

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND CAROL WRIGHT
PROMOTIONS, INC.
(VP-CW/USPS-T32-16)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatory of Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc.: VP-CW/USPS-T32-16 (filed on April 7, 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



Michael T. Tidwell

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April 21, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO VP-CW INTERROGATORIES

VP-CW/USPS-T32-16.

Please refer to your response to VP-CW/USPS-T32-12, where you state that the increase in Standard A ECR's price elasticity (more than 25 percent since Docket No. R97-1) reflects a decrease in Standard A ECR's value of service. VP-CW/USPS-T32-12(b) asked if this change in price elasticity supported a change in the allocation of institutional costs to ECR. You responded in part that, "[I]f witnesses Thress and Tolley indicated that the increase in the price elasticity measured in this case relative to the elasticity measured in the most recent case were statistically significant, and if nothing else had changed since the last case, then it would be appropriate to consider a change in allocation of institutional burden." (Emphasis original.)

- a. (1) Did witnesses Thress and Tolley indicate that the change in ECR elasticity of more than 25 percent since Docket No. R97-1 was statistically significant?
(2) If not, did you ever ask them whether they believed the increase to be statistically significant?
- b. Do you believe the change in ECR elasticity of more than 25 percent since Docket No. R97-1 was statistically significant? If not, what change in the elasticity would be statistically significant?
- c. (1) What type of changes since the last rate case are you referring to?
(2) What changes of this type have occurred since the last rate case?
- d. Is it your view that a statistically significant decrease in the value of service of a subclass in and of itself constitutes evidence supporting a change in the allocation of institutional costs to that subclass? If not, please identify when "it would be appropriate to consider a change in allocation of institutional burden."

Response:

- a. (1) I am unaware that either witness Thress or witness Tolley has explicitly indicated on the record whether the change in measured elasticity for ECR since Docket No. R97-1 is statistically significant. However, witness Thress, in his testimony from this case and in his testimony from R97-1, provided t-statistics for his estimates of the ECR own-price elasticity. In addition, and perhaps more relevant to the issue my response wished to address, witness Thress has indicated in his responses to NAA/USPS-T7-10 and NAA/USPS-T7-14 that the

Response to VP-CW/USPS-T32-16, cont'd

change in the ECR own-price elasticity "appears to be the result of the changes made to the Standard ACR specification since the last case...as opposed to indicative of a change in the actual own-price elasticity of Standard ECR mail over time."

(2) Yes.

b. No. It would depend both on the level of the estimate and the standard error associated with the estimate.


c. (1) The types of changes I was referring to in my response include any and all changes that might influence the setting of the rate level for Standard ECR, which is to say any and all areas covered by the nine pricing criteria as well as changes in the institutional costs burden.

(2) The institutional cost burden has changed, as well as the sizes of the cost increases for the various subclasses of mail.

d. No. Consideration of the measured price elasticity in determination of the cost coverage is appropriate. As I noted in my response to VP-CW/USPS-T32-12, the price elasticity for ECR is not the only thing considered when setting cost coverages. As the goal of setting rate levels is to achieve financial breakeven, ECR and changes in its price elasticity cannot be considered in isolation.

DECLARATION

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



Virginia J. Mayes

Dated: 4-21-2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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