .19 to .26.  
15 For example, there are others that have changed. Parcel  
16 Post has gone from .96 to 1.23. Are these changes generally  
17 due to refinements that you have made in your demand  
18 equation or with respect to particularly classes or  
19 subclasses of mail, have there been specific factors that  
20 have come into play that have influenced the changes?

21 THE WITNESS: I think it is mainly due to  
22 specifications.

23 CHAIRMAN GLEIMAN: So it is by and large  
24 refinement, general refinement --

25 THE WITNESS: Yes. Yes.

1 CHAIRMAN GLEIMAN: Okay, thank you. I have no  
2 further questions. Is there any follow-up? Questions from  
3 the bench?

4 MR. RICHARDSON: Mr. Chairman?

5 CHAIRMAN GLEIMAN: Certainly. Mr. Richardson.

6 CROSS EXAMINATION

7 BY MR. RICHARDSON:

8 Q Dr. Tolley, Ken Richardson, OCA. I just have a  
9 couple of follow up questions relating to the eBillPay  
10 questions you have just had.

11 You mentioned that there may be up to 75 million  
12 letters that would be deferred from the Postal Service but  
13 that they might be mitigated to the extent that the e-Bay or  
14 whoever is handling the e-Bay processes, I believe it is  
15 Check Free, would be mailing checks through the mail anyway  
16 and that would mitigate the loss of mail.

17 Do you have any sense of whether or not Check Free  
18 would be batching those, the amount that it would be sending  
19 and paying bills for customers?

20 A I suppose there would be some batching. I  
21 really -- this was not a major part of our work, not a part  
22 of my work at all.

23 Q Are you familiar with the process of eBillPay at  
24 all?

25 A Well, I think I know the general terms of it, yes.

1 Q Do you know that they would be batching on any of  
2 their payments?

3 A I don't. I haven't really -- I may have thought  
4 about it but I haven't investigated it in that detail.

5 MR. RICHARDSON: Thank you.

6 CHAIRMAN GLEIMAN: I just want to clarify it for  
7 the record, Mr. Richardson. I think you used the term  
8 "e-Bay" -- did you mean eBillPay?

9 MR. RICHARDSON: Yes, I did, Mr. Chairman. Excuse  
10 me.

11 CHAIRMAN GLEIMAN: There are lots of electronic  
12 bill paying services -- e-Bay may actually have one. I know  
13 Yahoo has one. I see it every time I get on Yahoo but we  
14 are talking about eBillPay, right?

15 Are there any additional follow-up questions?  
16 Questions from the bench?

17 If not, that brings us to redirect. Mr. Koetting,  
18 would you like a few minutes with your witness?

19 MR. KOETTING: No, Mr. Chairman. I would like  
20 about 30 seconds, I think.

21 CHAIRMAN GLEIMAN: I think we can probably spare  
22 that.

23 [Pause.]

24 MR. KOETTING: Mr. Chairman, we have no redirect.

25 CHAIRMAN GLEIMAN: If there is no redirect, Dr.



1 Tolley, that completes your testimony here today.

2 We appreciate your appearance and your  
3 contributions to the record. As is always the case when a  
4 witness of your stature appears here I wind up scribbling all  
5 kinds of notes hoping that I can read my scribbling later on  
6 because I am sure that I got some nuggets out of what you  
7 said, and I don't mean relative to the case. I mean  
8 relative to understanding what I am supposed to understand.

9 THE WITNESS: If you are like me, you won't be  
10 able to make anything out of them.

11 [Laughter.]

12 CHAIRMAN GLEIMAN: In any event, I want to thank  
13 you, and you are excused.

14 THE WITNESS: Thanks.

15 [Witness excused.]

16 CHAIRMAN GLEIMAN: Mr. Koetting, whenever you are  
17 ready you can call your next witness.

18 MR. KOETTING: Thank you, Mr. Chairman. The  
19 Postal Service calls as its next witness Thomas E. Thress.  
20 Whereupon,

21 THOMAS E. THRESS,  
22 a witness, was called for examination by counsel for the  
23 United States Postal Service and, having been first duly  
24 sworn, was examined and testified as follows:

25 DIRECT EXAMINATION

ANN RILEY & ASSOCIATES, LTD.  
Court Reporters  
1025 Connecticut Avenue, NW, Suite 1014  
Washington, D.C. 20036  
(202) 842-0034

1 BY MR. KOETTING:

2 Q Mr. Thress, I am handing you a copy of a document  
3 entitled, "Direct Testimony of Thomas E. Thress on behalf of  
4 the United States Postal Service," which has been designated  
5 as USPS-T-7.

6 Are you familiar with this document?

7 A Yes.

8 Q Was it prepared by you or under your supervision?

9 A Yes.

10 Q If you were to testify orally, would this be your  
11 testimony today?

12 A Yes.

13 MR. KOETTING: Mr. Chairman, on that basis the  
14 Postal Service would request that the direct testimony of  
15 Thomas E. Thress, USPS-T-7, be admitted into evidence.

16 CHAIRMAN GLEIMAN: Is there any objection?

17 Hearing none, I will direct counsel to provide the  
18 reporter with two copies of Witness Thress's testimony, and  
19 the testimony is received into evidence and will not be  
20 transcribed into the record.

21 [Direct Testimony and Exhibits of  
22 Thomas E. Thress, USPS-T-7, was  
23 received into evidence.]

24 CHAIRMAN GLEIMAN: Mr. Koetting, those knotty  
25 little Category <sup>2</sup>/<sub>1</sub> Library References, do we have any?

1 MR. KOETTING: We do, Mr. Chairman.

2 BY MR. KOETTING:

3 Q Mr. Thress, are you familiar with Library  
4 References USPS-LR-I-119 and I-122 and I-123?

5 A Yes.

6 Q Are you prepared to sponsor those into evidence?

7 A Yes.

8 MR. KOETTING: Mr. Chairman, the Postal Service  
9 would move those into evidence.

10 CHAIRMAN GLEIMAN: I will direct that those  
11 Library References be entered into evidence and not  
12 transcribed into the record.

13 [Library References I-119, I-122  
14 and I-123 were received into  
15 evidence.]

16 CHAIRMAN GLEIMAN: Mr. Thress, have you had an  
17 opportunity to examine the packet of designated written  
18 cross-examination that was made available earlier today?

19 THE WITNESS: Yes.

20 CHAIRMAN GLEIMAN: If those questions were asked  
21 of you today, would your answers be the same as those you  
22 previously provided in writing?

23 THE WITNESS: Yes.

24 CHAIRMAN GLEIMAN: There are no corrections or  
25 additions then?

1 THE WITNESS: No.

2 CHAIRMAN GLEIMAN: That being the case, counsel,  
3 if you would please provide copies of the designated written  
4 cross to the reporter, I will direct that the material be  
5 received into evidence and transcribed into the record.

6 [Designation of Written  
7 Cross-Examination of Thomas E.  
8 Thress was received into evidence  
9 and transcribed into the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS THOMAS E. THRESS  
(USPS-T-7)

Party

Association of American Publishers

Coalition of Religious Press  
Associations

Newspaper Association of America

United Parcel Service

Interrogatories

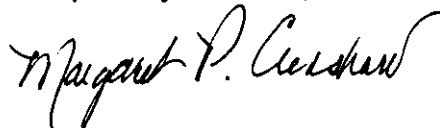
AAP/USPS-T7-1-4

CRPA/USPS-T7-1, 2a, 3-5  
CRPA/USPS-T6-2-4 redirected to T7

CRPA/USPS-T6-4 redirected to T7  
MMA/USPS-T6-1-2, 4 redirected to T7  
NAA/USPS-T7-1-12  
UPS/USPS-T7-1

AAP/USPS-T7-3  
MMA/USPS-T6-2 redirected to T7  
PSA/USPS-T32-9a redirected to T7

Respectfully submitted,



Margaret P. Crenshaw

DESIGNATED RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS THOMAS E. THRESS (T-7)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

AAP/USPS-T7-1  
AAP/USPS-T7-2  
AAP/USPS-T7-3  
AAP/USPS-T7-4  
CRPA/USPS-T7-1  
CRPA/USPS-T7-2a  
CRPA/USPS-T7-3  
CRPA/USPS-T7-4  
CRPA/USPS-T7-5  
CRPA/USPS-T6-2 redirected to T7  
CRPA/USPS-T6-3 redirected to T7  
CRPA/USPS-T6-4 redirected to T7  
MMA/USPS-T6-1 redirected to T7  
MMA/USPS-T6-2 redirected to T7  
MMA/USPS-T6-4 redirected to T7  
NAA/USPS-T7-1  
NAA/USPS-T7-2  
NAA/USPS-T7-3  
NAA/USPS-T7-4  
NAA/USPS-T7-5  
NAA/USPS-T7-6  
NAA/USPS-T7-7  
NAA/USPS-T7-8  
NAA/USPS-T7-9  
NAA/USPS-T7-10  
NAA/USPS-T7-11  
NAA/USPS-T7-12  
PSA/USPS-T32-9a redirected to T7  
UPS/USPS-T7-1

**Designating Parties:**

[illegible]

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-1** On page 68 of your testimony, you state that "Generally, bound printed matter falls into one of three categories: catalogs, books (including telephone books in some areas), and direct mail advertising weighing sixteen ounces or more." With respect to this statement:

(a) Please identify and provide all studies, reports, data or other evidence that you relied upon to support this statement.

