

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL REGULATORY COMMISSION

In the Matter of:)
)
RATE AND SERVICE CHANGES TO)
IMPLEMENT FUNCTIONALLY)
EQUIVALENT NEGOTIATED SERVICE) Docket No. MC2007-4
AGREEMENT WITH THE BRADFORD)
GROUP)

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POSTAL REGULATORY
COMMISSION
OFFICE OF THE SECRETARY

VOLUME #2
DESIGNATIONS INCORPORATED INTO THE RECORD

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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Rate and Service Changes to
Implement Functionally
Equivalent Negotiated Service
Agreement with the Bradford Group

Docket No. MC2007-4

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party

Interrogatories

The Bradford Group

Steve Gustafson (BG-T-1)

Postal Regulatory Commission
(Formerly Postal Rate Commission)

PRC/BG-T1-CIR No.1 - Q4-5

Wendy Ring (BG-T-2)

Office of the Consumer Advocate

OCA/BG-T2-1

United States Postal Service

Broderick A. Parr (USPS-T-1)

Office of the Consumer Advocate

OCA/USPS-T1-1-36, 41-43

Postal Regulatory Commission
(Formerly Postal Rate Commission)

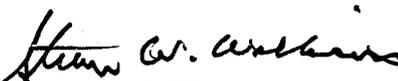
PRC/USPS-T1-CIR No.1 - Q1, Q3

Institutional

Office of the Consumer Advocate

OCA/USPS-T1-37-40 redirected to USPS

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
<u>The Bradford Group</u>	
Steve Gustafson (BG-T-1)	
PRC/BG-T1-CIR No.1 - Q4	PRC
PRC/BG-T1-CIR No.1 - Q5	PRC
Wendy Ring (BG-T-2)	
OCA/BG-T2-1	OCA
<u>United States Postal Service</u>	
Broderick A. Parr (USPS-T-1)	
OCA/USPS-T1-1	OCA
OCA/USPS-T1-2	OCA
OCA/USPS-T1-3	OCA
OCA/USPS-T1-4	OCA
OCA/USPS-T1-5	OCA
OCA/USPS-T1-6	OCA
OCA/USPS-T1-7	OCA
OCA/USPS-T1-8	OCA
OCA/USPS-T1-9	OCA
OCA/USPS-T1-10	OCA
OCA/USPS-T1-11	OCA
OCA/USPS-T1-12	OCA
OCA/USPS-T1-13	OCA
OCA/USPS-T1-14	OCA
OCA/USPS-T1-15	OCA
OCA/USPS-T1-16	OCA
OCA/USPS-T1-17	OCA
OCA/USPS-T1-18	OCA
OCA/USPS-T1-19	OCA
OCA/USPS-T1-20	OCA
OCA/USPS-T1-21	OCA

Interrogatory

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Designating Parties

OCA
 PRC
 PRC

Institutional

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 OCA
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 OCA

RESPONSE OF BRADFORD GROUP WITNESS GUSTAFSON TO COMMISSION
INFORMATION REQUEST NO. 1 (QUESTIONS 4 AND 5)

4. In BG-T-1 at page 4, witness Gustafson states, “[a] current customer could receive up to 40 Standard Mail letter or flat solicitations per year...” (Emphasis in original.)

a. How much of The Bradford Group’s before-rates Standard Mail volume will be sent to existing or current customers, and how much is expected to be sent to solicit new customers?

b. How much of The Bradford Group’s after-rates Standard Mail volume will be sent to existing or current customers, and how much is expected to be sent to solicit new customers?

Response:

a & b. At this time, Bradford cannot supply a reliable estimate of the amount of mail that will be sent to existing customers versus the amount that will be sent to solicit new customers at before- and after-rates Standard Mail.

First, there is the problem of distinguishing between “new” and “existing” customers. The Bradford Group consists of several companies that operate relatively independently and maintain separate customer and mailing lists. Oftentimes, one Bradford entity will solicit a customer from another Bradford entity (a process known as “Cross Corporate” mailing). While this customer is an “existing” customer of Bradford, the customer is a “new” customer as far as the individual Bradford entity mailing the solicitation is concerned. Additionally, Bradford mails to lapsed customers (inactive clients) to encourage them to rejoin subscription plans or join new plans. It is unclear whether these customers are “new” or “existing.” Because of these arrangements, Bradford cannot precisely determine the volume of mail sent to existing versus new customers.

Additionally, Bradford does not plan its mailing campaigns far enough in advance to provide a breakdown of mail volume at the level demanded by this question. Based on its current planning, Bradford does not expect a shift in the percentage of mail that it

RESPONSE OF BRADFORD GROUP WITNESS GUSTAFSON TO COMMISSION
INFORMATION REQUEST NO. 1 (QUESTIONS 4 AND 5)

sends to solicit from Cross Corporate clients or active or inactive clients. The minimum allowable response rate at the most marginal segment is the same for all three of these lists. File makeup by theme of purchases relative to the product being offered and the strength of the product itself will drive which sub segments of the files qualify for the offer. The mailings are planned based on test responses to sub-segments of the files, and then further segments are added based on the relationship of the historical indices of these sub-segments to each other.

However, file makeups can change quickly based on a number of factors, such as those identified by Bradford witness Ring (BG-T-2 at 4-6). Additional products that generate clients through various media are sometimes identified, or delays in product production might cause delays in mailing opportunities, causing clients to move to inactive status. Products with themes new to a particular business unit could generate more Cross Corporate mailings than mailings to active circulation, or a product with a fresh approach on an old theme could generate more mailings to inactive clients than either of the others.

Finally, as different products are tested every week, the products ultimately selected in the mailing strategy change based on their relative strength to each other and product availability. Combined, the above makes it difficult to state with any certainty, more than a few months out, what the mix of circulation will ultimately be.

RESPONSE OF BRADFORD GROUP WITNESS GUSTAFSON TO COMMISSION
INFORMATION REQUEST NO. 1 (QUESTIONS 4 AND 5)

5. Under the Bookspan NSA, Bookspan must "send a continuing series of marketing mail, send products to a list of people who have agreed to purchase some stipulated minimum number of items on a more or less regular basis and use at least one other subclass for merchandise fulfillment." DMCS § 620.12. In BG-T-1 at page 3, witness Gustafson notes that "[t]he vast majority of offers are for a series or subscription plan."

a. Please explain what is a "series" and "subscription plan" as used in that sentence.

b. Please identify the types of The Bradford Group's mailpieces and the number of those mailpieces, if any, that would be eligible for a discount under the proposed NSA that are not part of offers for a "series" or "subscription plan."

Response:

a. A series is a collection of products designed around a specific theme that are sold in a particular order.

A subscription plan is a method of selling a series whereby an offer is sent for the whole collection, with material generally focused on the first product in the series. If a client orders the subscription plan of the series, once they meet the conditions of the subscription plan (which is generally to fully pay for product 1), product 2 is automatically shipped fully deferred without the client having to place another order. Once product 2 is fully paid (and not returned), product 3 automatically ships and so forth until the series is completed.

b. From time to time, Bradford mails solicitations to customers that are already enrolled in a subscription plan advertising items that Bradford believes would be of interest to those customers. These solicitations meet the definition of mail eligible for discounts under the NSA in that they are "letters and flats sent as Standard Mail by Bradford seeking customers for collectibles and gift items," but they might be for products other than an additional series or subscription plan. Because of the array of factors that go into the decision whether to conduct a solicitation campaign, Bradford does not know the precise number of solicitations it will send that would not be part of

RESPONSE OF BRADFORD GROUP WITNESS GUSTAFSON TO COMMISSION
INFORMATION REQUEST NO. 1 (QUESTIONS 4 AND 5)

offers for a series or subscription plan. The vast majority of solicitations Bradford sends,
however, are for series or subscription plans.

RESPONSE OF BRADFORD GROUP WITNESS RING TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/BG-T2-1. Please refer to your testimony at page 8, lines 2-5, where it states:

While the Postal Service may project its future mail volumes based on its historic experience, THE BRADFORD GROUP cannot forecast total numbers of mailpieces independently from its planning of other direct market campaigns. Its decision with respect to the operation of its campaigns dictates that it cannot offer a mail volume forecast with great precision more than a few months in advance.

- a. Please identify and describe the "other direct marketing campaigns" used by the Bradford Group.
- b. Please identify and explain possible factors and events that might affect the "planning of other direct marketing campaigns."
- c. Please explain how the "other direct marketing campaigns" might affect the "forecast total numbers of mailpieces."
- d. Given the operation of its campaigns, please explain why the Bradford Group cannot "forecast with great precision more than a few months in advance."

Response:

a. The other marketing channels used by the Bradford Group include space advertising in magazines, Sunday supplements, co-op Free Standing Inserts, other free standing inserts and insert media, and package inserts in a variety of sources.

b. There are many different things that impact our planning of campaigns. Factors include how the product is performing compared to other products, if a particular product performs better in certain media than others, changes in cost structure for either the product itself or the advertising placement, if a stronger product is subsequently identified, and what we see our competition advertising. There is no algebraic formula that identifies exactly what the strategy should be at any one point in time. All of these factors are considered to maximize overall expected contribution from our mailings and placements based on the best information we have at that time.

