

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

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
THE OFFICE OF THE CONSUMER ADVOCATE WITNESS SHERMAN
(USPS/OCA-T100-38-59)

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-T100-38-59).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

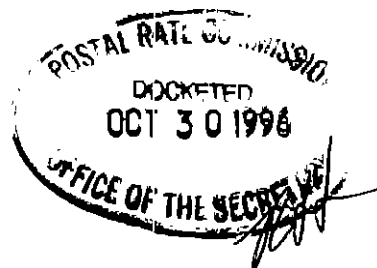
By its attorneys:

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October 30, 1996



USPS/OCA-T100-38. At page 24, lines 21-23 of your testimony, you state, "The reported contribution above attributable cost (price minus attributable cost) is less than \$0.04 per private card and roughly three times as great at \$0.12 per postal card."

- a. Please confirm that these figures are derived by subtracting the Postal Service's unit attributable costs for private cards and postal cards as reflected in Exhibit USPS-T-5C, page 10, from the 20 cent postage rate. If you do not confirm, please explain in detail.
- b. Please confirm that the 20-cent rate for private and postal cards is based on a markup of costs that reflects the Commission's cost methodology as reflected in its recommended decision in Docket No. R94-1 on Reconsideration. If you do not confirm, please explain in detail.
- c. Please confirm that the unit attributable costs for private and postal cards are different under the Commission's cost methodology as reflected in PRC-LR-1 and 2 in this docket than under the Postal Service's cost methodology. If you do not confirm, please explain in detail.
- d. Please confirm that the "contribution above attributable cost (price minus attributable cost)" is less for both private and postal cards under the Commission's cost methodology than under the Postal

Service's cost methodology. If you do not confirm, please explain in detail.

- e. Please confirm that the "reported contribution above attributable cost (price minus attributable cost)" is actually 3.3 times or 230 percent larger for postal cards than for private cards using the Postal Service's cost methodology. If you do not confirm, please explain in detail.
- f. Please confirm that the "reported contribution above attributable cost (price minus attributable cost)" is 2.8 times or 180 percent larger for postal cards than for private cards using the Commission's cost methodology. If you do not confirm, please explain in detail.
- g. Did you review and/or consider the Commission's cost methodology as set forth in PRC-LR-1 and 2 in preparing the stamped card portion of your testimony? If so, how did you use the Commission's methodology? If not, why not?

USPS/OCA-T100-39. Please refer to your testimony at page 13, lines 14-17.

From the perspective of a mailer of merchandise valued above \$600, could an increase in the indemnity limit for insured mail from \$600 to \$5000 represent an improvement in service for that customer? Please explain your response.

USPS/OCA-T100-40. Assume that a firm offers a product for a price less than its marginal cost and that the firm has market power. What are the economic consequences of not changing the price, both from the firm's perspective and from society's perspective?

USPS/OCA-T100-41. Please refer to page 28, lines 12-14 of your testimony, where you state that "[i]f post office boxes are properly priced so they cover their costs they should be provided wherever they are requested by consumers."

- a. What should the Postal Service do to provide boxes when they are requested by customers at offices in which all boxes are in use, if the fees are not sufficiently high to justify the expansion of the box service section?
- b. Does it make economic sense for the Postal Service to reduce fees at such offices?

USPS/OCA-T100-42. Please refer to your response to USPS/OCA-T100-1. You state that "[i]n cases where pricing at marginal cost would produce a deficit and the goal is to maximize welfare while having the enterprise breakeven, a situation that would seem to fit the Postal Service, optimal prices are Ramsey prices."

- a. Is it fair to say that adoption of marginal cost pricing in the context of the Postal Service would cause the Postal Service to fall below break-even if that pricing method were applied to all Postal Service products?
- b. In the case of the Postal Service, should the institutional costs of the Postal Service be borne by all postal products subject to evaluation by the Commission? If your answer is anything other than an unqualified "yes," please identify the products that you believe should not make contributions toward the institutional costs of the Postal Service and provide reasons for your opinions.
- c. Please confirm that if the institutional costs of the Postal Service are not recovered in full, the Postal Service will incur deficits.
- d. Nonprofit, overseas voters, and free mail for the blind categories notwithstanding, in the absence of any other congressional appropriation, please confirm that the only means by which the institutional costs of the Postal Service may be recovered is through marking up prices on products.

