

**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

**RESPONSE OF WITNESS EPP TO PARTIALLY REDIRECTED
REQUEST OF THE PRESIDING OFFICER AT HEARINGS**

(October 28, 2005)

Bookspan hereby provides the response of Witness Epp to the partially redirected request of the Presiding Officer's concerning review of an OCA cross-examination exhibit at the hearings on October 19, 2005. Tr. 2/203.

The question is summarized and is followed by the response.

Respectfully submitted,

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During cross-examination of witness Yorgey on October 19, 2005, counsel for the OCA asked a series of questions concerned a cross-examination exhibit that she presented to the witness. Tr. 2/141-154. Subsequently, the Presiding Officer requested that the witness compare the exhibit with source data, examine the OCA's examples for accuracy, and, if needed, provide correct information with an explanation of how it was developed. Tr. 2/203.

Response:

In Witness Yorgey's response filed today, she indicates that "[i]n order to measure such a response accurately, all things, not just the letter mail mix as represented by the billing determinants, must be held constant," and directs Bookspan to provide further information to indicate whether my estimates "represent such a scenario of *ceteris paribus*." In this response, I address that point.

As Witness Yorgey suggests, the assumptions underlying these letter volume estimates under different scenarios are obviously not the same. This point is most simply illustrated by the simple fact that my estimated flat volumes also change. While a rate increase affects both letters and flats, the NSA discount only applies to letters, so in addition to the lower postage for letters (which by itself will help mail volume) flats now become more costly in relative terms which will lead to a shift from flats to letters. This shift would not be captured in any "postage-mail volume elasticity" if it existed. As a result, the increase in letter volume with an NSA discount will be higher than a corresponding decrease in letter volume when rates go up. (We assume rates go up for both formats, thus there is no relative price change between them.)

As I understand the point of the OCA's exhibit, the OCA incorrectly assumes that there exists a direct relationship, and therefore a quantifiable elasticity of mail volume in relation to postage. As I explained in my testimony, and during the hearing, postage paid

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for letters is only one of the factors that drive letter mail volume. It is an important factor, and that is why we have negotiated this NSA, but it is still only one. Other factors include (but are not necessarily limited to) the cost of books and paper, royalty rates, list costs, rental terms, other media costs, and marketing goals.

The existence of the NSA itself factors into marketing budgeting and planning. To reap the benefits of the NSA will requires changes in our marketing mix, so I would plan to shift money from other channels in order to achieve the commitment goals set by the NSA. Also, as a result of obtaining the NSA, corporate strategy may direct higher marketing goals in terms of new member growth, which may result in an increase in the overall marketing budget.