

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

RECEIVED  
Nov 29 4 37 PM '01  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

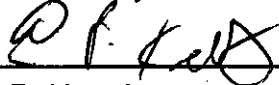
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TOLLEY  
TO CRPA INTERROGATORIES CRPA/USPS -T7-1 - 7  
(November 29, 2001)

The United States Postal Service hereby provides the response of witness Tolley to the following interrogatories of CRPA: CRPA/USPS-T7-1 - 7, filed on November 15, 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 29, 2001

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA-NFIP/USPS-T7-1. On p. 78 of your testimony, part C, para 1, you set forth the various categories eligible for nonprofit periodical rates. Please provide all data which you consulted in preparation of this testimony, or data from any identified source with which you or USPS are familiar, which contains volume information for each qualifying organization set forth on lines 1 -13, p. 78.

RESPONSE:

In earlier testimonies, I presented information from the Preferred Rate Study, conducted by the Postal Rate Commission in 1986. The data, presented as Chart E of my testimony in R2000-1 (USPS-T-6), is reprinted on the following page. I chose not to include this information in my current testimony as the survey results are fifteen years old and in any case do not materially aid my mail volume projections.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

DISTRIBUTION OF PUBLICATIONS AND TOTAL ANNUAL VOLUME  
OF PERIODICAL NONPROFIT MAIL  
ACROSS MAILING CATEGORIES

Source: Postal Rate Commission, Preferred Rate Study, 1986

<u>Nonprofit Category</u>	<u>Percent of Publications</u>	<u>Percent of Total Volume</u>
Religious	37.6	30.5
Educational	25.4	22.4
Scientific	12.0	8.3
Philanthropic	0.7	0.6
Agricultural	1.5	1.3
Labor	12.9	19.5
Veterans	0.5	0.3
Fraternal	4.2	2.8
Other & Unknown	5.2	14.3
All Nonprofit	100.0	100.0

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA-NFIP/T-7-2. On p. 78 of your testimony, lines 15-16, you state: "Nonprofit Periodicals volume is about the same today as in 1970, as illustrated in Figure 8." On pp. 116-117 of your testimony, you set forth numbers which show that Standard nonprofit mail has experienced "steady growth" from 1970 to 1990, and that by the year 2000, volume of this mail had increased from 4.2 billion pieces per year in 1970, to 11.3 billion pieces. Please set forth all factors which explain this difference in growth between the two kinds of nonprofit mail, and please rank the various factors in order of importance, with explanation of why each factor is ranked as it is.

RESPONSE:

Three factors may be discussed that appear to have contributed to the differences in growth rates which you have observed. First, Periodical nonprofit volume has been adversely affected by a long-term downward trend in newspaper and magazine reading which is discussed in my testimony at page 81. Second, Standard nonprofit mail volume was positively affected by technological advances in direct-mail advertising in the early 1980s which contributed to dramatic growth in the volumes of Standard commercial and nonprofit mail and bound printed matter, as well as significant growth in First-Class letters and cards. A third factor that may explain differences in growth rates is that since 1970, Periodical nonprofit rates have increased more than Standard nonprofit rates.

At this time, I have no basis for ranking the relative importance of these factors. This analysis goes beyond the scope of my testimony.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA-NFIP/USPS-T7-3. On p. 78, lines 18-20, you state: "During the five-year period ending in 2001 Q3, Nonprofit Periodicals volume declined from 2,287 million to 2,165 million pieces, or by 5.48 percent."

- (a) Please confirm that Table One, "Volume Projections," found on p. 5 of your testimony projects that the Base Year (Q4, year 2000 to Q3, year 2001) volume of Nonprofit Periodical Mail would decline from 2,101.762 million pieces per year to 1,959.377 million pieces in the Before-Rates Test Year (GFY 2003), or approximately 6.8%.
- (b) Please confirm that the total decline in volumes of nonprofit periodicals from 1996 (five years prior to 2001, Q3) to the Test Year, Before Rates, according to your projection, would be 12.28 percent. If you do not confirm, explain in detail why you do not confirm.
- (c) Please confirm that comparing the Base Year volumes of Nonprofit Periodicals with TY After Rates volumes as shown in Table 1, demonstrate that the volume decline would equal 7.68% and that the total decline between 1996 through the Test Year 2003 After Rates would be, in percentages, 13.16%. If you do not confirm, explain why you do not confirm.
- (d) Are you aware of any price factor other than postal rate increases, that could have triggered a volume decline of 12.28% to 13.16 percent during the time periods discussed in part (b) and (c) above? If you are aware of such factor(s), please identify these, and explain why that factor(s) would be more influential in driving nonprofit periodicals volumes down than historical and proposed rate increases for nonprofit periodicals?