(b) Please provide any actual data or estimates available that show the amount of Bound Printed Matter ("BPM") that falls into each of the three major categories of BPM identified by your testimony.

**RESPONSE:**

(a) This statement was made based on my understanding of what types of material are mailed as bound printed matter, based on conversations with various Postal Service personnel over the years.

(b) Please see Dr. Tolley's response to AAP/USPS-T6-6.

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**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-2** On page 89 of your testimony, you explain that the effect of the gradual migration from Special Rate mail into BPM after 1979Q1 is "modeled by including logistic market penetration variables in the demand equations for bound printed matter and special rate mail volumes." With respect to this statement, please explain if this gradual migration is the only effect captured by the market penetration z-variables in the BPM and in Special Rate demand equations or if there are additional effects captured by the use of these variables. If additional effects are captured, please list all such additional effects and quantify the extent to which the market penetration variables in BPM and Special Rate capture each additional effect.

**RESPONSE:**

I would say that this gradual migration is the primary effect captured by the market penetration variable in the Special Rate demand equation. In the case of bound printed matter, however, it appears that the z-variable is also taking account of some general growth in the number of catalogs through the 1980s and 1990s.

The volume growth in bound printed matter due to the z-variable is comparable in magnitude to the volume loss for special rate mail due to that z-variable through 1987. Hence, until that time, the z-variables are both consistent with a simple shift between these two subclasses. Since 1988, however, the positive z-variable in the bound printed matter equation is much stronger than the negative z-variable in the special rate equation. This implies that some other factor, or factors, such as the growth in the mail-order retail sales industry over this time period (see, for example, Dr. Tolley's response to AAP/USPS-T6-1), is being explained by the z-variable since 1988. This additional factor, or factors, being picked up by the bound printed matter z-variable, explain approximately a 40 percent increase in the volume of bound printed matter, primarily from 1988 until 1996.



**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-3** On page 70 (lines 10-11) of your testimony, you state that with respect to the BPM demand equation, a dummy variable equal to one (1) has been included since 1998Q1 "to account for an otherwise unexplained decline in bound printed matter of 10-11 percent since 1998." With respect to this statement, please describe any attempts to explain this decline using alternative model specifications or alternative data. In addition, please provide any actual equations that were estimated in these attempts and explain why each attempt to explain this decline was ultimately rejected.

**RESPONSE:**

I made no additional attempts to explain this downturn other than to include the dummy variable that was ultimately included in my testimony.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-T7-4** With respect to the three parameters used in calculating the z-variable for BPM in Table II-14 listed on page 74 of your testimony (lines 14-17), please explain why three parameters were estimated for BPM and state the basis used to estimate each of these three parameters.

**RESPONSE:**

Please see my testimony at pages 124 through 128, especially page 127, lines 11 through 18, where the three parameters used to fit the z-variables estimated in my testimony are described in more detail.

**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.

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

**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.

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

**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)."

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

**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.

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

**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.

**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 98 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.



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

**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.

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

**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.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO  
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION  
REDIRECTED FROM WITNESS TOLLEY**

**MMA/USPS-T6-1** In Table 1 on page 5 of your prepared testimony, you provide volume projections for all subclasses of mail on a Before-Rates and After-Rates basis. For First-Class Single Piece you show a small decline, whereas for First-Class Workshared you show a significant gain.

**(a)** Is the volume growth in First-Class Workshared letters coming from the Single Piece category? Please explain your answer.

**(b)** Assuming your answer to part (a) is yes, is the migration from Single Piece to Workshared increasing, staying about the same, or decreasing? Please explain your answer.

**RESPONSE:**

**(a)** The projected growth in First-Class workshared letters volume is due, in part, to continued migration of some mail from single-piece to workshared First-Class letters.

**(b)** Single-piece and workshared First-Class letters volumes are forecasted using a number of variables, including time trends. Migration between these two categories, independent of changes in worksharing discounts and the effect of classification reform (MC95-1), is captured primarily through these trend terms. The trends are projected to continue to affect mail volume at approximately the same rate in the forecast period as has been true historically.

This is consistent with a constant migration of mail from single-piece to workshared First-Class letters over time, although no explicit projection of the rate at which First-Class letters shift from single-piece to workshared letters is made.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO  
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION  
REDIRECTED FROM WITNESS TOLLEY**

**MMA/USPS-T6-2** On page 37 of your prepared testimony, you state, "It is estimated that a one percent increase in the average discount for workshared letters leads to a 0.139 percent decline in the volume of single-Piece letters."

**(a)** Is it true that your statement applies so long as the average discount for workshared letters remains within a certain, narrow range? Please explain your answer.

**(b)** For what range of average discount amounts does your estimate apply?

**(c)** Is there a minimum average discount amount at which point the elasticity will decrease very quickly, i.e., the discount will be so low that the Single Piece Volume will no longer decline? If so, please state what that discount amount is.

**(d)** Is there a maximum average discount amount at which point the elasticity will increase very quickly, i.e., the discount will be so high that the Single Piece volume will decline at a much greater rate? If so, please state what that discount amount is.

**(e)** What kinds of mail migrate from First-Class Single Piece to Workshared? Please provide all Postal Service studies, analyses, and other documents that discuss migration of mail from First-Class Single Piece to Workshared.

**RESPONSE:**

**(a)** In general, econometric estimates are most valid for data which falls within the range over which the econometric estimates are made. Econometric estimates may, however, continue to provide the best possible forecast, even if the data are significantly different from their historical range.

**(b)** The discount elasticity was estimated over a time period from 1983Q1 through 1999Q4. Over this time period, the average worksharing discount for First-Class letters, expressed in 1999 dollars (i.e., adjusting for inflation over this time period) has varied from just over 4.5 cents to just under 7.0 cents (in 1999 dollars). Both the Test Year before-rates and after-rates discounts, of 6.7 cents and 6.6 cents, respectively (in 1999 dollars), fall well within this range.

**(c)** If the worksharing discount were decreased, then, all other things being equal, the

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO  
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION  
REDIRECTED FROM WITNESS TOLLEY**

volume of workshared First-Class letters would decline, and the volume of single-piece First-Class letters would increase. This is true at any discount level. Hence, the premise of your question, that the discount has to be low in order for single-piece letter volume to no longer decline, does not appear to me to be valid.

As the discount declines, mail will shift from workshared to single-piece First-Class letters. This will lead to an increasing volume of single-piece mail that could migrate to workshared First-Class letters in response to increases in the workshare discount. Hence, as the discount declines, a greater percentage of single-piece mail could be affected by future changes to the discount, so that, as the discount declines, the discount elasticity will increase.

(d) *There likely exists some discount at which all mail that would ever be workshared will, in fact, be workshared. If such a discount were reached, then any further increase in the discount would have no additional effect on the volume of either single-piece or workshared First-Class letter volume. Therefore, to the extent that the discount elasticity of single-piece and workshared First-Class letters may not be constant at extreme values, it is most likely to be the case that the elasticity will decrease as the discount increases.*

It does not appear that either of the scenarios described in sections (c) and (d) has occurred, given the discounts offered by the Postal Service historically. Therefore, I could not state with any degree of certainty at what, if any, discount levels the assumption of a constant discount elasticity would no longer be valid.

