

UNITED STATES OF AMERICA  
Before The  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES)

Docket No. R2006-1

RESPONSE OF OFFICE OF CONSUMER ADVOCATE  
WITNESS PAMELA A. THOMPSON TO INTERROGATORIES OF  
AMERICAN BANKERS ASSOCIATION AND NATIONAL ASSOCIATION OF  
PRESORT MAILERS (ABA/NAPM/OCA-T4-1-6)  
(OCTOBER 18, 2006)

The Office of Consumer Advocate hereby submits the response of  
Pamela A. Thompson to interrogatories ABA-NAPM/OCA-T4-1-6, dated October  
4, 2006. The interrogatories are stated verbatim and are followed by the  
response.

Respectfully submitted,

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ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

**ABA-NAPM/OCA-T4-1.** This question refers to the following statement on pages 3-4 of your testimony (OCA-T-4):

The letter monopoly exists to hold down rates for the more costly pieces of mail and provide mail service to all. If the monopoly did not exist, people would pay at least what the mail piece costs to process and rates would be set to reflect those costs. However, the monopoly's existence is such that one does not have to give large discounts to those mailers of cleaner mail (automation compatible) and shift more of the cost of the universal service to those mailers who are unable to provide discounted mail. Under the monopoly, those mailers that might otherwise be eligible for large discounts should not be given deeper discounts because First-Class mail exists to provide a reasonably priced mail stream in support of universal service.

- (a) Please confirm that the OCA's rate proposals for First-Class Mail would increase the total expected revenue [sic] First-Class Presort letter mail by an amount equal to the expected reduction in revenue from First-Class Single-Piece letter mail. If you do not confirm, please explain fully.
- (b) How much would your proposal save the average American consumer in First-Class Single-Piece postage?
- (c) How much of the offsetting increase in First-Class Presort postage would be recovered by business mailers from consumers through higher fees (e.g., for credit card and checking accounts) or lower interest rates (e.g., for savings accounts and other investment accounts)?
- (d) What would be the net financial effect on the average American consumer from adopting the OCA's rate proposals for First-Class letter mail rather than the proposals of the USPS?
- (e) What would be the net financial effect on the average American consumer from adopting the OCA's rate proposals for First-Class mail of all shapes, rather than adopting the proposals of the USPS?
- (f) What would be the net financial effect on the average American consumer from the OCA's rate proposals for all classes of mail, rather than adopting the proposals of the USPS?
- (g) Please produce all data, studies and analyses underlying your answers to the previous parts of this question.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

RESPONSES TO ABA-NAPM/OCA-T4-1.

a. Not confirmed. See USPS-LR-L-129 and OCA-LR-L-5, worksheets labeled "Rev FY08BR&FY08AR. The numbers shown in the table below do not sum to Total First-Class calculated revenue. However, the data is provided to be responsive to your interrogatory.

Rate Category	TYAR OCA Revenue (\$000)	TYAR USPS Revenue (\$000)	Difference (\$000) OCA Over/(Under)
<b>First-Class Single-Piece</b>			
Letter-Shaped	\$14,018,253	\$14,028,762	(\$ 10,509)
Total Single-Piece Postage Revenue	18,579,376	18,666,661	( 87,285)
<b>Presort</b>			
Non-automation Letter-Shaped	335,839	336,000	( 161)
Automation Presort Letter-Shaped	15,929,480	15,751,622	177,858
Non-automation Flat-Shaped	466,193	426,190	40,008
Presort Parcel-Shaped	184,905	239,801	( 54,896)
Total First-Class Calculated Revenue	\$35,548,298	\$35,545,505	\$ 2,793

b - f. I do not know; but I note that the Postal Service failed to provide evidence for the matters raised by these questions when it introduced its new approach to ratemaking.

g. N/A

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

**ABA-NAPM/OCA-T4-2.** This question refers to page 10 of your testimony, where you state that you use the "Commission's approved First-Class worksharing benchmark, the Bulk Metered Mail letter cost, when calculating the First-Class and Automation discounts."

(a) Please confirm that a major reason for using the traditional Bulk Metered Mail benchmark is that it has been considered the mail most likely to be workshared. If you do not confirm, please explain. Please explain any failure to confirm.

(b) Please refer to Dr. Panzar's testimony (PB-T-1) at pages 36-37, where he summarizes a recent paper of his as follows:

The basic theoretical result was that an efficient allocation of mail processing activity between the Postal Service and mailers requires a worksharing discount equal to the average Postal Service processing cost of the type of mail just at the margin of being profitable for mailers to workshare. This suggests that the previous methodology of basing discounts based upon the avoided processing cost of mail most likely to be workshared, is likely to lead to discounts too low to result in an efficient allocation of mail processing activity.