RESPONSE OF BRADFORD GROUP WITNESS RING TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE

c. We do not have unlimited financial resources and have a finite advertising budget that is set annually. What we choose to advertise and where depends on what products are available and what the return on investment is expected to be in the various advertising venues available. Each placement must be evaluated based on that specific return it will generate compared to others in order to maximize total return. Therefore, changes in product response, or changes in the cost of advertising could directly change the most profitable places to invest to generate sales.

d. Please see the explanations above. The information for decision making is not available more than a few months in advance.

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

OCA/USPS-T1-1. Please refer to your testimony at page 7, lines 5-8. Also, please refer to your testimony at page 10, lines 14-15.

- a. Please confirm that the Standard Mail letter volume cap of 195 million exceeds the Bradford Group's actual letter volumes of 177.6 million, 189.0 million and 169.5 million for fiscal years 2004, 2005 and 2006, respectively. If you do not confirm, please explain.
- b. Given the continuing expected "downward pressure" on the Bradford Group's Standard Mail letter volumes, please explain why the Postal Service agreed to a volume cap that exceeded the Bradford Group's actual letter volumes for Fiscal Years 2004, 2005 and 2006.

RESPONSE:

- a. Confirmed.
- b. The downward pressure on letter volume is only expected to continue in the absence of an incentive to increase letter volume. The volume cap is intended to mitigate any risk to the Postal Service during the NSA.

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

OCA/USPS-T1-2. Please refer to your testimony at page 7, lines 5-8. Also, please refer to your testimony at page 10, lines 14-15.

- a. Please confirm that the Standard Mail flats volume cap of 73.5 million in Year 1, 74.5 million in Year 2, and 77.0 million in Year 3 of the NSA exceeds the Bradford Group's actual flats volumes of 50.7 million, 52.6 million and 57.0 million for fiscal years 2004, 2005 and 2006, respectively. If you do not confirm, please explain.
- b. Given the continuing expected "downward pressure" on the Bradford Group's Standard Mail flats volumes, please explain why the Postal Service agreed to a volume cap for Years 1, 2 and 3 that exceeded the actual flats volumes for Fiscal Years 2004, 2005 and 2006.

RESPONSE:

- a. Confirmed.
- b. The downward pressure on flats volume is only expected to continue in the absence of an incentive to increase flats volume. The volume cap is intended to mitigate any risk to the Postal Service during the NSA.

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

OCA/USPS-T1-3. Please refer to your testimony, Appendix E, Proposed Data Collection Plan.

- a. Please identify those enumerated items in your data collection plan (DCP) that are included in the DCP recommended by the Commission for the Bookspan NSA. Please explain the rationale for including any enumerated items in your DCP that are *not* included in the DCP recommended by the Commission for the Bookspan NSA.
- b. Please identify those enumerated items in the DCP recommended by the Commission for the Bookspan NSA that are not in your data collection plan. Please explain the rationale for excluding those enumerated items in the DCP recommended by the Commission for the Bookspan NSA that are not in your data collection plan.

RESPONSE:

- a. The items below are enumerated items in both the DCP recommended by the Commission for the Bookspan NSA and the Bradford Group NSA:
 1. The volume of solicitation Standard Mail letter-size and Flat-size (nonletter) by rate category in eligible account;
 2. The discounts paid to Bradford Group for letter-shape and flat-shape solicitation Standard Mail by incremental volume block;
 3. Monthly estimates of the amount of time spend on compliance activity and a description of the activities performed.
- . There are no items in the Bradford Group DCP which were not included in the DCP recommended by the Commission for the Bookspan NSA.
- b. Items 4 – 8 in the DCP recommended by the Commission for the Bookspan NSA were not included in the list of enumerated items for the Bradford Group DCP in my testimony. Those items were inadvertently excluded, and it was my intention to follow those items for the Bradford Group NSA. Appropriate errata to my testimony will be filed.

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

OCA/USPS-T1-4. Please refer to your testimony at page 3, Table 1, Declining Block Rate Structure. Prior to concluding agreement on the Declining Block Rate Structure, Table 1, did the Postal Service develop an own-price elasticity for the Bradford Group's Standard Mail letters and flats? If so, please provide the own-price elasticity for the Bradford Group's Standard Mail letters and flats, and explain and show all calculations used to develop such own-price elasticities. If not, please explain.

RESPONSE:

Given that I have three years of data for Bradford Group with only one price change during those years, the development of an own-price elasticity specific to the Bradford Group would result in an unreliable estimate. Therefore, the Postal Service did not develop an own-price elasticity for Bradford Group Standard Mail letters and flats.

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

OCA/USPS-T1-5. Please refer to your testimony at page 3, Table 1, Declining Block Rate Structure. Prior to concluding agreement on the Declining Block Rate Structure, Table 1, did the Bradford Group provide to the Postal Service own-price elasticities for the Bradford Group's Standard Mail letters and flats? If so, please provide the own-price elasticities provided by the Bradford Group for its Standard Mail letters and flats. Please provide any supporting calculations used to develop such own-price elasticities prepared by the Bradford Group.

RESPONSE:

No.

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

OCA/USPS-T1-6. Please refer to your testimony at page 13, lines 1-3, which references the NSA's "adjustment mechanism" that "reduces risk from deviation in volume forecasts."

- a. Please confirm that common sources of risk or risk factors are changes in government policy, economic conditions, and company-specific management and marketing plans and goals. If you do not confirm, please explain.
- b. Please identify and discuss possible risks or risk factors that might cause the Bradford Group's actual volumes to deviate from its forecast volumes.
- c. Please identify and discuss those risks or risk factors specific to the Bradford Group that will likely cause the Bradford Group's actual volumes to deviate from its forecast volumes during the three year period of the NSA.
- d. Please explain how you controlled for uncertainty with respect to the risk factors identified in part c., above, that could affect the Bradford Group's actual Standard Mail letters and flats volumes when estimating the Bradford Group's forecast volumes.

RESPONSE:

- a. Confirmed.
- b-c. Changes in government policy, economic conditions, and company-specific management and marketing plans and goals all may contribute to possible deviation in Bradford Group's volume forecasts. Bradford Group's mailing behavior could theoretically be positively or adversely affected by any of these risk factors. A complete list of these factors is impossible to compile and probably unknowable. Therefore, Postal Service and Bradford Group took a proactive stance by including several risk mitigation provisions in this NSA, as was done in previous NSAs.
- d. Risk mitigation provisions were included in this NSA to deal with potential risk factors. These risk mitigation provisions include the threshold adjustment mechanism, customer-specific negotiated thresholds and volume commitments,

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

the Merger and Acquisition clause, the Sale or Closure clause, and the
Termination clause.

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

OCA/USPS-T1-7. Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes.

- a. Assuming there are risk factors that cause the Bradford Group's actual volumes to deviate from the forecast volumes, at the conclusion of the three-year period of the NSA, please explain how the Postal Service will be able to distinguish those volumes caused by the risk factors from those generated in response to the discounts.
- b. Assuming there are risk factors that cause the Bradford Group's actual volumes to deviate from the forecast volumes, at the conclusion of the three-year period of the NSA, please explain how the Postal Service will know that any net contribution received is the result of volume generated solely in response to the discounted rates?

RESPONSE.

- a. The Postal Service throughout the life of the NSA will be able to track actual volume. It is likely that the Postal Service will not be able to distinguish volume changes caused by the other factors from those generated in response to the discounts. The Postal Service generally does not possess the data needed to quantify the uncertainty and variability of other non-price outside events for individual mailers (assuming the data for such an analysis exists). Thus, the risk-mitigating features of the NSA are intended to address the presence of risk by providing mechanisms to adjust for unforeseen circumstances and/or misestimations by either party.
- b. See my response to OCA/USPS-T1-7(a).

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

OCA/USPS-T1-8. Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes. Assume there are risk factors that cause the Bradford Group's actual volumes to exceed its forecast volumes.

- a. Under the NSA, please confirm that the Bradford Group will earn discounts on volumes exceeding the forecast volumes up to the volume cap (see Request, Appendix F, Article III.F.2). If you do not confirm, please explain.
- b. Under the NSA, please confirm that the Postal Service is obligated to provide the Bradford Group discounts on volumes exceeding the forecast volumes up to the volume cap (see Request, Appendix F, Article III.F.2). If you do not confirm, please explain.
- c. Under the NSA, please confirm that the Bradford Group pays less postage, i.e., earns discounts on its actual volumes up to the volume cap whether or not its actual volumes are induced by the discounts or caused by risk factors. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. Bradford Group will earn discounts on volumes exceeding the volume commitment up to the top volume tier.
- b. Not confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. The Postal Service is obligated to provide the Bradford Group discounts on volumes exceeding the volume commitment up to the top volume tier.
- c. Confirmed.

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

OCA/USPS-T1-9. Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes. Assume there are risk factors that cause the Bradford Group's actual volumes to fall below its forecast volumes.

- a. Under the NSA, if the Bradford Group's actual volumes are less than its forecast volumes and more than the lowest discount threshold, please confirm that the Bradford Group will earn discounts. If you do not confirm, please explain.
- b. Under the NSA, if the Bradford Group's actual volumes are less than its forecast volumes *and* less than the lowest discount threshold, please confirm that the Bradford Group will not earn discounts. If you do not confirm, please explain.
- c. Under the NSA, please confirm that the Bradford Group pays less postage, i.e., earns discounts on its actual volumes, or pays no more in postage than if it had not entered into the NSA. If you do not confirm, please explain.