(e) I am unaware of any studies of the types of mail that migrate from single-piece to workshared First-Class Mail.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO  
INTERROGATORIES OF MAJOR MAILERS' ASSOCIATION  
REDIRECTED FROM WITNESS TOLLEY**

**MMA/USPS-T6-4** On page 39 of your testimony you note that MC95-1 imposed greater workshare requirements on mailers while also providing them with greater workshare discounts.

(a) Was one of those new workshare requirements to increase the minimum number of pieces needed to qualify for the to a 3-digit zip code discount, from 50 pieces to 150 pieces?

(b) Was one of those new workshare requirements to increase the minimum number of pieces needed to qualify for the 5-digit zip code discount, from 10 pieces to 150 pieces?

(c) Would the imposition of such new workshare requirements tend to shift mail from one presort category to another presort category, resulting in the mailer receiving a lower discount? If not, please explain your answer.

**RESPONSE:**

(a) Yes

(b) Yes

(c) All other things being equal, the imposition of new, more stringent workshare requirements would likely cause some mail to shift into a lower-discount presort category.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-1** Please refer to pages A-20 and A-21 of Witness Tolley's testimony, where he states 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. In your estimation, do you use the weighted average of four quarters as your price input? Please cite the source for your answer.
- b. In your estimation, when using lags, do you use lags by quarters, i.e., one, two, or three quarter lags? Please cite the source for your answer.

**RESPONSE:**

- a. No. All of my analyses are done on a quarterly basis. I therefore had no occasion to calculated averages of multiple quarters.
- b. Yes. I describe my use of price lags in my testimony at page 90, line 15 through page 91, line 6.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-2** Please confirm that your First Class Workshared Letters regression does not include a cross-price elasticity with respect to Standard ECR.

- a. If you cannot confirm, please explain why not.
- b. Did you also estimate a regression that included the cross price elasticity with respect to Standard ECR?
- c. If yes, please provide the results.
- d. If not, please indicate why you did not include the cross price elasticity with respect to Standard ECR.

**RESPONSE:**

Confirmed.

- a. Not applicable.
- b. No.
- c. Not applicable.
- d. With the exception of automation carrier-route letters, which comprise a mere 6.6 percent of Standard ECR volume (in 1999), there is no presort category of First-Class letters that is comparable to Standard ECR mail in terms of preparation. Further, the average price of Standard ECR automation basic letters is more than 10 cents and more than 40 percent less than the average price of First-Class automation carrier-route letters. Hence, it seems extremely unlikely to me that there would be much, if any, price-based substitution between these two subclasses of mail.



**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-3** Please confirm that your Standard Regular regression includes a cross-price elasticity with respect to First Class Letters but does not include a cross-price elasticity with respect to Standard ECR, aside from the "Dummy for Shift of Mail from ECR into Regular after R97-1".

- a. If you cannot confirm, please explain why not.
- b. Did you also estimate a regression that included the cross price elasticity with respect to Standard ECR?
- c. If yes, please provide the results.
- d. If no, please indicate why you did not include the cross price elasticity with respect to Standard ECR.
- e. Why do you include the cross-price elasticity with respect to First Class Letters in your regression for Standard Regular rather than the cross price elasticity with respect to First Class Workshared Letters?

**RESPONSE:**

Not confirmed. My Standard Regular equation includes a cross-price elasticity with respect to workshared First-Class letters.

- a. Not applicable.
- b. Yes.
- c. Please see Workpaper 3 accompanying my testimony at pages 120 and 137 through 140.
- d. Not applicable.
- e. See my response above.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-4** Please confirm that your Standard ECR regression does not include a cross-price elasticity with respect to either First Class Letters or Standard Regular, aside from the "Dummy for Shift of Mail from ECR into Regular after R97-1."

- a. Did you also estimate a regression that included the cross price elasticity with respect to either First Class Letters or Standard Regular?
- b. If yes, please provide the results.
- c. If no, please indicate why you did not include the cross price elasticities with respect to either First Class Letters or Standard Regular.

**RESPONSE:**

Confirmed.

- a. Yes for Standard Regular, no for First-Class Letters.
- b. For a Standard ECR equation which includes a cross-price elasticity with respect to Standard Regular mail, please see Workpaper 3 accompanying my testimony at pages 141 through 145.
- c. With respect to First-Class letters, please see my response to NAA/USPS-T7-2(d) above.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-5** Please confirm that you do not estimate separate equations for Standard A piece-rates and Standard A pound-rated mail in your analysis. Please indicate why you did not.

**RESPONSE:**

Confirmed. Because the Postal Service did not ask Dr. Tolley to make separate forecasts for Standard A piece-rated and pound-rated pieces, I saw no benefit in attempting to estimate separate demand equations for these mail categories.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-8** Please confirm that you do not estimate any cross-price elasticities between Standard A piece-rated and Standard A pound-rated mail. Please confirm that as a result, you do not allow for the possibility of migration between Standard A piece-rated and pound-rated pieces.

**RESPONSE:**

Confirmed that I estimate no cross-price elasticities between Standard A piece-rated and Standard A pound-rated mail. This is not equivalent to saying that I have either estimated or assumed that such a cross-price elasticity is equal to zero. Hence, I cannot confirm your last sentence.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T-7** Please give the values and cite the source for:

- a. Your newspaper price inputs (reference your testimony page 50). What was the name of the specific BLS price series used?
- b. Your direct mail advertising delivery cost inputs (reference your testimony page 48).
- c. Your direct mail advertising technological cost inputs (reference your testimony page 48).

**RESPONSE:**

- a. USPS-T-7, Workpaper 1, Table 1-19, page 27, under the column heading "WP\_NWS". This is BLS series WPI09310221NS.
- b. Delivery costs are measured by postal price indices. Nominal prices can be found in USPS-T-7, Workpaper 1, Table 1-15, page 22, under the column headings "PX3R\_NCRU", "PX3R\_CR", and "PX\_3NU", for Standard Regular, ECR, and bulk nonprofit mail, respectively. 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 natural logarithm of these prices are used in my regressions.
- c. Technological costs are measured by the price of computer equipment and the price of computer equipment squared. 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.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-8** Please confirm that you impose stochastic restrictions in the following: 1) Between workshared first class letters and single piece first class letters (see page 15 of your testimony), 2) Between Standard A regular and workshared first class letters (see pages 17-20 and 52), 3) Between Standard A nonprofit and both Standard A Regular and ECR subclasses (page 53), and 4) Between Standard Regular and Standard ECR (page 53).

- a. If you do not confirm any of the above, please explain why not.
- b. Please confirm that for restriction 1) above, you decided to freely estimate the beta in the workshared equation and impose the stochastic restriction in the single piece equation, based on a t-statistic test. If you cannot confirm, please explain why not.
- c. What basis is there for choosing the estimation in the way described in (b), rather than freely estimating the beta in the single piece equation and imposing the stochastic restriction in the workshared equation?
- d. For restriction 2), you make the statement on page 20 that the standard errors are estimated "such that these cross-price elasticity estimates have implicit t-statistics of 3.633." Please explain what you mean by "implicit t-statistics".
- e. For restriction 3), you state that the "coefficient on this dummy variable is freely estimated in the Standard bulk nonprofit equation, and is stochastically constrained within the Standard Regular and ECR equations." Why did you choose to do it this way rather than the other way around?
- f. For restriction 4), you state that the "coefficient on this variable is freely estimated in the Standard ECR equation and is stochastically constrained in the Standard Regular equation." Why did you choose to do it this way rather than the other way around?
- g. Again for restriction 4), what impact does including a dummy have when this model is used to forecast? Can the model take into account relative differences in proposed rates between Standard A Regular and ECR?

