

ORIGINAL

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0000

RECEIVED

005682

OCT 15 4 30 PM '96
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4,
(QUESTIONS 7, 8, 9, AND 12)

The United States Postal Service hereby provides responses to the following questions of Presiding Officer's Information Request No. 4, filed on October 2, 1996, and due today: 7, 8, 9, and 12. On October 11, 1996, the Postal Service filed a motion for extension of time until Friday, October 18 to respond to this Presiding Officer's Information Request. Responses to the remaining questions will be filed as soon as they are completed.

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

Respectfully submitted,

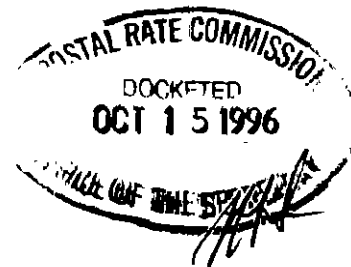
UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

David H. Rubin
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -5402
October 15, 1996



**RESPONSE OF WITNESS LYONS TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

7. Refer to USPS-T-1, WP C.

a. Please explain why the acceptance rates for non-resident Tier1, box sizes 1, 2 & 3, and Tier2, box size 1, shown on page 3, column 6, are calculated using the survey acceptance percentages for mid-to-high prices listed on page 5, Table 2, when in all cases the proposed non-resident box prices are higher than the highest prices tested in the market research survey.

b. Please explain why the acceptance rates for Tier2 box sizes 2 and 3 are calculated using the acceptance percentage for the low-to-mid price.

RESPONSE:

a. All prices in USPS-T-1, WP C calculations are annual fees, whereas the fees tested in the market research survey are semi-annual. Thus, it is not true that "in all cases the proposed non-resident box prices are higher than the highest prices tested in the market research survey". In fact, none of the proposed non-resident box fees is higher than the highest price tested in the market research survey. For example, for Tier 1, box size 1, cited in your question, the proposed non-resident annual fee is \$96, which is \$48 on a semi-annual basis. This \$48 is less than the "High" \$50 and more than the "Mid" \$36 tested in the market research. Thus, the corresponding "mid-to-high" acceptance percentage was used.

b. When the proposed fees for tier 2, box sizes 2 and 3, are expressed on a semi-annual basis, they are higher than the low price and less than the mid price.

**RESPONSE OF WITNESS LYONS TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

8. Please discuss the possibility that the acceptance rates by non-resident box holders of the proposed non-resident fee might have been lower if they were told that the increase included a non-resident fee. For example, how might the acceptance rate have been affected if non-resident boxholders had been informed that a part of the increase could be avoided by changing post offices at which they rented a box.

RESPONSE:

It is difficult to assert definitely whether the acceptance rates would have been lower or higher, if the respondents were told that the increase included a non-resident fee. As your question suggests, some non-resident boxholders who accepted the higher fees might have opted to change post offices if they had been given that option. On the other hand, some non-resident boxholders who rejected the increase might have accepted it if they understood the reason behind the increase. If they were told that part of the increase reflected a non-resident fee, they would be reminded of the extra value they receive from being able to choose a box away from their residence.

**RESPONSE OF WITNESS LYONS TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 4**

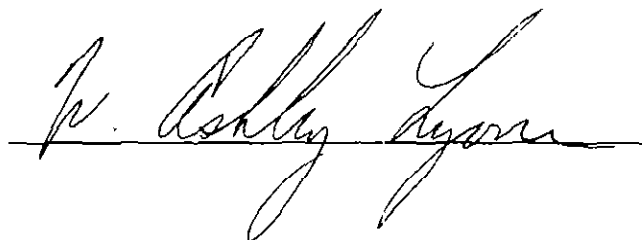
12. Please provide the FY 1994 billing determinants for Priority and Express Mail.

RESPONSE:

These billing determinants are provided in library reference SSR-155.

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, reading "W. Ashley Lyons", is written over a horizontal line.

Dated: 10-15-96

9. In the acceptance survey, LR SSR-111, rural boxholders were asked initially if they would accept a fee (\$24) that was six times greater than the fee they were currently paying (\$4). Upon answering no, they were asked if they would accept a fee (\$8) that, although double what they were currently paying, was only one third of the fee they were initially asked about. These large differences in price were not present in the case of urban respondents. Please discuss any possible bias which may result from testing the fees in this sequence.

In the survey, holders of Size 1 boxes in non-city delivery (NCD) offices, who currently pay \$8.00 annually, translated to \$4.00 semiannually, were first asked if they would accept a semiannual fee of \$25.00. If they would not, they were asked about a semiannual fee of \$8.00. If they did agree to the semiannual fee of \$25.00, they were asked if they would accept a semiannual fee of \$45.00.

In terms of proportions, the lowest price is about a third of the mid-price. This situation arose primarily because of the range of prices the Postal Service wished to examine and the need to include points at the extremes of that range.

The Information Request asks that we "discuss possible bias which may result from testing fees in this sequence." The logic of the sequence has already been discussed in my Response to OCA/USPS-T6-15. However, the real question is probably one of discussing the effect of using this sequence in a situation where the lowest price is much smaller than the mid-price.

We might hypothesize that the fact that the lowest price was about a third of the mid-price would make that lowest price more attractive than if it had been, for example, two thirds of the mid-price. However, we might also hypothesize that an eight dollar semiannual fee is low in absolute terms, regardless of the proportion of the mid-price that it represents.

We might hypothesize that the wide range of prices used for Group 2, which resulted in a high value for the middle price, had the effect of reducing acceptance of the mid-price and, given our sequence, provided more boxholders with an opportunity to discuss acceptance of the low price. This, too, could drive up the apparent acceptance of only the low price by adding those boxholders who would have accepted a lower mid-price.

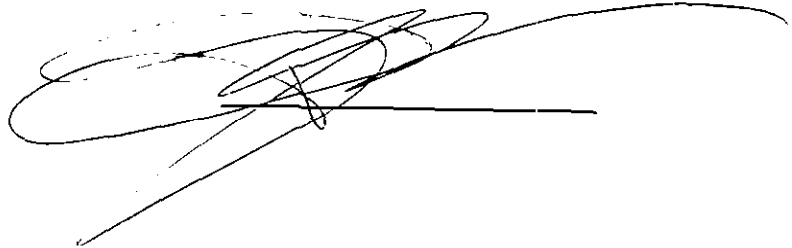
It is not unlikely that all of the hypothesized influences played some part in reported acceptance of the prices offered. It is, however, my professional opinion that the overall effect would be small and, to some degree, self-canceling.

Any definitive statements of this subject would require an extensive testing process.

DECLARATION

005689

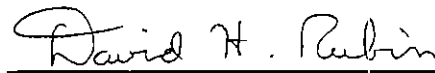
I, Timothy D. Ellard, declare under penalty of perjury that the foregoing answer is true and correct, to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to be "Timothy D. Ellard", written over a horizontal line. The signature is somewhat stylized and scribbled.

Dated: 10/15/96

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.

A handwritten signature in cursive script that reads "David H. Rubin". The signature is written in dark ink and is positioned above a horizontal line.

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
October 15, 1996