

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

Postal Rate and Fee Changes, 2001

Docket No. R2001-1

RESPONSES OF
UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF
OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T29-1 THROUGH 5)

The United States Postal Service hereby files the responses of witness Robinson to the following interrogatories of Office of the Consumer Advocate that were filed on November 29, 2001: OCA/USPS-T29-1 and 2.

The Postal Service also hereby files the responses of witness Robinson to the following interrogatories of Office of the Consumer Advocate that were filed on November 30, 2001: OCA/USPS-T29-3 through 5.

The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

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December 13, 2001

CERTIFICATE OF SERVICE

I hereby certify that, in accordance with section 12 of the Rules of Practice, I have this day served the foregoing document upon all parties of record in Docket No. R2001-1.

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December 13, 2001

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OCA/USPS-T29-1. Please refer to your testimony at page 16, lines 13-14.

- a. Please confirm that the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- b. Please confirm that the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- c. Please provide the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge.
- d. Please provide the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge.
- e. Please confirm that the own-price elasticity of demand for workshare letters subject to the nonstandard surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- f. Please confirm that the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge is relatively inelastic (i.e., elasticity between -1 and 0). If you do not confirm, please explain.
- g. Please provide the own-price elasticity of demand for workshare letters subject to the nonstandard surcharge.
- h. Please provide the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge.
- i. Please confirm that the own-price elasticity of demand for single-piece First-Class letters is a reasonable approximation of the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge. If you do not confirm, please explain.
- j. Please confirm that the own-price elasticity of demand for workshare First-Class letters is a reasonable approximation of the own-price elasticity of demand for presort letters subject to the nonstandard surcharge. If you do not confirm, please explain.
- k. Please confirm that the own-price elasticity of demand for single-piece First-Class letters is a reasonable approximation of the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain.

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RESPONSE to OCA/USPS-T29-1 (page 2 of 4):

- I. Please confirm that the own-price elasticity of demand for workshare First-Class letters is a reasonable approximation of the own-price elasticity of demand for presort letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge.
- b. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge.
- c. The requested datum is not available. See response to OCA/USPS-T29-1(a).
- d. The requested datum is not available. See response to OCA/USPS-T29-1(b).
- e. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for workshare letters subject to the nonstandard surcharge.
- f. Not confirmed. The Postal Service has not separately estimated the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge.
- g. The requested datum is not available. See response to OCA/USPS-T29-1(e).
- h. The requested datum is not available. See response to OCA/USPS-T29-1(f).

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RESPONSE to OCA/USPS-T29-1 (page 3 of 4):

- i. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for single-piece letters subject to the nonstandard surcharge, I have estimated this volume using the “base-year” ratio method described in USPS-T-29 at 6. This is consistent with both prior Postal Service proposals (see, for example, Docket No. R2000-1, USPS-T-33 Workpaper at 4 [revised 4/17/2000]) and prior Postal Rate Commission precedent (Docket No. R2000-1, PRC Lib Ref 12, workpaper “All_r00a_nl.123”, worksheet “1 st Class” at 5).
- j. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for presort letters subject to the nonstandard surcharge, I have estimated this volume using the “base-year” ratio method described in USPS-T-29 at 6. This is consistent with both prior Postal Service proposals (see, for example, Docket No. R2000-1, USPS-T-33 Workpaper at 4 [revised 4/17/2000]) and prior Postal Rate Commission precedent (Docket No. R2000-1, PRC Lib Ref 12, workpaper “All_r00a_nl.123”, worksheet “1 st Class” at 5).
- k. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge, I have estimated this volume using the method in USPS-T-29 Attachment F at 3.

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RESPONSE to OCA/USPS-T29-1 (page 4 of 4):

- I. Not confirmed. I have no basis on which to reach this conclusion. Absent any data on the own-price elasticity of demand for presort letters subject to the proposed nonmachinable surcharge, I have used the data available to estimate this volume. I have estimated this volume for Nonautomation Presort using 1997 Mail Characteristics data. For Automation Flats, the proposed nonmachinable definition is the same as the current nonstandard definition; therefore, I have estimated this volume using the “base-year” ratio method described in USPS-T-29 at 6. This estimate for Automation Flats is consistent with both prior Postal Service proposals (see, for example, Docket No. R2000-1, USPS-T-33 Workpaper at 4 [revised 4/17/2000]) and prior Postal Rate Commission precedent (Docket No. R2000-1, PRC Lib Ref 12, workpaper “All_r00a_n1.123”, worksheet “1 st Class” at 5).

