

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

RATE AND SERVICE CHANGES TO IMPLEMENT  
BASELINE NEGOTIATED SERVICE AGREEMENT  
WITH BOOKSPAN

Docket No. MC2005-3

**RESPONSES OF POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
(VP/USPS-T1-1-7)**

The United States Postal Service hereby provides the responses of witness Plunkett to the following interrogatories of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc., filed on August 26, 2005: VP/USPS-T1-1-7.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 9, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PLUNKETT  
TO INTERROGATORY OF THE NEWSPAPER ASSOCIATION OF AMERICA

**VP/USPS-T1-1.**

Please describe separately each component of the Bookspan NSA that any subsequent NSA must contain in order to be considered or treated as functionally equivalent to the Bookspan NSA.

**VP/USPS-T1-1 Response**

The determination of functional equivalence ultimately depends on the Commission's Recommended Decision. From the perspective of the Postal Service, the most salient elements of the Bookspan NSA are:

- Applying declining block rates to Standard Mail Regular
- Existence of a similar multiplier effect.

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**VP/USPS-T1-2.**

For purposes of this interrogatory, please consider that Bookspan is one of a number of firms classified as continuity shippers, meaning that it regularly sends products to a list of people who have agreed to purchase some stipulated minimum number of items (which in the case of Bookspan is a minimum number of books) on a more or less regular basis. Other continuity shippers sell a variety of products, such as women's cosmetics, women's hosiery, etc.

- a. Is being a continuity shipper a critical component of this baseline Bookspan NSA? That is, in order for an NSA to be functionally equivalent to the Bookspan NSA, must the mailer be, or have the characteristics of, a continuity shipper?
- b. Please explain why being a continuity shipper would or would not be a critical component for a functionally equivalent NSA based on the Bookspan baseline NSA.

**VP/USPS-T1-2 Response**

Bookspan is not a continuity shipper, as I understand the term, but a negative option mailer.

- a. No. See also my response to VP/USPS-T1-1.
- b. Based on the definition of continuity shipper supplied in this interrogatory, it appears likely that continuity shippers would generally qualify as functionally equivalent according to the standards I describe in VP/USPS-T1. On the other hand, there may be other customers who employ Standard Mail Regular as an acquisition medium that generate other types of multiplier effects.

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**VP/USPS-T1-3.**

Witness Yorgey (USPS-T-2) estimates that about five-eighths of the additional contribution from the Bookspan NSA is derived from shifting existing mail volume from a low contribution rate category (*i.e.*, flats) to a higher contribution rate category (*i.e.*, letters).

- a. Is changing existing mail volume from a low contribution rate category to a higher contribution rate category considered to be a critical component of this baseline NSA, so that it would be required for any subsequent NSA to be considered functionally equivalent to the Bookspan NSA?
- b. If switching to a rate category with a higher contribution is not a critical component, or characteristic, in order for some subsequent NSA to be functionally equivalent to the Bookspan NSA, please explain all reasons why it is not.
- c. If switching mail volume to a rate category with a higher unit contribution is not a critical component for a subsequent NSA to be considered functionally equivalent to the Bookspan NSA, is the only critical component of this baseline NSA that it generates increased volume by providing a discount for such volume? Please list and explain any other critical component.
- d. If switching mail volume to a rate category with a higher unit contribution is a critical component of the Bookspan NSA, should a proposed functionally equivalent NSA be required to surpass a minimum percentage threshold for its share of increased contribution from switching to a higher rate category, or will any switching whatsoever qualify such NSA as functionally equivalent?

**VP/USPS-T1-3 Response**

- a. No.
- b. Presumably, customers will vary in their ability to alter the physical characteristics of their messages independent of their ability to comply with the criteria described in my response to VP/USPS-T1-1. The degree to which companies can or will convert letters to flats is important for understanding the financial impact of an NSA, but should not be regarded as a condition of qualification. In this case, the conversion of some flats to letters was an ongoing effort of Bookspan and was neither the basis nor the goal of the NSA.
- c. See my response to VP/USPS-T1-1.
- d. See my response to part a.

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**VP/USPS-T1-4.**

In order for any NSA subsequent to the proposed NSA with Bookspan to be considered functionally equivalent, does the mailer that is party to such NSA have to be a competitor of Bookspan? That is, does it have to be in the business of selling books (or other competing media)?

**VP/USPS-T1-4 Response.**

No. See also my response to VP/USPS-T1-1.

