

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

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**RESPONSES OF WITNESS KNIGHT
TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE
USPS/POSTCOM-T7-9 - 11**

The Association for Postal Commerce, the Mailing and Fulfillment Service Association, and the Direct Marketing Association, (herein collectively "PostCom") hereby provides the responses of Witness Knight to Postal Service interrogatories USPS/PostCom-T7-9 - 11, filed October 4, 2006.

USPS/PostCom T7-12 and 13 have been referred to Witness Angelides.

Respectfully submitted,

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RESPONSES OF POSTCOM WITNESS KNIGHT TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE

USPS/POSTCOM-T7-9.

- a. Please confirm that you are stating that if your products cannot be shipped by mail, you will no longer use the mail as a marketing medium.
- b. Please clarify whether the costs to you of advertising through other media have increased, decreased, or stayed the same over the past five years.
- c. Please provide a list of the alternative ways that your products may be physically delivered to your members and provide an indication of relative costs when compared to using Standard Mail.
- d. Please provide an explanation of the decision process which would result in the discontinuance of mail marketing efforts and how the mode of physical delivery affects that decision, including the variables considered and the timeframe over which this decision would be set into motion.

RESPONSE:

- (a) Not confirmed. See pages 9-11 of my testimony.
- (b) None of the other channels of marketing that BMG/Columbia House uses have increased as much as postage rates have during that period.
- (c) BMG/Columbia House has not evaluated the “relative cost” that alternative service providers would charge for the delivery of BMG’s CDs or DVDs. The point of my testimony is that faced with increases of 115% for slightly more than one-third of our mailings and 61% for almost half of our product shipments, the margins between the prices charged by alternative delivery services and those charged by the Postal Service has substantially narrowed. Other considerations – such as reliability and quality of service – may come into play in the decision

process. As I also point out in my testimony, increases of this level may tend to accelerate the movement to electronic delivery. See page 10 of my testimony.

(d) See pages 4 through 6 of my testimony in which we describe how the decision process for the selection of marketing channels is made. It is not the “mode of physical delivery” that affects this decision process; it is the cost of delivery as I explain on pages 9 through 11 of my testimony.

USPS/POSTCOM-T7-10 Please refer to your testimony at page 2, line 20 where you urge the Postal Service “to give some consideration to what has worked up until the present time.”

a. Please confirm that in her testimony in Docket No. R2000-1 at pages 16-17, witness Kingsley (USPS-T-10) described how non-flat machinables (although not called such in her testimony) were incompatible with postal flat operations. If you do not confirm, please explain.

b. Please confirm that similar testimony has been provided by other postal witnesses since that time, including witness Kiefer and McCrery in the current docket. If you do not confirm, please explain.

RESPONSE:

(a) I am not familiar with Witness Kingsley’s testimony. I am familiar with the changes that BMG/Columbia House made, at very substantial costs, in order to meet the definition of a flat capable of being processed on the AFSM 100. Those regulations were published in June, 2002, two years after the R-2000-1 Rate Case.

(b) I am not familiar with the testimony of either Witness Kiefer or Witness McCrery in the current docket. On several occasions since the filing of this Rate Case, I and other representatives of BMG/Columbia House have met with Mr. McCrery to discuss the question of what may or may not be “incompatible with postal flat operations.” As stated in my responses to Interrogatory USPS/POSTCOM-T7-3, those meetings have been inconclusive.

USPS/POSTCOM-T7-11. Please refer to your testimony at page 6, lines 10-15 where you state that the Postal Service apparently assumes that BMG will absorb additional postage costs or pass them on to customers, with no impact on mail volume.

a. Please provide any citations that support the notion that the Postal Service believes that additional postage costs can simply be passed on to consumers.

b. Please confirm that witness Thress develops a separate “after rates” volume forecast to incorporate the impact on mail volume as a result of postage increases.

c. Please provide your suggestion as to which other category, subclass, or class of mail should absorb the additional costs of processing non-flat machinables if the mailers of non-flat machinables are not required to do so.

d. Please provide your estimate of the impact on the volumes of the mailers listed in your response to part b of the price increases that would be required to do so.

RESPONSE:

(a) and (b). The question mischaracterizes my testimony. As I explained at pages 9 through 11 of that testimony, due to our expected loss of club members, BMG/Columbia House product shipments will decline severely in the first year after these rate increases take effect, and these declines will be cumulative. To my knowledge, the Postal Service conducted no surveys of BMG/Columbia House or of any other mailer to determine the price sensitivity of their product shipments in the face of rate increases of 61% and greater.

I am not familiar with the testimony of witness Thress, but am advised that the elasticity estimates upon which the Postal Service relied in the development of rates for the new categories of Standard Mail have been examined by Postcom witness Angelides.

(c) and (d). The question is beyond the scope of my testimony which did not address the question of costs to the Postal Service of processing non-flat machinables.