

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T31-1 THROUGH 7)

The United States Postal Service hereby files the responses of witness O'Hara to above-listed interrogatories, filed on June 7, 2006.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF NEWSPAPER ASSOCIATION OF AMERICA**

NAA/USPS-T31-1.

Please refer to page 30, lines 15-17, of your testimony where you compare the unit contributions at proposed rates for Standard Regular and Enhanced Carrier Route mail.

- a. Please provide citations to the inputs that you used in making those calculations.
- b. Using the same methodology as in (a), please provide the contribution per piece at proposed rates of:
 - i. First Class letters subclass
 - ii. First Class single piece letters
 - iii. First Class presorted letters
 - iv. First Class cards subclass
 - v. Periodicals Outside County Regular Rate
 - vi. Periodicals In-County

RESPONSE:

- a. Revenue and volume-variable cost for each subclass are in my revised Exhibit 31B and the corresponding volumes in the TY08 AR workpapers, both to be filed.
- b. Cost data for the three Outside County subclasses are no longer reported individually, only the cost for all Outside County mail as an aggregate, so I have substitute the Outside County aggregate for the requested Outside County Regular Rate in the table below, based on the revised data.

	Volume	Revenue	Volume- Variable Cost	Unit Contri- bution
i. First Class letters subclass	85,749,198	35,871,060	15,688,385	0.2354
ii. First Class single piece letters	37,206,438	19,430,640	10,423,261	0.2421
iii. First Class presorted letters	48,542,760	16,440,420	5,265,124	0.2302
iv. First Class cards subclass	5,657,451	1,371,777	777,270	0.1051
v. Periodicals Outside County Total	8,049,954	2,394,326	2,250,111	0.0179
vi. Periodicals In-County	700,140	82,354	79,517	0.0041
vii. Standard Regular	75,188,113	17,364,127	9,836,572	0.1001
viii. Standard Enhanced Carrier Route	31,864,791	5,956,641	2,780,943	0.0997

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
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NAA/USPS-T31-2.

Table B-1 of your testimony presents the long-run own-price elasticities for various classes of mail estimated by witness Thress. You state on page 10 that the lower the absolute value of a type of mail, the greater its value of service. In view of the testimony of witness Bernstein on the subject of diversion of First-Class Mail to electronic alternatives, do you believe that First-Class Mail truly has a higher value of service than any other type of mail in Table B-1? Why?

RESPONSE:

Own-price elasticity has long been used to assess the economic value of service for each subclass relative to other subclasses. This elasticity measures the degree to which the demand for a product changes when its price changes, *holding constant everything else that affects demand for the product*, including the availability of electronic alternatives. Since econometricians can't actually hold "other things" constant at their initial levels, standard practice is to include in the estimated demand function a set of variables related to the relevant other things.

By doing this, the effect of own-price changes on demand for a subclass can be separated, at least approximately, from the effects of changes in other things such as the availability of electronic alternatives. When changes in other things have been controlled for in this way, I would not expect any particular change in economic value of service (i.e., own-price elasticity) as the availability of electronic alternatives has expanded.

As an aside, note that the estimated own-price elasticity of Within-County Periodicals falls between the elasticities for Presorted and Single-Piece First-Class Mail, indicating a similarly high economic value of service.

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NAA/USPS-T31-3.

For many years, First-Class Mail has both been a majority of the mailstream and has paid a majority of institutional costs. First-Class Mail is no longer a majority of the mailstream. Should First-Class Mail's relative decline as a share of the mailstream lead to a reduction in its institutional cost burden? Why or why not?

RESPONSE:

Not necessarily. Holding everything else constant (volume for all other subclasses, institutional cost, unit volume-variable cost, and cost-coverages), a reduction in First-Class Mail volume will reduce total contribution to an amount that is below the unchanged institutional cost.

To restore total contribution to its previous level, the average cost-coverage across all subclasses must be increased, and all nine pricing criteria must be considered in arriving at a new set of subclass coverages that together generate a total contribution equal to institutional cost. No general conclusion can be reached as to the direction and size of the resulting change in contribution from First-Class Mail.

It is quite possible for a reduction in both the absolute amount of First-Class Mail's contribution and its share of total contribution to be accompanied by an increase in its cost coverage and unit contribution.

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NAA/USPS-T31-4.

Please refer to page 29, lines 19-22 of your testimony. Did you review any information regarding the number and size of alternate delivery firms in preparing your testimony? If so, please describe what information you reviewed.

RESPONSE:

I did not. The Postal Service evaluates its rate proposals for their effect on "enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters" (Criterion 4) by comparing its proposed increases for products for which there are private sector enterprises delivering similar "mail matter" with the proposed increases for other products. Please see witness Kiefer's response to AAPS/USPS-T36-2, -6, & -8 for a detailed discussion of the Postal Service's proposed rate increases that are mostly likely to affect alternate delivery firms.

I believe that it would be very difficult, at best, for the Postal Service to acquire detailed information on the cost and demand structure faced by the alternative delivery industry sufficient to assess the causes of any recent changes in the number and size of alternate delivery firms. Any attempt to go beyond this and predict how much the number and size of alternative delivery firms in future years would be affected by the proposed rate increases seems to me unlikely to generate results that would be useful in a proceeding such as this.

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NAA/USPS-T31-5.

Please refer to page 29, lines 19-22 of your testimony. Is it your understanding that newspaper Total Market Coverage programs typically use Standard Enhanced Carrier Route mail (high-density or saturation levels as appropriate) to deliver preprints to nonsubscribers of the newspaper?

RESPONSE:

I understand that some newspapers have long used the Postal Service for this purpose and I further understand that in recent years the proportion of non-subscriber TMC volume that is delivered by the Postal Service has increased to the point that the word "typically" may now appropriate.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
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NAA/USPS-T31-6.

Please refer to page 29, lines 1-6 of your testimony. Are you aware of any information held by the Postal Service regarding how often it "is able to accommodate mailer requests for delivery within specific and sometimes relatively tight time frames"? If so, please provide such information. If not, please explain the basis for the quoted statement.

RESPONSE:

I am not aware of any such information held by the Postal Service. My statement is based on discussions over a period of years with mailers and with Postal Service personnel involved in customer service and operations.

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NAA/USPS-T31-7.

Please refer to page 29, lines 4-6 of your testimony. Is it your understanding that for the Postal Service to accommodate mailer requests for delivery within particular time frames for high-density and saturation mailings, the mailers must use destination entry? If so, please explain whether the Postal Service is able to achieve the same accommodations if the mailings are entered at the destination SCF than if entered at the destination DDU.

RESPONSE:

No level of destination entry is required. Of course, the further away from the DDU that mail is deposited, the earlier it must be entered relative to the desired time frame for its delivery. It is my understanding that mailers with strong preferences for delivery within a specified time frame typically know how far in advance their mail should be deposited at a particular entry point in order for it to be delivered within the requested time frame.

As for differences between DSCF and DDU entry, it is my understanding that requested delivery time frames are met with roughly the same consistency, as long as DSCF mail is deposited with adequate lead time. However, many saturation and high-density mailers choose DDU entry because (a) they can use what would have been "lead-time" to reduce the gap between the deadline for customer purchase of advertising in "this week's" mailing and the time of its delivery, and (b) DDU entry gives them direct control over when their mail arrives at the DU.