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**VP/USPS-T1-5.**

- a. Is increased volume a sine qua non for functional equivalency to the Bookspan NSA?
- b. Is increased volume the only prerequisite for functional equivalency to the Bookspan NSA? If not, what else constitutes the minimum requirement?
- c. (i) If increased volume is all that is needed for a commercial mailer to qualify for an NSA with one or more discounts for such volume, would non-profit mailers that offer the Postal Service increased volume also qualify for NSAs that are functionally equivalent to the Bookspan NSA?  
(ii) Is this what the Postal Service intends to achieve with the Bookspan NSA? If not, what does it intend, and how does the Postal Service propose to clarify/limit the number of mailers that, at least potentially, would be eligible for a functionally equivalent NSA?

**VP/USPS-T1-5 Response.**

- a. An NSA must produce a net gain in contribution for the Postal Service. In the Bookspan agreement, the Postal Service's gain in contribution arises from increases in Bookspan's Standard Mail Regular volume. Thus it is hard to imagine a viable NSA of the Bookspan type that did not produce a net gain in volume.
- b. No. See also my response to VP/USPS-T1-1.
- c. I have not researched non-profit mailers, and therefore can not judge whether there are any that produce a comparable multiplier effect. If a non-profit mailer were able to demonstrate a comparable multiplier effect, and it could be shown that declining block rates could be used effectively to produce a net gain in contribution, then we would explore the suitability of a functionally equivalent NSA.

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**VP/USPS-T1-6.**

Please answer the following questions with respect to the “multiplier effect.”

- a. If the “multiplier effect” is to be given any consideration, why has the Postal Service not presented any quantitative data to support the assertion that it exists?
- b. In the absence of any quantification of the “multiplier effect,” how can should the Commission evaluate this aspect of the proposed NSA?
- c. In the absence of any quantification of the “multiplier effect,” how can the Postal Service, the Commission and other mailers later evaluate the degree to which the Bookspan NSA has succeeded in adding incremental contribution over that received from Bookspan itself under the proposed NSA?
- d. What role does/should the “multiplier effect” have in the assessment of any subsequent NSA offered as “functionally equivalent?”
- e. What is the minimum threshold for “multiplier effects” below which no consideration should be recognized?

**VP/USPS-T1-6 Response.**

- a. The testimony of witness Posch describes the multiplier at length. Virtually all of Bookspan’s business is conducted through the mail. Irrespective of the precise magnitude of the effect, if the multiplier effect did not exist, then Bookspan would not exist.
- b. The Postal Service has not relied on the quantified value of the multiplier effect to demonstrate that the proposed NSA produces a net gain in contribution. As shown in the testimony of witness Yorgey, the NSA produces a net gain in contribution independent of the financial value of the multiplier effect. However, the presence of a multiplier effect of the kind described by witness Posch is a key condition of the NSA with Bookspan. The NSA is intended to produce revenue not only from additional Standard Mail letters due to the discounts offered, but also from the multiplier pieces.
- c. The Postal Service will be in a position to measure the changes in Bookspan’s mail volumes over the life of the NSA, and consequently will be able to

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demonstrate the value of the multiplier effect over time. Since the analysis provided by witness Yorgey demonstrates a gain in contribution apart from the multiplier effect, analysis of this effect can be deferred until the necessary empirical data exist.

d.-e. As described in my response to NAA/USPS-T1-7, functionally equivalent NSAs should produce a multiplier effect, which ought to be subject to a qualitative assessment. As such, there is no “minimum threshold” that can be stated in the abstract.

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**VP/USPS-T1-7.**

- a. With respect to the discount that the proposed NSA offers Bookspan if or when it switches existing mail volume from a low contribution category to a higher contribution category, would it be fair to say that the proposed discount offers pricing signals to Bookspan that, from the perspective of the Postal Service, are better than the pricing signals contained in the existing rate structure? Please explain any answer that is not an unqualified affirmative.
- b. If so, would it not be a better approach for the Postal Service to request the Commission to modify generally applicable rates to give the same pricing signals to all mailers? If not, please explain why not.
- c. If the Bookspan NSA were approved and implemented as proposed, would it in any way operate to lead to or cause a change in generally applicable rates more likely or less likely? Please explain.

**VP/USPS-T1-7 Response.**

- a. Negotiated Service Agreements are the result of direct negotiations with an individual customer. Consequently, the pricing signals that NSA discussions produce should almost always be “better” than signals applied more broadly through classifications. This NSA offers discounts for letters, regardless of whether they are the result of conversion from flats or new pieces. See my response to VP/USPS-T1-3b.
- b. Please see my response to OCA/USPS-T1-16.
- c. The approval and implementation of the proposed NSA would not directly influence the rates in the relevant subclasses. The Bookspan NSA is not designed to test such general price changes in any way.

## **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.

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