

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

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Postal Rate and Fee Changes, 2000

Docket No. R2000-1

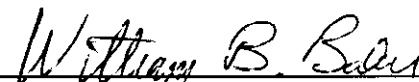
**NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)
March 16, 2000**

The Newspaper Association of America hereby submits the attached interrogatories to United States Postal Service witness Peter Bernstein (NAA/USPS-T41-4-21) and respectfully requests a timely and full response under oath.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

By:



William B. Baker
E. Joseph Knoll III
Isaac R. Campbell
WILEY, REIN & FIELDING
1776 K Street, N.W.
Washington, DC 20006-2304
(202) 719-7255

Robert J. Brinkmann
NEWSPAPER ASSOCIATION OF AMERICA
529 14th Street, N.W.
Suite 440
Washington, D.C.
(202) 638-4792

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants requesting such service in this proceeding in accordance with section 12 of the Rules of Practice.

March 16, 2000


William B. Baker

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UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)

NAA/USPS-T41-4. For each of the following tables in your testimony, please cite the particular library reference spreadsheet or document which contains the source of the data for each of the numbers in the tables. If such source is not currently available, please provide it.

- a. Table 7, page 55.
- b. Table 8, page 63.
- c. Table 11, page 71.

NAA/USPS-T41-5. Please refer to your testimony at page 10, Summary Table 1, column 1, labeled "Before-Rates Price." The figure you give for Standard ECR is 0.1494. Witness Moeller's WP1, page 8, column (6) provides a figure of 0.1498 for "rev/pc" for ECR Mail in a Table titled "Test Year Before Rates Summary." Please reconcile the discrepancy.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)

NAA/USPS-T41-6. Please refer to your testimony at page 9, lines 10-11, where you state that the “overall markup” under Ramsey pricing is 63.7 percent, as compared with your estimate of 67.6 percent for “R97-1 Index pricing.” You conclude that these percentages provide “. . . evidence that the Ramsey prices raise the required net revenue in a more efficient way.” Table 8, page 63, provides “After Rates GFY 2001 Net Revenues at Proposed USPS Rates,” but does not provide the markup indices at these rates.

- a. Please provide the data for a fourth column of Summary Table 2, page 11, which calculates the “% markup” for the “After-Rates Price” at proposed USPS Rates, (as estimated by you in column 2 of Table 8 at page 63 of USPS-T-41). Please make sure that you provide the “overall” markup for Proposed USPS Rates that you estimate.
- b. Witness Mayes, Exhibit USPS-32B, page 1 of 2, column (3), provides “Revenue as Percent of Cost” of 168.0% or a markup of 68.0% for total mail and services. Do your calculations concur with this figure? If not, please reconcile the discrepancy.
- c. Do you find any similarity to your answer to (a) and Witness Mayes’s estimate of 68.0%? What conclusions do you draw as to the “efficiency” of the R97-1 Index prices, relative to proposed USPS rates, as you employ that term?
- d. At USPS-T-41, page 93, lines 12-13, you state that “[i]n fact, any two rate schedules—however those rates are obtained—can be compared in terms of changes in consumer surplus.” Please provide the data in the format of a fourth column of Table 3, USPS-T-41, page 13, which would calculate the change in consumer surplus, using your methodology, between (1) the “R97-1 Index prices” given in Summary Table 3, page 13, and (2) the “After [USPS] Rates Price” in Table 8, page 63.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
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NAA/USPS-T41-7. Please refer to your testimony at page 41, lines 23-26, where you state that consideration of USPS competition with non-postal firms in your Ramsey Pricing model involves consideration of the “producer and consumer surplus associated with competing products.” At page 45, line 24 to page 46, line 12, you conclude that such effects on competing products may be safely ignored. At page 101, you calculate that adoption of your Ramsey prices would require a 42.2% rate cut for Standard A ECR Mail relative to current prices. At page 71, Table 11, you calculate that this rate cut would produce a volume increase of ECR Mail from 31,907.6 million pieces to 52,337.1 pieces, or approximately 64 percent. At page 87, line 24 to page 88, line 14, you review your Ramsey pricing proposals and conclude that “any reduction in the economic value of these media in response to a decline in Standard A ECR leads to an equal reduction in economic cost, yielding no net change in overall economic efficiency.”

