

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

FOLLOW-UP INTERROGATORIES OF THE UNITED STATES POSTAL
SERVICE TO GCA WITNESS CLIFTON
(USPS/GCA-T1-81 - 95)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the following follow-up interrogatories to GCA witness Clifton: USPS/GCA-T1-81 - 95.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX -5402
October 6, 2006

USPS/GCA-T1-81. In your response to USPS/GCA-T1-48, you make the following claim: “It seems you are calculating the change in volume for a percentage change in price” while “[t]he sum of the coefficients of single-piece price and its lag which I have estimated gives the change in volume for one unit change in price.” Please confirm that for any specific change in price from P_1 to P_2 , this change could be expressed as either a “percentage change in price”, i.e., $(P_2 / P_1) - 1$, or a “unit change in price”, i.e., $P_2 - P_1$. If not confirmed, please explain fully.

USPS/GCA-T1-82. In your response to USPS/GCA-T1-48, you make the following claim: “It seems you are calculating the change in volume for a percentage change in price” while “[t]he sum of the coefficients of single-piece price and its lag which I have estimated gives the change in volume for one unit change in price.” Please confirm that a change in price from \$0.410336 to \$0.451369 represents a unit change of \$0.041034. Please further confirm that this unit change in price could be written mathematically as $(\$0.451369 - \$0.410336)$. If not confirmed, please explain fully.

USPS/GCA-T1-83. In your response to USPS/GCA-T1-48, you claim that the interrogatory “calculat[es] the change in volume for a percentage change in price.” USPS/GCA-T1-48(d) expresses the change in the First-Class single-piece letters price as “ $(\$0.451369 - \$0.410336)$.” Please confirm that $(\$0.451369 - \$0.410336)$ expresses the “unit change in price.” If you cannot confirm, please identify the “unit change in price” which would result from an increase in the price of First-Class single-piece letters from \$0.410336 to \$0.451369.

USPS/GCA-T1-84. In your response to USPS/GCA-T1-48, you claim that the interrogatory “calculat[es] the change in volume for a percentage change in price.” USPS/GCA-T1-48(g) expresses the change in the average First-Class worksharing discount as “ $(\$0.113192 - \$0.072158)$.” Please confirm that

(\$0.113192 - \$0.072158) expresses the “unit change in price.” If you cannot confirm, please identify the “unit change in price” which would result from an increase in the average First-Class worksharing discount from \$0.072158 to \$0.113192.

USPS/GCA-T1-85. Your response to USPS/GCA-T1-48 failed to confirm part (d) of that question:

Please confirm that, given the functional form of your equation, the impact of a 10 percent increase in the price of First-Class single-piece letters would be equal to the following:

$$\begin{aligned} \text{Change in volume (pieces per adult per day)} &= \\ (\$0.451369 - \$0.410336) * (-1.0552) &= -0.0433 \end{aligned}$$

Please provide the correct formulation for the impact of an increase in the price of First-Class single-piece letters from \$0.410336 to \$0.451369 given the functional form of your equation. For the purposes of your answer, please interpret the change in the price of First-Class single-piece letters as a “unit change in price.”

USPS/GCA-T1-86. Your response to USPS/GCA-T1-48 failed to confirm part (g) of that question:

Please confirm that, given the functional form of your equation, the impact of a change in the average worksharing discount from \$0.072158 to \$0.113192 would be equal to the following:

$$\begin{aligned} \text{Change in volume (pieces per adult per day)} &= \\ (\$0.113192 - \$0.072158) * (1.2683) &= +0.0520 \end{aligned}$$

Please provide the correct formulation for the impact of an increase in the average worksharing discount from \$0.072158 to \$0.113192 given the functional form of your equation. For the purposes of your answer, please interpret the change in the average worksharing discount as a “unit change in price.”

USPS/GCA-T1-87. Your response to USPS/GCA-T1-48 failed to confirm part (h) of that question:

Please confirm that, combining the impacts shown in d. and g. above, the total change in the volume of First-Class single-piece letters (pieces per adult per day) predicted by your model, given a 10 percent increase in the price of First-Class single-piece letters, holding the price of First-Class workshared letters constant, will be equal to an increase of 0.0087 (minus 0.0433 plus 0.0520).

Please provide the correct value for “the total change in the volume of First-Class single-piece letters (pieces per adult per day) predicted by your model, given a 10 percent increase in the price of First-Class single-piece letters, holding the price of First-Class workshared letters constant” given your responses to USPS/GCA-T1-85 and USPS/GCA-T1-86 above.

