

DOCKET SECTION

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

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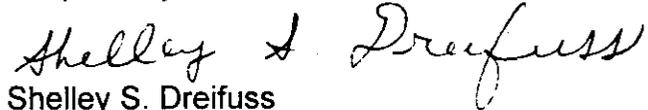
Postal Rate and Fee Changes, 1997)

Docket No. R97-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: JOHN H. O'BANNON (USPS/OCA-T200-1)
(JANUARY 21, 1998)

The Office of the Consumer Advocate hereby submits the answers of John H. O'Bannon to interrogatories of United States Postal Service, dated January 7, 1998. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



Shelley S. Dreifuss

Attorney

Office of the Consumer Advocate

ANSWERS OF OCA WITNESS JOHN H. O'BANNON
TO INTERROGATORIES USPS/OCA-T200-1

USPS/OCA-T200-1. For any of the following subparts that you are unable to confirm, please explain fully.

(a) Please confirm that the formulas presented on page 3 of your testimony are used by you to compute "own price" elasticities.

(b) Please confirm that your testimony on pages 3-4 asserts that, when calculated on a cell-by-cell basis, only in the DBMC category does one find "positive implicit own price elasticities."

(c) Please confirm that you state on page 4 (as well as on page 2) that the "positive implicit own price elasticities" you have computed for certain DBMC cells result from the method by which the Postal Service distributes its volume change estimates across the rate cells.

(d) Please confirm that the forecasting methodology presented by Dr. Tolley in USPS-T-6 forecasts parcel post volumes only at the rate category level, and is independent of the method by which witness Mayes distributes volume change estimates across rate cells.

(e) Please confirm that Table 1 on page 6 of Dr. Tolley's testimony, DBMC volumes are forecast at 136.937 million pieces in the test year before rates (TYBR) scenario, and at 137.938 million pieces in the test year after rates (TYAR) scenario.

(f) Please confirm that, in computing his DBMC forecasts, Dr. Tolley was anticipating a rate increase for DBMC of approximately 1.7 percent (see pages 37 and 55 of Dr. Tolley's Workpaper 1, Data Used in Making Volume Forecasts).

(g) Please confirm that, with TYAR DBMC volumes higher than TYBR volumes (as described above), despite TYAR DBMC rates that are higher than TYBR rates (as described above), application of the formulas shown on page 3 of your testimony would suggest a "positive implicit own price elasticity" for the DBMC category as a whole.

(h) Please confirm that such a computed "positive implicit own price elasticity" for the DBMC category as a whole, based directly on inputs from Dr. Tolley's forecasts, would have to be the result of something other than the method used by witness Mayes to distribute volume changes across rate cells.

(i) Please confirm that among the factors that Dr. Tolley has identified which affect the volume of parcel post is the price of Priority Mail. (Please see USPS-T-6 at 154).

(j) Please confirm that in forecasting his TYAR volumes for DBMC, Dr. Tolley has taken account of the cross-price effects of proposed changes in Priority Mail rates as well as the own-price effects of proposed changes in DBMC rates. (Please see A-24 - A-29 of USPS-T-6.)

(k) Please explain exactly how you took account in your analysis of the cross-price effects of proposed changes in Priority Mail rates between TYBR and TYAR on DBMC volumes, and how such cross-price factors affect your conclusions regarding "implicit own price elasticities."

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A. (a)-(g) Confirmed.

(h) This statement is true, but it does not address the same issue I addressed in my testimony. I was asserting that Witness Mayes distributed the total volume in a manner resulting in positive implicit own price elasticities being computed for some cells. Her use of the pre-rate change proportions does not take into account the effects of relative changes in rates between the cells in any one category. In effect, she ignores the cross-price elasticities among the cells in a given category.

(i)-(j) Confirmed.

(k) I did not take into account cross-price effects of Priority Mail rates with regard to Parcel Post volumes in my analysis, nor was it necessary to do so to show that Witness Mayes' volume distribution method was inappropriate. Consider a hypothetical case in which total volume for DMBC had fallen. If Witness Mayes used the same proportional distribution method, then positive implicit own price elasticities would still be found in two cells of the DBMC category, exactly the two cells that had negative implicit own price elasticities in the case in which the total volume increased. The existence of positive implicit own price elasticities is the indicator of the problem.

Also, I did not take into account any cross-price effects between categories in my analysis at any one category level (Inter-BMC, Intra-BMC, or DBMC). As noted above, Witness Mayes did not take them into account either. As a practical matter, I am not aware if cross-price elasticities between every pair of cells in any one category of Parcel Post are available. Considering that for the DBMC category alone there are 276

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individual cells, and each cell has a cross-price elasticity with respect to every other cell's rate, computing all the cross-price elasticities is certainly a computationally intense task.

DECLARATION

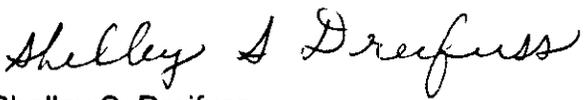
I, John H. O'Bannon, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T200-1 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 1/21/98

John H. O'Bannon

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


Shelley S. Dreifuss
Attorney

Washington, DC 20268-0001
January 21, 1998