RESPONSE:

- a. Not confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. In this case, Bradford Group would not earn discounts. Under the NSA, if the Bradford Group's actual volumes are more than the volume commitment, the Bradford Group will earn discounts.
- b. Confirmed. In answering this question, I am assuming that by "forecast volumes" you mean the before-rates volume forecast. In this case, Bradford Group would not earn discounts.
- c. Confirmed.

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OCA/USPS-T1-10. Please refer to your testimony, Appendix C, Table 1, the "Value To Volume Sensitivity Matrix Based on Year 1," in which the column headings show the assumed variance between the after-rates letter volume forecast and the actual after-rates letter volume.

- a. Please confirm that the assumed variance in volume represents misestimates of discount induced volume. If you do not confirm, please explain.
- b. Please confirm that the assumed variance in volume does not represent misestimates of volume caused by non-price risk factors. If you do not confirm, please explain.
- c. Please provide an electronic version of the Table 1.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. The volumes shown in Appendix C, Table 1 represent variation resulting from any source of change, including non-price risk factors.
- c. An electronic version of Table 1 will be provided.

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

OCA/USPS-T1-11. Please refer to your testimony, Appendix E, the Proposed Data Collection Plan, as revised August 24, 2007. As part of the proposed Data Collection Plan (DCP), please confirm that the Postal Service proposes that the data collected and information developed be reported to the Commission on an annual basis. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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

OCA/USPS-T1-12. Please refer to your testimony, Appendix E, the Proposed Data Collection Plan, as revised August 24, 2007.

- a. For each of the eight enumerated items in the proposed Data Collection Plan (DCP), please confirm that the Postal Service will be able to use the data collected or information developed to distinguish the Bradford Group's actual letter-shaped and flat-shaped volumes that are induced by the NSA's discounts from volumes caused by all other factors. For each enumerated item that you can not confirm, please explain. For each enumerated item that you can confirm, please give an example and provide sample calculations as to how you will distinguish actual letter-shaped and flat-shaped volumes that are induced by the NSA's discounts from volumes caused by all other factors.
- b. For each of the eight enumerated items in the proposed Data Collection Plan (DCP), please confirm that the Postal Service will be able to use the data collected or information developed to determine that any net contribution identified by the Postal Service as being received pursuant to the NSA is the result of the Bradford Group's actual letter-shaped and flat-shaped volumes induced by the NSA's discounts rather than volumes caused by all other factors. For each enumerated item that you can not confirm, please explain. For each enumerated item that you can confirm, please give an example and provide sample calculations as to how you will determine that the source of the identified net contribution is the result of actual letter-shaped and flat-shaped volumes induced by the NSA's discounts rather than volumes caused by all other factors.

RESPONSE:

- a. Not confirmed for each of the eight enumerated items in the proposed Data Collection Plan (DCP). For an explanation, please see my response to:

OCA/USPS-T1-7(a).
- b. Not confirmed for each of the eight enumerated items in the proposed Data Collection Plan (DCP). For an explanation, please see my response to:

OCA/USPS-T1-7(a).

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

OCA/USPS-T1-13. Please refer to your testimony, Appendix E, the Proposed Data Collection Plan, as revised August 24, 2007. Please confirm that under the Data Collection Plan as proposed, the Postal Service will be unable to distinguish the Bradford Group's actual volumes that are induced by the NSA's discounts from volumes caused by all other factors. If you do not confirm, please explain. If you do confirm, please explain and provide a proposed Data Collection Plan that permits the Postal Service to distinguish the Bradford Group's actual volumes that are induced by the NSA's discounts from volumes caused by all other factors.

RESPONSE:

Confirmed. However, there is no Data Collection Plan that could be created that would allow the Postal Service to distinguish the volumes induced by discounts from volumes caused by all other factors. Please also see my response to: OCA/USPS-T1-7(a).

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

OCA/USPS-T1-14. Please refer to your response to OCA/USPS-T1-4, which states, in part,

Given that I have three years of data for Bradford Group with only one price change during those years, the development of an own-price elasticity specific to the Bradford Group would result in an unreliable estimate.

- a. Please confirm that the "one price change during those [three] years" was the change in rates implemented January 8, 2006, in response to Docket No. R2005-1. If you do not confirm, please explain and identify the rate change to which you refer.
- b. Please explain why the "development of an own-price elasticity specific to the Bradford Group would result in an unreliable estimate."
- c. Based upon the three years of data available, please provide an estimated own-price elasticity for the Bradford Group's Standard Mail letters and flats. Please show all calculations.

RESPONSE:

- a. Confirmed.
- b. A statistically reliable econometric estimate, such as the measure of an elasticity, requires sufficient data to measure the relationship between dependent and independent variables. In this case, the one price change within the data we have available does not offer the opportunity to make such a measurement.
- c. As stated in my response to OCA/USPS-T1-4 and OCA/USPS-T1-14(b), calculating an estimated own-price elasticity based on only one price change over three years would produce an unreliable estimate. Nevertheless, the estimated own-price elasticity for the Bradford Group's Standard Mail letters and flats would be calculated as follows:

$$e = \% \Delta Q_s \div \% \Delta P_s$$

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

Where e = elasticity, Q_s = Standard Mail Volume letters and flats, and P_s = the Docket No. R2005-1 rate change. The measured change is between Calendar Year 2005 and CY 2006.

$$-1.163 = [(226,438,797 - 241,611,479) \div 241,611,479] \div .054$$

Again, I consider this estimate to be unreliable, and the Postal Service does not rely upon this figure in any way.

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

OCA/USPS-T1-15. Please refer to your response to OCA/USPS-T1-1, where it states, "The downward pressure on letter volume is only expected to continue in the absence of an incentive to increase letter volume." Please confirm you are assuming that the NSA's discounted rates will be solely responsible for any increase in the Bradford Group's letter volumes that exceed the before-rates letter volume forecast. If you do not confirm, please explain.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
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OCA/USPS-T1-16. Please consider the following statement:

Once discounts intended to influence mailer behavior are established, it is not possible to 'observe' what mailer behavior would have been without such discounts.

Docket No. MC2002-2, Tr. 4/767 (Response of Witness Plunkett to POIR No. 2, Question 5).

- a. Please confirm that this statement is still accurate. If you do not confirm, please explain.
- b. Please confirm that you agree with this statement. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

Revised 9/21 (headers added)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
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OCA/USPS-T1-17. Please refer to your testimony at page 12, lines 14-17, where it states:

To the extent that the after-rates volume forecasts underestimate Bradford Group's volume response to the price incentives, the benefits to the Postal Service will exceed those presented in this case.

Please confirm that to the extent any of the Bradford Group's volume response is caused by non-price factors, the benefits to the Postal Service will be less than those presented in this case. If you do not confirm, please explain.

RESPONSE:

Not confirmed. Given that non-price factors can have both negative and positive effects on volume response, benefits to the Postal Service can be less than or exceed those presented in this case.

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OCA/USPS-T1-18. Please refer to your testimony at page 13, line 12, and the phrase "reduces the risk of discount exposure."

- a. Please explain the meaning of "discount exposure" as used in this phrase.
- b. Please explain and give one or more examples of what would trigger the Postal Service's unconditional right to terminate the agreement so as to "reduce[] the risk of discount exposure."

RESPONSE:

- a. Discount exposure, as used in the cited phrase, means the amount by which the Before-Rates forecast volume exceeds the minimum volume threshold in any tier, in any year.
- b. Under the Bradford Group NSA, there is nothing which will "trigger" the Postal Service's unconditional right to terminate the agreement in order to prevent annual Before-Rates forecast volumes from exceeding annual minimum threshold volumes. The provision for termination upon 30 days' notice in the contract provides a disincentive for any potential NSA partner to overestimate their Before-Rates volume forecasts, thereby reducing the risk of discount exposure to the Postal Service.

Revised 11/16

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OCA/USPS-T1-19. Please refer to your testimony, Appendix A, page 3, and the column entitled "Revenue per piece (1)." Also, please refer to Appendix B, page B-2, where it states, "the revenue calculations use prices which took effect May 14, 2007."

- a. Please confirm that the "prices [rates] which took effect May 14, 2007," for Standard Mail letters in the Regular Automation Categories (Rate Schedule 321B) are \$0.252, \$0.238, \$0.233, and \$0.218 for Mixed AADC, AADC, 3-Digit, and 5-Digit, respectively. If you do not confirm, please explain.
- b. Please confirm that the "Revenue per piece" figures shown in column (1) include Destination Entry Discounts. If you do not confirm, please explain.
- c. Please show all calculations used to derive the "Revenue per piece" figures shown in column (1), and provide citations to all figures used in such calculations.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. See the attached file "Table 1 (MC2007-4)."

Revised 11/16

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OCA/USPS-T1-20. Please refer to your testimony, Appendix A, page 3, which presents the volumes for the Bradford Group's Standard Mail Regular letters in the column entitled "Volume (2)." Please provide electronic workpapers showing the development of the "Volume" figures for letters shown in column (2). Also, please provide citations to all figures used.

RESPONSE:

See the attached file "Table 1 (MC2007-4)."

