

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

RECEIVED

NOV 7 4 35 PM '01

POSTAL RATE AND FEE CHANGES, 2001

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TOLLEY
TO AAP INTERROGATORIES AAP/USPS -T7-1 - 10
(November 7, 2001)

The United States Postal Service hereby provides the response of witness Tolley to the following interrogatories of AAP: AAP/USPS-T7-1 - 10, filed on October 24, 2001. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
November 7, 2001

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

AAP/USPS-T7-1. On page 146 of your testimony (USPS-T-7) you state that "Bound printed matter is advertising, promotional, directory or editorial material which weighs between 1 and 10 pounds and is permanently bound." With respect to this statement:

- (a) Please confirm that Bound Printed Matter ("BPM") also consists of books.
- (b) Please explain why your testimony fails to mention that BPM also consists of books.
- (c) Please confirm that your testimony is in error and that there no longer is a minimum weight requirement for BPM and BPM mail may weigh up to 15 pounds.

RESPONSE:

a, b, and c.

To reflect changes in the Domestic Mail Manual, the sentence cited should be revised to read, "Bound Printed Matter is Package Services matter (typically catalogs, directories, books, and other printed material) that weighs up to 15 pounds and meets specific eligibility standards." A revised page 146 of the testimony will be filed. I note, however, that it appears to me that books were included in the original description of BPM quoted in your question (i.e., "editorial matter ... permanently bound").

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF AAP

AAP/USPS-T7-2. On page 148 of your testimony you state that “[a] downward shift in volume beginning in 1998Q1 contributed to a 12.15 percent decrease in the volume of Bound Printed Matter.” With respect to this statement:

- (a) Please provide an explanation for the 12.15 percent decrease in volume since 1998Q1.
- (b) Is the decrease in volume due to a decrease in the number of catalogs sent as BPM? If your answer is no, please identify all factors that contributed to the decrease in volume.
- (c) Has the Postal Service compiled any information or data to show what the effect the rate increase in the R2000-1 rate case have had on BPM volume. If yes, please provide all such information or data. If no, please explain why the Postal Service has not compiled such information or data.

RESPONSE:

- a. I am unaware of the cause of this decline.
- b. Please see my response to AAP/USPS-T7-6 for estimates of catalogs as a percentage of total BPM received by households from 1995 to 1998.
- c. As part of the work of witness Thress and myself in developing the bound printed matter volume forecast, an econometric analysis was made of the factors which have affected bound printed matter volume in the past, including changes in the price of bound printed matter.

The combined rate increase for bound printed matter in R2000-1 (both January and July rate increases) was approximately 19.56 percent. The long-run own-price elasticity of bound printed matter is estimated econometrically in this case to be equal to -0.231. Combining these effects, the long-run impact of R2000-1 on bound printed matter volume is expected to be a decline of approximately 4.04 percent $(1.1956^{(-0.231)}-1)$.

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

Because much of this rate increase did not take effect until July of this year and because the volume effect occurs over several quarters, the long-run impact of the R2000-1 rate increase is not expected to fully affect bound printed matter volume until the third quarter of 2002.

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

AAP/USPS-T7-3. On page 149 of your testimony, you state that “[t]he growth in catalog sales is indicative of growth in the volume of catalog deliveries and is favorable to Bound Printed Matter.” With respect to this statement:

- (a) Please identify all information, data, reports or studies that you relied upon to support this statement. Please provide all such information, data, reports or studies.

- (b) Has the Postal Service gathered or collected any information or data that shows that the number of catalogs sent as BPM has increased during the five years ending in 2001Q3? If yes, please provide that information or data.

RESPONSE:

- a. Since Bound Printed Matter contains catalog deliveries, the growth can be expected to be favorable to Bound Printed Matter.

- b. Please see my response to AAP/USPS-T7-6 for the estimates of catalogs as a percent of total BPM received by households from 1995 to 2000 from the Household Diary Study Data. Data for 2001 are not available.

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

AAP/USPS-T7-4. Please identify and provide all documents, studies, reports, data or other evidence which you relied to conclude that the "Other Factors" described on page 148 of your testimony in any way support or relate to the trends in catalog mail that you describe on page 149 of your testimony.

RESPONSE:

The purpose of the "Other Factors" section of my testimony is to address influences affecting mail volume beyond the econometric impacts discussed immediately above. Often, this discussion includes both positive and negative considerations. The "Other Factors" discussion for bound printed matter notes one positive influence on volume has been the growth in catalog deliveries. A potentially negative influence also discussed is the shift from larger to smaller catalogs, and a possible shift of bound printed matter volume to Standard Mail.

As documented in my testimony, the "Other Factors" analysis is based on review of articles from *Traffic World* and a comparison of data from the Direct Marketing Association, *Statistical Fact Books* for 1988 and 1999. My testimony on parcel post includes a discussion of factors which also may be important to bound printed matter. See, for example, my review of growth in mail order and catalog purchases discussed at lines 7-18 of page 140 and the growth of E-retail, discussed from line 19, page 140 to line 27, page 142.

Furthermore, my testimonies on Standard Mail in this case and earlier cases include discussions of growth in the catalog business and the shift toward smaller, more specialized catalogs.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF AAP

AAP/USPS-T7-5. Please provide the Traffic World and Traffic Management articles referred to on page 148 and 149 of your testimony.

RESPONSE:

The reports were provided in my response to your interrogatory AAP/USPS-T6-7 in Docket No. R2000-1, which was filed on March 3, 2000.

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

AAP/USPS-T7-6. Please state the volume of the BPM subclass that consists of catalogs for each of the years 1995-2000. Include source references to support your response.