**RESPONSE:**

**Confirmed.**

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

- a. Not applicable.
- b. Confirmed.
- c. As I state at page 15 of my testimony, lines 17 through 20, "[b]ecause the freely-estimated value of  $\beta_{ws}$  (t-statistic of 3.619) is considerably more significant than the freely-estimated value of  $\beta_{sp}$  (t-statistic of -1.845), the freely-estimated value of  $\beta_{ws}$  was used, and the restriction in equation (11.4) was imposed stochastically on the value of  $\beta_{sp}$ ."
- d. A stochastic restriction involves a coefficient and an associated variance. In this case, I chose the variance associated with the restriction such that the t-value of the restriction (where the t-value is equal to the restricted coefficient divided by the square root of the variance of the restriction) was equal to 3.633.
- e. The freely estimated coefficient was more significant in the Standard bulk nonprofit equation than in either the Standard Regular or Standard ECR equations. Because the volume of Standard bulk nonprofit (Nonprofit and Nonprofit ECR) mail is considerably less than the volume of Standard bulk regular (Regular and ECR) mail, the relative impact of the shift of mail out of Standard bulk nonprofit was greater than the relative impact of the shift of mail into Standard bulk regular. That is, the effect of the rule change being modeled in this case was to lower Standard bulk nonprofit mail volume by almost 5 percent, whereas this rule change increased Standard bulk regular mail volume by only about 1 percent.
- f. The freely estimated coefficient was more significant in the Standard ECR equation than in the Standard Regular equation.
- g. This dummy takes on a value of zero when the price of automation 5-digit letters is greater than the price of automation carrier-route letters (e.g., prior to R97-1) and a

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

value of one when the price of automation 5-digit letters is less than the price of automation carrier-route letters (e.g., since R97-1).

Because part of the base year used by Dr. Tolley to make his volume forecasts (1999Q1 through 1999Q4) is prior to R97-1, while all of the forecast period is since R97-1, this variable does have a modest positive effect on the volume of Standard Regular mail in the forecast period and an offsetting negative effect on the volume of Standard ECR mail. This is discussed by Dr. Tolley at pages A-15 through A-17 of his testimony (USPS-T-6).

Because this is merely a simply zero-one dummy, this variable will only reflect changes in whether automation 5-digit letters are priced above or below automation carrier-route letters, but will not otherwise take into account changes in the difference between these rates.



**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-9** Please refer to your testimony page 111, where you state "If, however, one's goal is to obtain the best possible estimate for each individual coefficient ..." What does "best possible" mean? How are you determining "best possible"?

**RESPONSE:**

The "best possible" estimate is the most efficient unbiased estimate of a coefficient. That is, the estimate for which the expected value is equal to the actual value (unbiased) which has the lowest estimated variance (most efficient). My estimation procedure is a form of Generalized Least Squares (GLS) and is described at page 129 of my testimony. Subject to the GLS restrictions described in my testimony, my estimated coefficients will be the most efficient unbiased estimates.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-10** Please refer to your testimony page 59, Table II-11, where you find that the total Standard ECR own-price elasticity is equal to  $-0.808$ , and also to your testimony in R97-1, Table II-15, where you find that the total Standard ECR own-price elasticity is equal to  $-0.598$ . Does this change reflect a structural shift in the elasticity in the more recent time period, or does it reflect inherent randomness in the data used for estimation? Please explain.

**RESPONSE:**

This change appears to be the result of the changes made to the Standard ECR specification since the last case (e.g., inclusion of UCAP, exclusion of the price of radio advertising, different measure of the price of newspaper advertising), as opposed to indicative of a change in the actual own-price elasticity of Standard ECR mail over time. I say this because, if one estimates the current ECR demand equation using a sample period ending in 1997Q2 (as was done in R97-1), the estimated own-price elasticity for Standard ECR mail is estimated to be equal to  $-0.768$ , which is not very different from my current estimate of  $-0.808$ .

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-11** Please refer to page 48, lines 1-12 of your testimony. Is there any correlation between the price of newspaper advertising and:

- a. Delivery costs**
- b. Technological costs**

**Please explain.**

**RESPONSE:**

**Yes.**

- a. The simple correlation between the price of newspaper advertising and the price of Standard Regular mail for the sample period over which I estimate the Standard A equations is 0.69. The simple correlation between the price of newspaper advertising and the price of Standard ECR mail over this same time period is 0.65.**
- b. The simple correlation between the price of newspaper advertising and the price of computer equipment for the sample period over which I estimate the Standard A equations is -0.93. The simple correlation between the price of newspaper advertising and the computer price squared over this same time period is 0.92.**

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

**NAA/USPS-T7-12** Please refer to page 50, lines 11-13, of your testimony.

- a. Please confirm that Standard (A) mail competes with radio and television advertising. If you cannot confirm, please explain why not.
- b. Please confirm that you have not explicitly modeled substitution between Standard (A) mail and radio and television advertising.
- c. Have you made any adjustment to your model to account for the absence, in this year's model, of any explicit factor for radio and television advertising.

**RESPONSE:**

- a. I can confirm that direct-mail, radio, and television advertising are in competition for limited advertising dollars.
- b. Confirmed.
- c. I have not made any adjustments to my model expressly for that purpose.

**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO  
INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION  
REDIRECTED FROM WITNESS MAYES**

PSA/USPS-T32-9(a) In response to PSA/USPS-T32-1 (d)(iii), you state that if newer data had been used to develop the R97-1 forecasting, the own-price elasticity estimate for Parcel Post may not have been the same.

(a) Please explain why it may not have been the same.

**RESPONSE:**

The own-price elasticity is estimated as a function of the historical volume of parcel post mail. If the historical volume of parcel post mail is changed, as was the case with the restatement of the parcel post data, then, mathematically, it stands to reason that the own-price elasticity may also change, as the relationship has changed between volume, which has changed, and price, which has not changed.

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**RESPONSE OF POSTAL SERVICE WITNESS THRESS TO  
UNITED PARCEL SERVICE INTERROGATORIES**

**UPS/USPS-T7-1** Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

**RESPONSE:**

All of the econometric analysis used in my testimony relied upon data through 1999Q4. In all cases, complete data for both 1998 and 1999 was included in my analyses, so that it would be incorrect to say that I used 1999 data "instead of data for BY 1998." My use of 1999 data in my analysis is consistent with past practice in the forecasting area to use the most recent available volume data.

1 CHAIRMAN GLEIMAN: Is there any additional written  
2 cross examination for this witness? Mr. Baker?

3 MR. BAKER: Mr. Chairman, Bill Baker with the  
4 Newspaper Association of America.

5 CROSS EXAMINATION

6 BY MR. BAKER:

7 Q I have handed the witness two copies of a document  
8 entitled, "The Response of Witness Thress to Interrogatory  
9 NAA/USPS-T7-<sup>14</sup>~~17~~" -- and we would ask the witness if I were to  
10 ask the question today, would his answer be the same?

11 A Yes.

12 MR. BAKER: And with that, Mr. Chairman, I move it  
13 be included as designated written cross examination.

14 CHAIRMAN GLEIMAN: Mr. Baker, if I could impose  
15 upon you to provide two copies to the court reporter, I will  
16 direct that the additional designated written  
17 cross-examination be entered into evidence and transcribed  
18 into the record.

19 MR. BAKER: I will, and if I may, Mr. Chairman, I  
20 will -- at this point I have reviewed the testimony and I no  
21 longer have oral cross for this witness.

22 CHAIRMAN GLEIMAN: Thank you, sir.

23 [Additional Designation and Written  
24 Cross-Examination and Response of  
25 Thomas E. Thress, NAA/USPS-T7-14

1 was received into evidence and  
2 transcribed into the record.]  
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RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T7-14. Please refer to your response to NAA/USPS-T7-10, in which you state that the change in the estimated own-price elasticity of Standard (A) Enhanced Carrier Route mail "appears to be the result of the changes made to the Standard ECR specification since the last case." You also estimate your current ECR demand equation using a sample period ending in 1997Q2.

Please estimate of [sic] the current own-price elasticity of ECR mail using the R97-1 demand specification.

RESPONSE:

The estimated own-price elasticity of Standard ECR mail using the R97-1 demand specification, estimated using a sample period through 1999Q4, using the econometric methodology employed in my current testimony, is -0.599.

1 CHAIRMAN GLEIMAN: Is there any additional written  
2 cross?

3 If not, that brings us to oral cross. Two parties  
4 have requested oral cross examination, Coalition of  
5 Religious Press and the Newspaper Association of America.

6 Mr. Baker has graciously agreed not to cross  
7 examine today. Mr. Feldman, can we entice you to take the  
8 same course of action?

9 [Laughter.]

10 CHAIRMAN GLEIMAN: If not, you may begin when you  
11 are ready.

12 MR. FELDMAN: I am thinking about what the  
13 enticement could be --

14 CHAIRMAN GLEIMAN: You will never know until we  
15 issue our recommended decision.

16 [Laughter.]