Revised 11/16

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OCA/USPS-T1-21. Please refer to your testimony, Appendix A, page 5, and the column entitled "Revenue per piece (1)." Also, please refer to Appendix B, page B-2, where it states, "the revenue calculations use prices which took effect May 14, 2007."

- a. Please confirm that the "prices [rates] which took effect May 14, 2007," for Standard Mail flats in the Regular Nonautomation Categories (Rate Schedule 321A) are \$0.515, \$0.461, \$0.427, and \$0.363 for Mixed AADC, AADC, 3-Digit, and 5-Digit, respectively. If you do not confirm, please explain.
- b. Please confirm that the "Revenue per piece" figures shown in column (1) for nonautomation flats include Destination Entry Discounts. If you do not confirm, please explain.
- c. Please provide electronic workpapers showing the development of the "Revenue per piece" figures for nonautomation flats shown in column (1). Also, please provide citations to all figures used.
- d. Please confirm that the "prices [rates] which took effect May 14, 2007," for Standard Mail flats in the Regular Automation Categories (Rate Schedule 321B) are \$0.477, \$0.424, \$0.392, and \$0.335 for Mixed AADC, AADC, 3-Digit, and 5-Digit, respectively. If you do not confirm, please explain.
- e. Please confirm that the "Revenue per piece" figures shown in column (1) for automation flats include Destination Entry Discounts. If you do not confirm, please explain.
- f. Please provide electronic workpapers showing the development of the "Revenue per piece" figures for automation flats shown in column (1). Also, please provide citations to all figures used.
- g. Please confirm that the "prices [rates] which took effect May 14, 2007," for Standard Mail Enhanced Carrier Route flats (Rate Schedule 322) is \$0.249, for Basic. If you do not confirm, please explain.
- h. Please confirm that the "Revenue per piece" figure shown in column (1) for Enhanced Carrier Route flats includes Destination Entry Discounts. If you do not confirm, please explain.
- i. Please provide electronic workpapers showing the development of the "Revenue per piece" figure for Enhanced Carrier Route flats shown in column (1). Also, please provide citations to all figures used.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. See the attached file "Table 1 (MC2007-4)."
- d. Confirmed.

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- e. Confirmed.
- f. See the attached file "Table 1 (MC2007-4)."
- g. Confirmed.
- h. Confirmed.
- i. See the attached file "Table 1 (MC2007-4)."

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
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OCA/USPS-T1-22. Please refer to your testimony, Appendix A, page 5, which presents the volumes for the Bradford Group's Standard Mail Regular and ECR flats in the column entitled "Volume (2)." Please provide electronic workpapers showing the development of the "Volume" figures for flats shown in column (2). Also, please provide citations to all figures used.

RESPONSE:

See the attached file "Table 1 (MC2007-4)."

Revised 9/21 (headers added)

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OCA/USPS-T1-23. Please refer to your testimony, Appendix A, page 4, which presents the Bradford Group's Standard Mail Regular Letter Unit Cost in the column entitled "TYAR 2008 Total Unit Cost (Dollars) (1)." Please provide electronic workpapers showing the development of the "TYAR 2008 Total Unit Cost" figures for Standard Mail Regular letters shown in column (1). Also, please provide citations to all figures used.

RESPONSE:

See attached file "Table 2.Resp.OCA.23-26.xls"

Revised 9/21 (headers added)

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OCA/USPS-T1-24. Please refer to your testimony, Appendix A, page 4, which presents the Bradford Group's Standard Mail Regular Letter Unit Cost in the column entitled "TYAR 2008 Total Unit Cost (Dollars) (1)." Also, please refer to the testimony of witness Yorgey (USPS-T-1), Appendix A, page 4, in Docket No. MC2005-3, and the response of witness Yorgey to POIR No 1, Question 2 in Docket No. MC2005-3, which shows the development of Bookspan's Standard Mail Regular total unit cost for letters. Please provide electronic workpapers showing the development of the "TYAR 2008 Total Unit Cost" figures for the Bradford Group's Standard Mail Regular letters in the same manner as provided in response to POIR No. 1, Question 2 in Docket No. MC2005-3. Provide citations to all figures used.

RESPONSE:

See attached file "Table 2.Resp.OCA.23-26.xls"

Revised 9/21 (headers added)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
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OCA/USPS-T1-25. Please refer to your testimony, Appendix A, page 6, which presents the Bradford Group's Standard Mail Regular and ECR Flats unit costs in columns (1) and (5), both entitled "TYAR 2008 Total Unit Cost (Dollars)." Please provide electronic workpapers showing the development of the "TYAR 2008 Total Unit Cost" figures for Standard Mail Regular and ECR flats shown in columns (1) and (5). Also, please provide citations to all figures used.

RESPONSE:

See attached file "Table 2.Resp.OCA.23-26.xls"

Revised 9/21 (headers added)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PARR
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OCA/USPS-T1-26. Please refer to your testimony, Appendix A, page 6, which presents the Bradford Group's Standard Mail Regular and ECR flats unit costs in the column entitled "TYAR 2008 Total Unit Cost (Dollars) (1)." Also, please refer to the testimony of witness Yorgey (USPS-T-1), Appendix A, page 6, in Docket No. MC2005-3, and the response of witness Yorgey to POIR No 1, Question 2 in Docket No. MC2005-3, which shows the development of Bookspan's Standard Mail Regular and ECR total unit cost for flats. Please provide electronic workpapers showing the development of the "TYAR 2008 Total Unit Cost" figures for the Bradford Group's Standard Mail Regular and ECR flats in the same manner as provided in response to POIR No. 1, Question 2 in Docket No. MC2005-3. Provide citations to all figures used.

RESPONSE:

See attached file "Table 2.Resp.OCA.23-26.xls"

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OCA/USPS-T1-27. Please refer to your testimony, Appendix A, page 4, which presents the Bradford Group's Standard Mail Regular Letter Unit Cost in column (1), entitled "TYAR 2008 Total Unit Cost (Dollars)." Also, please refer to Note (1), which references the sources used to develop the unit costs for Regular letters in column (1).

- a. Please confirm that you relied on PRC-LR-22, Docket No. R2006-1, as the basis for developing the "TYAR 2008 Total Unit Cost[s]" for the Bradford Group's Standard Mail Regular letters. If you do not confirm, please explain.
- b. In Docket No. R2006-1, please confirm that the Commission relied on PRC-LR-15, which contains the calculation of the Commission's recommended rates for Standard Mail Regular and ECR letters and flats, as the basis for the Standard Mail Regular letters rate design, and that PRC-LR-15 identified total unit costs for Standard Mail Regular letters. If you do not confirm, please explain.
- c. Please provide a detailed explanation of why you used PRC-LR-22 rather than PRC-LR-15 as the basis for developing the "TYAR 2008 Total Unit Cost[s]" for the Bradford Group's Standard Mail Regular letters. In your explanation, please identify any differences between PRC-LR-22 and PRC-LR-15, and explain how your use of PRC-LR-22 rather than PRC-LR-15 affected the development of the "TYAR 2008 Total Unit Cost[s]" for the Bradford Group's Standard Mail Regular letters.

Response:

- a. Confirmed.
- b. Confirmed that the Commission apparently relied upon PRC-LR-15 in determining the rates for Standard Mail Regular and ECR letters and flats, but not confirmed that PRC-LR-15 "identified total unit costs for Standard Mail Regular letters." For example, please refer to column I of tab "unit cost" in file PRCRegNPRates.xls. The heading of column I is "Total Unit Cost". However, as can be seen by clicking on any of the cells therein, the costs under the heading "Total Unit Cost" only include the mail processing and delivery unit costs, not the total costs which would encompass all cost segments and components.
- c. As noted in the response to part b above, the "Total Unit Cost" figures in PRC-LR-15 did not actually include total unit costs, but rather, only mail processing and delivery costs. While the sum of these two costs may have been sufficient

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for the Commission to differentiate among shapes and presort levels for purposes of setting rates, using the sum of mail processing and delivery unit costs for purposes of estimating the unit contribution for pieces added to the postal mail stream as a result of this NSA would have overestimated the unit contribution; total unit costs encompassing all cost segments and components had to be developed in order to develop unit contribution estimates for the new volume. The only apparent source of total costs in the Commission's workpapers was the final adjustment model, where the detailed mail processing and delivery costs varying by shape and presort level were provided, as well as all other costs.

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OCA/USPS-T1-28. Please refer to your testimony, Appendix A, page 6, which presents the Bradford Group's Standard Mail Regular and ECR flats unit costs in columns (1) and (5), both entitled "TYAR 2008 Total Unit Cost (Dollars)." Also, please refer to Note (1), which references the sources used to develop the unit costs for Regular and ECR flats in columns (1) and (5), respectively.

- a. Please confirm that you relied on PRC-LR-22, Docket No. R2006-1, as the basis for developing the "TYAR 2008 Total Unit Cost[s]" for the Bradford Group's Standard Mail Regular and ECR flats. If you do not confirm, please explain.
- b. In Docket No. R2006-1, please confirm that the Commission relied on PRC-LR-15, which contains the calculation of the Commission's recommended rates for Standard Mail Regular and ECR letters and flats, as the basis for the Standard Mail Regular and ECR flats rate design, and that PRC-LR-15 identified total unit costs for Standard Mail Regular and ECR flats. If you do not confirm, please explain.
- c. Please provide a detailed explanation of why you used PRC-LR-22 rather than PRC-LR-15 as the basis for developing the "TYAR 2008 Total Unit Cost[s]" for the Bradford Group's Standard Mail Regular and ECR flats. In your explanation, please identify any differences between PRC-LR-22 and PRC-LR-15, and explain how your use of PRC-LR-22 rather than PRC-LR-15 affected the development of the "TYAR 2008 Total Unit Cost[s]" for the Bradford Group's Standard Mail Regular and ECR flats.

