

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

Postal Rate Commission
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POSTAL RATE AND FEE CHANGES, 2005)

Docket No. R2005-1

AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS
FIRST INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS THOMAS E. THRESS (ABA&NAPM/USPS-T7-1-5)
(May 11, 2005)

Pursuant to sections 26 and 27 of the Postal Rate Commission rules of practice, American Bankers Association and National Association of Presort Mailers hereby submit these joint interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

If data requested are not available in the exact format or level of detail requested, any data available in (1) substantially similar format or level of detail or (2) susceptible to being converted to the requested format and detail should be provided.

Responses to requests for explanations or the derivation of numbers should be accompanied by workpapers. The terms "workpapers" shall include all backup material whether prepared manually, mechanically or electronically, and without consideration to the type of paper used. Such workpapers should, if necessary, be prepared as part of the witness's responses and should "show what the numbers were, what numbers were added to other numbers to achieve a final result." The witness should "prepare sufficient workpapers so that it is possible for a third party to understand how he took data from a primary source and developed that data to achieve his final results." Docket No. R83-1, Tr. 10/2795-96.

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION
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May 11, 2005
Washington, D.C.

ABA&NAPM/USPS-T7-1.

In your econometric specifications for addressing competing substitutes, you have claimed now for several consecutive rate increases that insufficient data exists to model competing substitutes in your FCLM demand equations as explicit variables, in particular that insufficient price data exists.

- a. Please confirm that high own price elasticities of demand tend to be associated with high cross price elasticities of demand, and vice versa.
- b. If sufficient high frequency volume data were available on competing substitutes, please confirm that cross price elasticities of demand could be calculated with respect to variations in postal rates and variations in the quantities demanded of competing substitutes.

ABA&NAPM/USPS-T7-2.

Please refer to the following table.

Period	R97-1	R2000-1	R2001-1	R2005-1
First Class Mail:				
Single Piece Letters	-0.189	-0.262	-0.311	-0.175
Worksharing Discount	-0.164	-0.139	-0.027	-0.102
Subtotal	-0.353	-0.400	-0.338	-0.277
Workshared Letters	-0.289	-0.251	-0.071	-0.329
Worksharing Discount	0.222	0.216	0.027	0.108
Subtotal	-0.067	-0.035	-0.044	-0.221

- a. Please confirm that the elasticities given in this table are correct.
- b. Please explain what specific factors might have caused the elasticities for Single Piece Letters to rise from 0.189 in R97-1 to 0.311 in R2001-1 and then to drop significantly to 0.175 in R2005-1.
- c. Please explain what specific factors might have caused the elasticities for Workshared Letters to drop from 0.289 in R97-1 to 0.071 in R2001-1 and then to more than quadruple to 0.329 in R2005-1.
- d. Please refer to the Worksharing Discount elasticities reported in the above table for the Single-Piece and the Workshared Letters. Please explain what specific factors might have caused these elasticities, in both cases, to exhibit a significant drop between R97-1 to R2001-1, but to quadruple between R2001-1 and R2005-1.

- e. Please confirm that the models used to estimate these elasticities over these four rate cases were different. Please explain whether these changing results are just the artifact of the data used and the variables included, or excluded, in the model.
- f. Please confirm that one possible way to compare these results is to run the same regression you have employed in your current testimony using the current data, variables, and model structure and run the regressions over 1983-1997, 1983-2000, 1983-2001, and 1998-2004. Please conduct the regressions for these time periods and provide the results.

ABA&NAPM/USPS-T7-3.

Beyond elasticity calculations you have done for single piece and worksharing rates in the FCLM subclass, there are extra ounce rates in FCLM.

- a. Have you performed any elasticity studies with respect to the extra ounce rate? If so, please provide the results. If not, why not?
- b. In your opinion, whether based on your analyses or other information, did the rate increases for FCLM extra ounces from R2001-1 have anything to do with the notable drop-off in extra ounce volumes following implementation of that rate increase?
- c. In your opinion, whether based on your analyses or other information, did the rate increases for FCLM extra ounces from R2001-1 have anything to do with the notable drop-off in the volume of checks processed following implementation of that rate increase?

ABA&NAPM/USPS-T7-4.

Pitney Bowes Chairman and CEO Michael Critelli made the observation in his keynote address at the 2004 annual Rutgers Conference on Postal and Delivery Economics that while the Postal Service institutionally thinks in terms of higher or lower rate increases, its electronic competitors think in terms of price decreases for their competing substitutes.

- a. Have you ever computed the impact on postal volumes in FCLM from any nominal cut in FCLM rates? If so please provide the results.
- b. If your answer to a. is no, and notwithstanding your CES model restrictions, please provide any empirical evidence you have that shows a cut in FCLM rates would produce lower revenues for the Postal Service?
- c. In your opinion does the performance of NSA agreements to date indicate a higher elasticity for those mailstreams than the overall elasticities you compute for FCLM in this case?

ABA&NAPM/-T7-5.

- a. Please confirm that what you compute using time series data going back to 1983 is a set of long run own price elasticities.
- b. When these are applied to test year revenues, under new rates, please confirm that you are applying long run elasticities to short run test year rates and revenues, specifically that you

are using data heavily influenced by distant prior periods that were very different economic environments from today such as 1983-1990.

- c. Ideally, and to maximize the competitive position of the Postal Service, wouldn't it be preferable to estimate short run elasticities to apply to 2006 test year revenues?