

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS THRESS
TO INTERROGATORIES OF VALPAK (VP/USPS-T7-1 - 4)
(July 25, 2006)

The United States Postal Service hereby provides the response of witness
Thress to the following interrogatories of Valpak, filed on July 11, 2006: VP/USPS-T7-1

- 4.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

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July 25, 2006

**RESPONSE OF POSTAL SERVICE WITNESS THRESS
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VP/USPS-T7-1

Please refer to your testimony, page 9, Table 1.

a. In column 2, does the 2005 GFY volume of ECR mail, indicated as 31,966.424 million pieces, include ECR automation letters? If so, what was the volume of ECR automation letters in GFY 2005?

b. (i) Does the 2008 GFY Before-Rates volume forecast for ECR mail (col. 4, 33,295.868 million pieces) include ECR automation letters? If so, what is the volume of ECR automation letters included?

(ii) Does the 2008 GFY After-Rates volume forecast for ECR mail (col. 7, 29,346.811 million pieces) include ECR automation letters? If so, what is the volume of ECR automation letters included?

RESPONSE:

a. Yes. The volume of ECR automation letters in GFY 2005 was 2,033.139 million pieces.

b. (i) Yes. The before-rates volume of ECR automation letters in GFY 2008 is projected to be 2,118.585 million pieces.

(ii) No.

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VP/USPS-T7-2

a. Please refer to your testimony at Table 27 (USPS-T-7, p. 122), and please confirm that Table 27 indicates that the own-price elasticity of Standard (Commercial) ECR mail is estimated to be -1.079. If you do not confirm, please provide the correct figure for own-price elasticity of ECR mail.

b. Please refer to your testimony in Docket No. R2005-1, at Table 1 (USPS-T-7, p. 9), and please confirm that Table 1 indicates that the own-price elasticity of Standard (Commercial) ECR mail was estimated to be -1.093. If you do not confirm, please provide the correct figure for own-price elasticity of ECR mail in Docket No. R2005-1.

c. Referring to the own-price elasticity of Standard (Commercial) ECR mail in parts a and b, please discuss whether the decline in (absolute value of) own-price elasticity (from -1.093 to -1.079) is statistically significant.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. The difference between these two own-price elasticity estimates is not statistically significant. The R2005-1 own-price elasticity estimate had a standard error associated with it of 0.220. The current own-price elasticity has a standard error of 0.175. The difference between these two own-price elasticities, 0.014, has an estimated standard error of 0.281 and is therefore not statistically significant at any meaningful level of significance.

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VP/USPS-T7-3

- a. Please refer to your testimony at Table 25 (USPS-T-7, p. 114), and please confirm that Table 25 indicates that the own price elasticity of Standard (Commercial) Regular mail is estimated to be -0.296. If you do not confirm, please provide the correct figure for own-price elasticity of Standard Regular Mail.
- b. Please refer to your testimony in Docket No. R2005-1, at Table 1 (USPS-T-7, p. 9), please confirm that Table 1 indicates that the Postal own-price elasticity of Standard (Commercial) Regular mail was estimated to be -0.267. If you do not confirm, please provide the correct figure for own-price elasticity of Standard Regular Mail in Docket No. R2005-1.
- c. Referring to the own-price elasticity of Standard (Commercial) Regular mail in parts a and b, please discuss whether the increase in (absolute value of) own-price elasticity (from -0.267 to -0.296) is statistically significant.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The difference between these two own-price elasticity estimates is not statistically significant. The R2005-1 own-price elasticity estimate had a standard error associated with it of 0.076. The current own-price elasticity has a standard error of 0.072. The difference between these two own-price elasticities, 0.029, has an estimated standard error of 0.105 and is therefore not statistically significant at any meaningful level of significance.

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VP/USPS-T7-4

Please refer to your testimony at Figure 6 (USPS-T-7, p. 116).

- a. Please confirm that the total volume of ECR mail in PFY 1996 was approximately 29.0 to 29.5 billion pieces. If not confirmed, please provide the total volume of ECR mail in PFY 1996.
- b. Please confirm that the total volume of ECR mail in GFY 2005 was 31.97 billion pieces, as shown in Table 1 (USPS-T-7, p. 9). If not confirmed, please provide the total volume of ECR mail in GFY 2005.
- c. Please refer to your testimony at page 120, lines 22-23.
 - (i) Please explain in more detail what you mean by your reference to “a 26.4 percent decline in Standard ECR mail volume over the past ten years.”
 - (ii) Please reconcile the 26.4 percent decline in volume over the past 10 years with your statement at page 115, lines 9-11, of your testimony that “[s]ince [1988] volume has been relatively flat, with 2003 volume of only 29.3 billion pieces. Standard ECR volume has grown by about 9.0 percent over the past two years, however.”

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. (i) The 26.4 percent decline to which I refer in my testimony refers to the estimated econometric impact of changes to the nominal price of Standard ECR mail as well as a dummy variable for R97-1, as described in that paragraph of my testimony (page 120, lines 16 – 23). This 26.4 percent figure is shown in Table 26 of my testimony (page 118), in the row labeled “1995 – 2005, Total” in the column labeled “Own-Price.” The price of Standard ECR mail is actually entered into my demand equation in real dollars, after adjusting for the impact of inflation. As shown in Table 26 of my testimony, the 26.4 percent decline in Standard ECR mail volume due to nominal postage rate increases has, in fact, been nearly offset by the positive impact of inflation on real Postal rates, which has acted to

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increase Standard ECR mail volume by more than 23 percent over this same time period.

(ii) In addition to the impact of inflation on real postage prices, as explained in my answer to part (i), the negative impact of price changes on Standard ECR mail volume over this time period has been more than offset by other factors, including retail sales (+10.21 percent) and Investment (+10.36 percent).

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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