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OCA/USPS-T29-2. Please refer to your response to POIR No. 4, Question 6.

- a. Please confirm that the response calculates the “current nonstandard” single-piece volume of 412,179 as follows: $(44,198 / 47,899,389) * 46,542,265$. If you do not confirm, please explain.
- b. Please confirm that the “current nonstandard” single-piece volume should be $415,041 = (44,198 / 47,899,389) * 46,865,402$. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed. Errata to my response to POIR No. 4, Question 6 have been filed today.

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OCA/USPS-T29-3. Please refer to USPS-LR-J-130, at page 7.

- a. Please explain fully the derivation of the figures in Column (5) entitled "Implied Postage Weight per PC." Show all calculations used to derive these figures.
- b. In Column (7) entitled "Additional Ounces," please explain fully the reasoning for subtracting 1 from the figure in Column (5) to calculate the number of additional ounces.

RESPONSE:

- a. Column 5, "Implied Postage Weight per PC" is an estimate of the number of ounce increments for which postage is charged. By Accounting Period (AP), this estimate is made based on the calculated postage paid. To illustrate, a sample calculation for AP 7, FY 2000 will be provided for each rate category.

Single-Piece (AP 7 FY 2000)

Total Revenue (column 1)	\$4,511,128
Total Pieces (column 2)	4,594.690
Revenue per piece (col. 2 = col. 1 / col. 2)	\$0.98

A Single-Piece Letter weighing four ounces in FY 2000 paid a rate equal to \$0.33 for the first ounce plus \$0.22 for each of three additional ounces or \$0.99 (= \$0.33 + 3 * \$0.22). This is consistent with the calculated revenue per piece of \$0.98 in column 2. Therefore, the implied number of ounces for which postage was paid is four, as indicated in column 5.

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RESPONSE to OCA/USPS-T29-3 (continued):

Single-Piece Letters – QBRM (AP 7 FY 2000)

Total Revenue (column 1)	\$11,981,827
Total Pieces (column 2)	39,939,423
Revenue per piece (col. 2 = col. 1 / col. 2)	\$0.30

A Qualified Business Reply Mail letter weighing one ounce in FY 2000 paid a rate equal to \$0.30 for the first ounce. This is consistent with the calculated revenue per piece of \$0.30 in column 2. Therefore, the implied number of ounces for which postage was paid is one, as indicated in column 5.

Nonautomation Presort (AP 7 FY 2000)

Total Revenue (column 1)	\$74,357,929
Total Pieces (column 2)	143,022,326
Revenue per piece (col. 2 = col. 1 / col. 2)	\$0.52

A Nonautomation Presort piece weighing two ounces in FY 2000 paid a rate equal to \$0.305 for the first ounce plus \$0.22 for one additional ounce or \$0.525 (= \$0.305 + 1 * \$0.22). This is consistent with the calculated revenue per piece of \$0.52 in column 2. Therefore, the implied number of ounces for which postage was paid is two, as indicated in column 5.

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RESPONSE to OCA/USPS-T29-3 (continued):

- b. Column 5, "Implied Postage Weight per PC", includes the first ounce of weight. The additional ounce rate is only charged for the second and subsequent ounce increments. Therefore, to determine the number of additional ounces for which postage was paid, the first-ounce increment was subtracted from the "Implied Postage Weight per PC."

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OCA/USPS-T29-4. Please refer to USPS-LR-J-130, at page 8.

