

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORIES OF VALPAK
REDIRECTED FROM WITNESS THRESS [VP/USPS-T7-4(c) and T7-5(c)]

The United States Postal Service hereby provides the response of witness Robinson to the following interrogatory of of ValPak Direct Marketing Systems, Inc. and ValPak Dealers' Association, Inc., filed on May 20, 2005. The interrogatories have been redirected from witness Thress to witness Robinson for response. The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO VAL-PAK INTERROGATORY REDIRECTED FROM WITNESS THRESS**

VP/USPS-T7-4.

- a. Please refer to your testimony at Table 1 (USPS-T-7, p. 9). Please confirm that the following volumes for Standard (Commercial) ECR mail are correctly indicated in Table 1:

<u>Year</u>	<u>Volume (millions of pieces)</u>
Base Year 2004	30,345.448
Test Year 2006 (Before Rates)	33,328.906
Test Year 2006 (After Rates)	32,187.100

- b. Please refer to your testimony (USPS-T-7) at page 100 (ll. 19-23) which states:

The Test Year before-rates volume for Standard ECR is 33,328.906 million pieces, a **9.8 percent increase** from GFY 2004. The Postal Service's proposed rates in this case are predicted to **reduce** the Test Year volume of Standard ECR mail by **3.4 percent**, for a Test Year after-rates volume forecast for Standard ECR mail of 32,187.100 million. [USPS-T-7, p. 100, ll. 19-23, emphasis added.]

Please confirm that the Postal Service's proposed rate increase for Standard (Commercial) ECR mail of 5.6 percent in the present case is predicted to result in **lost volume of 1,141.806 million pieces** (*i.e.*, 33,328.906 less 32,187.100), or a decrease of 3.4 percent, of Standard (Commercial) ECR mail in Test Year 2006.

- c. The total volume of Standard (Commercial) ECR mail (see part a above) and Standard Nonprofit ECR mail for Test Year 2006 after-rates is as follows:

	<u>Volume (millions of pieces)</u>
Standard (Commercial) ECR	32,187.100
Standard Nonprofit ECR	<u>3,128.857</u>
Total	35,315.957

Witness Robinson (USPS-T-27), in Exhibit USPS-27B of her testimony, indicates that the contribution of Standard (Commercial) ECR mail and Standard Nonprofit ECR mail is \$3,575,995,000, or 10.13 cents per unit (*i.e.*, \$3,575,995,000 / 35,315,957,000 = \$0.1013 per unit).

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TO INTERROGATORY OF VALPAK REDIRECTED FROM WITNESS THRESS**

VP/USPS-T7-4 (continued):

Please confirm that the reduction in volume that you project of 1,141.806 million pieces of Standard (Commercial) ECR mail corresponds to a **decrease of about \$115,616,081** in the contribution from Standard (Commercial) ECR mail from that lost volume. If you cannot confirm, please state the lost contribution from this lost volume.

RESPONSE:

- a. Response provided by witness Thress.
- b. Response provided by witness Thress.
- c. Note – the following response incorporates the revisions included in POIR No. 4

Question 7 and errata to Exhibits USPS-T27A and USPS-T27-B.

Confirmed that, for the test-year-after-rates

- The total volume of Standard Mail ECR and Nonprofit ECR is 35,315,957,000 pieces.
- The Standard Mail ECR and Nonprofit ECR contribution is \$3,575,988,000 (Exhibit USPS-27B as revised.)
- The unit contribution for Standard Mail ECR and Nonprofit ECR is 10.13 cents per piece.
- The reduction in the Standard Mail ECR volume between the test-year-before-rates and the test-year-after-rates is 1,141,806,000 pieces.

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TO INTERROGATORY OF VALPAK REDIRECTED FROM WITNESS THRESS**

RESPONSE to VP/USPS-T7-4c (continued):

Not confirmed that the reduction in Standard Mail ECR volume results in a contribution loss of \$115,615,855 = (reduction in volume) * (average contribution per piece).

Your calculation portrays the sole result of a price-driven volume decline as a contribution loss while ignoring that the net result of the price increase is an increase in contribution from Standard Mail ECR and NECR. This ignores the fact that the Standard Mail ECR and NECR price increase, while resulting in a volume decrease, has the net result of increasing contribution by approximately \$205 million.

