

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

INTERROGATORIES FROM THE UNITED STATES POSTAL SERVICE TO  
MAIL ORDER ASSOCIATION OF AMERICAWITNESS PRESCOTT  
(USPS/MOAA-T1-1-18)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories to Mail Order Association of America witness Prescott: USPS/MOAA-T1-1-18.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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INTERROGATORIES FROM THE UNITED STATES POSTAL SERVICE  
TO POSTCOM WITNESS PRESCOTT

**USPS/MOAA-T1-1.** Please refer to your testimony at page 2, lines 7-9, where you quote Postal Service witness O'Hara with regard to contribution per piece and cost coverages for ECR and Standard Regular.

- a. Please confirm that the TYAR markup index for ECR (the ratio of the markup for ECR to the markup for the system as a whole) in the Postal Service's proposal in this docket is 1.14 (please refer to TR. 17/5123). If you do not confirm, please provide the correct markup index.
- b. Please confirm that the TYAR markup index for Standard Regular in the Postal Service's proposal in this docket is 0.94. If you do not confirm, please provide the correct markup index.
- c. Please confirm that the markup index for ECR recommended by the Postal Rate Commission in R2005-1 was 1.79. If you do not confirm, please provide the correct markup index.
- d. Please confirm that the markup index for Standard Regular recommended by the Postal Rate Commission in Docket No. R2005-1 was 0.67. If you do not confirm, please provide the correct markup index.

**USPS/MOAA-T1-2.** Please refer to your testimony at page 4, lines 16-18, where you state, "The USPS's analysis of the own-price elasticity has shown that the elasticity of ECR mail has increased over time. This means that increased rates for ECR are having a more substantial impact on volumes today than in past years." Please confirm that, when developing the Test Year After Rates volume forecast for ECR (the estimated volume that will result after the rates proposed by the Postal Service are implemented), witness Thress already incorporated into the TYAR estimate the impact of the fact that his own-price elasticity estimate is higher in this case than it was in Docket No. R97-1. If you do not confirm, please describe the changes to witness Thress's forecast that you would recommend.

**USPS/MOAA-T1-3.** Please refer to your testimony at page 4, lines 19-25 where you discuss the coverage ratio implicit in the TYAR rates recommended in Docket Nos. R97-1, R2000-1 and R2001-1. You state, "In those proceedings, the PRC envisioned that coverage ratios for ECR mail would range between 195 percent and 201 percent. The actual coverage ratios for ECR mail ranged between 233 percent and 263 percent."

- a. Please confirm that the coverage ratios "envisioned" by the PRC were calculated on the basis of "PRC Version" of CRA costing. If you cannot confirm, please identify the basis upon which those coverage ratios were calculated.
- b. Please confirm that the actual coverage ratios for ECR that you cited as falling between 233 percent and 263 percent were calculated on the basis of "USPS Version" of CRA costing. If you cannot confirm, please identify the basis upon which those coverage ratios were calculated.
- c. Please confirm that there are several reasons that the actual coverage ratios might end up higher than projections, including:
  1. Unanticipated improvements in efficiency in postal operations
  2. Unanticipated changes in mail mix resulting in a higher proportion of lower cost mail.
  3. Changes to costing methodology

Please explain each response that does not confirm.

**USPS/MOAA-T1-4.** Please refer to your testimony at page 4, lines 26-29, where you project the coverage ratio for ECR in TYAR 2008. Please clarify whether your projections are based on PRC Version or USPS Version CRA costing methodology.

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**USPS/MOAA-T1-5.** Please refer to your testimony at page 7, line 22. Please define “market-based pricing” as you have used the term.

**USPS/MOAA-T1-6.** Please refer to your testimony at page 7, lines 23-24. Please provide the basis of your statement that the establishment of the ECR subclass was to “help preserve or increase mail volumes for the Third Class Bulk Rate Regular carrier route mail that became the ECR subclass.”

**USPS/MOAA-T1-7.** Please refer to your testimony at page 8, lines 15-17. Please explain the relevance of this quote to the ECR subclass.

**USPS/MOAA-T1-8.** Please refer to page 10, lines 4-8, of your testimony where you quote Postal Service witness Bernstein’s R2001-1 testimony regarding the relationships between markups and elasticities.