RESPONSE:

- a. Confirmed.
- b. Not confirmed. Mathematically, the total change in volume in the Before-Rates situation is calculated as follows:  $(1 - 0.0548) \times (1 - 0.068) - 1 =$  or a total decline of 11.9 percent.
- c. Similarly, the total change in volume in the After-Rates situation is  $(1 - 0.0548) \times (1 - 0.0768) - 1$  or a total decline of 12.7 percent.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

- d. No. As I discussed in my testimony, a major cause of the decline in Nonprofit Periodicals mail volume is a continuation of the long-term trend away from reading in general. Postal rate changes have only a small impact on volumes because (i) nonprofit periodical prices have not changed much in real terms over the period discussed in your interrogatory and (ii) nonprofit periodicals are not particularly sensitive to postal price changes due to their low own-price elasticity.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA-NFIP/USPS-T-7-4. Are you aware of or have you read any studies, reports, books, articles or data either produced by USPS or another entity which explain the decline in nonprofit periodical volumes other than your own testimony? If you have read such materials, please identify them and make them available for inspection.

RESPONSE:

No. While there has been discussion of factors affecting periodical mail in general as reviewed in my testimony, I have not been able to find materials explaining the decline in nonprofit periodicals specifically.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA-NFIP/USPS-T7-5. In Table 8, p. 80 of your testimony, "Other Factors" than prices, income, and population are "estimated" to have reduced Nonprofit volumes by 12.26% for the five-year period ending in Q3, 2001. You then claim: "Nonprofit mail is subject to declining preference to spend time reading as described in the discussion of Within County mail." You similarly use Within County assumptions about reading time to apply to Regular Rate periodicals, USPS-T-7, at page 90, lines 2-3.

- (a) Please provide any independent studies, analyses, reports or data commission by the publishing industry, the Postal Service or any other government or private concern which demonstrate that decline in reading time over the period you refer is similar across the regular rate, nonprofit, and within-county categories of Periodicals Mail.
- (b) If you do not have or did not rely on such studies, etc., as referred to in part (a) of this interrogatory, what is the basis for your assumption?
- (c) Likewise verify your assumption that TV viewing by readers of nonprofit periodicals is the same as within-county or regular rate newspaper readers.
- (d) Why do you take the "specialty nature" or nonprofit mail into account when considering Internet substitution but not the "specialty nature" of nonprofit mail into account for any of the other "Other Factors" you briefly discuss on p. 81 of your testimony?
- (e) Confirm that as you explain it, "Other Factors" consist of time reading, TV viewing, and Internet.
- (f) Do you have a statistical basis for your claim that "nonprofit mail may be subject to less than average Internet substitution" as compared with other types of periodicals, and if so, identify and produce it.
- (g) Define and explain the term "Internet substitution," USPS-T-7. P. 81, line 16.

**RESPONSE:**

a. through c. I believe you have mischaracterized my testimony. I did not state that the impact of changing reading habits or television viewing were the same for all subclasses of Periodicals mail. Instead, my testimony explained that declining reading and increased time spent watching television (and on the



RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

Internet) are factors explaining the decline in the volumes of Periodicals mail subclasses. I made no assumption that these factors have the same impact across the individual subclasses of Periodicals Mail. The impacts of these factors may well differ across the different subclasses, as illustrated for example, in the econometric finding that Internet usage has negatively impacted Regular rate mail but not the other subclasses. This is one factor that is adversely affecting Periodicals mail.

d. The "Other Factors" section of my testimony focuses on factors affecting volume over the past five years. The emergence of the Internet is a significant change occurring over this time period, as opposed to time spent reading or watching TV. For that reason, separate attention was given to the specialty nature of nonprofit periodicals with respect to the Internet.

e. Confirmed. My discussion of "Other Factors" affecting nonprofit periodicals volume considers time reading, TV viewing, and Internet.

