

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

OFFICE OF CONSUMER ADVOCATE FOLLOW-UP
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS MICHELLE K. YORGEY (OCA/USPS-T2-23-24)
November 1, 2005

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/USPS-T2-1-5 dated July 27, 2005, are hereby incorporated by reference.

Respectfully submitted,

SHELLEY S. DREIFUSS
Director
Office of the Consumer Advocate

EMMETT RAND COSTICH
Attorney

901 New York Avenue, NW Suite 200
Washington, D.C. 20268-0001
(202) 789-6830; Fax (202) 789-6891
e-mail: costicher@prc.gov

OCA/USPS-T2-23. Please refer to your response to the request of the Presiding Officer at the hearing on October 19, 2005. Tr. 2/203. That response, provided on October 28, 2005, included the Excel spreadsheet, "OCA_Exhibit_1.xls."

- a. Please confirm that in the worksheet "OCA Exhibit," the revised "TYAR 2006 "Average Revenue per piece" (i.e., assuming implementation of the 5.4 percent rate increase, and approval of the Bookspan NSA) is \$0.194. If you do not confirm, please provide the correct number, showing all calculations.
- b. Please confirm that the Bookspan NSA discount of \$0.02 induces new letter volume of 27 million (105 million – 78 million) in the TYAR 2006. If you do not confirm, please provide the correct number, showing all calculations.
- c. Please confirm that of the 27 million new letters induced in the TYAR 2006, 9,000,001 (87,000,001 – 78,000,000) letters generate an "Average Revenue per piece" of \$0.198, and revenue of \$1,778,151. If you do not confirm, please provide the correct numbers, showing all calculations.
- d. Please confirm that of the 27 million new letters induced in the TYAR 2006, 17,999,999 (105,000,000 – 87,000,001) letters generate an "Average Revenue per piece" of \$0.178 (\$0.198 – \$0.02), and revenue of \$3,196,301. If you do not confirm, please provide the correct numbers, showing all calculations.
- e. Please confirm that the TYAR 2006 "Average Revenue per piece" (i.e., assuming implementation of the 5.4 percent rate increase, and approval of the Bookspan NSA) that induces the 27 million new letters in the TYAR 2006 is \$0.184 ($(\$1,778,151 + \$3,196,301) / 27 \text{ million}$). (See Attachment OCA-2,

- below, for the calculation of Bookspan's Average Revenue per Piece of \$0.198 in the TYBR and \$0.184 in the TYAR.) If you do not confirm, please provide the correct number, showing all calculations.
- f. Please confirm that Bookspan's TYAR combined elasticity of demand for its Standard Regular Mail letter-size pieces is -4.225 ($(105 \text{ million} - 78 \text{ million}) / (78 \text{ million} + 105 \text{ million}) / ((\$0.184 - \$0.198) / (\$0.198 + \$0.184))$). (See Attachment OCA-2, below, for the calculation of Bookspan's Average Revenue per Piece of \$0.198 in the TYBR and \$0.184 in the TYAR.) If you do not confirm, please explain and provide your estimate of Bookspan's elasticity over the range of prices from \$0.184 to \$0.198.

OCA/USPS-T2-24. Please refer to the response of witness Epp to the partially redirected request of the Presiding Officer at the hearing on October 19, 2005, Tr. 2/203, provided on October 28, 2005. In his response, witness Epp states

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.

- a. Please confirm that witness Epp is referring to the cross-price elasticity of demand for flats with respect to the change in price of letters. If you do not confirm, please explain.
- b. Where the change in letter-size volume is based on Before Rates and After Rates volumes of 78 million and 88 million, respectively, please confirm that Bookspan's TYAR 2006 own-price elasticity of demand for letters is -1.725

- $$\left(\frac{((88 \text{ million} - 78 \text{ million}) / (78 \text{ million} + 88 \text{ million}))}{((\$0.198 - \$0.184) / (\$0.184 + \$0.198))} \right)$$
 If you do not confirm, please provide the correct number and show all calculations used to derive Bookspan's TYAR 2006 own-price elasticity of demand for letters.
- c. Where the change in letter-size volume is based on Before Rates and After Rates volumes of 95 million and 105 million, respectively, please confirm that Bookspan's TYAR 2006 own-price elasticity of demand for letters is -1.432
- $$\left(\frac{((105 \text{ million} - 95 \text{ million}) / (95 \text{ million} + 105 \text{ million}))}{((\$0.198 - \$0.184) / (\$0.184 + \$0.198))} \right)$$
- If you do not confirm, please provide the correct number and show all calculations used to derive Bookspan's TYAR 2006 own-price elasticity of demand for letters.
- d. Where the change in flat-size volume is based on Before Rates and After Rates volumes of 78 million and 95 million, respectively, please confirm that Bookspan's TYAR 2006 cross-price elasticity of demand for flats with respect to the change in price of letters is -2.814
- $$\left(\frac{((78 \text{ million} - 95 \text{ million}) / (78 \text{ million} + 95 \text{ million}))}{((\$0.198 - \$0.184) / (\$0.184 + \$0.198))} \right)$$
- If you do not confirm, please provide the correct number and show all calculations used to derive Bookspan's TYAR 2006 cross-price elasticity of demand for flats with respect to the change in price of letters.
- e. Where the change in flat-size volume is based on Before Rates and After Rates volumes of 88 million and 105 million, respectively, please confirm that Bookspan's TYAR 2006 cross-price elasticity of demand for flats with respect to the change in price of letters is -2.522
- $$\left(\frac{((88 \text{ million} - 105 \text{ million}) / (88 \text{ million} + 105 \text{ million}))}{((\$0.198 - \$0.184) / (\$0.184 + \$0.198))} \right)$$