Response:

Please refer to the response to OCA/USPS-T1-27.

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OCA/USPS-T1-29. Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes. Assume there are risk factors that cause the Bradford Group's actual volumes to exceed its *after-rates* forecast volumes.

- a. Under the NSA, please confirm that the Bradford Group will earn discounts on volumes exceeding the *after-rates* forecast volumes up to the volume cap (see Request, Appendix F, Article III.F.2). If you do not confirm, please explain.
- b. Under the NSA, please confirm that the Postal Service is obligated to provide the Bradford Group discounts on volumes exceeding the *after-rates* forecast volumes up to the volume cap (see Request, Appendix F, Article III.F.2). If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

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OCA/USPS-T1-30. Please refer to your testimony at page 13, lines 1-3, which references the risk that the Bradford Group's actual volumes deviate from the forecast volumes. Assume there are risk factors that cause the Bradford Group's actual volumes to fall below its *after-rates* forecast volumes.

- a. Under the NSA, if the Bradford Group's actual volumes are less than its *after-rates* forecast volumes and more than the volume commitment, please confirm that the Bradford Group will earn discounts. If you do not confirm, please explain.
- b. Under the NSA, if the Bradford Group's actual volumes are less than its *after-rates* forecast volumes and less than the volume commitment, but more than the lowest discount threshold, please confirm that the Bradford Group will not earn discounts. If you do not confirm, please explain.
- c. Under the NSA, if the Bradford Group's actual volumes are less than its *after-rates* forecast volumes *and* less than the lowest discount threshold, please confirm that the Bradford Group will not earn discounts. If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.

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OCA/USPS-T1-31. Please refer to your response to OCA/USPS-T1-6(d), which identified NSA provisions that would permit risk mitigation, assuming the NSA is implemented as proposed. Part d. asked "how you controlled for uncertainty with respect to the risk factors . . . *when estimating the Bradford Group's forecast volumes.*" (Emphasis added) Please respond to Part d. as asked, focusing exclusively on controlling for risk factors when estimating the Bradford Group's forecast volumes, rather than NSA provisions.

RESPONSE:

Due to the fact that a complete list of risk factors is impossible to compile and probably unknowable, the risk mitigating features of the NSA were designed to address the presence of these risk factors instead of controlling for them in a precise manner when estimating Bradford Group's forecast volumes.

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OCA/USPS-T1-32. Please refer to your response to OCA/USPS-T1-7(b). If the Postal Service "will not be able to distinguish volume changes caused by the other factors from those generated in response to the discounts," as stated in response to Part a., please explain how the Postal Service will know, at the conclusion of the three-year period of the NSA, that any net contribution received is the result of volume generated solely in response to the discounted rates.

RESPONSE:

The Postal Service throughout the life of the NSA will be able to track actual volume. It is likely that the Postal Service will not be able to distinguish net contribution received as the result of volume generated solely in response to the discounted rates. The Postal Service generally does not possess the data needed to quantify the uncertainty and variability of other non-price outside events for individual mailers (assuming the data for such an analysis exists).

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OCA/USPS-T1-33. Please refer to your response to OCA/USPS-T1-10, concerning Appendix C, Table 1, the Value To Volume Sensitivity Matrix Based on Year 1.

- a. With respect to your response to Part b., assume the following: In the row, "%Change," the total percentage change in actual After Rates Letter Volume, i.e., (8.3%), (4.0%), (2.0%), **0.0%**, 5.0%, 10.0%, and 17.3%, remains the same. However, assume one-half of the total percentage change is caused by non-price factors, and the other half is caused by the discounts. Also, assume there is no change in the percentages shown in the "%Change" column for Before Rates Letter Volume. Please complete the cells in Appendix C, Table 1, and provide an electronic version of Appendix A identifying any changes to Appendix A that were used to complete Table 1.
- b. With respect to your response to Part b., assume the following: In the row, "%Change," the total percentage change in actual After Rates Letter Volume, i.e., (8.3%), (4.0%), (2.0%), **0.0%**, 5.0%, 10.0%, and 17.3%, remains the same. However, assume that all of the total percentage change is caused by non-price factors. Also, assume there is no change in the percentages shown in the "%Change" column for Before Rates Letter Volume. Please complete the cells in Appendix C, Table 1, and provide an electronic version of Appendix A identifying any changes to Appendix A that were used to complete Table 1.

RESPONSE:

- a-b. The cited scenarios for changes in the percentages caused by price and non-price factors will not affect the outcomes in Appendix C, Table 1 nor Appendix A. Variation from the after-rates volume forecast can result from non-price risk factors and discounts.

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OCA/USPS-T1-34. Please refer to your response to OCA/USPS-T1-17. As posed, OCA/USPS-T1-17 referred to your testimony at page 12, lines 14-17, where it states:

To the extent that the after-rates volume forecasts underestimate Bradford Group's volume response to the price incentives, the benefits to the Postal Service will exceed those presented in this case.

OCA/USPS-T1-17 also posed the following question:

Please confirm that to the extent any of the Bradford Group's volume response is caused by non-price factors, the benefits to the Postal Service will be less than those presented in this case. If you do not confirm, please explain.

Your response stated:

Not confirmed. Given that non-price factors can have both negative and positive effects on volume response, benefits to the Postal Service can be less than or exceed those presented in this case.

- a. Please confirm that non-price factors provide the same benefits to the Postal Service regardless of discounts. If you do not confirm, please explain.
- b. In your testimony at page 12, lines 14-17, please confirm you were referring to the situation where the Bradford Group's after-rates volume forecasts underestimate Bradford Group's volume response. If you do not confirm, please explain.
- c. Please confirm that where the Bradford Group's after-rates volume forecasts underestimate Bradford Group's volume response, the Bradford Group's actual after-rates volumes will exceed the after-rates volume forecast. If you do not confirm, please explain.
- d. Please confirm that in response to the price incentives, if the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast, the Bradford Group will earn discounts that exceed the estimated amount of discounts presented in your testimony. If you do not confirm, please explain.
- e. Please confirm that in response to the price incentives, if the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast, the benefits to the Postal Service will exceed the benefits presented in your testimony. If you do not confirm, please explain.
- f. Please confirm that in response to non-price factors, one possible response is that the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast presented in your testimony. If you do not confirm, please explain.
- g. Please confirm that in response to non-price factors, if the Bradford Group's actual after-rates volumes exceed the after-rates volume forecast, the benefits to the Postal Service will be less than the benefits presented in your testimony. If you do not confirm, please explain.

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RESPONSE:

- a. Not confirmed. See my response to OCA/USPS-T1-7(a).
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. Not confirmed. This is true only when Bradford Group's actual after-rates volumes exceed the top volume tier.

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OCA/USPS-T1-35. Please refer to your response to OCA/USPS-T1-18(b), which states "the provision for termination upon 30 days' notice in the contract provides a disincentive for any potential NSA partner to overestimate their Before-Rates volume forecasts, thereby reducing the risk of discount exposure to the Postal Service."

- a. Please confirm that the Bradford Group is an NSA partner of the Postal Service. If you do not confirm, please explain.
- b. Please confirm that the Bradford Group is an NSA partner of the Postal Service because it has a signed negotiated service agreement (contract) with the Postal Service (see Request, Attachment F). If you do not confirm, please explain.
- c. Please confirm that the phrase "potential NSA partner" refers to any mailer that does not have a signed negotiated service agreement (contract) with the Postal Service. If you do not confirm, please explain.
- d. Please confirm that at the time the Bradford Group and Postal Service signed the negotiated service agreement (see Request, Attachment F), the Bradford Group's Before-Rates forecast volume (see Appendix A, Page 2) was known to the Postal Service. If you do not confirm, please explain.
- e. Please confirm that at the time the Bradford Group and Postal Service signed the negotiated service agreement (see Request, Attachment F), the "discount exposure" to the Postal Service resulting from the Bradford Group's Before-Rates forecast volume (see Appendix A, Page 2) was known to the Postal Service. If you do not confirm, please explain.
- f. Please confirm that at the time the Bradford Group and Postal Service signed the negotiated service agreement (see Request, Attachment F), the Bradford Group's After-Rates forecast volume (see Appendix A, Page 2) was known to the Postal Service. If you do not confirm, please explain.
- g. Assume the Bradford Group NSA is recommended by the Commission and implemented by the Postal Service as proposed in its Request, please identify any event that would cause the Postal Service to exercise its unconditional right to terminate the agreement, and explain how such exercise will "reduce[] the risk of discount exposure" during the three year term of the agreement.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.

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- g. The Postal Service could exercise its unconditional right to terminate the agreement if actual volume behavior is inconsistent with the Before-Rates volume forecast.

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OCA/USPS-T1-36. Please refer to your response to OCA/USPS-T1-33(a)-(b), and to your testimony, Appendix C, Table 1, entitled Value to Volume Sensitivity Matrix Based on Year 1, a portion of which, showing only the "Before Rates Letter Volume" row of 146.5 million, is reproduced below.

