

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

Postal Rate and Fee Changes, 2001

Docket No. R2001-1

RESPONSE OF
UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF
OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T29-6)

The United States Postal Service hereby files the response of witness Robinson to the following interrogatory of Office of the Consumer Advocate that was filed on December 19, 2001: OCA/USPS-T29-6.

The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

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December 31, 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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OCA/USPS-T29-6. Please refer to your response to OCA/USPS-T29-1.

- a. Refer to your response to part d. Please confirm that in the test year, after rates (TYAR), you have assumed that 2.01136 percent of single-piece letter mail is subject to the nonmachinable surcharge. If you do not confirm, please explain.
- b. Refer to your response to part d. Please confirm that in the test year, before rates (TYBR), the implicit volume of single-piece letter mail subject to the nonmachinable surcharge would be 964,430 ($47,899,389 * 0.0201136$). If you do not confirm, please explain.
- c. Refer to your response to part d. Please confirm that the equation for computing the implicit own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge is:

$$(49/45)^x * (0.0201136 * 47,899,389) = (0.0201136 * 46,865,402)$$

where solving for x results in the implicit own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain and show the correct equation.

- d. Refer to your response to part d. Please confirm that the implicit own-price elasticity of demand for single-piece letters subject to nonmachinable surcharge would be -0.256 (see Table 1 below). If you do not confirm, please explain and show the correct implicit own-price elasticity of demand for single-piece letters subject to nonmachinable surcharge.

Table 1
IMPLICIT OWN-PRICE ELASTICITY OF DEMAND
FOR SINGLE-PIECE
NONMACHINABLE PIECES

TYAR Single-Piece Volume	46,865,402
TYBR Single-Piece Volume	47,899,389
TYAR Nonmachinable Pieces	942,633
TYBR Nonmachinable Pieces	963,430
TYAR NM Surcharge + SP Rate	\$0.49
TYBR NS Surcharge + SP Rate	\$0.45
Implicit Own-Price Elasticity for Nonmachinable Pieces	-0.256266015

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- e. Please refer to your response to part h. Please confirm that in the TYAR, you have assumed that 24.45 percent of nonautomation presort letter mail is subject to the nonmachinable surcharge. If you do not confirm, please explain.
- f. Please refer to your response to part h. Please confirm that in the TYBR, the implicit volume of nonautomation presort letter mail subject to the nonmachinable surcharge would be 899,745 (3,679,940 * 0.2445). If you do not confirm, please explain.
- g. Please refer to your response to part h. Please confirm that the equation for computing the implicit own-price elasticity of demand for nonautomation presort letters subject to the proposed nonmachinable surcharge is:

$$(40.7/37.2)^x * (0.2445 * 3,679,940) = (0.2445 * 3,579,306)$$

where solving for x results in the implicit own-price elasticity of demand for nonautomation presort letters subject to the proposed nonmachinable surcharge. If you do not confirm, please explain and show the correct equation.

- h. Please refer to your response to part h. Please confirm that the implicit own-price elasticity of demand for nonautomation presort letters subject to nonmachinable surcharge would be -0.308 (see Table 2 below). If you do not confirm, please explain and show the correct implicit own-price elasticity of demand for nonautomation presort letters subject to nonmachinable surcharge.

Table 2
IMPLICIT OWN-PRICE ELASTICITY OF DEMAND
FOR NONAUTOMATION PRESORT
NONMACHINABLE PIECES

TYAR Presort Volume	3,379,306
TYBR Persort Volume	3,679,940
TYAR Nonmachinable Pieces	875,140
TYBR Nonmachinable Pieces	899,745
TYAR NM Surcharge + Presort Rate	\$0.407
TYBR NS Surchrage + Presort Rate	\$0.372
Implicit Own-Price Elasticity for Nonmachinable Pieces	-0.308358599

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RESPONSE:

