

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C.

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OFFICE OF THE SECRETARY

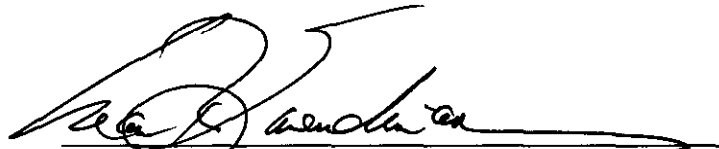
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

FIRST INTERROGATORIES AND REQUEST FOR PRODUCTION
OF DOCUMENTS FROM GREETING CARD ASSOCIATION TO
UNITED STATES POSTAL SERVICE WITNESS BERNSTEIN
(GCA/USPS-T41-1 THROUGH 33)
(MARCH 3, 2000)

Pursuant to Section 20 of the Commission's Rules of Practice, Greeting Card Association ("GCA") hereby serves the following interrogatories and request for production of documents directed to United States Postal Service witness Bernstein: GCA/USPS-T41-1 through 33. GCA incorporates by reference the instructions in OCA interrogatories OCA/USPS-1-14 (January 24, 2000).

Respectfully submitted,



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GCA INTERROGATORIES TO
USPS WITNESS BERNSTEIN (USPS-T-41)

GCA/USPS-T-41-1. Please state when you were retained by the Postal Service to prepare the testimony submitted in this proceeding.

GCA/USPS-T-41-2. Please state the assignment you were given at that time.

GCA/USPS-T-41-3. With whom did you consult or confer during, or for, the preparation of your testimony? What was the purpose of each such consultation or conference?

GCA/USPS-T-41-4. In preparing your testimony, did you consider alternatives to the pricing scheme you testify to? If your answer is in the affirmative, please describe each such scheme and your reasons for rejecting it.

GCA/USPS-T-41-5. Please provide your definition of the term "welfare economics" and state whether your testimony here addresses issues of welfare economics.

GCA/USPS-T-41-6. In your testimony, do you claim to give any consideration to the value of mail to recipients? If your answer is other than an unqualified "no," please

- a. Identify and describe that consideration;
- b. Provide any and all quantifications of that consideration that your testimony relies upon.
- c. State whether and how such consideration extends beyond such value to recipients as is reflected in consumption of mail services by senders.

GCA/USPS-T-41-7. Please confirm that your testimony does not provide or reflect a quantified consideration of (i) dead-weight losses to senders of First-Class mail and/or First-Class single-piece mail specifically, or (ii) losses, whether or not of an economic nature, to recipients of First-Class mail and/or single-piece First-Class mail specifically, associated with increases in mailing costs. If you do not so confirm, please explain where and how such losses were considered.

GCA INTERROGATORIES TO
USPS WITNESS BERNSTEIN (USPS-T-41)

GCA/USPS-T-41-8. Please confirm:

- a. That you have neither performed nor relied on any investigation or factual inquiry into the dead-weight losses referred to in GCA/USPS-T-41-7, or their nature and incidence in the preparation of your testimony. If you do not so confirm, please explain where and how such losses were considered; and,
- b. That your testimony does not address whether and how dead-weight losses may vary in the amount and rapidity with which they are incurred, or with respect to the classes of mailers on which they are inflicted. If you do not so confirm, please identify where and explain how these matters are addressed.

GCA/USPS-T-41-9. Do you contend that the magnitude of the dead-weight loss on mailers of *First-Class mail and/or single-piece First-Class mail* is substantially less than the magnitude of the effect of mail cross-elasticity on single-piece First-Class mail? If your answer is not an unqualified "no," please provide the basis of any such contention.

GCA/USPS-T-41-10. Please confirm that you seek to optimize the sum of Postal Service net revenue and total consumer (mailer) surplus.

GCA/USPS-T-41-11.

- a. Do you agree with the statement that the relevant measure of value in welfare economics is the marginal utility to individuals of an additional unit of consumption? If you do not agree, please explain your understanding of what the relevant measure of value is.
- b. Do you recognize differences between the meaning of "utility" for an individual person and the meaning of "utility" for a collective entity such as the Postal Service or corporate enterprises? If you do, please explain your understanding of those differences.

GCA/USPS-T-41-12. Do you agree that the types of mailers covered by the Ramsey-type prices you present in your testimony include corporations, nonprofits, and governmental units as well as individuals? If your answer is in the affirmative, please provide your understanding as to whether and how the marginal utility of mail to these different types of mailers may vary inter se.

GCA INTERROGATORIES TO
USPS WITNESS BERNSTEIN (USPS-T-41)

GCA/USPS-T-41-13.

- a. Please confirm that your testimony assumes that the price and volume changes of all classes of mail can be summed meaningfully, without distinction as to the type of mailer being affected.
- b. If you so confirm, please also confirm that in so equating the sum of price and mailing volume changes, you do not address whether a change in mailing volume on the part of, e.g., a catalog mailer, has the same value or disvalue to that mailer as a change in mailing volume of (single-piece) letters has to a household. If you do not confirm this additional proposition, please explain why.

GCA/USPS-T-41-14. Please confirm that at USPS-T-41, p. 31-33, you compare directly — and treat as equal in value — gains in net revenue to the USPS and increased costs to mailers.

GCA/USPS-T-41-15. Please confirm that when costs that are not incurred efficiently are allocated on the basis of Ramsey prices, the allocation of those costs will be directed to captive (inelastic demand) customers. If you do not so confirm, please provide and explain your understanding as to why Ramsey prices would not place most of the burden of productive inefficiency on inelastic classes.

