

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS STEIDTMANN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T2-6-7)

The United States Postal Service hereby provides responses of witness Steidtmann to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T2-6-7, filed on July 24, 1996. Interrogatory OCA/USPS-T2-5 was redirected to witness Needham.

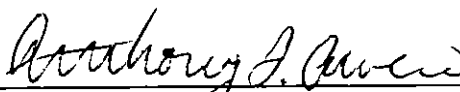
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

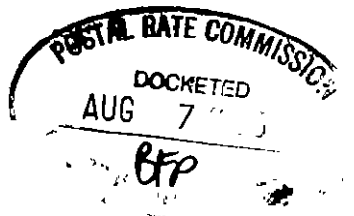
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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August 7, 1996



U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-6
Page 1 of 3

OCA/USPS-T2-6. Your testimony at pages 5 - 6 states: "This increase in certified mail price reflects the fact that comparable service is currently offered at much higher prices. The certified mail fee increases thus comports with retail industry practices."

- a. Please explain in detail what the retail industry practices are with which the proposed certified mail fee increase will comport.
- b. Please explain in detail what "comparable service is currently offered at much higher prices" and who offers these comparable services.
- c. Does the proposed increase in certified mail fees reflect "what the market will bear" type pricing? Please explain.
- d. Does the proposed increase in certified mail fees simply reflect a large price increase for captive customers of a monopoly service? Please explain.
- e. Please explain how any aspect of the Postal Service's proposal for certified mail reflects anything but a price increase.

OCA/USPS-T2-6 Response.

- a. The proposed certified mail fee increase is consistent with the retail practice of pricing a product to reflect current market conditions. Specifically, as noted in the quote of my testimony, the increase in the price of certified mail reflects the fact that comparable service is currently offered at much higher prices. By increasing the fee for certified mail, the price of the certified mail service will be more in line with, although still substantially lower than, the prices for alternatives currently offered in the market.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-6
Page 2 of 3

- b. Please refer to USPS LR-SSR-110 at p. 20. The alternatives to certified mail include couriers, competitors' tracked and traced mail products, and special messengers. According to the survey research, those products average \$10.68 more per piece than certified mail.
- c. No, the Postal Service's proposal does not reflect "what the market will bear" pricing. Although the Postal Service is attempting to raise the fee for certified mail, the proposed price is still far below that of existing alternatives to certified mail. A "what the market will bear" approach, on the other hand, would entail raising the price for certified mail to a level closer to those alternative products.
- d. No, as noted above and in USPS-LR-SSR-110, certified mail customers have identified several market alternatives to the certified mail product offered by the Postal Service, and as such, the existence of "captive customers" is not borne out by the survey research.
- e. The Postal Service proposes an increase in the certified mail fee. Based upon the results of the survey summarized in USPS LR-SSR-110, however, the proposed fee

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-6
Page 3 of 3

increase will still leave the Postal Service's fee far below prices of alternative
products.

U.S. POSTAL SERVICE WITNESS CARL E. STEIDTMANN RESPONSE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T2-7
Page 1 of 1

OCA/USPS-T2-7. At page 7 of your testimony you discuss registry service. You say that registry in general is a relatively low volume service and that uninsured registered mail for higher value items is particularly low volume.

a. Is it the case that a low volume service must have a low value of service? Please explain.

b. Is the object of "streamlining product options" a responsible reason for eliminating a product which has a high value of service to its customers? Please explain.

OCA/USPS-T2-7 Response.

a. It is not necessarily the case that a low volume service has a low value of service.

Premium products and services may be retailed in small quantities but still be highly valued. For instance, a Rolls Royce automobile is sold in extremely limited quantities but is considered a very high value product by consumers.

b. By streamlining product options, the retailer will base a rational decision on the relative merits of the parts of its product line. The retailer will generally discontinue products with low or diminishing volumes in order to concentrate resources on items or services which elicit greater demand in the market. By simplifying its product line, the retailer is able to offer better defined products and services, thereby avoiding confusion among customers.



DECLARATION

I, Carl E. Steidtmann, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

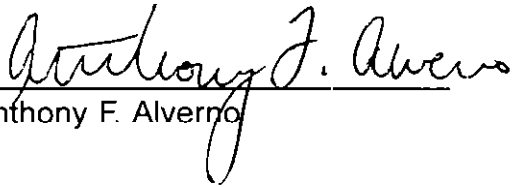


CARL E. STEIDTMANN

Dated: August 7, 1996

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Anthony F. Alverno

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