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**POSTAL RATE AND FEES CHANGES, 2006**

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**Docket No. R2006-1**

**RESPONSE OF MAIL ORDER ASSOCIATION  
WITNESS ROGER C. PRESCOTT TO INTERROGATORIES OF  
NEWSPAPER ASSOCIATION OF AMERICA (NAA/MOAA-T1-1-5)**

The Mail Order Association of America (MOAA) submits the answers of MOAA witness Roger C. Prescott to NAA/MOAA-T1-1-5.

Respectfully submitted,

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David C. Todd  
Patton Boggs, LLP  
2550 M Street, NW  
Washington, DC 20037  
Tel: 202 457 6410  
Fax: 202 457 6315  
[dtodd@pattonboggs.com](mailto:dtodd@pattonboggs.com)

Counsel for Mail Order Association of America

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**RESPONSE OF MOAA WITNESS ROGER C. PRESCOTT TO  
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA**

Q: NAA/MOAA-T1-1: Please refer to page 4, line 7, of your testimony. Is it your testimony that the objective that the Postal Service should seek when proposing rates is “to preserve (or increase) mail volumes”?

Response:

The PRC’s Opinion and Recommended Decision in R2005-1 (“R2005-1 Decision”) recognized the legitimacy of the policy goal of “maintaining and increasing mail volumes” as presented by the USPS in Docket No. 94-1 (R2005-1 Decision, page 93). Since the Postal Service’s policy goal related to all mail categories, I believe that this goal encompasses the ECR subclass.

In Docket No. MC95-1, the USPS’s Witness Charles C. McBride stated the following regarding establishing the ECR subclass as a way to respond to competition for advertising mail:

As the Postal Service is faced with increasing competition for hard copy delivery, the most likely incursions into the existing customer and volume base will occur in those areas where the unit cost for delivery is less than the average but is not adequately reflected in price, giving competitors an opportunity to price their services to attract the lower cost Postal Service products out of the mailstream. The Enhanced Carrier Route subclass is a first step to counter that competitive strategy. (Docket No. MC95-1, USPS-T-1, page 29)

Furthermore, the PRC stated in the Docket No. MC95-1 Opinion and Recommended Decision that:

The Commission agrees that a more equitable rate schedule will result from the establishment of an Enhanced Carrier Route subclass within Standard Mail. The driving factor for the definition of the subclass, however, is the perceived differences in demand as well as costs, and the corroborating evidence of Postal Service and mailer support. (MC95-1 Decision, page V-197)

It is the demand that generates the volume for ECR mail. It is illogical to think that the USPS (or the PRC) sought to establish the ECR subclass so that it would not promote the use of the subclass. Therefore, the objective would be to keep the volume or, hopefully, increase the volume of mail in the subclass.

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Q: NAA/MOAA-T1-2: Please refer to page 12, lines 9 to 12 of your testimony. Is it your testimony that “contribution per piece” has no relevance to postal ratemaking? If you believe that “contribution per piece” has relevance to postal ratemaking, please describe what you believe that relevance is.

Response:

Contribution per piece will naturally result from the volumes, revenues generated and the costs associated with a particular subclass of mail. However, I do not believe that rates for a particular subclass should be established based on the goal of a particular level of contribution per piece. In other words, I do not believe that setting the rates should start with the objective of determining the contribution per piece for the subclass.

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Q: NAA/MOAA-T1-3: Please refer to page 13, line 10, of your testimony where you state: “Historically, the PRC has not relied on unit contribution per piece to validate rates.” Please confirm that in its Opinion and Recommended Decision in Docket No. R97-1, the Commission stated (at paragraph 4084):

In past cases, the Commission has commented that allocating institutional costs on the basis of markup alone could fail to give adequate recognition to the benefit that subclasses with low attributable cost derive from the existence of a national integrated postal system. The Commission has reviewed the unit contribution of such subclasses and adjusted markups, where appropriate, to assure that the factors of the Act are fairly and equitably reflected.

Response:

Confirmed.

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Q: NAA/MOAA-T1-4: Please refer to page 14, lines 7 through 10 of your testimony. In this passage, are you making an implicit assumption that the average unit contribution of all mail to institutional costs to attributable costs has remained constant since 1997? If so, please explain the basis for that assumption. If not, please explain what implicit assumptions, if any, you have made regarding the average unit contribution of all mail since 1997.

Response:

The phrase “the average unit contribution of all mail to institutional costs to attributable costs” in the question is unclear to me. If the question intends to ask if I believe that the unit contribution for all mail has been constant since 1997, the answer is no. As explained in my testimony, the contribution of 8.6 cents per piece reflects the simple average of the annual contribution per piece for ECR mail for the 1997 through 2005 time period. The basis for my calculation is shown in Witness O’Hara’s response to NAA/USPS-T31-9 (Tr. 17/5125).

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Q: NAA/MOAA-T1-5: Please refer to pages 19-20 of your testimony. Do you believe that Standard ECR mail volumes were affected by any changes in the general condition of the U.S. economy during the period from 1998 to 2006? If so, please state your understanding of the effect of economic conditions on ECR mail volumes. If not, why not?

Response:

I believe all parties recognize that changes in ECR volumes result from a host of factors, including changes in the general condition of the U. S. economy. The USPS, in this proceeding has estimated volumes for ECR mail based on the elasticities calculated by Witness Thress (USPS-T-7). At page 117 of his testimony, Witness Thress states that “ECR mail volume was primarily affected...” by 1) retail sales, 2) investment, 3) price of newspaper advertising, 4) price of direct mail advertising, 5) internet advertising expenditures, 6) the time trend and 7) price of ECR mail. Witness Thress’ statement that the seven factors shown above are the factors that “primarily” affect ECR mail volume is an indication that other factors exist.