The Postal Service estimates volume changes from proposed rate changes to allow the projection of the overall financial impact of the rate change and the net change in contribution from the rate change. Attempting to allocate the change in contribution into "buckets" by disaggregating the simultaneous effect on contribution of a price increase and a volume decrease into component parts suggests an independence between the volume reduction and the price increase that does not exist.

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VP/USPS-T7-5.

- a. Please refer to your testimony at Table 1 (USPS-T-7, p. 9). Please confirm that the following volumes for Standard (Commercial) Regular mail are correctly indicated in Table 1:

<u>Year</u>	<u>Volume (millions of pieces)</u>
Base Year 2004	50,776.236
Test Year 2006 (Before Rates)	56,985.773
Test Year 2006 (After Rates)	56,478.638

- b. Please refer to your testimony (USPS-T-7) at page 94 (ll. 22-26), which states:

The Test Year before-rates volume for Standard Regular mail is 56,985.733 million pieces, a **12.2 percent increase** from GFY 2004. The Postal Service's proposed rates in this case are predicted to **reduce** the Test Year volume of Standard Regular mail by **0.9 percent**, for a Test Year after rates volume forecast for Standard Regular mail of 56,478.638 million. [USPS-T-7, p. 94, ll. 22-26, emphasis added.]

Please confirm that it is estimated that the Postal Service's proposed rate increase for Standard (Commercial) Regular mail of 5.6 percent in the present case will result in a **decrease of 507.135 million pieces** of Standard (Commercial) Regular mail in Test Year 2006 (*i.e.*, 56,985.773 less 56,478.638).

- c. The total volume of Standard (Commercial) Regular mail and Standard Nonprofit Regular mail for Test Year 2006 after-rates is as follows:

	<u>Volume (millions of pieces)</u>
Standard (Commercial) Regular	56,478.638
Standard Nonprofit Regular	<u>12,289.469</u>
Total	68,768.107

Witness Robinson (USPS-T-27), in Exhibit USPS-27B of her testimony, indicates that the contribution of Standard (Commercial) Regular mail and Standard Nonprofit Regular mail is \$5,434,229, or 7.9 cents per unit (*i.e.*, \$5,434,229,000 / 68,768,107,000 = \$0.079 per unit). Please confirm that the reduction in volume that you project of 507.135 million pieces of

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
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VP/USPS-T7-5 (continued):

Standard (Commercial) Regular mail corresponds to a **decrease of about \$40,075,085** in the contribution from Standard (Commercial) Regular mail. If you cannot confirm, please state the lost contribution form this lost volume.

RESPONSE:

- a. Response provided by witness Thress.
- b. Response provided by witness Thress.
- c. Note – the following response incorporates the revisions included in POIR No. 4

Question 7 and errata to Exhibits USPS-T27A and USPS-T27-B

Confirmed that, for the test-year-after-rates

- The total volume of Standard Mail Regular and Nonprofit is 68,768,107,000 pieces.
- The Standard Mail Regular and Nonprofit contribution is 5,434,297,000(Exhibit USPS-27B as revised.)
- The unit contribution for Standard Mail Regular and Nonprofit is 7.90 cents per piece.
- The reduction in the Standard Mail Regular volume between the test-year-before-rates and the test-year-after-rates is 507,135,000 pieces.

Not confirmed that the reduction in Standard Mail Regular volume results in a contribution loss of \$40,075,583= (reduction in volume) * (average contribution per piece).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF VALPAK REDIRECTED FROM WITNESS THRESS**

RESPONSE to VP/USPS-T7-5c (continued):

Your calculation portrays the sole result of a price-driven volume decline as a contribution loss while ignoring that the net result of the price increase is an increase in contribution from Standard Mail Regular and Nonprofit. This ignores the fact that the Standard Mail ECR and NECR price increase, while resulting in a volume decrease, has the net result of increasing contribution by approximately \$690 million.

The Postal Service estimates volume changes from proposed rate changes to allow the projection of the overall financial impact of the rate change and the net change in contribution from the rate change. Attempting to allocate the change in contribution into “buckets” by disaggregating the simultaneous effect on contribution of a price increase and a volume decrease into component parts suggests an independence between the volume reduction and the price increase that does not exist.