Appendix C
Value to Volume Sensitivity Matrix
Based on Year 1

Table 1:

		After Rates Letter Volume							
		Volumes (millions)	154.0	161.3	164.6	168.0	176.4	184.8	195.0
		% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	17.3%
Before Rates Letter Volume	146.5	0.0%	\$ 0.9	\$ 1.5	\$ 1.7	\$ 1.9	\$ 2.4	\$ 2.9	\$ 3.5

a. Please confirm that the table above accurately displays the row and column headings and the estimated total USPS value (in millions) for the selected row extracted from Appendix C, Table 1. If you do not confirm, please explain.

Also, please refer to the following table entitled "OCA Exhibit 1, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors," and the accompanying electronic Excel file "OCA Exh1_App C_Analysis."

b. In the row, "%Change," showing the total percentage change in actual After Rates Letter Volume of (8.3%), (4.0%), (2.0%), 0.0%, 5.0%, 10.0%, and 16.0%, assume that the total percentage change is caused by non-price factors, rather than the price incentives of the NSA. Please confirm that the estimated total USPS value is shown in the table below: If you do not confirm, please explain, show all calculations in electronic form that supports your explanation, and provide citations to all sources.

OCA Exhibit 1
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1

		After Rates Letter Volume							
		Volumes (millions)	154.0	161.3	164.6	168.0	176.4	184.8	195.0
		% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%
Before Rates Letter Volume	146.5	0.0%	\$ 289,737	\$ 159,137	\$ 91,937	\$ 19,737	\$ (190,263)	\$ (439,263)	\$ (745,263)

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RESPONSE:

- a. Confirmed.
- b. Confirmed that the calculations arrived at in electronic Excel file "OCA Exh1_App C_Analysis" are correct under the stated scenario. As I understand the posited scenario, you are assuming that actual volumes will deviate from forecast volumes as a result of factors other than the discount offered, but that volume will not change as a result of the discount. However, my testimony (Appendix C, Table 1) presents a scenario in which price does cause a volume response. Additionally, the before and after-rates volume forecasts are consistent with achieving incremental actual volume and the USPS values presented in my testimony.

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OCA/USPS-T1-41. Please refer to your revised response to OCA/USPS-T1-36(b), where it states:

Because the only factor that is assumed to change between the before-rates and after-rates conditions in Appendix A is price, the correct way to evaluate the scenario described above is to set the before-rates and after-rates volumes equal to each other and use the resulting total USPS value from the "value" sheet of Appendix A.

- a. In the development of USPS value in Appendix C, Table 1 of your testimony, please confirm that "the only factor that is assumed to change between the before-rates and after-rates conditions in Appendix A is price." If you do not confirm, please explain.
- b. In the development of USPS value in Appendix C, Table 1 of your testimony, please confirm that you "set the before-rates and after-rates volumes equal to each other and use[d] the resulting total USPS value from the 'value' sheet of Appendix A." If you do not confirm, please explain.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. To elaborate on my answer to OCA/USPS-T1-36(b), the sole purpose of the model presented in Appendix A to my testimony is to evaluate the financial impact on the Postal Service of a change in volume caused by offering discounts to a customer. The model is not designed to, nor can it easily accommodate, changes due to non-price factors. Thus, the only difference between the before-rates and after-rates volume forecasts should be the difference caused by the discounts. Because the only difference between the two forecasts in the model is assumed to be price, any other changes in assumptions in the forecast should be represented as a change in the before-rates forecast, rather than the after-rates forecast.

I have attached a version of the Appendix A model (filed electronically as Appendix_A_Assumption_Changes.xls), which includes an additional set of calculations on the "Vol" sheet that should show what I mean. Starting with the original USPS forecast for Year 1 (cell G20), any assumptions about changes in the forecast due to non-price factors can be input (cell G21), creating a new before-rates forecast, which is then transferred to the Standard Mail Letter before-rates forecast line (cell G7). Any

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additional assumption about changes due to price can be entered in cell G23 to calculate a new after-rates forecast, which is transferred to cell G12. A similar table is included for flats.

The net effect of this change for the scenarios proposed in OCA/USPS-T1-36 is to move the discounts paid to the customer from the "Incremental Discounts" line on the "Value" tab to the "Exposure" line. The net value originally calculated by the OCA is correct, however.

The attachment also contains a corrected version of OCA Exhibit 1, adjusted to reflect the correct before-rates forecasts for each scenario.

Bradford Group **Assumption Changes - Provided in Response to OCA/USPS-T1-41-42**
Negotiated Service Agreement
Appendix A, page 2

	FY 2004	FY 2005	FY 2006	Year 1	Year 2	Year 3
Volume calculations (1)	Forecast Volumes (2)					
Before Rates (BR)						
Standard Mail (SM) Letters	177,622,695	189,048,495	169,496,701	168,000,000	147,600,000	147,000,000
Standard Mail (SM) Flats	50,687,755	52,562,984	56,942,096	53,500,000	54,400,000	57,000,000
Total	228,310,450	241,611,479	226,438,797	221,500,000	202,000,000	204,000,000
After Rates (AR)						
SM Letters	177,622,695	189,048,495	169,496,701	168,000,000	147,600,000	147,000,000
SM Flats	50,687,755	52,562,984	56,942,096	58,000,000	58,000,000	60,000,000
Total	228,310,450	241,611,479	226,438,797	226,000,000	205,600,000	207,000,000

- (1) Bradford Group Billing Determinants (CBCIS)
(2) Docket No. MC2007-3, Bradford T-2, p9

Letters

USPS Before-rates forecast	146,500,000	147,600,000	147,000,000
+ Change due to non-price factors	21,500,000		
= New Before-rates forecast	168,000,000	147,600,000	147,000,000
+ Change due to price			
= New After-rates forecast	168,000,000	147,600,000	147,000,000

Flats

USPS Before-rates forecast	53,500,000	54,400,000	57,000,000
+ Change due to non-price factors			
= New Before-rates forecast	53,500,000	54,400,000	57,000,000
+ Change due to price	4,500,000	3,600,000	3,000,000
= New After-rates forecast	58,000,000	58,000,000	60,000,000

Assumption Changes - Provided in Response to OCA/USPS-T1-41-42
OCA Exhibit 1 - Corrected
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1

			After Rates Letter Volume						
Volumes (millions)			154.0	161.3	164.6	168.0	176.4	184.8	195.0
% Change			(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%
Before Rates Letter Volume	154.0	5.1%	\$ 289,737						
	161.3	10.1%		\$ 159,137					
	164.6	12.4%			\$ 91,937				
	168.0	14.7%				\$ 19,737			
	176.4	20.4%					\$ (190,263)		
	184.8	26.1%						\$ (439,263)	
	195.0	33.1%							\$ (745,263)

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OCA/USPS-T1-42. Please refer to your revised response to OCA/USPS-T1-36(b), where it states:

Because the only factor that is assumed to change between the before-rates and after-rates conditions in Appendix A is price, the correct way to evaluate the scenario described above is to set the before-rates and after-rates volumes equal to each other and use the resulting total USPS value from the "value" sheet of Appendix A.

Refer to your testimony, Appendix C, Table 1, entitled Value to Volume Sensitivity Matrix Based on Year 1, an extract of which, showing only the "Before Rates Letter Volume" row of 146.5 million, is reproduced below.

**Appendix C
Value to Volume Sensitivity Matrix
Based on Year 1**

Table 1:

		After Rates Letter Volume							
		154.0	161.3	164.6	168.0	176.4	184.8	195.0	
		(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	17.3%	
Before Rates Letter Volume	Volumes (millions)	% Change	\$ 0.9	\$ 1.5	\$ 1.7	\$ 1.9	\$ 2.4	\$ 2.9	\$ 3.5
	146.5	0.0%							

Also, please refer to the following table entitled "OCA Exhibit 1, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors," based upon a "Before Rates Letter Volume" of 146.5 million, and the accompanying electronic Excel file "OCA Exh1_App C_Analysis."

**OCA Exhibit 1
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1**

		After Rates Letter Volume							
		154.0	161.3	164.6	168.0	176.4	184.8	195.0	
		(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	10.0%	16.1%	
Before Rates Letter Volume	Volumes (millions)	% Change	\$ 289,737	\$ 159,137	\$ 91,937	\$ 19,737	\$ (190,263)	\$ (439,263)	\$ (745,263)
	146.5	0.0%							

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The following questions ask you to assume only two factors change between the before-rates and after-rates conditions in Appendix A:

1. Price incentives (rate discounts) are offered, as proposed in the Bradford Group NSA; *and*
 2. Changes in actual After Rates Letter Volume are caused by non-price factors. That is, possible differences between the After Rates Volume forecast of 168.0 million and the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million, as shown in OCA Exhibit 1, above, are caused solely by non-price factors.
- a. During Year 1 of the Bradford Group NSA, please confirm that possible actual After Rates Letter Volume could be 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million. If you do not confirm, please explain.
 - b. During Year 1 of the Bradford Group NSA, please confirm that possible actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million could be caused by the price incentives of the NSA. If you do not confirm, please explain.
 - c. During Year 1 of the Bradford Group NSA, please confirm that possible actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, and 195.0 million could be caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.
 - d. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will "pay" discounts to the Bradford Group if the actual After Rates Letter Volume is 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million. If you do not confirm, please explain.
 - e. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will "pay" discounts to the Bradford Group if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by the price incentives of the NSA. If you do not confirm, please explain.
 - f. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will "pay" discounts to the Bradford Group if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.
 - g. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will receive contribution if the actual After Rates Letter Volume is 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million. If you do not confirm, please explain.
 - h. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will receive "new" contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by the price incentives of the NSA. If you do not confirm, please explain.