17 MR. FELDMAN: I know. I suppose going off the  
18 record won't get me anywhere, so let's stay on the record  
19 and proceed as expeditiously as we can.

20 CROSS EXAMINATION

21 BY MR. FELDMAN:

22 Q Good morning, Dr. Thress.

23 A Good morning.

24 Q I am Stephen Feldman, counsel for the Coalition  
25 for Religious Press Associations, and the Postal Service

1 referred several of our questions -- we had directed them to  
2 Dr. Tolley and however you answered them, so I will ask you  
3 to go to CRPA/USPS-T6-2 to begin our discussion.

4 In your response, this interrogatory discussed the  
5 impact typically delayed on periodical volumes and -- rate  
6 impact, I should say -- and what I would like to know is for  
7 periodical nonprofit mail you state that 40.8 percent of the  
8 impact of changes in prices is felt two quarters after a  
9 rate change.

10 That, just to simplify matters, would mean let's  
11 say hypothetically a rate increase for nonprofit periodicals  
12 went into effect January 3rd, say, 2001. That would mean for  
13 the first six months of 2001 40.8 percent of the impact  
14 would occur to that subclass of mail, correct?

15 A No -- 40.8 percent would occur after that time.  
16 Up until that point only 60 percent of the rate change would  
17 occur.

18 Q After the rate change. I appreciate that very  
19 much. That was really the direction of the question. I  
20 think you have really cleared that up, so that first period  
21 immediately after --

22 A Right --

23 Q -- we would have approximately 59.2 or 60 percent  
24 of the impact and then the balance two quarters after that.

25 So is the impact then when totalled up

1 essentially -- well, it is essentially within the test year,  
2 isn't it, 2001, or is that too simplistic a --

3 A I think it is too simplistic. Really the way it  
4 works, two quarters out the effective price elasticity is  
5 only 59 or 60 percent as great as the long-run price  
6 elasticity. You know, three quarters out the effective  
7 price elasticity is the same as the long-run price  
8 elasticity because we are now in the long run, so it is more  
9 of a cumulative effect.

10 In the first two quarters the cumulative price  
11 effect is only 60 percent as great as what it would be after  
12 that two quarter period, so that for the test year -- I am  
13 going back to -- in the case we of course assume that rates  
14 take effect the first day of the test year. For the first  
15 half of the test year, the first two quarters, the rate  
16 effect is not as strong as it is for, say, the last two  
17 quarters of the test year, so that the cumulative effect of  
18 prices in the test year is not as strong as it would be, for  
19 example, the next year when you have -- all the lags would  
20 have worked their way out.

21 I believe Dr. Tolley answered -- gave that answer  
22 as a question and compared the effect in 2001 with the  
23 effect in 2002 and I am afraid I don't recall what  
24 interrogatory response that was of his, who asked it or what  
25 the context was.

1           Q     It appears that the difference between regular  
2 mail, periodical regular mail, and periodical nonprofit  
3 mail, when assessing the timing of the rate impact, seems to  
4 be quite different?

5           A     Yes, it is.

6           Q     Do you have any explanation for that?

7           A     I really don't. The answers come out of my  
8 mathematical equations, which, in the case of periodical  
9 nonprofit and periodical regular, take fundamentally the  
10 same variables -- income from earned income, transfer  
11 income, a time trend, the price -- and use these variables  
12 to explain volume.

13                   I mean, to the extent that periodical nonprofit  
14 volume historically differs from periodical regular volume,  
15 and, likewise, periodical nonprofit price differs from  
16 periodical regular price, that leads to this difference.

17                   But this difference that I cite in the answer, it  
18 just falls out of the mathematics.

19                   I guess, going in, recognizing that nonprofit  
20 mailers are different people than regular mailers, and so  
21 nonprofit periodicals are probably substantively different  
22 from regular periodicals, I wasn't surprised that the  
23 numbers were different.

24                   But I really wouldn't want to venture an opinion  
25 as to why they are.

1           Q     Would you accept, just for the purpose of this  
2 question, that the revenues of nonprofit periodicals, in  
3 terms of their -- well, their revenues -- are derived either  
4 directly or indirectly from either the contributions given  
5 or the dues paid by the members of the nonprofit society,  
6 whereas for commercial publications, the revenues come from  
7 paid subscriptions, and, of course, advertising revenues  
8 which apply sometimes even to nonprofit publications?

9                     Would that make sense to you?

10          A     That seems reasonable.

11          Q     So, again, just hypothetically, if economic  
12 developments of whatever kind led to greater or lesser  
13 participation by the public in charitable organizations,  
14 religious organizations, things of that sort, that could be  
15 a factor that might affect income insofar as nonprofit  
16 periodical growth is concerned; would you agree?

17          A     Yes.

18          Q     That type of specific analysis of income for the  
19 nonprofit sector of the publication area, however, you have  
20 not specifically looked at that; have you?

21          A     Well, both the periodical regular, as well as the  
22 periodical nonprofit equations both include a transitory  
23 income variable, which Dr. Tolley discussed a little bit.

24                     And in one of his responses to one of your  
25 interrogatories -- I forgot which one -- he pointed out that

1 periodical nonprofit mail is much more sensitive to  
2 transitory income than is periodical regular mail, and so I  
3 would hypothesize that that would be consistent with what  
4 you're saying.

5 That is, when the country, for example, goes into  
6 a recession and people become unemployed and whatever,  
7 they're going to -- if, as a result, they contribute less to  
8 charity, therefore, periodical nonprofit income will be more  
9 adversely affected, perhaps, in such a case, and that could  
10 be consistent with the fact that we see periodical nonprofit  
11 volume more closely linked to transitory income.

12 Q However, I guess the common wisdom is that at  
13 least until last week, times have been very good in the  
14 United States from an economic point of view, for quite some  
15 time, and yet the volume projections based on your equations  
16 and Dr. Tolley's application of those equations, seem to  
17 show that periodical nonprofit volume is on a declining  
18 trend, despite a strong economy and presumably rising  
19 income.

20 A Right. There is a trend variable as well.  
21 Although I would point out, without getting into too much  
22 detail on this, the transitory income measure we use is  
23 capacity utilization in the manufacturing sector.

24 And that variable has actually been declining  
25 somewhat in the last couple of years, and is projected by

1 DRI to decline somewhat further in the future.

2 And I think the reason for that, to a certain  
3 extent, is the manufacturing sector is what is sometimes  
4 characterized as the old economy versus the new economy.  
5 And I think what we've done in that way is, in general, mail  
6 volume seems to be linked more to the old economy than to  
7 the new economy.

8 And to the extent that the new economy has any  
9 impact, I think then you get into the issue of electronic  
10 diversion, e-commerce. But that sort of growth in the  
11 economy doesn't necessarily translate into an expected  
12 growth in, particularly, for example, periodical mail.

13 Q So, specific spikes in price, whether it be  
14 postage or paper, could affect periodicals in a way that it  
15 might not affect other areas of the economy not reliant on  
16 paper and postage?

17 A Well, sure.

18 Q Such as computer software or certain other new  
19 economy products?

20 A I don't expect Microsoft's revenue to be affected  
21 by this rate case at all, or very trivially, so, yes.

22 Q I don't think any of us should speculate about  
23 Microsoft in this case.

24 [Laughter.]

25 THE WITNESS: But obviously, yes.



1 BY MR. FELDMAN:

2 Q All right, if you would kindly go to your response  
3 on behalf of Dr. Tolley, 6-3?

4 [Pause.]

5 A Yes.

6 Q I am not sure, if you have answer the question,  
7 please reaffirm it. I am not sure that you have directly  
8 answered the question, why is no comparable recognition of  
9 the impact of wholesale pulp and paper prices to be found in  
10 your analysis of factors which affect the volume of  
11 non-profit periodicals mail? That was asked because such an  
12 analysis was done for regular rate mail. And I guess what  
13 we wanted to know was, given the importance of pulp and  
14 paper to the magazine industry, why wouldn't a similar  
15 analysis have been done for the non-profit sector?

16 A In the answer to the question, I believe in the  
17 third paragraph, I did include the price of pulp and paper  
18 in the periodical non-profit equation, and when you add that  
19 variable to the equation, that periodical non-profit  
20 equation would then become exactly parallel to the  
21 periodical regular equation.