- a. Please confirm that in that paragraph, witness Bernstein was describing the implications of the construct of Ramsey Pricing. If you do not confirm, please explain.
- b. Please confirm that the Postal Service did not propose Ramsey prices in Docket No. R2001-1. If you do not confirm, please explain.
- c. Please confirm that the Postal Service is not proposing Ramsey prices in this current docket. If you do not confirm, please explain.

**USPS/MOAA-T1-9.** Please refer to your testimony at page 11, lines 1-4, where you state, “The increasing elasticity means that rate increases in R2006-1 will create a greater decline in volume than caused by the increased rates in R97-1. This increased sensitivity should caution the PRC to *avoid an increase in rates for ECR mail.*”[emphasis added]

- a. Please confirm that the impact of the proposed rates as reflected in the higher own-price elasticity for ECR is already incorporated into the volume forecast for ECR in TYAR by USPS witness Thress. If you do not confirm, please explain.
- b. Is it your testimony that the PRC should not raise ECR rates at all? Please explain fully.

**USPS/MOAA-T1-10.** Please refer to your testimony at page 13, lines 1-8. Please explain the source of your understanding that witness O’Hara *first* set the contribution per piece target for ECR and *then* raised the contribution per piece for Standard Regular to meet the contribution per piece for ECR.

**USPS/MOAA-T1-11.** Please refer to your testimony at page 13, lines 1-8. Is it your testimony that the cost coverage for Standard Regular was inflated in order to meet the ECR goal of contribution per piece? Please explain fully.

**USPS/MOAA-T1-12.** Please refer to your testimony at page 13, lines 10-11, and explain the relevance of the reference to the PRC statement that “no attention was given to the implicit contribution of any individual piece.” Please explain how this quote, referring to implicit contribution of individual pieces, should be understood to support your testimony regarding the cost coverage for a subclass.

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**USPS/MOAA-T1-13.** Please refer to your testimony at page 13, lines 12-13, where you state, "In R2001-1, the PRC stated that the measure of the institutional burden for any subclass should be determined based on the coverage ratios and mark-up indexes."

- a. Please confirm that the ECR markup index based on the Postal Service's proposed rates in this docket is 1.14 for TYAR 2008. If you do not confirm, please provide the correct markup index.
- b. Please confirm that the markup index projected for TYAR 2008 is lower than all markup indices since 1994, as shown at Tr. 17/5123.

**USPS/MOAA-T1-14.** Please refer to your testimony at page 14, footnote 22, where you note that the coverage ratio for ECR mail was 204 percent.

- a. Please confirm that the coverage ratio cited is developed based on USPS Version of CRA costing. If you do not confirm, please explain.
- b. Please confirm that the 204 coverage ratio shown for FY 2005 is the lowest coverage ratio for ECR since FY 1994, with the exception of FY 1999. If you do not confirm, please explain.
- c. Please confirm that the coverage ratio of 214 shown as the anticipated coverage ratio for ECR in TYAR 2008 is the lowest coverage ratio for ECR since FY 1994 with the exceptions of FY 1999, FY 2005 and TYBR 2006. If you do not confirm, please explain.

**USPS/MOAA-T1-15.** Please refer to your testimony at page 14, lines 5-7, where you note that the contribution per piece for ECR equaled 8.4 cents per piece. Please confirm that this figure is for FY 2005, PRC Version of CRA costing. If you do not confirm, please explain what this figure represents.

**USPS/MOAA-T1-16.** Please refer to your testimony at page 17. Please confirm that the coverage ratios cited in your column (3) of Table 2 were developed using PRC Version CRA costing, whereas the coverages shown in your column (4) were developed using USPS Version CRA costing. If not confirmed, please explain.

**USPS/MOAA-T1-17.** Please refer to your testimony at page 18, lines 5-7.

- a. Please confirm that the calculations that were used to develop your estimated range of projected coverage ratios in TYAR were performed by dividing a USPS Version actual cost coverage by a PRC Version target coverage in each case. If not confirmed, please explain.
- b. Please explain how any other factors – such as changes in mail mix, changes in use of dropship, etc. – that might affect the average revenue per piece could have influenced the actual cost coverages resulting from the three dockets to which you refer, and whether the effects that you describe will also be expected to present the same impact on TYAR revenue per piece estimates in this docket.

**USPS/MOAA-T1-18.** Please refer to your testimony at page 19 where you note that ECR volume in 2005 was 6 percent lower than ECR volume in 1998. Please describe any non-postal rate factors that would have contributed to the decline in ECR volume, for example, the impact of the Internet.