

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

Postal Rate Commission
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Postal Rate and Fee Changes, 2006

Docket No. R2006-1

**NEWSPAPER ASSOCIATION OF AMERICA
INTERROGATORIES TO
GREETING CARD ASSOCIATION WITNESS JAMES A. CLIFTON
(NAA/GCA-T1-1-5)
October 4, 2006**

The Newspaper Association of America hereby submits the attached interrogatories to Greeting Card Association witness James A. Clifton (GCA-T-1) and respectfully requests a timely and full response under oath.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants requesting such service in this proceeding in accordance with section 12 of the Rules of Practice.

October 4, 2006

William B. Baker
William B. Baker

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NAA/GCA-T1-1: Please refer to pages 2 and 3 of your testimony, where you state that an incorrect elasticity estimate “. . .leads to flaws in rate proposals and the revenue requirement, and flaws in the assignment of institutional cost coverages based on faulty demand elasticities and other perceptions of market conditions.” One of the components used to determine rates and to determine an appropriate institutional cost contribution for a mail subclass is that subclass’s value to mailers.

- (a) Were one to know only the *correct* own-price elasticity of demand for a particular mail subclass, would that information be sufficient to accurately determine the value of that subclass to mailers? Put differently, are there factors other than the elasticity of demand that determine the overall value of the subclass and therefore inform the appropriate contribution of that subclass to institutional costs?
- (b) Is it possible that a mail subclass with a demand that is significantly more elastic (at current price of that subclass) than some other mail subclass (at the current price of that other subclass) offers value to mailers that significantly exceeds the value to mailers of the other (more *inelastic*) subclass? Please explain, and in particular explain the role played by the volume of each subclass in determining the total value of that subclass.

NAA/GCA-T1-2: Is it a fair interpretation of your testimony that the emergence of the Internet, including email and electronic payment systems, should have (and did)

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make the own-price elasticity of demand for single-piece First Class letters relatively more elastic over time, but that the Postal Service's volume forecasts would suggest that that demand has become *less* elastic?

NAA/GCA-T1-3: Please explain your qualitative understanding as to why the price elasticity of Standard Regular mail appears to be declining during the periods of time covered by your testimony. Please address what effect you believe that the growth of the Internet may have on Standard Regular mail.

NAA/GCA-T1-4: Please refer to page 53, lines 17 to 21, of your testimony. Please explain what you mean by "At the margin for the R2005-1 rate case" and the meaning of the -0.765 and -0.190 price elasticities presented there.

NAA/GCA-T1-5: Please refer to page 59 of your testimony, where you compare the unit contributions to institutional costs of First-Class single piece and Standard Regular mail. Please explain how comparisons of unit contributions should be used in postal ratemaking.