22 Again, the estimated elasticities are going to  
23 differ to the extent that volumes have differed for the two  
24 categories. And I found that the estimated elasticity of  
25 periodical non-profit mail with respect to the price of pulp

1 and paper is minus .023, which means that for a 10 percent  
2 rise in the price of pulp and paper, periodical non-profit  
3 volume declines by .23 percent. And this was not  
4 significantly different from zero and was, therefore, not  
5 include in the final equation, and, in fact, had you  
6 included it in the forecasting equation, <sup>because</sup> ~~before~~ it is so  
7 close to zero, it would not have had a material effect on  
8 the volume forecast.

9 Q Are you saying that a 2.3 percent decline in  
10 volume for this subclass is not significant?

11 A It was .23 percent.

12 Q I'm sorry, .23 percent. My misunderstanding.

13 A Mathematically, it is not significantly different  
14 from zero. And that was just assuming a 10 percent rise in  
15 the price of paper, and I don't, in fact, know what the  
16 forecast was for the change in the price of paper over the  
17 next two years, but my recollection is it wouldn't have been  
18 10 percent, it would be some number smaller than that.

19 Q Well, you were present, I believe, when Dr. Tolley  
20 and I had a discussion about the comparative elasticities of  
21 regular rate and non-profit periodicals.

22 A Yes.

23 Q And without going into Dr. Tolley's efforts to  
24 educate me, which I hope he did a little bit, I think we  
25 agreed that, whatever the final number, that non-profit

1 periodicals were more elastic than regular periodicals. If  
2 pulp and paper is a relatively insignificant factor in  
3 calculating non-profit elasticity, then what is driving that  
4 greater elasticity for non-profit periodicals if it isn't  
5 pulp and paper?

6 A Let me preface my answer by saying I don't know  
7 necessarily know, but I can offer a hypothesis. Oftentimes  
8 a greater price elasticity is indicative that there are more  
9 alternatives to a particular type of mail. So that there  
10 may be, for example, more alternatives to periodical  
11 non-profit mail than to period regular rate mail. There may  
12 be closer substitutes to this. So that, for example, purely  
13 speculative, if the purpose, for example, of periodical  
14 non-profits is primarily to raise funds, to do fund-raising,  
15 then periodical non-profit may be, in fact, for example, a  
16 substitute with Standard A non-profit, bulk, you know, your  
17 bulk mailings of non-profits, which could indicate a higher  
18 price sensitivity than, say, periodical regular mail, which,  
19 of course, is not a substitute with Standard regular, since  
20 the purpose of regular periodicals is primarily the  
21 editorial content of them.

22 But that could also indicate why periodical  
23 non-profits are not particularly sensitive to changes in the  
24 price of paper, because when paper prices go up, it not only  
25 affects periodical non-profit costs, but it would also

1     affect your Standard A non-profit costs, so that, as paper  
2     prices go up, periodical non-profit doesn't become  
3     relatively more expensive than other alternatives. But, you  
4     know, that is a hypothesis.

5           Q     On this hypothesis, I will ask you, are you a  
6     member of any professional societies?

7           A     I was a member of the National Association for  
8     Business Economists for a while, but I think my membership  
9     may have lapsed in the last year or two.

10          Q     Do you get any newspapers or magazines from  
11     non-profit organizations that you belong to, and, as a  
12     result of your belonging to them, they send you a magazine  
13     or a newspaper?

14          A     NABE used to send me a magazine. I believe my  
15     college mails things out at non-profit, I don't know if it  
16     is periodical or Standard A.

17          Q     Yes. College mail is always a tough one to do,  
18     because, of course, we all know they are fund-raising, so  
19     let's use another example. In general, things like medical  
20     journals, would you agree, in general, are trying to  
21     disseminate medical information to the profession, correct?

22          A     Sure. Yes.

23          Q     I mean they are not asking doctors for  
24     contributions?

25          A     I didn't mean to characterize that everything was

1 like that. As I said, as I prefaced the whole thing, you  
2 know, this is a hypothesis. But, certainly, the Journal of  
3 the AMA or whatever is not soliciting doctors for donations.

4 Q And I know you are not here as a mail  
5 classification expert, but since your hypothesis came up and  
6 I do understand it is a hypothesis, are you aware of any  
7 differences in minimum editorial content standards between  
8 non-profit periodicals and regular periodicals?

9 A I did not think there were any, but I could be  
10 wrong about that.

11 Q Okay. But assuming there are none, that they are  
12 the same, that each type of mail --

13 A Right.

14 Q -- has to offer the reader a minimum portion,  
15 amount of editorial, --

16 A Sure.

17 Q -- as compared to advertising, that would suggest  
18 that non-profit publications have to have something to say  
19 about the area of the organization's activities and  
20 interests beyond just asking for money, correct?

21 A Certainly. Certainly.

22 Q Okay.

23 A I did not mean to imply, even in my hypothetical,  
24 that period non-profit and Standard A non-profit were  
25 perfect substitutes in any event.

1 Q Last question on your responses to the Tolley  
2 Interrogatory 6-4, your response to 6-4:

3 Just as really a clarification, you state in the  
4 second paragraph of your answer, in addition, it appears  
5 that nonprofit mailers have higher user costs associated  
6 with automation.

7 And then you go on to talk about nonprofit  
8 automation letters.

9 As you know, or I'm sure you've surmised that the  
10 Association which I'm representing, the magazine/newspaper  
11 aspect of the nonprofit world, as opposed to the  
12 fundraising, direct mail section.

13 So, our questions here, we hope, were specified  
14 more towards the periodical sector.

15 A My answer to this question is entirely with regard  
16 to Standard A.

17 Q Yes, and I had a discussion with Dr. Tolley about  
18 user costs as they were implanted into the fixed price  
19 weighted -- the fixed, weighted indices.

20 And, again, I'll ask you a similar question, which  
21 is, why was Standard A data, both the nonprofit and regular,  
22 obviously utilized by you, as you stated in this response,  
23 and periodical nonprofit and periodical regular data was  
24 not, as far as user costs are concerned?

25 A Okay, well, let me begin by clarifying what user

1 costs are and where they come from in this case.

2 I define user costs here as the cost to a mailer  
3 of qualifying for a discount that is offered by the Postal  
4 Service, so that the costs of preparing your mail such that  
5 it qualifies and meets, for example, the basic standards of  
6 Standard A, that all Standard A mail must meet, are not  
7 considered a user cost.

8 And the purpose and the genesis of the user cost  
9 analysis in First Class and Standard A is because Dr. Tolley  
10 and I were asked by the Postal Service to make separate --  
11 to provide separate forecasts by presort and automation  
12 categories in the case of First Class and Standard A.

13 So, in deriving those share equations, the user --  
14 the estimated user costs of the mailers that actually use  
15 these equations come out of that, and therefore can be used.

16 In the case of periodical mail, we were not asked  
17 by the Postal Service to forecast periodical mail by presort  
18 of automation level, and, therefore, had no occasion to do  
19 so.

20 Because we had no occasion to do so, we did not  
21 derive any estimates of these user costs, and, therefore,  
22 there were no user costs available to us, therefore, to  
23 include in the periodical price index.

24 Q What would the impact be on projections of  
25 periodical volumes, given the absence of that data?

1           A     Well, if you included user costs in the price,  
2     then the effect of price would be higher, which means that  
3     independent of changes in user costs, looking at a fixed  
4     point in time, for example, comparing before rates to after  
5     rates in the test year, you would be starting from a higher  
6     before rates price because you'd have some user costs added  
7     in.

8                     If you assume that the user costs are the same  
9     after rates, the percentage change in price would be  
10    somewhat lower, because it's the same dollar amount increase  
11    off of a higher base.

12                    However, if you were to go back historically and  
13    re-estimate your elasticities, taking account of these  
14    things in price, you might find that the price elasticity  
15    would change, and so that it's really indeterminate, what  
16    the impact would be on the volume forecast.

17           Q     Could -- and I stress the word, could -- the  
18    elasticity for periodicals have been understated as a result  
19    of the absence of this data?

20           A     I believe that's possible. I mean,  
21    mathematically, you could conceivably add user costs in such  
22    a way that a new estimated elasticity would be higher.

23                    You could also do it in such a way that the new  
24    estimated elasticity would be lower. I really don't have  
25    any --



1           Q     Let's assume, just again, hypothetically, that  
2     since user costs don't have a lot to do with so much what's  
3     between the covers, I mean, whether it's a poem or a  
4     wonderful story that might be in a magazine, as opposed to a  
5     Standard A that's advertising, you know, sort of boring, but  
6     important industrial equipment, we'll say.

