

BEFORE THE  
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

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POSTAL RATE AND FEE CHANGES, 2000

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DOCKET NO. R2000-1

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INTERROGATORIES AND REQUESTS FOR  
PRODUCTION OF DOCUMENTS FROM  
UNITED PARCEL SERVICE TO UNITED STATES  
POSTAL SERVICE WITNESS BERNSTEIN  
(UPS/USPS-T41-2 through 6)  
(March 15, 2000)

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Pursuant to the Commission's Rules of Practice, United Parcel Service hereby serves the following interrogatories and requests for production of documents directed to United States Postal Service witness Bernstein: UPS/USPS-T41-2 through 6.

Respectfully submitted,



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Of Counsel.

INTERROGATORIES OF UNITED PARCEL SERVICE  
TO UNITED STATES POSTAL SERVICE WITNESS BERNSTEIN

UPS/USPS-T41-2. Refer to your testimony on page 43, where you indicate that “the response of the nonpostal firm to changes in” postal prices will be equal to zero when the nonpostal firm is operating in a market with marginal cost pricing. Confirm that the accuracy of this statement depends upon the assumption that marginal costs of production do not vary with the level of output. If you do not confirm, explain.

UPS/USPS-T41-3. Refer to your testimony on page 46, where you state that “Private firms operating in competitive markets with free entry can be expected to be pricing at marginal cost.” You there employ this statement to justify your focus on “the Ramsey model without cross-elasticities of nonpostal firms.”

(a) Confirm that you are characterizing the markets in which the Postal Service, Federal Express, UPS, and other such delivery companies operate as “competitive markets with free entry.” Provide a precise definition of “competitive markets with free entry,” as you are using the term here.

(b) Provide all information that you have relied upon to conclude that nonpostal firms that provide products which are substitutes for products supplied by the Postal Service set prices equal to their marginal costs of production.

UPS/USPS-T41-4. Refer to your testimony on page 15, where you state that “postal rates must be set above marginal cost to generate revenues equal to total costs . . . .”

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(a) Provide all information you have relied upon to conclude that the same is not also true for competitors of the Postal Service. Include all documents and analyses which support this conclusion.

(b) If you do not have any such information, then explain why these suppliers "can be expected to be pricing at marginal cost" (USPS-T-41 at 46).

UPS/USPS-T41-5. Refer to your testimony on page 45, where you state that "Ramsey prices of postal products including rivalry could be less than the Ramsey prices when rivalry is not considered."

(a) Confirm whether this statement and the discussion in the first paragraph on page 45 is meant to indicate that Ramsey prices of postal products including the effects of rivalry from UPS, Federal Express, and other competitors are likely to be less than Ramsey prices when rivalry is not considered under the conditions that prevail in today's postal delivery industry.

(b) If so, define the precise sense in which you are using the term "likely," and provide a complete justification for your conclusion.

UPS/USPS-T41-6. Refer to your testimony on page 45, where you state, "Ultimately, the Ramsey prices of postal products are affected by cross-elasticities with nonpostal products only if the nonpostal firms are pricing above marginal cost."

(a) Confirm that equation 8(a) on page 42 of your testimony refutes this statement in cases where the price set by nonpostal firms increases with the price of the postal product (i.e., where  $dP_2/dP_1 > 0$ ).

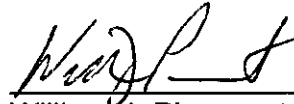
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(b) Confirm that the price set by nonpostal firms can increase as the price of the postal product increases (so  $dP_2/dP_1 > 0$ ) even when nonpostal firms set prices equal to their marginal costs of production.

(c) If you do not confirm (a) and (b), provide a detailed explanation.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Commission's Rules of Practice.



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William J. Pinamont  
Attorney for United Parcel Service

Dated: March 15, 2000  
Philadelphia, Pa.

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