

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Special Services Fees and Classifications

Docket No. MC96-3

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: ROGER SHERMAN (USPS/OCA-T100-38-60)
(NOVEMBER 13, 1996)

The Office of the Consumer Advocate hereby submits the answers of Roger Sherman to interrogatories USPS/OCA-T100-38-59, dated October 30, 1996 and USPS/OCA-T100-60, dated November 1, 1996. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

Emmett Rand Costich

EMMETT RAND COSTICH
Assistant Director
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ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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?

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

ANSWER TO USPS/OCA-T100-38:

A. a. Not confirmed. The figures were derived as described, but the source was USPS-T-5G, page 15.

b. I presume that the 20-cent rate for private and postal cards results from a proper and approved markup of costs resulting from the Commission's recommended decision in Docket No. R94-1. I am not aware of the origins of the costing methodology and consequently I cannot confirm the offered statement.

c.-f. See my answer to part b. above.

g. I relied on cost and revenue presentations offered by Postal Service witnesses in MC96-3 and did not consult PRC-LR-1 and 2, which were not available to me when I prepared my testimony.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. An increase in the indemnity limit for insured mail from \$600 to \$5000 certainly represents an improvement in service for the customer mailing merchandise valued above \$600. That is in part why I said at page 12, lines 24 and 25: "Insured mail is the only service for which a genuine improvement is proposed."

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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?

A. From the standpoint of the firm that has market power but prices a product below its marginal cost, the firm will probably lose money on that product overall (it need not lose money if marginal cost is rising with output, because average cost would then be below marginal cost and so could be below price) and will certainly be losing money on the last few (marginal) units produced. From the standpoint of society, welfare could be improved by raising price because resources that go into the production of this product now cost more than the value consumers place on them (the product price).

ANSWERS OF OCA WITNESS ROGER SHERMAN
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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?

A. a. If fees are not sufficiently high to justify expansion of box service, it would appear that post office boxes are not properly priced. When it can be properly done, the Postal Service should request higher prices in this situation, in part because prices may not cover costs and so may not be in compliance with pricing statutes of the Postal Reorganization Act. As the quoted statement points out, proper pricing will avoid such a situation.

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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.
- A.
- a. Yes.
 - b. Yes.
 - c. Yes, if all costs are not covered by revenues the Postal Service will have a deficit.
 - d. Yes, prices have to exceed marginal costs for the Postal Service to cover its institutional costs.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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?

A. a. I cannot say that the Postal Service's post office box service is a monopoly product. That is too simple, given the existence of alternative services. But the Postal Service has great advantages in offering such service, since it can sort directly to the box as part of a mailing service already paid for by the mailer. Thus there is an economy of scope for the Postal Service in offering post office box service while also offering mail service. To the extent this actually saves delivery cost for the Postal Service, there is an added economy that will give the Postal Service further cost advantage. An alternative supplier of the box service must receive delivery at another location and place it in the box holder's box, without its being part of other postal activities.

b. Yes, there are alternative providers of post office box service but their charges tend to be considerably higher than the

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CONTINUATION OF ANSWER TO USPS/OCA-T100-43:

Postal Service's (see USPS-T-7, Table IV, page 12), probably because their costs are higher.

c. Alternative providers of post office service must attract customers by offering services that the Postal Service does not offer or does not offer well, or by having a location that is more convenient than the Postal Service location—at least for some customers. As their prices will almost certainly be higher than Postal Service prices, their services must be important to customers if the alternative providers are to win any of those customers.

d. Yes, low prices for Postal Service post office box services could discourage entry into the box service market.

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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.

A. CRMA boxes may be in locations that are preferred by at least some customers. To obtain box service at these locations the customers may be willing to pay the higher costs that such premium locations require. It may seem difficult to say location is a "noncost factor" because, as in this example, costs may be higher and demand also may be higher. The main point is that, as in the case of other services such as copying, although costs are higher the result is a preferred service for a few customers who are willing to pay substantially more for it.

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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.

A. a. By "equitable contributions" I only mean fair or balanced contributions that allow similarly situated parties to make similar contributions. Identifying equitable contributions can be easier in the context of an omnibus case, where actual comparisons across services would be possible along with proposed actions.

b. All services are not acted upon outside of an omnibus case. Without an omnibus case, some imbalances in relative markups, for example, can be expected to persist that might have been corrected in an omnibus case. Changes made in a piecemeal case affect only some services and simply do not afford the comparisons across all services that are appropriate.

