

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 NNA (NNA/USPS-T7-1 - 2)
(July 28, 2006)

The United States Postal Service hereby provides the response of witness
Thress to the following interrogatories of NNA, filed on July 14, 2006: NNA/USPS-T7-1

- 2.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 28, 2006

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NNA/USPS-T7-1

Please provide the basis for your statement on p. 220, line 6, that the Within County subclass "is comprised of small publications (mostly newspapers)". In particular, how do you know the subclass consists mostly of newspapers? Have you looked at whether this composition is primarily daily newspapers or newspapers published less frequently, such as weekly, twice weekly or thrice-weekly? Please explain your response.

RESPONSE:

This has been my understanding of the composition of the Within-County subclass since I began working on Postal volume forecasts prior to R94-1. I am not aware of any data sources which decompose Within County mail volume into newspapers and magazines, much less which decompose Within-County newspapers based upon the frequency of delivery.

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NNA/USPS-T7-2

Please refer to the chart on p 228 of your testimony.

- a. If you believe the subclass consists mostly of newspapers, please confirm that this mailing subclass requires publishers to distribute copies primarily to subscribers. If you do not believe this statement, please explain your answer.
- b. Do you have any data indicating that newspaper subscription trends are subject to seasonal variations? If so, please provide it. If not, please provide the assumption that led to the seasonal adjustments on this chart, and explain whether these adjustments include any assumptions about the nature of periodicity of the newspapers in the subclass.
- c. Please describe your level of confidence in that your own price elasticity and employment variables influence Within County mail volume per adult per delivery day and fully explain your response.
- d. Please review the following paragraph on pg. 223: "Periodicals Within-County mail is mail sent primarily within the county of publication. In general, Periodicals Within-County mail volume is affected by the same factors as 3 other types of Periodicals mail. There are, however, two significant omissions from the Periodicals Within-County demand equation: the price of paper and printing and the number of broadband subscribers. Neither of these variables was found to influence Periodicals Within-County mail volume. It is not entirely clear why these variables appeared to have no effect on Within-County mail volume. My hypothesis is that the producer price index for pulp, paper, and allied products may be a poor estimate of the cost of preparing Within-County mail and that the specific nature of Within-County mail makes it somewhat less vulnerable to Internet diversion." Please provide the best statistical results, including T-tests, that you achieved with the variables for paper and broadband subscribers before you decided to reject them in this analysis.
- e. Please provide any other runs that you did where the dependent variable for Within County mail was something other than Within County mail volume per adult per postal delivery day and explain why you did or did not take them into consideration in your analysis on this table.
- f. Have you examined the history of Within County rates in LR 73-1 or any other data describing the pattern of postage rate increases since 1970? If you have, please describe the period you examined, if any?
- g. Please describe your level of confidence in the own-price elasticities provided in table 225.

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h. Please confirm that the changes in time trend since 1993 that you describe roughly equate to the time period in which US adults acquired new possible information substitutes, such as the Internet. Can you explain why the amelioration in Within County that you see may have occurred within the time when information alternatives were growing rather than subsiding?

i. Do you attribute the decline in Within County mail volumes primarily to the factors under the column heading "Inflation" in Table 54?

RESPONSE:

a. It is my understanding that it is necessary to distribute copies primarily to subscribers in order to qualify for Periodicals rates regardless of whether the Periodical in question is a newspaper or not.

b. The seasonal coefficients presented in Table 55 on page 228 of my testimony are estimated empirically. That is, the extent to which these seasonal coefficients differ across different time periods form the basis for any assumptions which I have with regards to the periodicity of Periodicals Within-County mail volume.

c. My estimate of the own-price elasticity of Periodicals Within-County mail is -0.141 . This estimate has a standard error of 0.127 . My estimate of the elasticity of Within-County mail with respect to employment of 0.876 has a standard error of 0.450 . I am confident that each of these numbers represents the best possible estimate of the impact of these factors on Periodicals Within-County mail volume.

d. My most recent experiments with the price of paper and the number of Broadband subscribers as candidate explanatory variables were in preparation of my R2005-1 testimony. Econometric equations including these variables can be found in Library Reference LR-K-65, filed with that case, at pages 705 – 735.

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- e. I have not investigated any alternate dependent variables for Periodical Within-County mail other than per adult per Postal delivery day for at least the last several rate cases.
- f. The price of Periodical Within-County mail is an explanatory variable within my demand equation presented in this case. This equation is estimated over a sample period starting in 1983.
- g. I do not understand this question. My testimony does not have 225 tables and the table on page 225 (Table 54) does not present own-price elasticities. The numbers shown in Table 54 are the estimated impact of various factors on Periodicals Within-County mail volume historically and through the forecast period used in this case. My confidence in these numbers is directly related to my confidence in my econometric estimate of the own-price elasticity of Periodicals Within-County mail.
- h. Confirmed that the Internet has grown in importance coincident with the positive time trend in the Periodicals Within-County demand equation that starts in 1993Q1. I can only surmise that the factors which have led to the amelioration of the negative trend in Periodicals Within-County mail volume over this time period have been largely unrelated to the coincident increase in the importance of the Internet.
- i. No. Inflation has had a consistent positive influence on Periodicals Within-County mail volume as shown in Table 54. The primary factor driving the historical decline in Periodicals Within-County mail volume in Table 54 is Time Trends.

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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