USPS/OCA-T100-43. Please refer to your response to USPS/OCA-T100-3.

- a. Is it your testimony that post office box service is a monopoly product? Please explain your response.
- b. Does the Postal Service face competition in the box service market? Please explain.

- c. Are there barriers that have prevented Postal Service competitors from entering the box service market? Please explain.
- d. Could low prices for Postal Service box service serve as a barrier to entry in the box service market?

USPS/OCA-T100-44. Please refer to your response to USPS/OCA-T100-16.

You state that higher prices for CMRA boxes may be “due in part to other factors, in addition to higher cost.” You state that one such factor is that CMRAs may provide more services than the Postal Service. Please identify all other noncost factors that may contribute to higher prices for CMRA boxes. Are demand characteristics an example of such noncost factors? Please explain.

USPS/OCA-T100-45. Please refer to page 4 lines 1-4 of your testimony where you state “[t]o pursue equitable contributions to institutional costs calls for an omnibus rate case, where comparisons across services are possible.”

- a. Please define the term “equitable” as you have used it here.
- b. Is it possible to arrive at equitable contributions outside of an omnibus rate case? If your answer is other than yes, please explain why this result would not be possible.
- c. Are rates that are recommended by the Commission pursuant to an omnibus rate case always equitable? Please explain your response.

USPS/OCA-T100-46. On page 4, lines 7 and 8 of your testimony, you state that the Postal Service's proposal seems "aimed more at raising revenue than at making offerings more commercially attractive." Please provide your definition of "commercially attractive."

USPS/OCA-T100-47. Please refer to your response to USPS/OCA-T100-14. Is it your testimony that an economically rational firm would always be better off doing nothing in the absence of the information you claim is lacking than attempting to adjust prices with the information that it does have available? Please explain your response.

USPS/OCA-T100-48. On page 25, lines 24-25, and page 26, lines 1-3, you state:

when areas are categorized and prices are set to reflect average cost differences some of the resulting prices may seem irrational, as when a suburban area and a rural area are in close proximity and have essentially the same costs, but have different rates.

- a. In the context of post office boxes, are you aware of any other circumstances in which these prices may seem "irrational?"
- b. Isn't it true that under the Postal Service proposal, the differential between fees for post office boxes in suburban areas and nearby rural areas would be decreased, assuming the former is currently Group IC and the latter is Group II?

USPS/OCA-T100-49. On page 28, line 5 of your testimony you state. “[o]nly minor administrative expenses, which might be traced to non-resident mailboxes at some locations, have been offered in an attempt to justify the nonresident fee.” Is it your testimony that the Postal Service has not attempted to support its nonresident fee proposal through testimony demonstrating the value of service that non-residential box customers receive? If you do not confirm please explain.

USPS/OCA-T100-50. On page 33 of your testimony you state that witness Lyons notes that proper pricing will motivate more efficient decisions by the Postal Service about space allocation to post office boxes[.]. . . [b]ut there is no evidence that proposed rates will serve that end”. Assuming all other variables equal, would a rational decisionmaker be more likely to increase output if net revenue per unit were increased?

USPS/OCA-T100-51. On page 33, line 19 you state that “[d]istortions across delivery areas make box revenues actually lower than costs in some areas and well above costs in other areas, so allocation by area will be distorted”. Please identify all areas of which you are aware where box revenues would be below cost under the Postal Service’s proposed fees and those where box revenues

would be above cost. Please explain how you determined that revenue to cost relationships would be “distorted” in those areas.

USPS/OCA-T100-52. Please refer to your testimony at page 18, lines 15-20. Is your statement that there has been “a longstanding error in the way costs have been evaluated for pricing certified mail service” referring to issues that were not discussed by witness Lyons at Tr. 2/153-54 and by witness Needham at USPS-T-8 p.71 lines 5-12 and 16-21 and Tr. 4/1062, 1072-75, and 1196-1201? If your response is negative, please explain.