USPS/GCA-T1-88. Please answer USPS/GCA-T1-48(i) with respect to the answer which you provide in your response to USPS/GCA-T1-87.

USPS/GCA-T1-89. USPS/GCA-T1-48(k) asked the following:

Please confirm that your model would predict that a reduction in the price of First-Class single-piece letters, coupled with an equal reduction in the average First-Class worksharing discount, would predict a reduction in the volume of First-Class single-piece letters. If you cannot confirm, please explain fully.

You do not appear to have answered this question. Please do so now. For the purposes of your answer, please interpret the word “reduction” to refer to a “unit change in price.”

USPS/GCA-T1-90. In your response to USPS/GCA-T1-48, you relied upon average own-price and discount elasticities over the period from 1983 – 2005, based upon your equation in Table A-8 of your testimony. For example, you calculated the discount elasticity based upon an average First-Class worksharing discount of “0.0610.”

The example in USPS/GCA-T1-48 refers explicitly to prices in “GFY 2005.” For example, the average First-Class worksharing discount used in steps (v) - (viii) of your response to USPS/GCA-T1-48 is equal to “\$0.072158.”

Please confirm that the average First-Class worksharing discount which is used to calculate the discount elasticity should be equal to the average First-Class worksharing discount identified in steps (v) – (viii) of your response to USPS/GCA-T1-48 in order for your answer to be correct mathematically. If not confirmed, please explain fully.

USPS/GCA-T1-91 In your response to USPS/GCA-T1-48, you relied upon average own-price and discount elasticities over the period from 1983 – 2005, based upon your equation in Table A-8 of your testimony. The example in USPS/GCA-T1-48 refers explicitly to prices in “GFY 2005.”

Please repeat the calculations which you provide in response to USPS/GCA-T1-48 using own-price and discount elasticities for GFY 2005.

USPS/GCA-T1-92. In your response to USPS/GCA-T1-48, you indicate that “the impact of a change in the average worksharing discount from \$0.072158 to

\$0.113192 would be” to increase volume by “3.64%.” Why do you believe that a change in the relative prices of First-Class single-piece and workshared letters that would make First-Class single-piece letters more expensive relative to First-Class workshared letters would lead to an increase in First-Class single-piece letters volume?

USPS/GCA-T1-93. In your response to USPS/GCA-T1-48, you indicate that “the impact of a change in the average worksharing discount from \$0.072158 to \$0.113192 would be” to increase volume by “3.64%.” What do you believe would be the source of this 3.64 percent increase in First-Class single-piece letters volume resulting from this increase in the average First-Class worksharing discount? That is, would this represent mail that was not previously sent through the Postal Service or would it represent mail that was previously sent as some other category of mail? If you believe that this would represent mail that was not previously sent through the Postal Service, to what incentives would such mail be responding in this case, in light of a 10 percent increase in the price of First-Class single-piece letters. If you believe that this would represent mail that was previously sent as some other mail category, what mail category do you believe this mail would have previously been sent as, and what precisely do you believe would be the incentives which would prompt such mail to shift to First-Class single-piece letters?

USPS/GCA-T1-94. In your response to USPS/GCA-T1-48, you indicate that “the impact of a change in the average worksharing discount from \$0.072158 to \$0.113192 would be” to increase volume by “3.64%.” In your opinion, would you expect an increase in the average First-Class worksharing discount to lead to an increase or a decrease in the volume of First-Class workshared letters? If your expectation is that an increase in the average First-Class worksharing discount would lead to an increase in the volume of First-Class workshared letters, please explain how this expectation is consistent with your response to USPS/GCA-T1-48 as quoted in this question. If your expectation is that an increase in the

average First-Class worksharing discount would lead to a decrease in the volume of First-Class workshared letters, please explain your answer fully and provide all evidence in support of your position.

USPS/GCA-T1-95. In your response to USPS/GCA-T1-48, you claim that “[t]he sum of the coefficients of single-piece price and its lag which I have estimated gives the change in volume for one unit change in price.” Based on your model, what would be the impact on First-Class single-piece letters volume of a one-cent decrease in the price of First-Class single-piece letters, holding the price of First-Class worksharing letters constant? That is, based on your model, what would be the impact on First-Class single-piece letters volume of a one-cent decrease in the price of First-Class single-piece letters and a corresponding one-cent decrease in the average First-Class worksharing discount?

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.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
October 6, 2006