

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

NOTICE OF ERRATA TO RESPONSE
OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON TO
INTERROGATORY OF GREETING CARD ASSOCIATION
[GCA/USPS-T1-2] [ERRATA]

On May 24, 2005, the United States Postal Service filed the responses of witness Maura Robinson to interrogatories GCA/USPS-T1-1 and T1-2. The questions had been redirected from witness Potter to witness Robinson for response. The caption of the response to GCA/USPS-T1-2 misidentifies the intervener propounding the interrogatory as Douglas Carlson. A corrected copy of the response is being filed today with the correct caption. There is no change in the substance of the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998, Fax -5402
Michael.t.tidwell@usps.gov
June 22, 2005

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROBINSON
TO INTERROGATORY OF GREETING CARD ASSOCIATION
REDIRECTED FROM WITNESS POTTER**

Revised: June 22, 2005

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 24, 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First-Class Mail volume with its large per-piece contribution defrays the major portion of infrastructure costs, is no longer valid.”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.

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GCA/USPS-T1-2 (continued):

- 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.

RESPONSE:

- a. Yes. I believe the statements of witness Potter and Chairman Miller are consistent.
- b. The context of the quote suggests that witness Potter was discussing products with lower cost coverages ("lower margins") than the First-Class Mail Letters and Sealed Parcels subclass. The estimated test-year-after-rates cost coverage for the First-Class Mail Letters and Sealed Parcels subclass is 229.8 percent. All other subclasses with the exception of Standard Mail Enhanced Carrier Route have lower cost coverages. Exhibit USPS-27B. While I do not believe that any subclass would be exempted from a future rate increase, the volume growth of Standard Mail Regular in contrast to the decline in First-Class Mail Letters would suggest that this subclass might be one possible source of additional contribution.
- c. No. The quoted statement suggests that the decline in First-Class Mail Letters volume and the possible resulting decline in total contribution from this subclass will need to be offset. However, I cannot reach the conclusion that First-Class Mail Letters subclass per-piece contribution will necessarily decline, it may remain constant or even increase somewhat

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RESPONSE to GCA/USPS-T1-2 (continued):

depending on the Postal Service's evaluation of the circumstances surrounding a future rate request. In addition, while larger per-piece contributions may be necessary from other subclasses, the need for any such increases may be, in part, offset by volume growth.

d. Yes.

e. The Postal Service considers the full context in which pricing decisions are made and develops a pricing proposal that meets its revenue requirement and that is consistent with the pricing criteria and other statutory requirements of the Postal Reorganization Act. While the structure of future rate proposals is unknown, I expect that the Postal Service will consider all relevant factors, including those discussed in the testimony of witness Potter and Chairman Miller in formulating its next rate request.

f. No. Migration between Standard Mail and First-Class Mail would depend on the relative prices of those products not the absolute per-piece contribution. For example, it is possible that per-piece contribution for First-Class Mail could decrease, per-piece contribution for Standard Mail could increase and the actual prices for each of these products would be the same.

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RESPONSE to GCA/USPS-T1-2 (continued):

- g. I do not know. It is unclear what hypothetical you are describing. This question assumes future rates, rate relationships and changes that are outside the scope of this docket.
- h. No. The Postal Service did, however, evaluate this proposal within the context of the nine pricing criteria and the unique circumstances surrounding the escrow requirement as described in my responses to VP/USPS-T27-1c and VP/USPS-T27-9e.