- a. Confirmed. See USPS-T-29, Attachment F at 3.
- b. Not confirmed. If the proposed nonmachinable surcharge were applicable in the test-year-before-rates, the estimated single-piece volume it would apply to would be $963,430 (000) = 47,899,389 (000) * 0.0201136$ pieces.
- c. Not confirmed. While I am not an expert on the Postal Service forecasting models presented in the testimonies of witnesses Tolley (USPS-T-7) and Thress (USPS-T-8), I understand that the equation in this question is incorrect for the following reasons:
 - The test-year-before-rates single-piece volume of 47,899,389 (000) pieces is based on a price index that assumes that 0.885602% of single-piece mail is subject to the 11-cent, nonstandard surcharge thereby paying a total rate of 46 cents. The remaining 1.125759% of “nonmachinable” single-piece letters ($0.885602\% + 1.125759\% = 2.01136\%$) in the test-year-before-rates is assumed to pay a postage rate of 34 cents.
 - An own-price elasticity is a change holding all other things constant, and here, all other things are not being held constant. That is, the change in single-piece volume between the test-year-before-rates and

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the test-year-after-rates incorporates changes in worksharing discounts, and Cards subclass rates in addition to any change in the single-piece, first-ounce rate plus the nonmachinable (nonstandard) surcharge.

- The “base-year ratio” method of projecting volume in the test-year-before-rates and the test-year-after-rates, does not consider the responsiveness of mailers to the change in the associated rates except to the extent that the price index is changed by a change in the nonmachinable surcharge. Therefore, while the nonmachinable volume is projected for the test-year, the projected volume for the purposes of rate design would not change EVEN IF the proposed rate change were larger or smaller.

As explained in my response to OCA/USPS-T29-1(b), “[t]he Postal Service has not separately estimated the own-price elasticity of demand for single-piece letters subject to the proposed nonmachinable surcharge;” therefore, I cannot “show the correct equation” or “the correct implicit own-price elasticity of demand for single-piece letters subject to the nonmachinable surcharge.”

- d. Not confirmed. See response to OCA/USPS-T29-6(c).
- e. Confirmed. See USPS-T-29, Attachment F at 3.
- f. Confirmed. If the proposed nonmachinable surcharge were applicable in the test-year-before-rates, the estimated Nonautomation Presort volume it would apply to would be $899,745 (000) = 3,679,940 (000) * 0.2445$ pieces.

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g. Not confirmed. While I am not an expert on the Postal Service forecasting models presented in the testimonies of witnesses Tolley (USPS-T-7) and Thress (USPS-T-8), I understand that the equation in this question is incorrect for the following reasons:

- The test-year-before-rates Nonautomation Presort volume of 3,679,940 (000) pieces is based on a price index that assumes that 1.0588721% of Nonautomation Presort is subject to the 5-cent, nonstandard surcharge thereby paying a total rate of 37.2 cents. The remaining 23.391128%% of “nonmachinable” Nonautomation Presort letters (1.0588721% + 23.391128% = 24.45%) in the test-year-before-rates is assumed to pay a postage rate of 32.2 cents.
- An own-price elasticity is a change holding all other things constant, and here, all other things are not being held constant. That is, the change in Nonautomation Presort volume between the test-year-before-rates and the test-year-after-rates incorporates changes in other (e.g., Automation) worksharing discounts, single-piece letter rates, Cards subclass rates and Standard Mail rates in addition to any change in the Nonautomation Presort, first-ounce rate plus the nonmachinable (nonstandard) surcharge.
- The “base-year ratio” method of projecting volume in the test-year-before-rates and the test-year-after-rates, does not consider the

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responsiveness of mailers to the change in the associated rates except to the extent that the price index is changed by a change in the nonmachinable surcharge. Therefore, while the nonmachinable volume is projected for the test year, the projected volume for the purposes of rate design would not change EVEN IF the proposed rate change were larger or smaller.

As explained in my response to OCA/USPS-T29-1(f), “[t]he Postal Service has not separately estimated the own-price elasticity of demand for workshare letters subject to the proposed nonmachinable surcharge;” therefore, I cannot “show the correct equation” or “the correct implicit own-price elasticity of demand for nonautomation presort letters subject to the nonmachinable surcharge.”

h. Not confirmed. See response to OCA/USPS-T29-6(g).