With care and planning, it may be possible to achieve reasonably equitable contributions outside of an omnibus rate

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CONTINUATION OF ANSWER TO USPS/OCA-T100-45:

case and across a series of cases. In my testimony from page 8, line 4 to page 9, line 24, I indicate this possibility but point out that appropriate steps have not been taken in this case to achieve such an aim.

c. Yes, it is reasonable to presume that rates recommended by the Commission pursuant to an omnibus rate case are equitable. The Commission is responsible for identifying fair and equitable rates that comply with the Postal Reorganization Act.

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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."

A. The words, "commercially attractive," were used by Witness Lyons when he included as an objective of the Postal Service proposal "the realignment and streamlining of certain special service offerings to make them more commercially attractive" (USPS-T-1, page 2, lines 7 and 8). I take the words to mean that offerings are to be made more attractive to customers. Thus, the increase in indemnity limit for insured mail is a change that would make the insurance feature and perhaps the mail itself more commercially attractive by Postal Service proposals. Special Delivery is to be eliminated as a service, certified mail and the stamped card essentially are to have their prices increased, a most popular option in return receipt service is essentially to be eliminated, and post office box rates are effectively to be raised. This combination of reduced services and increased prices in the proposal is what prompted the quoted passage from my testimony.

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TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. An economically rational firm would develop cost information for its products and services as a basis for rational product design and pricing. Doing so is especially appropriate for a public enterprise that must act responsibly in the interest of the public. Whether the firm is better off acting without adequate information is not possible to answer in the abstract, nor is it really the issue in this case. The question is whether all those who are to consider and evaluate the Postal Service proposal can do so properly with the information that is provided.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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?

A. a. No, but since rates differ substantially by delivery group, it is possible that at group boundaries other similar cases will arise.

b. No, this claim is wrong. It is not true that under the Postal Service proposal the differential between fees for post office boxes in suburban areas (Group IC) and nearby rural areas (Group II) would generally be decreased. The fee differential would be decreased for box sizes 4 and 5, but it would be increased for box sizes 1, 2, and 3 (see USPS-T-7, Table I, pages 3 and 4).

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USPS/OCA-T100-49. On page 28, line 5 of your testimony you state. [sic] "[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.

A. The Postal Service has not provided cost testimony to support its nonresident fee proposal by showing how much more costly such service is to provide. Nor has it provided persuasive testimony, supported for instance by demand elasticity information, as to the value of the service, compared with other services, to motivate a greater markup over costs.

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TO INTERROGATORIES USPS/OCA-T100-38-60

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".[sic] Assuming all other variables equal, would a rational decisionmaker be more likely to increase output if net revenue per unit were increased?

A. Yes, assuming all other things equal, a rational decisionmaker would be more likely to increase output if net revenue per unit increased. But post office prices might not motivate increases in post office boxes where they are most needed because the relation between cost and price is so inconsistent.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. By combining attributable costs per box from Witness Lion (USPS-T-4, Table 18, page 44) and revenues per box from Witness Needham (USPS-T-7, Table 1, pages 3 and 4), it is possible to compare revenues and costs for Delivery Groups and box sizes. Revenues do not come close to covering costs for any box size in Group II, with the poorest cost coverage of 0.53 coming for box size 5. Other Delivery Groups cover costs but some just barely, such as box size 5 in Group IA (cost coverage 1.022) and in Group IB (cost coverage 1.040). On the other hand, revenues from box sizes 2 and 3 in Group IC are more than twice their costs. Thus, there is an incentive to expand the number of box sizes 2 and 3 in Group IC rather than in Group II, which leads to misallocation.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. No. The basis for my statement is stated in my answer to interrogatory USPS/OCA-T100-24.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. My statement at lines 4-8 of page 24 of my testimony was concerned with effects on costs of encouraging greater use of a less efficient mail stream, namely private cards, by lowering its price relative to postal cards. I am in no position to tell whether a mailer receives "greater value" by purchasing a 20 cent postal card as opposed to purchasing a 20 cent stamp for postcard postage. The postal card does include a card on which to write a message, but the postal card is also narrow or inflexible, and may not include the information, such as a picture for example, that the mailer wishes to mail. One notable difference is that postal cards seem much less costly for the Postal Service to process.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. a. Yes, a private card requires a stamp.

b. Yes, large volume mailers must affix postage. However, they can do so at low cost. And they have great flexibility to choose card size, design, color, and printing. Mailers can also affix addresses which, because they differ, are probably more difficult to affix than postage.

c. No, I have prepared no cost estimate for affixing postage to a card. It might cost two cents per card, but I do not know. For studying the stamped card proposal, however, it really does not matter. What is important is the change from what is presently done, and the change is that, compared with private cards, postal cards will cost relatively more than they have before. This can be expected to reduce volume in the postal card mail stream relative to the private card mail stream, which

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CONTINUATION OF ANSWER TO USPS/OCA-T100-54:

is unfortunate because the postal card is processed at much lower
cost.

