

**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
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3**

(November 9, 2005)

Bookspan hereby provides the responses of Witness Epp to the Presiding Officer's Information Request No. 3 issued on November 2, 2005. Witness Epp responds to question 1, in part, and question 2.b. The Postal Service is responding to question 1, in part, and to questions 2.a, 2.c and 3 in a separate filing.

Each question is stated verbatim, followed by the response.

Respectfully submitted,

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1. At the hearings on October 19, 2005, the Presiding Officer asked witness Yorgey to examine an OCA cross-examination exhibit, and if necessary, provide corrected information. Tr. 2/202-3. Witness Yorgey provided a corrected version of the exhibit, including an explanation of her corrections. Her response includes a further statement regarding the applicability of the exhibit to the purpose for which OCA intended it.

The OCA exhibit purported to measure the volume response to changes in prices. In 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. Further information is needed from Bookspan in order to confirm whether witness Epp's estimates cited in the exhibit represent such a scenario of *ceteris paribus*.¹

Bookspan witness Epp provides a further response, which addresses the issue raised by Yorgey.² In his response, he states that, "As Witness Yorgey suggests, the assumptions underlying these letter volume estimates under different scenarios are obviously not the same." After describing the effects of what might be called a cross-elasticity between letters and flats, he goes on to identify several non-price factors that influence letter mail volume. This response indicates that Epp's volume forecasts assume differences between scenarios other than the implementation of the R2005-1 proposed rate increase and/or the implementation of the proposed NSA, as appropriate.

Please provide revised volume estimates that hold all factors other than the effects of Docket No. R2005-1, and/or the effects of the NSA (as appropriate to each scenario) constant. The Postal Service is also directed to revise USPS-T-2 Appendix A to incorporate before and after rates volume forecasts that assume all factors except the implementation of the NSA remain constant.

Response:

The scenario set forth in my response to POIR No. 1, Question 4.a. assumed no rate increases (contrary to what has been recommended in R2005-1), and no NSA. In light of the Commission's decision in R2005-1, that forecast is not valid.

¹ Response of United States Postal Service Witness Yorgey to Request of Presiding Officer at Hearings, October 28, 2005.

² Response of Witness Epp to Partially Redirected Request of the Presiding Officer at Hearings, October 28, 2005.

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The before and after NSA volume forecasts I provided in my testimony assumed that all factors except *the implementation of the NSA* remain constant. Those scenarios both assume that the increase the Postal Service proposed in R2005-1 would become effective. However, for Bookspan to "hold all factors other than...the effects of the NSA constant" is not the same as assuming that *all factors except postage* remain constant. My forecasts reflect the company's dynamic response to a long term price contract, rather than a static model of a response to a simple change in price.

I have previously attempted to describe Bookspan's dynamic marketing budgeting and planning process. (See my testimony at pp. 5-9, and Tr. at 4/508-510.) Various factors (aside from the applicable postage for a direct mail piece) that are influenced by the existence of this NSA comprise this dynamic response, and affect Bookspan's forecasted mail volume assuming the NSA is implemented. It may aid the Commission's understanding of this issue to offer a few illustrations of how some of these factors could play out to indirectly influence mail volume.

First, an NSA of three years' duration will have a durable favorable effect on Bookspan's postage costs, and thus has greater potential to alter marketing strategy more significantly than an anticipated increase in costs. A discount on postage will push some planned direct mail campaigns, campaigns that would otherwise not get executed, ahead of campaigns *in other media* in the campaign ranking process. Also, with respect to direct mail campaigns that would get executed, the discount will make lists (including lower cost internal lists) that are not currently projected as profitable appear profitable, so these additional lists would be added to these campaigns for execution. Because Bookspan already spends significantly more on planning and executing direct mail

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campaigns (including mailpiece design and production, paper, printing, list costs, and postage) than on other media (see OCA/Bookspan-T2-11(b) which is filed under seal), the existence of the NSA is likely to yield a significant increase in Bookspan's mail volumes in the first year following implementation of the NSA.

Second, the anticipated membership growth that would result from a sustained increase in direct mail would influence our ability to negotiate some of our agreements on the basis of increasing volumes. If the cost of these other agreements (e.g., printing and letter shop costs) go down, the funds that would otherwise have been applied to those costs would be available for new member acquisition. Over time, that would mean more mail volume.

Third, the existence of an NSA of three years' duration is likely to motivate the testing of campaigns during the first year with different mailpieces that are less costly to produce (e.g., solicit using a catalog of fewer pages or lower quality paper). If the results of these tests are favorable (in terms of response rate), these less costly mailpieces gradually could be introduced more widely, the budget savings could be re-allocated, and, again, generate more mail volume in later months and years.

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2.b. Do Bookspan witness Epp's volume forecasts include Standard Regular and Standard ECR, or just Standard Regular?

Response:

My volume forecasts do not distinguish between Standard Regular and Standard ECR.