GCA/USPS-T-41-16. In preparing your testimony, have you inquired into the effects (i) on future productive efficiency of the Postal Service and (ii) on the efficiency of the economy as a whole if Ramsey prices are used, thereby serving to place the burden of productive inefficiency on the most inelastic trade? If you have so inquired, describe and provide that inquiry and its results.

GCA/USPS-T-41-17. Do you agree that many ECSI values are not reasonably quantifiable?

GCA/USPS-T-41-18. Please refer to USPS-T-41, at 86. Please confirm that it is your view that ECSI values can be reflected in Ramsey-type prices only if and to the extent that they can be quantified.

GCA INTERROGATORIES TO
USPS WITNESS BERNSTEIN (USPS-T-41)

GCA/USPS-T-41-19. Please confirm the following:

- a. In your testimony, you do not modify your Ramsey prices to reflect ECSI values for First-Class mail;
- b. In your testimony, you treat change in consumer surplus — i.e., all that benefit which does not accrue to the producer (USPS) — as identical with the change in mailer surplus;
- c. In your testimony, your quantitative analysis includes no term for value of mail to recipients; and
- d. You consider only effects from Ramsey pricing that would occur in the market for postal services.

If you do not confirm any of these propositions, please explain why.

GCA/USPS-T-41-20. With regard to the increase in rates for single-piece First Class mail that would result from implementation of Ramsey pricing:

- a. Please confirm that implementation of the Ramsey-type prices presented in your testimony would increase postal rates for First-Class single-piece mail by over 12%;
- b. Please identify and provide each and every study your testimony relies on regarding the effect of an increase in postal rates of that size (i.e., 12%) on mail volumes, marginal costs, and revenues; and
- c. Please confirm that for estimates of mail volumes your testimony relies solely on the testimony of witness Tolley. If you do not so confirm, please identify and provide the volumes estimates relied upon for your testimony.

GCA/USPS-T-41-21. Please identify and provide any and all studies of the accuracy of Postal Service costs and volumes that you have relied on in the preparation of your testimony.

GCA/USPS-T-41-22. Do you agree that the marginal costs incurred to provide a postal service are likely to change over time?

GCA INTERROGATORIES TO
USPS WITNESS BERNSTEIN (USPS-T-41)

GCA/USPS-T-41-23. Please confirm that you are using a "Point Elasticity" throughout the analysis you testify to. If you do not confirm, please identify and explain any use of an elasticity other than a Point Elasticity.

GCA/USPS-T-41-24. Please provide all analyses you have performed or relied on regarding your testimony employing an "Arc Elasticity."

GCA/USPS-T-41-25. Please provide your understanding or assumptions, if any, as to the expected life of the rates sought in this proceeding.

GCA/USPS-T-41-26. Please confirm that (i) in deriving your Ramsey prices you assume that the elasticities used for that purpose do not change with price and volume, and (ii) you recognize (USPS-T-41, at 50-52, 59-60) that with respect to worksharing elasticities (i.e., the relation between a change in the size of the discount and a change in the volume of mail workshared) do change. If you do not so confirm, please explain why.

GCA/USPS-T-41-27. Please explain why elasticities that change with price and volume could not also exist for base rates. Please provide all studies of elasticities relied upon for your response.

GCA/USPS-T-41-28. Please provide the citation for the Robert Mitchell work referred to at line 25 on p. 75 of USPS-T-41.

GCA/USPS-T-41-29. Please state whether you consider equity (in any sense) to be a consideration at any stage in the construction of Ramsey-type prices. If your answer is in the affirmative, explain how such consideration should be given.

GCA/USPS-T-41-30. Reference USPS-T-41, p. 99. Please —

- a. Provide the definition of "economic equity" used in your testimony.
- b. State any other definitions of the term "economic equity" of which you are aware.
- c. Explain why the importance of additional money to rich (or poor) persons could not vary in the same way as consumption of additional goods (declining marginal utility, which you acknowledge at USPS-T-41, p. 17);

GCA INTERROGATORIES TO
USPS WITNESS BERNSTEIN (USPS-T-41)

- d. State whether you believe that it is consistent with equity (or with "economic equity") for a multi-product firm to construct prices based on relative demand when it enjoys a statutory monopoly on some but not all of its product lines.
- e. Identify any "fairness and/or equity" issues — other than income redistribution — you addressed in preparing your testimony and explain how and why you chose to address any such issues or chose not to address them.

GCA/USPS-T-41-31. Please —

- a. Confirm that it is your testimony that a lower level of competition justifies higher Ramsey prices (USPS-T-41, at 44).
- b. Explain fully your understanding, if any, as to whether the assignment of higher Ramsey prices in circumstances of limited competition would tend to invite collusion among potential or actual competitors.

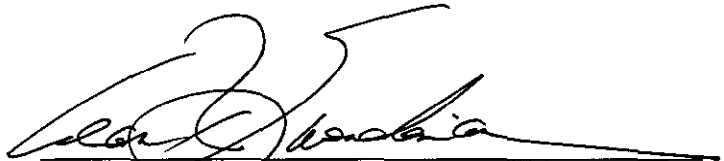
GCA/USPS-T-41-32. Have you, in preparing your testimony, reviewed any other regulatory commission's practices regarding pricing to captive customers? If you did, please identify the regulatory commission, the practices reviewed and any examples of the adoption or rejection of Ramsey prices for such customers.

GCA/USPS-T-41-33.

- a. Please confirm that in your testimony you use the term "consumer surplus" and do not use the term "consumer's surplus."
- b. In your testimony, are you making interpersonal comparisons of cardinal utility?

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Alan R. Swendiman