7                 So you've got two pieces of mail of different  
8     subclasses. One is Standard A and one is a periodical, but  
9     physically, they resemble each other quite a bit.

10                One's a catalog, one's a magazine, and to get each  
11     mailed as efficiently as possible, the respective mailers do  
12     pretty much the same thing under Postal regulations. They  
13     put bar codes on the publication and on the catalog, and use  
14     the appropriate label and truck it to the facility the Post  
15     Offices tells them to.

16                So, you know, we'll say that an industrial  
17     engineer does an analysis and says, you know, the user costs  
18     for these two pieces of mail are the same.

19                Now, the user costs for the catalog through the  
20     Standard A subclass, you have included in your equation.  
21     You haven't for the periodical, because you were asked by  
22     the Postal Service.

23                In that situation, what would the elasticity  
24     effect be on the periodicals, given that the user costs  
25     weren't included?

1           A     Well, the real issue of how it would affect the  
2 elasticity, I think, is what's been going on with user costs  
3 over time.

4                 If, for example, user costs have been declining  
5 over time, then the price, including user costs, may have  
6 been -- would be declining over time, and excluding the user  
7 costs, that price would not be declining over time as much.

8                 If user costs were going up over time, then the  
9 price, including user costs, would be going up over time,  
10 and excluding user costs, the price would not be going up as  
11 much.

12                So it's really a function of not so much what the  
13 user costs are at any particular point in time. In terms of  
14 the elasticity, what's really important is what we've been  
15 seeing in terms of user costs over time.

16                And I would point out that while for individual  
17 mailers, it's probably the case that user costs are falling  
18 over time, as automation equipment becomes less expensive  
19 and more prevalent, what happens as you raise discounts, as  
20 the Postal Service increases discounts over time, that draws  
21 in higher -- mailers with higher user costs.

22                A mailer that maybe wouldn't -- when the discount  
23 is a penny, everybody who's bar-coding, must be able to bar  
24 code for a penny or less. If you raise that discount to two  
25 cents, now you're going to entice mailers who it may cost

1       them 1.5 or 1.8, 1.9 cents to bar-code.

2               So, event though, looking at an individual mailer,  
3       the user costs are declining over time, taken as a whole,  
4       the user costs of mailers actually using the system, may, in  
5       fact, be going up in such cases.

6               I really couldn't speculate on what the effect  
7       would be on price elasticity.

8               Q     Well, if it's over a period of time that user  
9       costs are increasing, that means the price goes up?

10              A     That means the price goes up.

11              Q     Okay, thank you. I think that takes care of that  
12     line of questioning.

13               Maybe I wasn't entirely candid, I am going to ask  
14     about CRPA/USPS-T-7-4, which may or may not get us back into  
15     user costs. This is a question about automation equipment.  
16     We asked you if most publishers, large or small, possess  
17     automation equipment, which was something that you had  
18     assumed in a different interrogatory, that regular mailers  
19     were better able to afford automation equipment and it might  
20     be more difficult for non-profit mailers to use presort  
21     bureaus.

22               Just to clear this one up, the Postal Service or  
23     your colleagues, or yourself, didn't come up with any  
24     specific data as to which publishers, regular or non-profit,  
25     actually own equipment where they can do their own

1 automation and preparation in-house as opposed to out-house.  
2 You don't have that information?

3 A No, I don't have that information.

4 Q So, hypothetically, if let's say 90 percent of  
5 non-profit volume and 95 percent of regular volume, labels  
6 are prepared outside of the company by a third party, that  
7 would not be an expense that was factored into your  
8 equations, correct?

9 A I am not sure I understand the question.

10 Q Well, it is another user cost, the use of a  
11 presort bureau or of automation equipment which may not be  
12 owned by the publisher, but he is charged the use of the  
13 machine by someone else.

14 A The user cost, first of all, my response to 4,  
15 which followed up on T-6-4, --

16 Q Yes

17 A -- is entirely focused on Standard A, I did not  
18 consider periodicals at all when making my response. The  
19 user costs, as I calculate them, are inferred from the data,  
20 under essentially an assumption that, if the Postal Service  
21 offers a 4 cent discount, and you take advantage of that  
22 discount, your cost must be less than 4 cents. And if the  
23 Postal Service offers a 4 cent discount and you don't take  
24 advantage of it, your cost must be greater than 4 cents.

25 So, I don't calculate user costs in a bottom-up

1 way, I don't actually say these are the specific costs to a  
2 mailer of mailing a particular piece. You could almost --  
3 maybe you would prefer to think of it, rather than a user  
4 cost, as a reservation discount, the discount at which a  
5 mailer would begin to take advantage of something. So, to  
6 that extent, whatever factors are going into the mailer's  
7 decision of whether to automate or not automate are going to  
8 be embedded in the mathematical result.

9 I couldn't definitely say the mailer has a user,  
10 you know, the average mailer cost has a user cost of  
11 one-and-a-half cents and that is because 80 percent of it is  
12 because they own their own equipment and 20 percent is  
13 because they have access to presort bureaus or anything to  
14 that extent.

15 But I believe the costs to which you are  
16 referring, if I remember the question now, are embedded  
17 implicitly in my user costs.

18 Q Except that user costs aren't factored into  
19 periodicals.

20 A Yeah, again, my answer is -- my answer in all of  
21 this is as it relates to Standard A, because, of course,  
22 periodicals have no user costs and, therefore, nothing  
23 associated with user costs would be incorporated in the  
24 periodical prices.

25 Q You are aware, in general, as an economist, aren't

1 you, that in the last few years, some people have been,  
2 economists and others, have been looking at the cost of  
3 regulation, I suppose they mean government regulation, in  
4 general, upon business as a separate factor from other  
5 inflationary drivers, cost drivers or whatever. Would you  
6 agree with that?

7 A Yeah, I have heard of such analysis. Yes.

8 Q Yes. So, there could be, and let's not worry  
9 about Standard A versus periodical. Let's talk about  
10 Standard A, since that is something you considered. That,  
11 assuming some of the mail preparation is done strictly  
12 because of requirements, Postal Service regulation, there  
13 may be a -- there could be reasons that someone complies  
14 with those regulations other than price, isn't there?

15 A Again, in terms of user costs, I am focusing  
16 solely on the cost of qualifying for additional work sharing  
17 discounts. I think there are really -- there are two types  
18 of costs associated with -- well, there's three types of  
19 costs associated with preparing a mailing. There is, of  
20 course, your postage, which you pay directly, the Postal  
21 Service collects, that's fine.

22 There is transaction cost in the sense of I have  
23 to print out the thing, I have to collate it, I have to put  
24 it together. I have to stick it in an envelope. I have to  
25 give it to the Postal Service. If I am sending it as

1 Standard A, I have got to tray it or sack it or whatever the  
2 requirements are, and I am not real familiar with their  
3 requirements.

4 And then, if I choose to take advantage of  
5 additional of work sharing discounts, I have to do  
6 additional, I have to presort to a 3-5 digit if I want to  
7 get a presort discount. I have to bar code my mail if I  
8 want to get an automation discount. I have to deliver the  
9 mail to the destination BMC if I want to get a drop ship BMC  
10 discount. Those last kinds, although actually not the last  
11 one because we don't look at drop shipping, those are what I  
12 am thinking of in terms of user costs. Those associated  
13 specifically with -- those activities of a mailer which the  
14 Postal Service is essentially giving them a discount because  
15 they are doing.

16 So that if it becomes more difficult, if the  
17 Postal Service imposes additional regulations to qualify for  
18 Standard A, in general, I would agree with you that, yes,  
19 that would have an adverse effect on the volume of Standard  
20 A. Some mailers may find these new requirements onerous,  
21 but that particular price is not going to be taken into  
22 account in what we consider user costs.

23 Q Okay. So, I think this would conclude our line of  
24 questioning. So, if the mailer wanted to better wrap or  
25 package his or her piece of mail to prevent damage, so the

1 customer gets a nice fresh catalog or product that the  
2 mailer is trying to get out there to the marketplace.