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TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. a. The Lerner index is an early and crude measure of monopoly power, the ratio of price minus marginal cost divided by price. This interrogatory presents the monopoly pricing rule, which has that ratio equal to the reciprocal of the elasticity of demand (in absolute value) when the profit maximizing monopoly has settled on its optimal price.

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CONTINUATION OF ANSWER TO USPS/OCA-T100-55:

b.-c. As is well known, a monopoly never wishes to operate in the inelastic region of demand, as this question proposes. With an inelastic demand, such as -0.25 , the monopoly firm should raise price because revenue will increase while quantity, and therefore cost, can only decrease. That is, profit improves by raising price if demand is inelastic. And the monopoly firm will continue to want to raise price until demand is no longer inelastic, since only then can it satisfy the rule discussed in part a.

d. No.

i. Not Applicable.

ii. This raises the general problem of representing market power and my answer to interrogatory USPS/OCA-T100-3, part b. is relevant. It is also possible, as noted in the answer to part b. above, that the time periods over which demand elasticities are estimated may differ.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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?

A. Yes, I presume that is the way the address-if-different service is to function. And I agreed that a correct address is better than an incorrect address. The important question is: how much better is it, or how much is the correct address information worth to a mailer?

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

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?

A. a. No new service is created. Two services are already available, a basic signature-and-date service, and service with an added address feature. The service with the address feature costs more. Customers clearly prefer (by about a 9 to 1 margin) the basic, no-address service. They say that the enhanced service is not worth its added cost to them.

b. No, not as I understand the offerings. The signature, date, and address (if different) offering is virtually the same as the present signature, date, and address option, which has a fee of \$1.50 that will not change. The \$1.10 fee applies to the overwhelmingly more popular signature and date option which will no longer be offered.

c. The proposal should not really be described as one to combine the signature and date return receipt option with the

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CONTINUATION OF ANSWER TO USPS/OCA-T100-57:

signature, date, and address option. The signature and date option is simply being eliminated. It is being taken away. Consumers will have to take the added address feature, and they will be forced to pay for it. Despite the fact that almost 90 percent of users choose and thus prefer the service that provides just signature and date, the Postal Service is proposing to eliminate that service option.

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TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. Perhaps I misunderstand this question, but I am of course aware of vendors of private postcards. They are everywhere. Just in the city of Charlottesville, Virginia, they are on many street corners. There may be too many just in Charlottesville for me to identify by name and location in the time I have to complete interrogatories, and I would have to list many more to comply entirely with this request. I can only assume that the request is for some other matter that I do not understand.

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TO INTERROGATORIES USPS/OCA-T100-38-60

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.

A. a. Confirmed. The postal card customer has stationery provided, but the size, color, and composition of the stationery is chosen by someone else, whereas the private card mailer purchases a stamp to be used with a piece of stationery that mailer chooses.

b. There now is no added charge for the stationery part of the postal card, that is true, but neither is the postage flexible and usable on other stationery items. Thus, the mailer may perceive the added stationery as "free," but also constraining, since it limits the way the included postage may be used. Since the stationery is also limiting, it may not be seen as "free." And of course the mailer actually is paying for the stationery.

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CONTINUATION OF ANSWER TO USPS/OCA-T100-59:

c. Customers generally do not use envelopes of any kind as stationery. Postal Service Witness Needham rationalized the stamped card proposal by analogy to the stamped envelope, however, which is offered for an extra fee (USPS-T-8, page 95, lines 4-9). It is thus appropriate to point out that fees are not consistently imposed by the Postal Service for envelopes, since no fee is charged for Priority Mail or Express Mail envelopes. The analogy between envelope charges and stamped card charges therefore is not compelling.

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TO INTERROGATORIES USPS/OCA-T100-38-60

USPS/OCA-T100-60. Please refer to your response to USPS/OCA-T100-22. You state that, "[t]he words 'market power' and 'monopoly power' are often used to represent the power to raise price."