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- i. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will receive contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA; however, the contribution received is not "new" as it cannot be attributed to the price incentives of the NSA. If you do not confirm, please explain.
- j. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will "pay" discounts to the Bradford Group and receive "new" contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by the price incentives of the NSA. If you do not confirm, please explain.
- k. During Year 1 of the Bradford Group NSA, please confirm that the Postal Service will "pay" discounts to the Bradford Group and receive contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA; however, the contribution received is not "new" as it cannot be attributed to the price incentives of the NSA. If you do not confirm, please explain.
- l. Assume a Before Rates Letter volume of 146.5 million. During Year 1 of the Bradford Group NSA, please confirm that the net contribution to the Postal Service will increase if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million, as shown in the extract of Appendix C, Table 1 from your testimony, above, is caused by the price incentives of the NSA. If you do not confirm, please explain.
- m. Assume a Before Rates Letter volume of 146.5 million. During Year 1 of the Bradford Group NSA, please confirm that the net contribution to the Postal Service will decrease if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million, as shown in OCA Exhibit 1, above, is caused by non-price factors, since the actual After Rates Letter Volume generating the contribution would have occurred in any event because the actual After Rates Letter Volume is independent of the price incentives of the NSA. If you do not confirm, please explain.
- n. Please confirm that OCA Exhibit 1, above, assumes only two factors change between the before-rates and after-rates conditions in Appendix A: 1) Price incentives (rate discounts) are offered; *and*, 2) Changes in the actual After Rates Letter Volume are caused by non-price factors. If you do not confirm, please explain.
- o. Please confirm that OCA Exhibit 1, above, shows the change in net contribution to the Postal Service from the "payment" of discounts to the Bradford Group and the absence of "new" contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.

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RESPONSE:

- a. Confirmed, although the likelihood of any of these projections is in inverse proportion to its distance from the after-rates forecast of 168 million pieces.
- b. Confirmed.
- c. Confirmed, although the likelihood of any of these projections is in inverse proportion to its distance from the before-rates forecast of 146.5 million pieces.
- d. Confirmed.
- e. Confirmed, although the Postal Service will not know how much of the actual volume is due to the price incentives of the NSA or to other factors.
- f. Confirmed, but see my response to part e of this interrogatory.
- g. Confirmed.
- h. Confirmed.
- i. Confirmed.
- j. Confirmed that the Postal Service will pay the discounts. Confirmed that the Postal Service will earn "new" contribution to the extent that volume growth is induced by the price incentives of the NSA.
- k. Confirmed that the Postal Service will pay the discounts. Confirmed that the Postal Service will not earn "new" contribution to the extent that volume above the discount threshold is caused by non-price factors.
- l. Confirmed.
- m. Not confirmed. If "[v]olume generating the contribution would have occurred in any event," then the before-rates and after-rates volume in the model should be identical. See my response to USPS/OCA-T1-41(b).
- n. Confirmed. However, as explained in my answer to USPS/OCA-T1-41(b), Appendix A will only evaluate changes due to price incentives; it cannot incorporate changes due to non-price factors.
- o. Not confirmed. See my response to USPS/OCA-T1-41(b).

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OCA/USPS-T1-43. Please refer to your response to OCA/USPS-T1-41(b), where it states:

The net effect of this change for the scenarios proposed in OCA/USPST1-36 is to move the discounts paid to the customer from the "Incremental Discounts" line on the "Value" tab to the Exposure" line. The net value originally calculated by the OCA is correct, however.

Also, please refer to the following table from your response entitled "OCA Exhibit 1 - Corrected, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors," which assumes the same before-rates and after-rates volumes, and the electronic Excel file Appendix_A_Assumption_Changes."

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In addition, please refer to the following table entitled "OCA Exhibit 1, Value to Volume Sensitivity Analysis Assuming After-Rates Letter Volume Caused by Non-Price Factors," based upon a "Before Rates Letter Volume" of 146.5 million, and the accompanying electronic Excel file "OCA Exh1_App C_Analysis."

**OCA Exhibit 1
Value to Volume Sensitivity Matrix
Assuming After Rates Letter Volume Caused by Non-Price Factors
Based on Year 1**

Volumes (millions)		After Rates Letter Volume						
		154.0	161.3	164.6	168.0	176.4	184.8	195.0
	% Change	(8.3%)	(4.0%)	(2.0%)	0.0%	5.0%	0.0%	16.1%
Before Rates Letter Volume	146.5	\$ 289,737	\$ 159,137	\$ 91,937	\$ 19,737	\$ (190,263)	\$ (439,263)	\$ (745,263)

- a. Please confirm that your table "OCA Exhibit 1 – Corrected" shows the value to the Postal Service of the Bradford Group NSA where changes in volume are caused by non-price factors. If you do not confirm, please explain.
- b. Please confirm that the value figures in the diagonal cells of your table "OCA Exhibit 1 – Corrected," which assumes the Before Rates Letter Volume forecast and actual After Rates Letter Volume equal 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million, are identical to the value figures in the table "OCA Exhibit 1," which assumes a Before Rates Letter Volume forecast of 146.5 million and actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million. If you do not confirm, please explain.
- c. Please confirm that a comparison of your electronic Excel file "Appendix_A_Assumption_Changes" and the electronic Excel file "OCA Exh1_App C_Analysis" shows that as a result of non-price factors, the value to the Postal Service in Year 1 of the Bradford Group NSA is the same for two reasons: 1) the absence of any contribution from new Standard Mail letters, and 2) an increase in total exposure for letters from \$0 to \$105,000, \$235,600, \$302,800, \$375,000, \$585,000, \$834,000, and \$1,140,000 if actual After Rates Letter Volume is 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million, respectively. If you do not confirm, please explain.
- d. Please confirm that a comparison of your table "OCA Exhibit 1 – Corrected" and table "OCA Exhibit 1" shows that the value to the Postal Service is the same regardless of the Before Rates Volume forecast. If you do not confirm, please explain.

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- e. Please confirm that because the Year 1, \$0.015 discount threshold is set at 147 million, the Before Rates Volume forecast is irrelevant to the value of the Bradford Group NSA to the Postal Service. If you do not confirm, please explain.
- f. Please confirm that "OCA Exhibit 1" shows the change in net contribution to the Postal Service from the "payment" of discounts to the Bradford Group (or increase in "exposure" to the Postal Service) and the absence of "new" contribution if the actual After Rates Letter Volume of 154.0 million, 161.3 million, 164.6 million, 168.0 million, 176.4 million, 184.8 million, or 195.0 million is caused by non-price factors rather than the price incentives of the NSA. If you do not confirm, please explain.

RESPONSES:

- a. Confirmed.
- b. It is confirmed that the value figures are identical. However, if assuming changes in after-rates due to non-price factors, after-rates will be equal to before-rates since the model only assumes changes in after-rates due to price incentives.
- c. Confirmed.
- d. Not confirmed. Please see response to OCA/USPS-T1-43(b).
- e. Not confirmed. The before-rates and threshold volumes contribute to the determination of incremental volume, discount exposure, and therefore final Bradford Group NSA value to the Postal Service.
- f. Not confirmed. Although in this case, the net value to the Postal Service is the same, the methodology used to develop "OCA Exhibit 1" is conceptually flawed. Following long-standing PRC rate-litigation procedures, the financial model contained in my Appendix A is designed to use a before-rates and after-rates forecast which differ only by the volume effect of the proposed price change (in this case, the discounts on offer). Under these procedures, all other factors are assumed to be identical in the before-rates and after-rates forecasts. In a case

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where the assumed change due to price is zero, therefore, the before-rates and after-rates forecasts should be identical, and any assumed difference in a non-price factor should be represented as an identical change to both the before-rates forecast and the after-rates forecast.

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TO COMMISSION INFORMATION REQUEST NO. 1, QUESTION 1

1. In USPS-T-1 at page 2, witness Parr defines solicitation mail as "letters and flats sent as Standard Mail...seeking customers for collectibles and gift items." Does The Bradford Group use letters and flats sent as First-Class Mail to solicit customers? If so, how much of this mail will convert to Standard Mail as a result of this NSA?

RESPONSE:

No. The use of First-Class Mail occurs through invoicing and correspondence.

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TO COMMISSION INFORMATION REQUEST NO. 1, QUESTION 3

3. In USPS-T-1, page 9, Figure 1, witness Parr cites a graph showing that warehouse clubs and superstores have become major competitors to catalogers and other nonstore retailers. Are the figures represented in this graph solely applicable to the collectibles market in which The Bradford Group competes, or do they represent all merchandise sold by both warehouse clubs and superstores and by nonstore retailers?

RESPONSE:

The figures represent all merchandise sold by both warehouse clubs and superstores and by nonstore retailers as a proxy for the collectibles market product offering in both retail groupings. Merchandise sold by warehouse clubs and superstores includes merchandise also sold in the collectibles industry.