f. Yes. The statistical basis is provided by the econometric work of Thomas Thress (USPS-T-8). He finds that Internet usage has a negative impact on regular rate volumes but not on the volumes of nonprofit periodicals. Please see his testimony at page 34, lines 16-19.

g. "Internet substitution" as it applies to Periodicals encompasses the substitution of time spent online for time spent reading newspapers and magazines and the accessing of information using the Internet as opposed to obtaining the information from a periodical.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA-NFIP/USPS-T-7-6. In table 8, p, 80, you show own-price's effect on nonprofit periodical volume for the five year period ending in Q.3, 2001, as -0.004%. The table also shows "Other factors" as having an estimated effect on volume of the same type of mail for the same period, as -12.26%. Does this mean that other factors as you identify them on p. 81 of your testimony are 3,065 times more responsible for nonprofit periodical volume decline than changes in postal rates? If not, how would you characterize the influence on volume of "Other factors" as compared with "own price" on nonprofit periodicals over the time period used in Table 8?

RESPONSE:

It is true that 12.26% is 3,065 times greater than 0.004%. However, such a comparison is not necessarily meaningful. I would characterize the influences by comparing the percentage affects on volumes as is done in the table to which you refer, which also gives insights into the reasons for the changes. For example, the impact of postal prices on periodical nonprofit volumes over the past five years is particularly small because the real price of this subclass only changed by 0.1 percent from the beginning of the five-year period to the end of the five-year period.

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

CRPA-NFIP/USPS-T-7-7. Concerning regular-rate periodicals, on p. 90 of your testimony you state that "growth of the number of small-scale specialty magazines may be a positive influence on Regular Rate volume."

(a) Is this the first time you have offered this opinion in a postal rate case? If it is not, identify where else you made this supposition.

(b) If you have offered the opinion before, do you have any data to show the growth of periodical volumes due to specialty magazines in the regular-rate category and the time period of such growth.

(c) In offering that opinion, did you take into account Table 2 of MPA/USPS-T34-3 in this case, where it is shown that under the PERMIT system for calculating permit volumes and pieces, that 57 regular rate periodicals of circulations of 1 million + per issue mail 2,614,868,906 pieces, whereas 15,392 periodicals with circulations of 25,000 pieces or less per volume mail 1,284,100,635 pieces?

(d) When do you foresee periodicals of fewer than 25,000 pieces per issue generating equal or greater volumes than the 57 largest regular-rate publications, with circulations over 1 million pieces per issue?

RESPONSE:

(a) No. I have offered this opinion in Dockets No. R94-1 at USPS-T-2, page 130 at lines 3-15, and R2000-1 at USPS-T-6, page 104, lines 12-19.

(b) The 2000 Gale Directory of Publications and Broadcast Media reports that the number of bimonthly and quarterly publications increased from 3,120 in 1985 to 5,649 in 1999, an 81 percent increase. During the same period, the total number of periodicals declined by ten percent. [Data reprinted in the Statistical Abstract of the United States, 2000, Table 931.]

(c) No. I understand that this table was only recently prepared. In any case, it is for only one year. It does not give information on growth of small-scale specialty magazines, which is the subject you asked about. The table does provide evidence that small magazines represent a

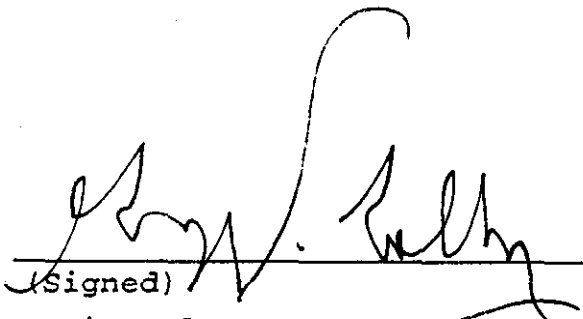
RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF CRPA

significant portion of total Periodical regular rate mail volume (1,284,100,635 out of 7,250,346,168 total pieces in FY 2000, or 17.7 percent of Periodical regular rate mail), consistent with these magazines being a contributor to volume growth.

(d) I have no opinion on this topic, as it is outside the scope of my testimony.

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)  
11-29-01  
\_\_\_\_\_  
(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 29, 2001