

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

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**POSTAL RATE AND FEE CHANGES, 2006**

**DOCKET NO. R2006-1**

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**RESPONSES OF WITNESS ANGELIDES TO INTERROGATORIES OF  
THE UNITED STATES POSTAL SERVICE  
USPS/POSTCOM-T4-1-4**

The Association for Postal Commerce and the Mailing and Fulfillment Service Association (herein collectively "PostCom") hereby provide the response of Witness Angelides to Postal Service interrogatories USPS/POSTCOM-T4-1 - 4, filed September 20, 2006.

The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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OF THE UNITED STATES POSTAL SERVICE

**USPS/POSTCOM-T4-1** Please refer to Table 3 on page 10 of your testimony.

(a) Please confirm that your table shows that, without a price increase, Standard Mail Regular parcels would fail to cover their costs by more than \$126 million.

(b) Please confirm that your table shows that, with the Postal Service's proposed price increases and with the assumption that Standard Mail Regular parcels have an own-price elasticity that is the same as Parcel Post's elasticity (-1.399), Standard Mail parcels would make a positive contribution toward the Postal Service's institutional costs.

**RESPONSE:**

(a) Given the inputs to Table 3 on page 10, the calculated contribution to institutional costs is -\$126,501,887. The contribution, which is presented for illustrative purposes, is calculated assuming a unit cost for Standard Parcels of \$0.9912, which is a number taken from witness Talmo (USPS-LR-L-135).

However, I understand that the unit cost for Standard Parcels is in dispute in this proceeding. It is not my testimony that \$0.9912 per unit for Standard parcels is the correct cost. If the unit cost for Standard Parcels is not \$0.9912, then, all else being equal, the contribution to institutional cost shown on Table 3 will not be -\$126,501,887.

(b) Given the inputs to Table 3 on page 10, the calculated contribution to institutional costs is \$42,679,620. As discussed above, the contribution, which is presented for illustrative purposes, is calculated assuming witness Talmo's unit cost for Standard Parcels of \$0.9912. If the unit cost for Standard Parcels is not

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\$0.9912, the contribution to institutional cost shown on Table 3 will not be  
\$42,679,620.

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**USPS/POSTCOM-T4-2** Please refer to page 6 your testimony, where you quote witness Kiefer's testimony and then assert: "[t]his indicates that the Postal Service considers Standard parcels to be similar in many respects to Parcel Post."

(a) Please explain whether it is your assertion that, if the Postal Service desires to merge Standard Mail parcels with Parcel Post parcels, it means that the Postal Service believes that the two parcel groups have the same own-price elasticity?

(b) Please explain whether it is your assertion that, if mail pieces are "similar in many respects," including own-price elasticity, they should be in the same subclass?

**RESPONSE:**

(a) I do not know whether the Postal Service believes the two parcel groups have the same own-price elasticity.

(b) It is not my assertion that "if mail pieces are 'similar in many respects,' including own-price elasticity, they should be in the same subclass."

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**USPS/POSTCOM-T4-3** Please refer to page 7 your testimony, where you describe the options that parcels mailers have to ship via a private carrier instead of using the Postal Service, although these options are “more expensive.”

(a) In your view, would the price increases proposed by the Postal Service make a typical Standard Mail parcel mailed from a mail order business to a home address more expensive than the same parcel shipped via a private carrier? Please explain your answer.

(b) If your response to the previous question is negative, would your view change if the Standard Mail parcel also included electronic Delivery Confirmation? Please explain your answer.

**RESPONSE:**

These questions are vague. However, as I am interpreting the questions, my answer is as follows:

(a-b) I have not undertaken a full study of private carrier rates compared to the Postal Service's rates, or of Postal Service and private carrier ancillary services. However, all else being equal, if the price increase proposed by the Postal Service were implemented, then shipping via the Postal Service would become more expensive relative to private carrier rates than it was prior to the price increase.

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**USPS/POSTCOM-T4-4.** Please refer to page 7 of your testimony, where you have a section entitled “Standard Parcels Have Non-Postal Service Alternatives.”

(a) Is it your contention that Standard Letters and Flats do not have nonpostal alternatives, or that those alternatives do not exert as much upward pressure on the own price elasticity of those categories (in absolute terms) as the alternatives for parcels identified in your testimony do with regard to the own price elasticity for parcels? Please explain fully.

(b) With respect to the parcel alternatives you identify on page 7, are you aware of any national private carrier of parcels that offers a published rate schedule specifically for parcels (other than expedited parcels) weighing less than one pound, such that parcels of different weights under one pound (e.g., 4 ounces, 8 ounces, 12 ounces) pay different rates? If so, please identify such carriers. If not, does this fact suggest that the effect of the theoretical alternative created by the existence of these shippers is likely to be much smaller empirically with respect to parcels under one pound, compared with the parcels over one pound that constitute the bulk of Destination Entry Parcel Post, for which those private shippers compete vigorously? Please explain your answers fully.

(c) With respect to your footnote 10 on page 7; would you agree that for any shipper with the option of sending its CDs or DVDs electronically, the cost advantages to them of choosing that alternative are already such that any increase in postal price, by itself, is unlikely to cause much additional switching to available electronic options? If not, why not? If you agree, would you further agree that the effect of the availability of these electronic options is therefore unlikely to have much of an empirical effect on the own-price elasticity of Standard Parcels? If not, why not.

**RESPONSE:**

(a) I have not offered testimony regarding non-postal alternatives to Standard Letters and Flats. I have not investigated the elasticity of Standard Letters and Flats with respect to non-postal alternatives.

(b) I have not conducted a full analysis of the rate schedules of national private carriers of parcels. However, I am not currently aware of any carrier that offers a published rate schedule specifically for parcels (other than expedited

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parcels) weighing less than one pound, such that parcels of different weights under one pound (e.g., 4 ounces, 8 ounces, 12 ounces) pay different rates.

The wording of the remainder of this part is extremely confusing. Also, it is not clear what "shippers" the question is referring to in the seventh line of the question. However, as I interpret the question, I have not seen sufficient evidence regarding the elasticity of parcels under one pound to make a determination regarding the effect of potential alternative carriers on the elasticity of these parcels relative to the effect of potential alternative carriers on the elasticity of parcels over one pound. I am not aware of evidence from the Postal Service that would be sufficient to form the basis for such a determination.

(c) I do not agree. I have not conducted an investigation into the specific cost advantages of delivering CD or DVD content electronically.