Please reconcile this result of Dr. Panzar's with your use of the traditional BMM benchmark.

RESPONSES TO ABA/NAPM/OCA-T4-3.

a. The quote you refer to is on page 3 of my testimony, at lines 15 to 17. Not confirmed. BMM has been considered the mail most likely to convert to presort. Please see PRC Op. R2000-1, para. 5089.

b. As I am not an economist, I have not been able to discern why witness Panzar thinks there is a difference between "at the margin of being profitable" and "most likely to convert." To me, they are the same criterion.

I note that you deleted the last sentence of the paragraph you quoted. That sentence reads, "However, the primary practical implication of my analysis was that *in the presence of Postal Service mail processing cost heterogeneity, any discount policy will lead to some mail being processed inefficiently.*"

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
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(Emphasis in the original.) A corollary of my testimony would be that any inefficiency in setting workshare discounts should accrue to the *benefit* of captive customers.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

**ABA-NAPM/OCA-T4-3.** Please assume that there are two postal products, product A and product B, and that product A costs per unit \$10 to supply while product B costs \$1 per unit to supply. There is thus a \$9 cost difference between Product A and Product B. Please assume further that ten cents of that cost difference is due to “avoided costs” and that the remaining \$8.90 of that cost difference is therefore due to “other” cost drivers. Is it your position that the Postal Service should set the discount for product B only at 100% of avoided costs, thus fully recognizing only the ten cents of cost difference due to avoided costs, and ignoring the remaining \$8.90?

RESPONSE TO ABA-NAPM/OCA-T4-3.

If product A and product B are in the same subclass and the \$0.10 is based on mail processing and delivery cost savings, then yes.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

**ABA-NAPM/OCA-T4-4.** Please confirm that your development of First-Class Presort rates relied on the same cost pool classifications (proportional, fixed—worksharing related, and fixed—nonworksharing related) used by the USPS in this case.

- (a) If you fail to confirm without qualification, please explain in detail.
- (b) For each cost pool that you treat as “fixed—worksharing related” or “fixed—nonworksharing related”, please cite all data, studies and analyses (other than the USPS testimony cited in your testimony) that support your classification.
- (c) Please produce all data, studies and analyses cited in response to part (b) but not already on file with the Commission.

RESPONSES TO ABA-NAPM/OCA-T4-4.

a – c. I relied on the “Summary” worksheet of the USPS-LR-L-141, Revised 8-23-2006, filename, “USPS-LR-L.141.FCMRev2.xls”. I did not analyze cost pools.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

**ABA-NAPM/OCA-T4-5.** This question refers to your statement, on page 12 of your testimony, that

Household mailers, home office mailers, small business mailers are not candidates for converting their mail to presort, and I doubt large presort bureaus are interested in going to each and every home office, small business and household mailer to gain their business. It would not be cost effective.

(a) Please produce all data, analyses and studies on which you rely concerning the attractiveness of home office, small business and household mail to “large presort bureaus.”

(b) Please produce all data, analyses and studies on which you rely concerning the attractiveness of home office, small business and household mail to presort bureaus of *any* size.

(c) If the Postal Service offered a value added rebate (“VAR”) for mail bearing undiscounted Single-Piece First-Class indicia of postage, but entered in a presorted condition by a presort bureau or other third-party consolidator, would the presorting of collection mail become more attractive for presort bureaus?

(d) Please produce all data, studies and analyses underlying your responses to the previous parts of this question.

RESPONSE TO ABA-NAPM/OCA-T4-5.

a – b. Currently, presort bureaus do not go to home offices, small business and households to collect mail. There may be rumors to that effect, but I am not aware of any data to substantiate it. Please see Tr. 16/4938 – 40.

c. Yes.

d. Please see my response to part a - b of this interrogatory.

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES ABA-NAPM/OCA-T4-1-6

**ABA-NAPM/OCA-T4-6.**

- (a) Is the majority of growth in the volume of Presort First-Class Mail due to the conversion of Single-Piece mail?
- (b) What percentage of the growth in the volume of Presort First-Class Mail is due to the conversion of Single-Piece Mail?
- (c) Please provide all data, studies and analyses on which your responses to parts (a) and (b) rely.

RESPONSE TO ABA-NAPM/OCA-T4-6.

a – b. I do not know.

c. N/A