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OCA/USPS-T1-37. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats.

- a. Please confirm that all unit cost figures displayed in the electronic Excel file Table 2.Resp.OCA.23-26.xls are "hard entered;" that is, there are no calculations in any of the cells used to derive the unit cost figures for Total Costs, Mail Processing, Window Costs, City Carrier, Rural Carrier, Vehicle Service Driver (VSD), Transportation, and Other Costs. If you do not confirm, please explain.
- b. Please provide electronic workpapers that include all calculations used to derive the unit cost figures for Total Costs, Mail Processing, Window Costs, City Carrier, Rural Carrier, Vehicle Service Driver (VSD), Transportation, and Other Costs for all Standard Mail Regular and ECR rate categories shown in Table 2.Resp.OCA.23-26.xls. Provide citations to all sources used in the calculations.

RESPONSE:

- a. Confirmed.
- b. The attached spreadsheet [Table 3.xls] was used to derive the unit cost figures. This spreadsheet was originally used in Docket No. R2006-1 to calculate Final Adjustments. The sheets were changed to calculate total unit cost instead of the mail flow cost difference between base year and all other years including test year. Some of the data in the unit cost calculation file is not needed, but removing sheets will disrupt the links.

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OCA/USPS-T1-38. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats. The notes to Table 2.Resp.OCA.23-26.xls state the following:

- 1- Changes were made to reflect [the] volume shift of Carrier route volume from ECR to Regular 5-digit Presort.
 - 2- Adjustment[s] were made using special studies piggybacks instead of final adjustment piggybacks as referenced in in [sic] the sheet "piggys" in the FinAdj2008-PRC-PRCREM1.XLS
- a. Refer to note 1- above. Please provide all calculations in electronic form that resulted in the changes "made to reflect [the] volume shift of Carrier route volume from ECR to Regular 5-digit Presort." Provide citations to all sources used in the calculations.
 - b. Refer to note 2- above. Please provide the special studies referred to in note 2-.

RESPONSE:

- a. This footnote was included to cite to differences between the PRC Final Adjustments and what was used to calculate the unit costs provided. The original total cost for Standard and ECR needed to be changed in order to reflect the total cost after the Carrier Route volume shift. These changes are in [Table 3.xls], sheet [Forecast Volume], cells [N48 to Q52]. The ECR total costs were summed and the Standard Regular total costs were summed to reflect the Carrier Route volume moving from ECR to Standard Regular.
- b. There were no special studies. This term is used to describe the full piggyback numbers versus the final adjustment piggyback numbers. The final adjustment piggyback numbers were calculated to better represent final adjustments.

Please see [Table3.xls], sheet [Piggys].

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OCA/USPS-T1-39. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats. In Table 2.Resp.OCA.23-26.xls, please refer to the Mail Processing unit cost of \$0.1585 for Automated 3/5-Digit Flats. Also, please refer to Appendix A, page 6, which shows calculation of the Standard Mail Regular flat unit cost.

- a. Please provide all calculations in electronic form used to calculate the Mail Processing unit cost of \$0.1585 for Automated 3/5-Digit Flats displayed Table 2.Resp.OCA.23-26.xls.
- b. Please confirm that the mail processing unit cost, with "final adjustments," calculated by the Commission for Standard Mail Regular, Automation 3/5-Digit Flats, is \$0.1544. If you do not confirm, please explain and provide the correct unit cost figure.
- c. Please explain why you did not use the mail processing unit cost, with "final adjustments," of \$0.1544 calculated by the Commission for Standard Mail Regular, Automation 3/5-Digit Flats, in calculating the "TYAR 2008 Total Unit Cost (Dollars)" of \$0.2914 for Automation 3/5-Digit Flats in Appendix A, page 6.
- d. For Automation 3/5-Digit Flats, please confirm that the mail processing unit cost, with "final adjustments," of \$0.1544 calculated by the Commission is a weighted average of the Adjusted Flats Mail Processing unit costs for Automation 3-Digit (\$0.20637) and 5-Digit (\$0.12532) flats, using the Base Year 2005 volume for Automation 3-Digit and 5-Digit flats. If you do not confirm, please explain and provide the correct unit cost figure.
- e. Please confirm that the Base Year 2005 volume for Automation 3-Digit and 5-Digit flats represents 31.88% ($4,470,785,082 / 14,025,889,177$) and 57.03% ($7,998,429,444 / 14,025,889,177$), respectively, of total Base Year flats volume. If you do not confirm, please explain and provide the correct figures.
- f. Please confirm that the Bradford Group's volume for Automation 3-Digit and 5-Digit flats represents 93.05% ($17,706,190 / 19,029,457$) and 5.13% ($977,047 / 19,029,457$), respectively, of the Bradford Group's total Nonautomation and Automation flats volume. If you do not confirm, please explain and provide the correct figures.
- g. Please confirm that using the Bradford Group's volume for Automation 3-Digit and 5-Digit flats as weights, the Bradford Group's mail processing unit costs, with "final adjustments," would be \$0.20757 ($(\$0.21193 * 17,706,190 + 977,047 * \$0.12870) / (17,706,190 + 977,047)$). See Excel file "OCA Exh2_FlatsCost-Adj" for calculations. If you do not confirm, please explain and provide the correct unit cost figure.

RESPONSE:

- a. The unit cost calculation of \$0.1585 is in [Table 3.xls], Sheet [MP], cell [z38].

The calculations to derive this number can be followed within Table3.xls.

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- b. Not confirmed. Unit cost \$0.1544 is for Test Year Before Rates Standard Mail Regular, Automation 3/5-Digit Flats. This is an input by the PRC as it is in [Table 3.xls], sheet [MP], cell [n38] used to calculate total unit cost. The number that is used to derive total unit cost for 2008 After Rates is \$0.1585, and the calculations can be followed in the file [Table 3.xls], sheet [MP], cell [z38]. Unit cost \$0.1585 is for Test Year After Rates Standard Mail Regular, Automation 3/5-Digit Flats.
- c. The \$0.1544 figure was used in the calculations. It is included in [Table 3.xls], sheet [MP], cell [n38].
- d. Confirmed.
- e. Confirmed.
- f. Confirmed.
- g. Confirmed.

[Revised 10/19]

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OCA/USPS-T1-40. Please refer to your response to OCA/USPS-T1-25, and the file "Table 2.Resp.OCA.23-26.xls," which shows the development of total unit costs for Standard Mail letters and flats. Also, please refer to the following table entitled "OCA Exhibit 2, Standard Mail Regular Flats Unit Cost, Adjusted for Commission Mail Processing Costs," and the accompanying electronic Excel file "OCA Exh2_FlatsCost-Adj." In addition, please refer to Appendix A, page 6, which shows calculation of the Standard Mail Regular flat unit cost

OCA Exhibit 2
Standard Mail Regular Flats Unit Cost, Adjusted for Commission Mail Processing Costs

Mail Category	TYAR 2008	Mail Volume (Pieces)	Mail Volume (Percent)	Unit	Ratio	Total	Adj.
	Total Unit Cost (Dollars) (1)			Flat Cost w/Contingency (Dollars) (4)	Mail Proc Unit Cost (Dollars) (A)	Mail Proc Unit Cost (Dollars) (12)	Mail Proc Unit Cost (Dollars)
Nonautomation							
Mixed ADC	0.405	4,266	0.0%				
AADC	0.405	89,931	0.5%				
3-digit	0.305	223,475	1.2%				
5-digit	0.305	11,886	0.1%				
Automation							
Mixed ADC	0.399	1,194	0.0%				
AADC	0.399	15,468	0.1%				
3-digit	0.345	17,706,190	93.0%		1.0269	0.20637	\$0.2103
5-digit	0.262	977,047	5.1%		1.0269	0.12532	\$0.12870
Total/average	0.340	19,029,456	100.0%	\$ 0.344			
Standard Mail ECR Flat Unit Cost							
Mail Category	TYAR 2008	Mail Volume (Pieces)	Mail Volume (Percent)	Unit			
Total Unit Cost (Dollars) (5)	Flat Cost w/Contingency (Dollars) (8)						
Basic Nonletters	0.122	37,912,640	100.0%				
Total/Average	0.122	37,912,640	100.0%	\$ 0.123			
				(9) \$ 0.197			

- a. In the table above, please confirm that the unit costs shown in column (1), "TYAR 2008 Total Unit Cost", using the Commission-calculated mail processing unit costs, with "final adjustments," are correct. If you do not confirm, please explain.
- b. Please confirm that the Bradford Group's total unit flats cost should be \$0.197, rather than \$0.180, as shown in Appendix A, page 6, column (4), entitled "Unit [Flat] Cost w/Contingency (Dollars)". If you do not confirm, please explain.

RESPONSE:

- a. Confirmed that the calculations performed to arrive at the unit costs in column (1), "TYAR 2008 Total Unit Cost" are technically correct. However, the

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automation 3-digit and 5-digit costs in this column were not used by the Commission.

- b. Not confirmed. While the method of calculation used in "OCA Exh2_FlatsCost-Adj." is accurate, it simply represents an alternative approach to arrive at total unit costs. The approach presented in Appendix A, USPS-T-1, remains correct though the two methods produce slightly different results for total unit costs.