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, 1997	Docket No. R97-1

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS THOMAS E. THRESS
(NAA/USPS-T7-1-13)

August 15, 1997

The Newspaper Association of America hereby submits the attached interrogatories to United States Postal Service witness Thomas E. Thress (NAA/USPS-T7-1-13) and respectfully requests a timely and full response under oath.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Michael Yourshaw

August 15, 1997

NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
United States Postal Service Witness Thomas E. Thress
(NAA/USPS-T7-1-13)

NAA/USPS-T7-1. Please identify all of your professional assignments in which you have estimated own-price and cross-price elasticities of demand for the purpose of developing Ramsey prices. Please summarize the assignment, identify the nature of the business and the client, and identify any published or other publicly available papers that arose out of the assignment.

NAA/USPS-T7-2. Please describe the corporate relationships between RCF Economic and Financial Consulting, Inc. cited at page 1 of your testimony and RCF, Inc. cited at page 1 of Professor Tolley's testimony.

NAA/USPS-T7-3. Please refer to the purpose and scope of your direct testimony at page 2.

a. Please confirm that the purpose of your testimony is to provide demand equations, including demand elasticity estimates, to support the development of volume forecasts. If you cannot confirm this statement, please state the purpose of your testimony.

b. Is it also the purpose of your testimony to estimate own-price and cross-price elasticities of demand to support Dr. Bernstein's calculation of Ramsey prices for postal services?

c. In your opinion, are the own-price and cross-price elasticities that you estimated from historical data for the historical mail categories sufficiently accurate and comprehensive to be used to calculate Ramsey prices for the new subclasses of mail? Please explain your response fully.

NAA/USPS-T7-4. Please refer to your direct testimony at page 9, lines 21-4 and page 10, lines 1-3. Do you believe that it is also "necessary and prudent" for Dr. Bernstein to incorporate additional non-econometric information into his Ramsey pricing analysis? Please explain any negative response fully.

NAA/USPS-T7-5. Please refer to your discussion of cross-volume effects at pages 23-6 of your direct testimony.

a. Is the "response rate" shown in equation II.5 at page 24 equal to the average number of first class letters sent in response to a standard bulk piece, the percentage of standard bulk mail pieces that receive any response (one or more), or something else? Please explain your response.

b. Please refer to Table II-2 at page 24. Do the figures in the table represent the number of responses generated, the response rate (as defined in the previous question), the elasticity as defined in Equation II.5, or something else? Please explain your response.

c. Please refer to page 24, lines 27-8 and page 25, lines 1-2.

i. Please provide the source for the estimate of 2.5 pieces of mail per response.

ii. Please explain what you mean by describing this estimate as "conservative."

d. Please explain why you relied on the Household Diary Study data for 1987 and 1988 to develop response rates.

i. Why didn't you use data from more recent Household Diary Studies?

ii. Please explain whether you consider the 1987/1988 data relevant in 1997? If so, why?

NAA/USPS-T7-6. Please refer to your discussion of the calculation of the cross-price elasticities between First Class letters and Standard bulk regular mail at pages 27-9 of your direct testimony.

a. Please describe in detail what types of mail are included in the mail described as "advertising-only component of first class letters" shown in Table II-3 at page 27. Does this include mailings that include a mixture both bills or statements and advertising pieces? If not, why is such mail excluded from the cross-price elasticity calculations?

b. Please refer to page 28, lines 20-2. Please define the criteria used to determine that the cross-price elasticity of .0125 between carrier route Standard mail and First Class letters can be disregarded.

c. Is it your conclusion that excluding the .0125 cross price elasticity between carrier route Standard mail and First Class letters is appropriate when using these elasticities to calculate Ramsey prices? Please explain your response.

d. Please refer to page 26, lines 18-9.

   i. Please explain fully why you have used the same own-price elasticity (-0.500) for noncarrier-route and carrier-route advertising-only letter mail.

   ii. Why didn't you use the own-price elasticity of Standard ECR mail for carrier-route advertising-only letter mail and the own-price elasticity of Standard Regular for noncarrier-route advertising-only letter mail?

e. Please explain why you have used data from the 1991 Household Diary Study in Table II-3, rather than more recent data.

   i. Please confirm that according to the 1995 Household Diary Study, 3.1 percent of nonpresort letters were advertising only. (Table 4-36, page IV-95)

   ii. Please confirm that according to the 1995 Household Diary Study, 9.0 percent of 3/5-digit (and ZIP+4) presort letters were advertising only, compared to the 1991 figure of 7.9 percent.

   iii. Please confirm that according to the 1995 Household Diary Study, 19.7 percent of carrier-route presort letters were advertising only, compared to the 1991 figure of 13.6 percent .

   iv. Please confirm that according to the 1994 Household Diary Study, 24.1 percent of carrier-route presort letters were advertising only, compared to the 1991 figure of 13.6 percent.

   If you cannot confirm any of the above figures, please provide the correct figures.

f. Please explain why you used data from the 1993 RPW reports, rather than the most recent RPW data in Table II-3.

g. Please re-compute the cross-price elasticities calculated on page 28 of your direct testimony using the data from the 1995 Household Diary Study and the most recent RPW data.

