

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268B0001

REPOSITIONABLE NOTES PROVISIONAL SERVICE

Docket No. MC2004-5

RESPONSES OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION
(DMA/USPS-T2-1-6)

Pursuant to Order No. 1420, the United States Postal Service hereby provides its responses to the following interrogatories of the Direct Marketing Association:

DMA/USPS-1-6.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999; Fax -5402
Scott.L.Reiter@usps.gov
October 8, 2004

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-1 Does the Postal Service have estimates of the own-price elasticity of RPNs in any or all of the classes, subclasses or rate elements of mail proposed to eligible for RPNs under the proposal being considered in this proceeding? If so, please provide these estimates in as much detail as possible.

RESPONSE:

Since there has been no postal rate for this product, by definition, there is no way to have calculated elasticities by class, subclass, or rate category. If such estimates had been available, they would have been provided as required by the Commission's rules.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-2 Data collection plans are described at pages 6-7 of USPS-T-1, which states: "The market test will allow the Postal Service to develop information about . . . demand at the proposed price levels . . ."

(a) Will the Postal Service be collecting data that will enable the USPS to estimate the own-price elasticity of the RPN service, as a whole or broken down either by class, subclass, rate element or any other subset of the mail eligible for the RPN service? Please describe in as much detail as possible any such data and the way it will be used to estimate these own-price elasticities.

(b) In addition to any data described in question (a) above, what data will the Postal Service be collecting that would expand its knowledge of the demand for RPN's? To what extent and how will this data be useful to the Postal Service in the future in making pricing decisions relating to the RPN service? Please answer as completely as possible.

(c) In addition to any data described in questions (a) and (b) above, will the Postal Service be collecting qualitative information concerning the demand for RPN service? Please describe in as much detail as possible any such qualitative information and the ways, if any, such information will be used by the Postal Service in making pricing or other decisions concerning RPN service in the future.

(d) With respect to each type of data or other information described in questions (a), (b) and (c) above, please describe the extent to which such data or other information is different from, or is anticipated to be better than, the information that the Postal Service has been able to assemble to date concerning the RPN service, through its focus groups, pilot mailings and other market research.

RESPONSE:

(a) No. By definition, collecting volume information about one price point will not permit the calculation of elasticities.

(b) The data to be collected is completely described in the data collection plan.

(c) Informal conversations with mailers will likely take place and shed additional light on their reaction to the provisional product.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

(d) The data to be collected during the test is unique because it is the only data that can measure the response to specific prices in the actual marketplace. Please see witness Kaneer's response to DMA/USPS-T2-5.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-3. Please describe in as much detail as possible the extent to which obtaining the data needed to evaluate this test depends upon the Postal Service imposing a separate charge for the addition of the RPN's to the pieces of mail in question. In other words, why would it not be possible for the Postal Service to collect all the information it wants without imposing the charges proposed in this case?

RESPONSE:

Since the primary piece of information that this test will provide is demand for the product at a set of prices (presumably, but not necessarily, the prices the Postal Service has proposed), it would be impossible to determine that if the product is being given away for free.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-4. Did the Postal Service consider expanding the availability of RPN's to other classes and subclasses of mail (i.e., in addition to those tested thus far) prior to imposing a charge for RPN's as is being proposed in this proceeding?

RESPONSE:

It is not accurate to call the proposal an expansion of classes and subclasses. There are two changes in availability proposed. One is based on processing category, not class or subclass, and that is to expand the availability for RPNs on First-Class Mail and Standard Mail from just automation-compatible letters to all non-parcel processing categories. The other expansion is to include Periodicals. The only class of mail left is Package Services and parcels are not included in this service, as explained in response to OCA/USPS-T1-2 and 3.

Please note that this proposal is not one of "imposing" a charge or proposing a rate increase on an existing service. Rather, the Postal Service is proposing the (provisional) establishment of a classification and concomitant rates. It is understandable that there could be confusion caused by the fact that there have been several testing phases preceding this one and that during those testing phases RPNs have been accepted by the Postal Service without charge in order to encourage participation in the tests. That having been accomplished, the Postal Service is now seeking to establish (provisionally) the full-blown RPN service and to test a set of rates for that service. See witness Kaneer's response to DMA/USPS-T2-5.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-5. At page 2, line 18 of USPS-T-1, it states, "As of May 2004 there have been 68 RPN mailings...."

(a) How much mail volume do these mailings represent? Please break the response down by rate class, subclass, and element (or other applicable subset of mail).

(b) Does the Postal Service believe this volume is indicative of future RPN volumes? Please explain fully.

(c) Does the Postal Service expect to use RPN volumes of the current program (before this test) to extrapolate volumes before the rates are effective ("before-volumes") in each of the rate classes, subclasses, elements, or other subsets of mail in which the test permits RPNs to be applied? If so, on what basis?

RESPONSE:

(a) These data are not available.

(b) No, because the product was only available for one processing category and no price was charged as part of the testing phases. Please see the response to DMA/USPS-4.

(c) The before rates/after rates framework is not applicable to the facts of this case. Because the proposal includes a significant expansion of the availability of RPNs (beyond automation letters), there are too many variables for a before and after rates comparison to make any sense. Moreover, if volumes could be projected based on the current limited availability, it would not be necessary to do a market test at all, expansion issues aside. And even if volume changes could be isolated for the affected categories, it still would not be possible to calculate elasticities starting from no price. The purpose of the proposed test is simply to measure volumes and revenues at the

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

prices proposed in order to make informed judgments (not mathematical projections)
concerning the next step(s), if any, in the product's evolution.

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS KANEER
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-6. At page 5, lines 1-2 of your testimony you state, "A primary objective of the proposed RPN market test is to gauge the reaction of mailers to the proposed test classification and prices."

(a) Please describe in as much detail as possible the ways in which the test will enable the Postal Service to measure the volumes before the rates are effective ("before-volumes") in each of the rate classes, subclasses, elements, or other subsets of mail in which the test permits RPNs to be applied.

(b) Do you agree that the Postal Service will be unable to measure the before-volumes of mail that would have used RPNs but for the proposed charges? Please explain your response.

RESPONSE:

It is inaccurate to describe the current testing phases (preceding the provisional service now at issue) as "before rates"; the classification does not yet even exist. Please see the response to DMA/USPS-4 and 5(c).

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.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 8, 2004