

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 LYONS TO INTERROGATORIES OF  
THE OFFICE OF THE CONSUMER ADVOCATE  
(OCA/USPS-T1-27-29)

The United States Postal Service hereby provides responses of witness Lyons to the following interrogatories: OCA/USPS-T1-27-29, filed by the Office of the Consumer Advocate on August 9, 1996. Interrogatory OCA/USPS-T1-30 was redirected to witness Patelunas, and interrogatories OCA/USPS-T1-31-33 were redirected to witness Needham.

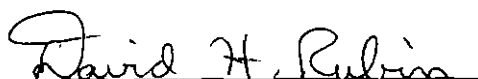
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,


UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

  
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August 23, 1996

POSTAL RATE COMMISSION  
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**RESPONSE OF POSTAL SERVICE WITNESS LYONS TO  
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-T1-27.** In Docket No. MC95-1, during oral cross-examination, Postal Service witness Schmalensee stated,

In a world where information is difficult and expensive, one might want to know the region where Ramsey prices lie or the direction of differences between Ramsey prices and alternative prices, and that might be a sufficient and rational ground for decision-making.

Tr. 33/15083.

- a. In developing rates for Docket No. MC96-3, did the Postal Service determine “the region where Ramsey prices lie or the direction of differences between Ramsey prices and alternative prices . . .” ?
- b. If your response to part (a) of this interrogatory is affirmative, provide copies of all Ramsey pricing data and alternative prices used in developing pricing proposals for Docket No. MC96-3. Include in your response cites to all sources used and a copy of all source documents referenced but not previously filed.
- c. If your response to part (a) of this interrogatory is negative, please explain how the Postal Service determined that it had “sufficient and rational ground[s]” for the pricing decisions made in this filing.

**RESPONSE:**

- a. No, in the sense that the Postal Service did not construct any formal Ramsay models.
- b. Not applicable
- c. It is not always necessary to have a formal Ramsay model in order to conclude from the available information concerning market conditions that proposed pricing changes are rational. As an example, please see witness Baumol’s comments in Docket No. R87-1, Tr. 2/219-220.

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**OCA/USPS-T1-28.** Witness Needham's response to OCA/USPS-T7-23 states, "[T]he Postal Service believes that it is more practical and economically efficient to increase the fees to cover costs (except for proposed Group E)." Are the proposed post office box rates allocatively efficient? Please fully explain why the rates are or are not allocatively efficient.

**RESPONSE:**

The proposed rates were not specifically analyzed relative to allocative or productive efficiency. Increasing fees to move closer to covering costs in proposed Group D, however, is certainly consistent with more general notions of economic efficiency.

**RESPONSE OF POSTAL SERVICE WITNESS LYONS TO  
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**OCA/USPS-T1-29.** In his Docket No. R94-1 testimony, Postal Service witness Foster stated,

There are generally two ways of examining value of service -- the intrinsic value and the economic value. Intrinsic value considers actual levels and features of services which are indicated by factors such as service standards . . . . Economic value involves customer perception of the worth of the service and depends not on intrinsic value of the service in question in isolation, but also on the range of alternatives available.

Docket No. R94-1, USPS-T-11 at 17-18.

Economic value of service, as measured by relative elasticities of demand, can be used in a quantitative way through the application of Ramsey pricing models. Though Ramsey pricing is not used in a formal sense to determine the rates proposed here, the cost coverages for First-Class Mail letters and third-class bulk regular rate mail which result from across-the-board rate increases are more in accord with Ramsey pricing principles than were the cost coverages in recent Commission recommended decisions. The need to move in this direction was a central theme in a 1992 GAO report, entitled "U.S. Postal Service: Pricing Postal Services in a Competitive Environment." [Footnote omitted.] Moving price relationships in a direction which focuses on economic value of service places greater emphasis on customer perceptions than had previously been the case.

Id. at 19.

At page 1 of your testimony, you state,

This filing is one of several recent cases initiated by the Postal Service that represent a move toward more demand-oriented ratemaking within the context of the Postal Service's operational, financial, and other policy goals.

- a. In MC96-3, is the Postal Service moving toward Ramsey pricing?
- b. If your response to part (a) of this interrogatory is affirmative, and given that Ramsey pricing models use relative elasticities of demand to determine the economic value of service, please explain how the Postal Service developed

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the current pricing proposals when elasticities of demand were not prepared for MC96-3.

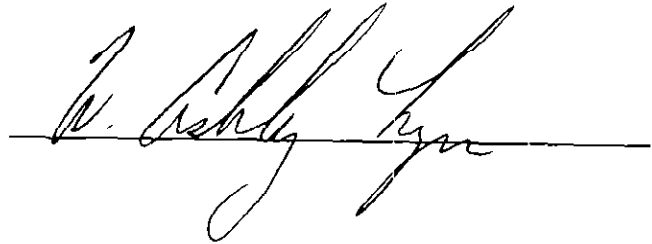
- c. If you respond negatively to part (a) of this interrogatory, is the Postal Service changing its position on efficient pricing? If so, please explain why the Postal Service changed its previously articulated position on efficient pricing.

**RESPONSE:**

- a. No, in the sense that the Postal Service did not construct any formal Ramsay models. It is quite possible, however, that the proposed rate changes are in the same direction as rate changes that might be based on a formal Ramsay model, were one to be constructed.
- b. Not applicable.
- c. No.

**DECLARATION**

I, W. Ashley Lyons, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "W. Ashley Lyons", is written over a horizontal line.

Dated: 8-23-96

**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.

  
\_\_\_\_\_  
David H. Rubin

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August 23, 1996