- a. Is your statement intended to be consistent with the statement of Fisher et al. at page 20 of *Folded, Spindled, and Mutilated* that "[m]onopoly power is the ability to raise prices above competitive levels or to market inferior products while excluding competition"? Please explain any negative response.
- b. Do you agree that the statement in subpart (a) is the economist's version of the law's definition of monopoly? Please explain any negative response.
- c. Do you agree with the statement of Fisher et al. at page 99 of *Folded, Spindled, and Mutilated* that "[m]onopoly power is not present when a firm can keep its business only by means of lower prices or better products than its competitors'" Please explain any negative response.
- d. Do you agree that monopoly power can be analyzed by examining the ease with which buyers can turn to other sellers and substitute products and the readiness with which competitors will expand output if the monopolist appears to be reaping monopoly profits? Please explain any negative response.
- e. Do you agree with the statement of Fisher et al. at page 108 of *Folded, Spindled, and Mutilated* that "the touchstone question in using market share as any kind of indicator of monopoly power is whether an attempt to exploit customers would lead to a sharp reduction in market share"? Please explain any negative response.
- f. Is it your testimony that if the USPS proposed fee for certified mail is implemented,
 - i) such fee would be higher than the prices of competitors' offerings?
 - ii) it would not be easy for Postal Service customers to substitute other competitors' products for certified mail?
 - iii) it would not be easy for Postal Service competitors to increase their output of competing products?
 - iv) it would not be easy for competitors of the Postal Service to enter the market for products competing with certified mail?Please explain your response.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

ANSWER TO USPS/OCA-T100-60:

- g. Is it your testimony that if the USPS proposed fees for post office boxes are implemented,
- i) such fees would be higher than the prices of competitors' offerings
 - ii) it would not be easy for the Postal Service's customers to substitute other competitors' products for post office boxes?
 - iii) it would not be easy for Postal Service competitors to increase their output of competing products?
 - iv) it would not be easy for competitors of the Postal Service to enter the market for those products?

A. a. Yes, the statements are not the same but they are consistent with each other.

b. I prefer the statement quoted in my testimony as a way to convey the effect of monopoly power. For the quoted statement in part a., it would be better to add the sentence in the book that precedes it. ("A firm has monopoly power when it is sufficiently insulated from competitive pressures to be able to raise its prices or withhold the introduction of new technology, either in product innovations or in process (cost-reducing) innovations, without concern about the actions of its competitors and with relative impunity because its customers lack reasonable alternatives to which to turn." From F.M. Fisher, J.J. McGowan, and J.F. Greenwood, *Folded, Spindled, and Mutilated*, page 20.)

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

CONTINUATION OF ANSWER TO USPS/OCA-T100-60:

Yes, this is a reasonable effort to give an economist's version of the law's definition of monopoly, meaning that it is an attempt to provide a more useful version.

c. Yes, this quote on page 99 is recognizing the role of "superior skill, foresight, and industry," as opposed to monopoly power, and the same distinction is also made in the discussion at page 20.

d. I do not agree totally. If a monopolist is reaping monopoly profits it would seem to have some monopoly power.

e. Yes. The quote occurs in the context of the market share of IBM.

f. i) No.

ii) At present it does not appear to be easy for customers to substitute other competitors' products for certified mail. As an example, certified mail is available as a complementary feature with First Class Mail, which is a monopoly service that has no close substitute.

iii) I have no knowledge of how easily alternative providers could increase their outputs but I would not expect that they would have difficulty doing it. They also face the problem of selling any increased output.

ANSWERS OF OCA WITNESS ROGER SHERMAN
TO INTERROGATORIES USPS/OCA-T100-38-60

CONTINUATION OF ANSWER TO USPS/OCA-T100-60:

iv) It is already difficult for alternative providers who are unable even to offer many of the services with which the Postal Service can combine certified mail service. So I expect entry will continue to be difficult for alternative providers.

g. i) No. There is evidence that CMRA boxes will have higher prices (see USPS-T-7, Table IV, page 12).

ii) The price difference alone suggests that it would not be easy to do so.

iii) I have no knowledge of how easily alternative providers of boxes could expand their supply of boxes but I would not expect it to be difficult. They also face the problem of selling any increased output.

iv) Alternative providers of box service must serve customers' very special needs, since they must charge much higher rates than the Postal Service. I have no way of knowing how difficult it might be to fashion the location and service mixture that will attract users at such a relative price disadvantage.

DECLARATION

I, Roger Sherman, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T100-38-59 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed Nov. 8, 1996

Roger Sherman

DECLARATION

I, Roger Sherman, declare under penalty of perjury that the answer to interrogatory USPS/OCA-T100-60 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed Nov. 8, 1996

Roger Sherman

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.


EMMETT RAND COSTICH
Attorney

Washington, D.C. 20268-0001
November 13, 1996