

Before THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

STAMPED STATIONERY AND STAMPED CARDS
CLASSIFICATIONS

Docket No. MC2006-7

RESPONSES OF POSTAL SERVICE WITNESS YEH
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T1-20-26)

The United States Postal Service hereby provides the responses of witness Yeh to the following interrogatories of the Office of the Consumer Advocate, filed on March 30, 2007: OCA/USPS-T1-20-26.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-20. Please refer to your response to OCA/USPS-T1-6 wherein you calculated the cost coverage (without postage) for the Garden Bouquet Stationery.

- a. Inasmuch as the product is distributed and sold at the window in packages of 12 sheets, please confirm that the ranges of proxy unit costs that you included for distribution and mail processing and for window service costs as described on pages 5-6 of your testimony should be divided by the number of sheets per package, in this case twelve, to derive the unit cost per sheet. If you do not confirm, please explain.
- b. If an adjustment in the unit cost described above is necessary, please recalculate the cost coverage (without postage) at the current rate of \$14.95 for a package of 12 sheets. Please show your calculations.
- c. If you do confirm, please recalculate the cost coverage (without postage) at your proposed maximum rate of three times the new \$0.41 letter rate. Please show your calculations.

RESPONSE:

- a. Confirmed.
- b. Given the unit price of Garden Bouquet PSS per sheet (without postage) of \$0.8558 and the total approximated unit cost (without postage) of \$0.36 ($\$0.36 + (\text{proxy unit costs} \div 12)$), the resulting approximated cost coverage would be 238 percent ($\$0.8558 \div 0.36$).
- c. The resulting approximated cost coverage for Garden Bouquet PSS (without postage) at 3 times the new \$0.41 letter rate would be 342 percent ($\$1.23 \div \0.36).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-21. Please refer to your response to OCA/USPS-T1-8 wherein you calculated the cost coverage (without postage) for the Disney Friendship Premium Stamped Stationery.

- a. Inasmuch as the product is distributed and sold at the window in packages of 12 sheets, please confirm that the ranges of proxy unit costs that you included for distribution and mail processing and for window service costs as described on pages 5-6 of your testimony should be divided by the number of sheets per package, in this case twelve, to derive the unit cost per sheet. If you do not confirm, please explain.
- b. If an adjustment in the unit cost described above is necessary, please recalculate the cost coverage (without postage) at the current rate of \$14.95 for a package of 12 sheets. Please show your calculations.
- c. If you do confirm, please recalculate the cost coverage (without postage) at your proposed maximum rate of three times the new \$0.41 letter rate. Please show our calculations.

RESPONSE:

- a. Confirmed.
- b. Given the unit price of Disney Friendship PSS per sheet (without postage) of \$0.8558 and the total approximated unit cost (without postage) of \$0.22 ($\$0.22 + (\text{proxy unit costs} \div 12)$), the resulting approximated cost coverage would be 389 percent ($\$0.8558 \div 0.22$).
- c. The resulting approximated cost coverage for Disney Friendship PSS (without postage) at 3 times the new \$0.41 letter rate would be 559 percent ($\$1.23 \div \0.22).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-22. Please refer to your response to OCA/USPS-T1-11 wherein you calculated the cost coverage (without postage) for the Art of Disney-Romance Premium Stamped Cards.

- a. Inasmuch as the product is distributed and sold at the window in packages of 20 cards, please confirm that the ranges of proxy unit costs that you included for distribution and mail processing and for window service costs as described on pages 5-6 of your testimony should be divided by the number of sheets per package, in this case twelve, to derive the unit cost per sheet. If you do not confirm, please explain.
- b. If an adjustment in the unit cost described above is necessary, please recalculate the cost coverage (without postage) at the current rate of \$14.95 for a package of 12 sheets.
- c. If you do confirm, please recalculate the cost coverage (without postage) at your proposed maximum rate of three times the new \$0.26 new card rate.

RESPONSE:

- a. Confirmed, if the question is meant to be read as, "in this case twenty..."
- b. Given the unit price of Art of Disney: Romance PSC per card (without postage) of \$0.2575 and the total approximated unit cost (without postage) of \$0.14 ($\$0.14 + (\text{proxy unit costs} \div 20)$), the resulting approximated cost coverage would be 184 percent ($\$0.2575 \div 0.14$).
- c. The resulting approximated cost coverage for Art of Disney: Romance PSC (without postage) at 3 times the new \$0.26 card rate would be 557 percent ($\$0.78 \div \0.14).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-23. Please explain how your proposed range of prices based upon a multiple of the First –Class rates for letters or cards properly relates prices to costs.

RESPONSE:

As I explained in my testimony at page 5, "the multipliers were chosen to result in a range of fees ... that are comparable to the ranges in market prices of commercially available products that might serve as substitutes for the stationery and cards if they were not stamped." Then, as I explained on pages 5-6, based on the information available to me and on proxies from Docket No. R2006-1, I calculated approximated costs for one PSS issuance and for one PSC issuance to determine whether the ranges met the statutory requirement to cover attributable costs and contribute to other costs, which they did. I then calculated approximated cost coverages as a way to assess the potential magnitude of the contribution. I did not use the traditional approach of developing rates by applying a markup to unit costs for several reasons. First, I concur with the Commission's suggestion regarding novel pricing approaches to be appropriate for a premium specialty product. Designing a range of prices will allow the Postal Service to test different price points to measure customer response. Second, I do not have comprehensive cost information for these specific products; however, the products will adequately cover estimated costs across this range of prices. Finally, basing prices on comparable products and on expected demand is consistent with the pricing approach that has been used for these products since the inception of the program.

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TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-24. Please provide your view as to whether a price range of between 150 percent and 250 percent of costs would provide a more appropriate pricing mechanism than one based upon a multiple of the First-Class rates.

RESPONSE:

Based on the reasons given in my response to OCA/USPS-T1-23, I do not think that approach is more appropriate for these products.

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TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-25. Please provide the potential range of prices for the two current premium stationery products if the range of cost coverage is between 150 percent and 250 percent of their averaged attributable cost.

RESPONSE:

As I explained in response to OCA/USPS-T1-24 and stated in my testimony at pages 5-6, I do not have average attributable costs for these products, so I cannot make the requested calculation.

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TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T1-26. Please provide the potential range of prices for the current premium card product if the range of cost coverage is between 150 percent and 250 percent of its attributable cost.

RESPONSE:

Please see my response to OCA/USPS-T1-25.