- million + 105 million)) / (($\$0.198 - \0.184) / ($\$0.184 + \0.198))). If you do not confirm, please provide the correct number and show all calculations used to derive Bookspan's TYAR 2006 cross-price elasticity of demand for flats with respect to the change in price of letters.
- f. Please confirm that the average TYAR 2006 own-price elasticity of demand for letters is -1.578 ($(-1.725 - 1.432) / 2$). If you do not confirm, please provide the correct number and show all calculations used to derive the average TYAR 2006 own-price elasticity of demand for letters.
- g. Please confirm that the average TYAR 2006 cross-price elasticity of demand for flats with respect to the change in price of letters is -2.688 ($(-2.844 - 2.522) / 2$). If you do not confirm, please provide the correct number and show all calculations used to derive the average TYAR 2006 cross-price elasticity of demand for flats with respect to the change in price of letters.
- h. Please explain how the financial model for the Bookspan NSA, shown in your testimony at USPS-T-2, Appendix A, incorporated and analyzed the cross-price elasticity of demand for flats with respect to the change in price of letters.

**ATTACHMENT OCA-2
Base Year 2004**

Standard Mail Regular LETTER-SIZE Revenue per piece

| Mail Category | Bookspan average (FY 2004) | | | Revenue | |
|--------------------------|----------------------------|-------------------|----------------------|---------|-------------|
| | Rev/pc | Volume | Revenue | | |
| Nonauto Basic | \$ 0.262 | 1,518,805 | \$ 398,179 | | 1.7% |
| Nonauto 3/5-Digit | \$ 0.236 | 58,859 | \$ 13,882 | | 0.1% |
| Auto Mixed AADC | \$ 0.216 | 7,078,780 | \$ 1,529,430 | | 8.1% |
| Auto AADC | \$ 0.205 | 12,572,357 | \$ 2,575,943 | | 14.4% |
| Auto 3-digit | \$ 0.183 | 60,973,641 | \$ 11,138,540 | | 70.1% |
| Auto 5-digit | \$ 0.167 | 4,830,798 | \$ 805,554 | | 5.6% |
| Total | | 87,033,240 | \$ 16,461,528 | | 100% |
| Revenue per piece | | | \$ 0.189 | | |

Standard Mail ECR LETTER-SIZE Revenue per piece

| Mail Category | Rev/pc | Volume | Revenue | |
|--|----------|------------------|---------------------|-------------|
| Nonauto Basic Letters | \$ 0.171 | 5,575,871 | \$ 952,919.00 | 79.9% |
| Auto Basic Letters | \$ 0.148 | 1,405,645 | \$ 208,620.00 | 20.1% |
| Total | | 6,981,516 | \$ 1,161,539 | 100% |
| Revenue per piece | | | \$ 0.166 | |
| Average Revenue Letter-Size piece (FY 2004) | | | \$ 0.187 | |

Source: USPS-T-2 (Yorgey), Appendix A, at 3.

TYBR 2006

(Assumed R2005-1 Rate Increase)

5.4%

Standard Mail Regular LETTER-SIZE Revenue per piece

| Mail Category | Bookspan average (TYBR 2006) | | |
|--------------------------|------------------------------|-------------------|----------------------|
| | Rev/pc | Volume | Revenue |
| Nonauto Basic | \$ 0.276 | 1,260,087 | \$ 348,191 |
| Nonauto 3/5-Digit | \$ 0.249 | 48,833 | \$ 12,139 |
| Auto Mixed AADC | \$ 0.228 | 5,872,959 | \$ 1,337,423 |
| Auto AADC | \$ 0.216 | 10,430,744 | \$ 2,252,555 |
| Auto 3-digit | \$ 0.193 | 50,587,208 | \$ 9,740,191 |
| Auto 5-digit | \$ 0.176 | 4,007,905 | \$ 704,424 |
| Total | | 72,207,736 | \$ 14,394,923 |
| Revenue per piece | | | \$ 0.199 |

Standard Mail ECR LETTER-SIZE Revenue per piece

| Mail Category | Rev/pc | Volume | Revenue |
|--------------------------|----------|------------------|---------------------|
| Nonauto Basic Letters | \$ 0.180 | 4,626,060 | \$ 833,288 |
| Auto Basic Letters | \$ 0.156 | 1,166,203 | \$ 182,430 |
| Total | | 5,792,264 | \$ 1,015,718 |
| Revenue per piece | | | \$ 0.175 |

Average Revenue Letter-Size piece (TYBR 2006)

\$ 0.198

FY 2006

Before Rates (BR) Volume

| | |
|--------------------------------|--------------------|
| New Membership Std letter-size | 78,000,000 |
| New Membership Std Flat-size | 137,000,000 |
| Total | 215,000,000 |

After Rates (AR) Volume

| | |
|--------------------------------|--------------------|
| New Membership Std letter-size | 105,000,000 |
| New Membership Std Flat-size | 120,000,000 |
| Total | 225,000,000 |

| | |
|-------------------------------------|------------|
| Conversion Rate of Flats to Letters | 62.96% |
| New, Incremental Letters | 10,000,000 |
| Letters from Flats | 17,000,000 |

Source: USPS-T-2 (Yorgey), Appendix A, at 2.

