

ORIGINAL

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

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OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

UNITED STATES POSTAL SERVICE  
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO  
THE OFFICE OF THE CONSUMER ADVOCATE WITNESS SHERMAN  
(USPS/OCA-T100-19-22)

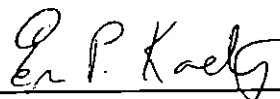
Pursuant to rules 25 and 26 of the Rules of Practice and Procedure and rule 2 of the Special Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to the Office of the Consumer Advocate witness Sherman: (USPS/OCA-T100-19-22).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/OCA-T100-19. Please refer to page 4, line 2 of your testimony, where you refer to the pursuit of "equitable contributions to institutional costs."

a. Would you agree that, in postal ratemaking, the concepts of "fairness" and "equity" are essentially the same? If not, please explain fully.

b. In Docket No. R74-1, the Postal Service submitted the direct testimony of William Vickery, very recently announced as one of two winners of the 1996 Nobel Prize in Economics, in support of a Ramsey-type approach to pricing postal products. When asked if inverse elasticity pricing brings about a "fair distribution" of the revenue burden, Dr. Vickery responded:

Economists have no special expertise in  
deciding what is fair and what is not. For  
that you need a vicar, not a Vickery.

Docket No. R74-1, Vol. III (Part 1), pg. 77. Do you agree with these statements by Dr. Vickery? If not, please explain fully.

USPS/OCA-T100-20. Please refer to page 3, lines 10-12 of your testimony, in which you state that this case presents "an unusual proposal for making price increases on a piece-meal basis rather than in context, as in an omnibus rate case, where all rates for all services can be compared," and lines 16-21 of page 7, in which you state that "to see the pattern" of relative price relationships (such as Ramsey prices) "it is desirable to consider all prices at once, as in an omnibus rate case."

a. Please confirm that it is possible to compare all rates for all services at any time, whether one is proposing to change all rates, many rates, few rates, or no rates. If you cannot confirm, please explain fully.

b. Please confirm that it is possible to compare existing relative price relationships with those suggested by a Ramsey model or, for example, a uniform markup model, whether one is proposing (or even contemplating) a change in all rates, many rates, few rates, or no rates. If you cannot confirm, please explain fully.

USPS/OCA-T100-21. Please refer to page 9, lines 10-14 of your testimony, where you claim that it "stands to reason that increased prices for only some services will distort overall Ramsey price relationships or any other form of relative relationship from whatever existed before, unless attention is focused on services where price-cost relationships have fallen out of line."

a. Please confirm that this statement presupposes that, when rates were last changed, all rates were "in line" with Ramsey pricing or some other deliberate approach to establishing price-cost relationships. If you cannot confirm, please explain fully.

b. Would you agree that it may be possible to have a situation in which all rates were not "in line" at the time of the last rate change, and that rate changes "for only some services" may thus improve conformity rather than cause

distortions? If you do not agree, please explain fully.

c. Would you agree, given a hypothetical situation in which price-cost relationships for a number of services are "out of line" (regardless of whether they were previously "in line" and fell out, or they were never "in line"), that it is better to move some (but not all) of those services in the direction of "in line" rather than leave them all where they are? Please explain your answer fully, discussing any factors that you believe might be relevant to qualify your response.

USPS/OCA-T100-22. Please refer to the bottom of page 5 and the top of page 6 of your testimony, where you discuss the fee for certified mail and your views of the implications of the fact that competitors currently offer comparable service at much higher prices.

a. Your claim that the Postal Service has "market power" is supported by quotation of a statement that identifies conditions to test for the presence of "monopoly power." In your view, are "market power" and "monopoly power" the same? If not, which do you believe applies to certified mail? Please explain your answers fully.

b. Please confirm that, according to the criteria for "monopoly power" quoted at lines 5-9 of page 6, the competitors of the Postal Service that charge much higher prices for comparable service must have monopoly power in the market because they have raised their prices far above the fees for Certified Mail without concern for the reactions of the Postal Service. If

you cannot confirm, please explain fully.

c. Please confirm that the Postal Service cannot be "exploiting" its market power if other service providers continue in the market charging higher prices than those of the Postal Service, and customers continue to patronize those service providers. If you cannot confirm, please explain fully.


d. If a firm has market or monopoly power, does the imposition of any price increase constitute "exploitation" of that market or monopoly power? Please explain fully (distinguishing between the two types of power to whatever extent you believe to be relevant). If not, how does one distinguish a price increase that would constitute "exploitation" from one that would not? Please explain fully.

e. Please confirm that if a firm can raise its rates without concern "because its rivals cannot offer customers reasonable alternatives," the service in question must have a high "value of service" to its customers, as that term is used in postal ratemaking. If you cannot confirm, please explain fully.

f. Is it your testimony that, all other things being equal, a fee increase for Certified Mail would be more defensible if comparable services offered by competitors were available at equivalent or lower prices, rather than at higher prices? Please explain fully.

**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.

  
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