3 A Right. Sure.

4 Q And the Postal Service says, well, normally, you  
5 know, we like standardized mail that goes through our  
6 machines fast, so you have kind of added an extra layer of  
7 plastic or insulation to prevent damage, but that is, you  
8 know, that is going to cost us a little more. The Postal  
9 Service could make, in fact, make a regulation, couldn't it,  
10 that says that we will take your mail, but we will charge  
11 you not less, we will charge you more.

12 A Sure.

13 Q We will surcharge you.

14 A Sure.

15 Q So, was that type of situation taken into account  
16 in your user cost equations?

17 A No. I mean, conceptually, it could be, but, no, I  
18 can't think of a case where it was.

19 Q And I think you referred to the situation --

20 THE REPORTER: You can't think of a what?

21 THE WITNESS: A case where it was.

22 BY MR. FELDMAN:

23 Q And I think you referred earlier, I just want to  
24 be clear on it, where there could be a situation where it is  
25 not just simply a matter of surcharge or discount, but



1 whether the Postal Service even accepts a piece of mail at  
2 all unless it is prepared in a certain way. I mean they  
3 could simply say we don't, you know, take triangular shaped  
4 pieces.

5 A Right. Yeah, and let me clarify, in some cases,  
6 when there are significant classification changes, I do take  
7 some account of that. For example, classification reform  
8 MC95, I do include a dummy variable in my Standard A  
9 equations for when MC95 took effect, which presumably  
10 measures the extent to which the new requirements associated  
11 with Standard A in that case affected the overall level of  
12 mail -- of volume in those categories, over and above what  
13 the Postal Service did in terms of changing the prices in  
14 that case.

15 Q Forgive me if this was in your testimony and I  
16 missed it, were there similar dummy variables included in  
17 this case in your equations, to the variables you just  
18 discussed?

19 A The dummy variables for MC95 that I just discussed  
20 are included in my Standard regular and Standard ECR  
21 equations in this case, as well as my First Class single  
22 piece and work shared equations in this case.

23 Q Okay. But not for any regulatory or preparation  
24 requirements adopted after MC95?

25 A No, I am really not an expert on regulatory

1 requirements, so I don't -- I wasn't aware that there were  
2 any, other than that they were phased in --

3 Q Well, I will help you out and say, hypothetically,  
4 if there were, they weren't inputted into your equation as a  
5 dummy variable?

6 A No. None of the equations did. There was nothing  
7 to suggest me that anything like that occurred. I mean,  
8 hypothetically, if the Postal Service were to, you know,  
9 impose a requirement on a category of mail, I would expect  
10 to, just visually looking at it, see some kind of impact on  
11 mail volume, and I haven't really had occasion to see that  
12 or question whether there were regulatory changes that may  
13 have prompted something.

14 MR. FELDMAN: Mr. Chairman, that concludes our  
15 cross-examination. Thank you.

16 And thank you very much, Dr. Thress.

17 THE WITNESS: You are welcome.

18 CHAIRMAN GLEIMAN: Is there any follow-up?

19 [No response.]

20 CHAIRMAN GLEIMAN: Questions from the bench?

21 [No response.]

22 CHAIRMAN GLEIMAN: I have a couple of real quick  
23 ones.

24 THE WITNESS: Okay.

25 CHAIRMAN GLEIMAN: Does your demand equation for

1 single piece First Class mail have a variable for electronic  
2 diversion?

3 THE WITNESS: Not explicitly so.

4 CHAIRMAN GLEIMAN: Implicitly?

5 THE WITNESS: Yes, implicitly it does.

6 CHAIRMAN GLEIMAN: Where?

7 THE WITNESS: It is the negative time trend  
8 variable in the single piece letters equation. I would  
9 direct you in particular --

10 CHAIRMAN GLEIMAN: That's okay. I know what you  
11 are doing, but there are several aspects of that variable,  
12 are there not?

13 THE WITNESS: There are, yes.

14 CHAIRMAN GLEIMAN: Can you weight them for me? I  
15 mean what weight is the relationship between First Class and  
16 Standard A mail, the shift from workshare to single piece  
17 and diversion to electronic? What are the relative  
18 proportions or can you --

19 THE WITNESS: Well, again I would direct you -- I  
20 discuss the First Class trends in my testimony between pages  
21 24 and 27. It is not possible to definitively say "x"  
22 percent of the trend is due to electronic diversion.

23 If I had to ballpark it based on my discussion at  
24 pages particularly 25 and 26 of my testimony it appears to  
25 me that 40 to 50 percent of the negative trend in single

1 piece letters is a result of electronic diversion.

2 CHAIRMAN GLEIMAN: I'm sorry, what percent?

3 THE WITNESS: Forty to fifty and the rest would  
4 primarily be mail shifting from single piece to workshare,  
5 although there could also be positive trends -- there are  
6 probably also positive trends.

7 I discuss three aspects of the trend and this is  
8 not meant to be all inclusive.

9 CHAIRMAN GLEIMAN: Okay.

10 THE WITNESS: An increasing amount of advertising  
11 in First Class letters and that positively affects both  
12 single piece and workshare, although probably workshare  
13 somewhat more than single piece.

14 Electronic diversion, which negatively affects  
15 both single piece and workshare, historically I think it's  
16 probably affected single piece more so than workshare and  
17 then there is a shift from single piece into workshare.

18 CHAIRMAN GLEIMAN: Did you have the Price  
19 Waterhouse Coopers projections available to you? Postal  
20 Service had Price Waterhouse Coopers do some modeling on  
21 electronic diversion.

22 THE WITNESS: I think I have seen that, but I --

23 CHAIRMAN GLEIMAN: It wasn't something that was a  
24 specific input?

25 THE WITNESS: It wasn't a specific input, no.

1 CHAIRMAN GLEIMAN: Last question -- well, there is  
2 one more after this -- but last question on your testimony.  
3 Is there a cross price elasticity for First Class mail  
4 relative to electronic bill paying?

5 THE WITNESS: Not explicitly in my equation, no.  
6 As far as why it is not in there, it is because I am not  
7 aware of a good source variable of the price of electronic  
8 bill paying to actually put in there.

9 I would point out I would suspect that the price  
10 of electronic bill paying, <sup>were to find</sup> where I ~~defined~~ a source you would  
11 find that the price has declined dramatically over time,  
12 particularly when you go back to period of, say, the 1980s  
13 when it didn't exist so that the effective price -- I am not  
14 even sure how you estimate the effective price in that  
15 case -- so if I were to plug that in, I would presumably be  
16 plugging in a variable that to a certain extent looked like  
17 a negative trend and I would point out, as we have been  
18 discussing I have a negative trend in the equation.

19 CHAIRMAN GLEIMAN: And the last, the very last,  
20 question is if the Postal Service would agree that it wasn't  
21 a conflict of interest, could we get you and Dr. Tolley,  
22 could we engage your services to examine rate  
23 reclassification hearing room datasets to determine the  
24 elasticity thereof relative to recommended rates, so that  
25 the next time we raise the question of whether Mr. Feldman

1 wants to cross examine or not we will have a recommended  
2 rate elasticity relative to time in hearing room?

3 [Laughter.]

4 THE WITNESS: Oh, certainly.

5 CHAIRMAN GLEIMAN: Is there any follow-up to  
6 questions from the bench, except that last one, of course?

7 [No response.]

8 CHAIRMAN GLEIMAN: And that was a joke. We were  
9 kidding -- lest anyone who is not in the room that reads the  
10 record thinks we were serious about all that.

11 Would you like some time for redirect?

12 MR. KOETTING: Thirty seconds?

13 CHAIRMAN GLEIMAN: You've got it again.

14 [Pause.]

15 CHAIRMAN GLEIMAN: Yes, sir?

16 MR. KOETTING: We have no redirect, Mr. Chairman.

17 CHAIRMAN GLEIMAN: Well, if you have no redirect,  
18 that concludes today's hearings.

19 Mr. Thress, we want to thank you. We appreciate  
20 your appearance here and your contributions to our record  
21 again. We thank you and you are excused.

22 [Witness excused.]

23 CHAIRMAN GLEIMAN: We will reconvene Monday  
24 morning next at 9:30 a.m. to receive testimony from Postal  
25 Service Witness Moeller. Thank you all and you have a nice

1 weekend.

2 [Whereupon, at 12:31 p.m., the hearing was  
3 recessed, to reconvene at 9:30 a.m., Monday, April 24,  
4 2000.]

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