Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2005) Docket No. R2005-1

INTERROGATORIES OF GREETING CARD ASSOCIATION TO THE UNITED STATES POSTAL SERVICE WITNESS POTTER (GCA/USPS-T1-1-3) (May 10, 2005)

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, Greeting Card Association (GCA) directs the following interrogatories to the United States Postal Service Witness Potter.

Respectfully submitted,

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GCA/USPS-T1-1. In your testimony at page 2, starting at line 18, you state "We currently face serious economic and operational challenges. The need to raise rates prematurely for any reason will not help us meet them, and will burden our customers and the economy." In the same manner, you stated publicly and in greater detail at recent Senate Committee hearings on postal reform: "Electronic diversion continues to erode First-Class Mail volume, this product will become more price-sensitive than ever. Higher rates will likely increase the pace of change, accelerating the volume decline, resulting in falling revenue…".

a. Do you understand your statement at the Senate Committee hearings on postal reform to be what economists call a situation of absolute own price elasticity with a value greater than the absolute value of –1?
b. Why is the Postal Service proposing to raise rates at all for FCM in this case if it believes the lost volume from the increase will reduce, rather than raise, revenue for the Postal Service?
c. Do you agree that USPS witness Thress and you cannot both be correct in assessing the true value of the own price elasticity for the FCLM subclass?
d. How do you reconcile your statement above at the Senate Committee hearings on postal reform with the "rate case elasticity" submitted by USPS witness Thress in this case, which shows an own price elasticity for FCM below the absolute value of –1, albeit higher than the relatively inelastic rate case elasticity for FCM that he submitted in last rate case?
e. Is your statement at the Senate Committee hearings on postal reform and in your testimony as referenced above one of the reasons the Postal Service considered phased rates preparatory to filing this case, i.e. to avoid a highly publicized double digit increase in the face of increasingly elastic demand conditions in FCM?
f. Are there other elasticity perspectives than those proferred by rate case witnesses of which you or any staff advising you are aware which have helped inform your opinion of the issues? If so, please provide all such materials, including, but not limited to, materials developed under the direction of Margaret Crenshaw within the USPS or any individuals or groups outside USPS, other internal source(s) or external source(s).

GCA/USPS-T1-2. In your testimony at page 2, starting at line 18, you state "We currently face serious economic and operational challenges. The need to raise rates prematurely for any reason will not help us meet them, and will burden our customers and the economy." In the same manner, you stated publicly and in greater detail at recent Senate Committee hearings on postal reform: "Declining First-Class Mail volume, coupled with a market shift from higher-margin to lower-margin products, will result in insufficient revenue to support our infrastructure and the costs of an ever-expanding delivery network." In a letter to Sen. Susan Collins dated February 14, 2005, USPS Board of Governors, Chairman James C. Miller III stated: "On the other hand, the Service faces significant challenges. Its decades-old business model, in which a continually-growing First-Class Mail volume with its large per-piece contribution defrays the major portion of infrastructure costs, is no longer valid."

a. Are your statements consistent with that of Chairman Miller? If your answer is not an unqualified "yes," please explain.
b. Please state specifically what "lower-margin products" you are referring to by subclass.
c. Combined with your statement about increasing elasticities in FCM, isn't the inevitable conclusion of the points made above that today's lower margin volume drivers for the Postal Service will have to have larger per-piece contributions than at present, while FCM will have to have lower per-piece contributions than at present? Please explain fully your answer.
d. Do you agree that the proposed across the board rate increase in this case, whatever its merits on other grounds, does not address the relative rate issues implied by the above statements?
e. When does the Postal Service plan on starting to address the relative per-piece contribution issues raised in the above statements insofar as rate setting is concerned?
f. Would you agree that if per piece contributions are lowered for FCM, and raised for Standard, some Standard mail that is price inelastic may migrate to FCM, thus helping to ameliorate the current decline in FCM volume?
g. Is rapid growth from targeted advertising FCM at relatively higher per-piece contributions to overhead, albeit lower than current, combined with higher-than-current per- piece contributions from advertising mail that remains in the Standard Class the most likely new business model that the USPS will need to adopt to remain financially viable? Please explain fully your answer.
h. Was any costs benefit test applied to the question whether the costs of avoiding the issues raised in a. through g., above, were worth the benefits of an across-the-board revenue raising initiative that does not address those issues? If your answer is not an unqualified "no," please describe that test fully and state the conclusions it yielded.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with sections 12, 25(a), and 26(a) of the Rules of Practice.

Alan R. Swendiman

May 10, 2005