RESPONSE:

I do not have exact information on the volume of BPM that consists of catalogs. The Household Diary Study provides numbers pertaining to bound printed matter catalogs received by households, shown in the table below. The HHDS does not provide information on catalogs received by nonhouseholds. It is my understanding that HHDS data for bound printed matter are based on a small number of observations, as often 100 pieces or less of BPM are received by the surveyed households in any given year. Information on individual components within BPM (e.g., catalogs) are based on even fewer pieces. Therefore, year-to-year results may be subject to great variation, as is evident from the table below. The 2000 Household Diary Study results are based on a somewhat different survey design and therefore may not be directly comparable with results from previous years.

Catalogs as Percentage of BPM Received by Households

1995	30.8%
1996	39.0%
1997	44.4%
1998	31.7%
1999	51.8%
2000	9.9%

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

AAP/USPS-T7-7. Please state the volume of the BPM subclass that consists of books for each of the years 1995-2000. Include source references to support your response.

RESPONSE:

I do not have exact information on the volume of BPM that consists of books. The Household Diary Study provides numbers pertaining to bound printed matter books received by households, shown in the table below. The HHDS does not provide information on books received by nonhouseholds. It is my understanding that HHDS data for bound printed matter are based on a small number of observations, as often 100 pieces or less of BPM are received by the surveyed households in any given year. Information on individual components within BPM (e.g., books) are based on even fewer pieces. Therefore, year-to-year results may be subject to great variation, as is evident from the table below. The 2000 Household Diary Study results are based on a somewhat different survey design and therefore may not be directly comparable with results from previous years.

Books as Percentage of BPM Received by Households

1995	47.5%
1996	40.4%
1997	41.7%
1998	59.5%
1999	41.1%
2000	65.5%

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

AAP/USPS-T7-8. Please state the volume of the BPM subclass that consists of phone books for each of the years 1995-2000. Include source references to support your response.

RESPONSE:

I do not have exact information on the volume of BPM that consists of phone books. The Household Diary Study provides numbers pertaining to bound printed matter phone books received by households, shown in the table below. The HHDS does not provide information on phone books received by nonhouseholds. It is my understanding that HHDS data for bound printed matter are based on a small number of observations, as often 100 pieces or less of BPM are received by the surveyed households in any given year. Information on individual components within BPM (e.g., phone books) are based on even fewer pieces. Therefore, year-to-year results may be subject to great variation, as is evident from the table below. The 2000 Household Diary Study results are based on a somewhat different survey design and therefore may not be directly comparable with results from previous years.

Phone Books as Percentage of BPM Received by Households

1995	0.8%
1996	4.3%
1997	4.2%
1998	3.8%
1999	3.6%
2000	1.4%

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

AAP/USPS-T7-9. Please state the volume of the BPM subclass that does not consist of catalogs, books or phone books. Include source references to support your response.

RESPONSE:

I do not have exact information on the volume of BPM that does not consist of catalogs, books or phone books. The Household Diary Study provides numbers pertaining to bound printed matter received by households, shown in the table below. The HHDS does not provide information on received by nonhouseholds. It is my understanding that HHDS data for bound printed matter are based on a small number of observations, as often 100 pieces or less of BPM are received by the surveyed households in any given year. Information on individual components within BPM are based on even fewer pieces. Therefore, year-to-year results may be subject to great variation, as is evident from the table below. The 2000 Household Diary Study results are based on a somewhat different survey design and therefore may not be directly comparable with results from previous years.

Remaining Percentage of BPM Received by Households
(BPM other than catalogs, books or phone books)

1995	20.8%
1996	16.3%
1997	9.7%
1998	5.1%
1999	3.6%
2000	23.2%

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF AAP

AAP/USPS-T7-10. Line 21 of page 149 of the PDF version of your testimony found on the PRC website, as well as the hard-copy of page 149 obtained by AAP, is not legible. Please provide a legible copy of page 149 of your testimony.

RESPONSE:

A legible copy of page 149 is attached to this response.

Management (October 1995).

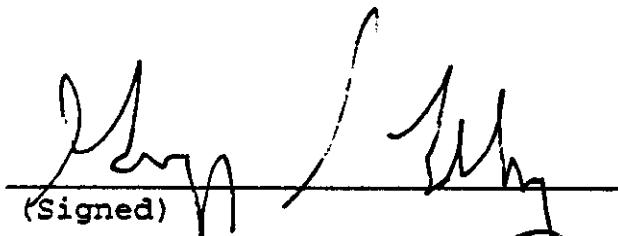
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

Table 16			
CONTRIBUTIONS TO CHANGE IN BOUND PRINTED MATTER VOLUME FOR THE 5 YEARS ENDING IN 2001Q3			
<u>Variable</u>	<u>Percent Change In Variable</u>	<u>Elasticity</u>	<u>Estimated Effect of Variable on Volume</u>
Own price	-5.5%	-0.231	1.30%
Consumption	18.4%	0.743	13.43%
Effect Since 1998Q1			-12.15%
Adult Population	4.5%	1	4.50%
Other Factors			7.46%
Total Change in Volume			13.33%

The growth in catalog sales mentioned earlier is indicative of growth in the volume of catalog deliveries and is favorable to Bound Printed Matter. Another consideration affecting the volume of Bound Printed Matter is the number of pages in a catalog. From 1988 to 1997, catalogs in excess of 64 pages fell from 36.6 percent of the total to 16.5 percent. Smaller catalogs have gone from 32.5 percent of the total in 1988 to 54.2 percent in 1997. This change reflects a trend in the catalog market to smaller, more specialized catalogs targeted to a particular group of consumers. Compiled from Direct Marketing Association, *Statistical Fact Book* (1988, 1999). As catalogs shift to lighter weights, they may be sent as Standard Mail.

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)

11-5-01

(Date)

CERTIFICATE OF SERVICE

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



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
November 7, 2001