USPS/OCA-T100-53. Please refer to your testimony at page 24, lines 4-8. Mail processing costs notwithstanding, does a mailer receive greater value by purchasing a 20 cent postal card as opposed to purchasing a 20 cent stamp for postcard postage? Please explain.

USPS/OCA-T100-54. Please refer to your testimony at page 24, lines 17-19.

- a. In order to mail a private post card, isn't it true that the mailer usually affixes postage to those cards, either through affixing a stamp to the card or printing a meter or permit imprint indicium on it? Please explain your response.

- b. Isn't it true that large volume mailers of postcard size pieces must incur labor and/or capital costs to affix evidence of postage to private post card pieces? Please explain any negative response.
- c. Is it your testimony that the cost of a private post card plus the cost of labor and/or capital used in affixing postage to that piece amounts to less than two cents per card? Please explain your response.

USPS/OCA-T100-55. Please refer to your response to USPS/OCA-T100-3(b).

- a. Please confirm that a profit maximizing monopoly applying the Lerner index would set price by solving for the variable p using the following formula, where "p" is price, "mc" is marginal cost, and "e" is elasticity of demand:

$$\frac{p - mc}{p} = -\frac{1}{e}$$

Please explain any negative response.

- b. For a product whose elasticity equals -0.25, what would the relationship between the product's marginal cost and price be if the firm intends to exercise monopoly power and maximize profits?
- c. Does a profit-maximizing monopoly operate on the inelastic portion of the demand curve? Please explain your response.

- d. Is it possible to use the Lerner index of monopoly power to solve for price if demand for a product is inelastic?
- i. If your answer is affirmative, please explain how a profit-maximizing monopoly would set the price of certified mail. Please show all calculations. For purposes of your response, please assume the equivalence between attributable costs and marginal costs.
 - ii. If your answer is negative, please identify any other quantitative means and equations by which market power or monopoly power may be evaluated when demand for a product is inelastic.

USPS/OCA-T100-56. Please refer to your response to USPS/OCA-T100-8(a). Assuming adoption of the Postal Service's proposal, would you agree that if a return receipt does not bear address information, the mailer receives *de facto* confirmation that a mailpiece for which a return receipt was purchased was correctly addressed?

USPS/OCA-T100-57. Please refer to your response to USPS/OCA-T100-9(c).

- a. As compared to basic return receipt service (signature and date service), does the addition of the address (if different) feature create a better and/or enhanced service? If your response is negative, please explain.

- b. Does the proposed \$1.50 fee for a signature, date, and address (if different) represent a new fee over the \$1.10 fee for return receipt with signature and date?
- c. Does a proposal to combine a signature and date return receipt service with a signature, date, and address return receipt service to make a signature, date, and address (if different) return receipt service alter the makeup of the signature and date option? Does the proposal alter the makeup of the signature, date, and address option?

USPS/OCA-T100-58. Please refer to your response to USPS/OCA-T100-11.

Are you aware of any vendors of private postcards? Please identify them by name and location.

USPS/OCA-T100-59. Please refer to your response to USPS/OCA-T100-11(f) and (g).

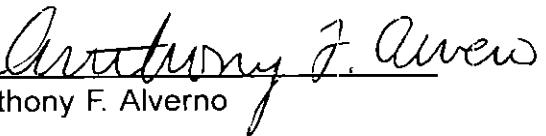
- a. Please confirm that a postal card customer receives both postage and stationery for 20 cents, whereas a mailer of a private single-piece postcard must pay 20 cents for a postage stamp (or other indicium for 20 cents) for which no stationery is provided. If you are unable to confirm, please explain.
- b. Since mailers of postcard size pieces can choose between paying 20 cents for a single-piece postcard postage stamp (or other indicium) or

paying 20 cents for a postal card, would mailers be likely to perceive the stationery provided with a postal card to be offered for free? If no, please explain.

- c. Do customers primarily use Priority Mail and Express Mail envelopes as stationery for correspondence? If yes, please explain.

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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