- a. In the section entitled “(a) First Class Mail Pieces Weighing More Than One Ounce,” in the columns labeled 11-12 oz and 12-13 oz under “Single Piece,” please confirm that the figures in the row “FY 1999” should be 47,753,689 (0 + 9,058,736 + 17,344,066 + 21,350,887), and 35,749,141 (0 + 6,311,986 + 12,677,179 + 16,759,976), respectively. If you do not confirm, please explain.
- b. In the section entitled “(a) First Class Mail Pieces Weighing More Than One Ounce,” in the columns labeled 11-12 oz and 12-13 oz under “Single Piece,” please confirm that the figures in the row “FY 2000” should be 70,677,029 (16,725,590 + 15,138,977 + 18,467,455 + 20,345,007) and 52,936,946 (12,648,304 + 11,258,541 + 13,167,838 + 15,862,262) respectively. If you do not confirm, please explain.
- c. In the section entitled “(b) Total First Class Mail Pieces,” in the “Single Piece” column, please confirm that the figures in the row “FY 1999” should be 53,250,548,643 (12,254,321,505 + 13,231,821,446 + 12,497,485,998 + 15,266,919,694), the sum of FY 1999 PQ1 through PQ4. If you do not confirm, please explain.
- d. In the section entitled “(b) Total First Class Mail Pieces,” in the “Single Piece” column, please confirm that the figures in the row “FY 2000” should be 51,951,152,636 (12,024,891,049 + 13,156,882,874 + 11,958,269,313 + 14,811,109,399), the sum of FY 2000 PQ1 through PQ4. If you do not confirm, please explain.

RESPONSE:

a–d. Not confirmed. For single-piece mail, RPW data by ounce increment was available for the Government Fiscal Year. Therefore, “FY 1999” refers to Government Fiscal Year 1999 and “FY 2000” refers to Government Fiscal Year 2000. The Government Fiscal Year is not the same time period as Postal Quarter 1 through Postal Quarter 4. Therefore, for any year, summing volumes by Postal Quarter is not equal to the Government Fiscal Year volume. For workshare mail, “FY1999” and “FY2000” refer to the Postal Fiscal Year.

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OCA/USPS-T29-5. Please refer to your testimony at pages 16 and 23, where discussion begins concerning the Nonmachinable Surcharge for single-piece and presort letters, respectively.

- a. Please confirm that the current 11-cent single-piece nonstandard surcharge does not cover the total additional cost of processing single-piece nonstandard pieces. If you do not confirm, please explain.
- b. Please confirm that the proposed 12-cent single-piece nonmachinable surcharge is not expected to cover the total additional cost of processing single-piece nonmachinable pieces. If you do not confirm, please explain.
- c. Please explain why mailers of single-piece nonmachinable pieces should not pay the total additional cost of processing single-piece nonmachinable pieces.
- d. Please confirm that the current 5 cent presort nonstandard surcharge does not cover the total additional cost of processing presort nonstandard pieces. If you do not confirm, please explain.
- e. Please confirm that the proposed 5.5 cent presort nonmachinable surcharge is not intended to cover the total additional cost of processing presort nonmachinable pieces. If you do not confirm, please explain.
- f. Please explain why mailers of presort nonmachinable pieces should not pay the total additional cost of processing presort nonmachinable pieces.

RESPONSE:

- a. Confirmed that the current 11-cent, single-piece, nonstandard surcharge is less than the estimated additional cost of processing single-piece, nonstandard pieces as estimated by witness Miller in this docket. See USPS-T-29 at 18.
- b. Confirmed. As indicated in my testimony, “costs for single-piece nonmachinable pieces . . . are not estimated separately. [However] even the very conservative assumption that nonmachinable, single-piece pieces costs would be no greater than the average cost for nonmachinable, nonautomation

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RESPONSE to OCA/USPS-T29-5 (continued):

presort pieces suggests that this mail imposes an additional cost of at least 12.809 cents per piece on the Postal Service.” USPS-T-29 at 18.

- c. See response to MMA/USPS-T29-9.
- d. Confirmed that the current 5-cents, presort, nonstandard surcharge is less than the estimated additional cost of processing presorted, nonstandard pieces as estimated by witness Miller in this docket. See USPS-T-29 at 24.
- e. Confirmed.
- f. I did not propose a higher nonmachinable surcharge because of my concern for the impact on customers not currently paying the nonstandard surcharge who would pay the proposed nonmachinable surcharge under the expanded definition. However, at the proposed level, the nonmachinable surcharge serves to signal customers about the costs associated with Postal Service processing of nonmachinable (including nonstandard mail). This is consistent with the Postal Service position on increasing the nonstandard surcharge proposal in Docket No. R2000-1. See Docket No. R2000-1, USPS-T-33 at 28-30.