TYAR 2006

(Weighted Average TYAR Discount) \$ 0.0133

Standard Mail Regular LETTER-SIZE Revenue per piece

| Bookspan average (TYAR 2006) | | | |
|-------------------------------------|---------------|-------------------|----------------------|
| Mail Category | Rev/pc | Volume | Revenue |
| Nonauto Basic | \$ 0.276 | 1,696,271 | \$ 468,719 |
| Nonauto 3/5-Digit | \$ 0.249 | 65,736 | \$ 16,341 |
| Auto Mixed AADC | \$ 0.228 | 7,905,907 | \$ 1,800,377 |
| Auto AADC | \$ 0.216 | 14,041,386 | \$ 3,032,286 |
| Auto 3-digit | \$ 0.193 | 68,098,164 | \$ 13,111,795 |
| Auto 5-digit | \$ 0.176 | 5,395,257 | \$ 948,262 |
| Total | | 97,202,722 | \$ 19,377,780 |
| Revenue per piece | | | \$ 0.199 |

Standard Mail ECR LETTER-SIZE Revenue per piece

| Mail Category | Rev/pc | Volume | Revenue |
|--------------------------|---------------|------------------|---------------------|
| Nonauto Basic Letters | \$ 0.180 | 6,227,389 | \$ 1,121,734 |
| Auto Basic Letters | \$ 0.156 | 1,569,889 | \$ 245,578 |
| Total | | 7,797,278 | \$ 1,367,312 |
| Revenue per piece | | | \$ 0.175 |

Average Revenue Letter-Size piece, Less Discount (TYAR 2006) \$ 0.184

Calculation of Weighted Average Revenue per Piece for Incremental Volume

| | Volume | Revenue |
|--------------|-------------------|---------------------|
| Undiscounted | 9,000,001 | \$ 1,778,151 |
| Discounted | 17,999,999 | \$ 3,196,301 |
| Total | 27,000,000 | \$ 4,974,452 |

| FY2006 | | |
|------------------|-------------|-----------------|
| Threshold | | Discount |
| 87,000,001 | 120,000,000 | \$ 0.020 |
| 120,000,001 | 150,000,000 | \$ 0.030 |
| | | |

Source: USPS-T-2 (Yorgey), Appendix A, at 7.

| | | Average Elasticity |
|---|---------------|-------------------------------|
| Bookspan Elasticity (combined), TYAR 2006 | -4.225 | |
| (Assumptions: 5.4%, plus NSA) | | |
| TYBR Letter-Size Volume | 78,000,000 | |
| TYAR Letter-Size Volume | 105,000,000 | |
| TYBR Average Revenue per piece (letters) | \$ 0.198 | |
| TYAR Average Revenue per piece (letters) | \$ 0.184 | |
| Bookspan Elasticity (own-price), TYAR 2006 | -1.725 | -1.578 |
| (Assumptions: 5.4%, plus NSA) | | |
| TYBR Letter-Size Volume | 78,000,000 | |
| TYAR Letter-Size Volume | 88,000,000 | |
| TYBR Average Revenue per piece (letters) | \$ 0.198 | |
| TYAR Average Revenue per piece (letters) | \$ 0.184 | |
| Bookspan Elasticity (cross-price), TYAR 2006 | -2.522 | |
| (Assumptions: 5.4%, plus NSA) | | |
| TYBR Flat-Size Volume | 88,000,000 | |
| TYAR Flat-Size Volume | 105,000,000 | |
| TYBR Average Revenue per piece (letters) | \$ 0.198 | |
| TYAR Average Revenue per piece (letters) | \$ 0.184 | |
| Bookspan Elasticity (cross-price), TYAR 2006 | -2.814 | -2.668 |
| (Assumptions: 5.4%, plus NSA) | | |
| TYBR Flat-Size Volume | 78,000,000 | |
| TYAR Flat-Size Volume | 95,000,000 | |
| TYBR Average Revenue per piece (letters) | \$ 0.198 | |
| TYAR Average Revenue per piece (letters) | \$ 0.184 | |
| Bookspan Elasticity (own-price), TYAR 2006 | -1.432 | |
| (Assumptions: 5.4%, plus NSA) | | |
| TYBR Letter-Size Volume | 95,000,000 | |
| TYAR Letter-Size Volume | 105,000,000 | |
| TYBR Average Revenue per piece (letters) | \$ 0.198 | |
| TYAR Average Revenue per piece (letters) | \$ 0.184 | |