NAA/USPS-T7-7. Please refer to your discussion of "How to Send Mail-Based Advertising" at pages 66-8 of your direct testimony.

a. Is it your testimony that the cross-price elasticity between Standard Regular mail and Standard ECR mail is zero, or is it your testimony that you have been unable to estimate a satisfactory cross-price elasticity? Please explain your response.

b. Please refer to page 67, lines 22-3 and page 68, lines 1-2. In your opinion, is it reasonable to ignore the positive cross-price elasticity for the purposes of calculating Ramsey prices? Please explain your response.

c. Please provide the regression output for the equations for Standard Regular and Standard ECR mail that include cross-price terms.

d. Please provide the regression output for an equation for Standard Regular mail in which the cross-price elasticity with Standard ECR mail is Slutsky-Schultz constrained to be consistent with the cross-price elasticity of .141 in the Standard ECR mail equation.

e. Please refer to page 67, lines 14-22. Has Standard ECR mail been uniformly less expensive than Standard Regular mail when user costs are included? Please explain your response.

f. Please refer to page 67, lines 14-16. If Standard ECR mail does not continue to be uniformly less expensive than Standard Regular mail, would you expect a larger cross-price elasticity between the two services? Please explain your response.

g. Please confirm that all mail entered as Standard ECR mail could be entered instead as Standard Regular mail. If you cannot confirm, please describe what ECR mail could not be entered as Standard Regular mail.

NAA/USPS-T7-8. Please refer to your calculations of the migration of ECR Basic Letters to Automation 5-Digit Letters at pages 224-226 of your direct testimony.

a. Please identify the data source and the numerical values used for developing the 33.28 percent and 31.33 percent figures shown at page 224, line 14.

b. Please provide a detailed explanation of the assumption at page 225, lines 3-7. Please explain why you believe this assumption is reasonable.

c. Please explain all reasons why an ECR letter cannot be automated. What prevents the mailer from barcoding an ECR letter?

d. Please confirm that the current ECR basic letter rate is 15.0 cents and the current ECR automation basic letter rate is 14.6 cents. If you cannot confirm these figures, please provide the correct rates.

e. Please confirm that the difference between the current ECR basic letter rate and the ECR automation basic letter rate is 0.4 cents per piece. If you cannot confirm this figure, please provide the correct figure.

f. Is it possible that a mailer of an ECR letter which could be automated may not have done so because the cost of applying the barcode exceeded the 0.4 cents rate discount? Please explain your response fully.

g. Please refer to page 226, lines 2-5. If your response to part (f) above is yes, are the shares of ECR letters that could potentially qualify for automation 5-digit rates understated? Please explain fully.

h. Please identify the data source and the numerical values used for developing the 17.187 percent and 14.927 percent figures shown at page 225, line 9.

i. Please compute the impact on your fixed weight price variable for Standard ECR mail that results solely from the rate change specified by Witness Moeller (USPS-T-36) at page 28, lines 5-13. Please provide your workpapers.

j. Please compute the impact on your fixed weight price variable for Standard Regular mail that results solely from the rate change specified by Witness Moeller (USPS-T-36) at page 28, line 5-13. Please provide your workpapers.

k. Please identify all reasons why you did not consider this shift to be a cross-price elasticity effect between Standard Regular and Standard ECR mail.

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NAA/USPS-T7-9. Please provide confidence intervals at the 90 percent confidence level for all own-price and cross-price elasticities developed in your testimony and used by Mr. Bernstein in his Ramsey pricing analysis.

NAA/USPS-T7-10. Please refer to page 38, lines 30-31 and page 39, lines 3-4 of your direct testimony.

a. Do the "crossover dummy variable" and the "crossover dummy variable interacted with a time trend" represent a component of a cross-price elasticity? Please explain your response.

b. How should these variables be interpreted for the purpose of developing Ramsey prices?

NAA/USPS-T7-11. Please refer to page 66, lines 4-12.

a. Do the newspaper and magazine price variables used in the Standard mail demand equations include delivery costs?

b. If your answer is affirmative, is it correct to assume that the coefficients for these variables may incorporate cross-price elasticity effects between Standard and Periodical mail? Please explain your response.

NAA/USPS-T7-12. Please refer to your discussion of the parcel post demand equation at page 90, lines 18-27 and page 91, lines 1-18.

a. Please explain why it is necessary to include all of the following variables: the price of parcel post, the price of UPS service, and a time trend "to reflect change in the relationship of UPS and parcel post prices."

b. Is it possible that the coefficient on this time trend may reflect own-price elasticity effects? Please explain your responses.

c. Please explain why the coefficient on the time trend is negative, while the percentage of parcel post volume for which UPS rates are greater appears to generally increase from 1970 to 1991 as shown in Table II-17 at page 89.

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NAA/USPS-T7-13. Please refer to your discussion of the logistic market penetration variable beginning at page 149. Is it possible that the coefficient for this variable may reflect long-term own-price or cross-price elasticity effects that are not reflected in the four period lag structure used for most price variables in your equations? Please explain your response.