- a. Please confirm that your testimony at page 41, line 13 to page 46, line 12 and page 87, line 24 to page 88, line 14, represents the entirety of your consideration of the effect of your Ramsey rate proposals for ECR on “enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters.”
- b. If you are unable to confirm (a), please explain what other consideration you gave.
- c. Is it your testimony that private enterprise competitors of ECR mail would be unaffected by and therefore indifferent to a 42.2% cut in rates for Standard A ECR Mail and an accompanying 64 percent increase in ECR volume? Explain your answer fully.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
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NAA/USPS-T41-8. Please refer to your testimony at page 63, Table 8.

- a. Please provide the necessary source data to reproduce the data in this table.
- b. Witness Moeller USPS-T-35, WP1, page 24, provides at line 32 a "TYAR revenue per piece of \$0.1572. Please reconcile this figure with the comparable entry of \$0.1568 in column 2 of your Table 8.

NAA/USPS-T41-9. Please refer to your testimony at page 66, lines 8-9.

- a. Please provide the GFY 2001 attributable costs using the PRC costing methodology presented at page 66 of your direct testimony and employed by you to calculate the "R2000-1 price" as reported by you in Table 10, page 69, together with all source data necessary to reproduce the results.
- b. Please also provide for the "R2000-1 Price" as reported by you in Table 10 the "overall % markup" (see your Table 2 for examples), together with the necessary source data to reproduce the result.

NAA/USPS-T41-10. Please refer to your testimony at page 98, Table 13, where you estimate that consumers of Standard A ECR Mail would receive benefits of \$3,075.5 million as a result of adopting your Ramsey price rather than the "R97-1 Index price." At page 87, lines 14-15, you state that "[t]he volume of Standard A ECR Mail is noticeably greater under Ramsey pricing than under prices obtained from the R97-1 Markup Index."

- a. Who are the consumers that you believe would receive these benefits?
- b. Are Standard A ECR mailers members of the "extremely competitive" advertising industry to which you refer at page 88, lines 2-4 of your testimony?
- c. If not, please explain in detail why not.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)

- d. If so, are they private firms for which, using your rationale at page 88, lines 4-6, no account need be taken in establishing Ramsey prices, because changes in price lead to “an equal reduction in economic cost, yielding no net change in overall economic efficiency?”

NAA/USPS-T41-11. Please refer to your testimony at page 104, where you discuss “ECSI Considerations for Periodicals Mail.”

- a. Please confirm that you did not consider ESC I (educational, cultural, scientific and informational) value to the recipient of any other class or subclass.
- b. If you are unable to confirm, please explain why.

NAA/USPS-T41-12. Please refer to the testimony of USPS Witness Mayes, USPS-T-32, page 18, lines 5-20, where she provides a hypothetical example of two mail pieces with identical volume variable cost but one incurs specific fixed cost. Assume that there are no relevant user costs and both pieces have the same elasticity (and cross elasticity if relevant).

- a. Please confirm that both pieces will be charged the same Ramsey price despite the fact that one incurs specific costs and the other does not.
- b. If you are unable to confirm (a), please explain how specific fixed costs are accounted for in your estimates of Ramsey prices.

NAA/USPS-T41-13. Please refer to page 53 of your testimony. Do you believe that the Postal Service’s estimates of volume variable are, or are a proxy for, the marginal costs of an efficient producer of postal services? Please explain.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)

NAA/USPS-T41-14. Please refer to your testimony at page 10, Table 1, where you provide your estimate of 0.0864 for the Standard ECR subclass for "After-Rates Price (Ramsey Pricing)." Please refer to Library References I-156, to the spreadsheet R00Data.wk4, worksheet "BR Data", Column T, which contains a column labeled "PRC (BR) attributable /PC." The entry for Standard A ECR is \$0.080120.

- a. Please confirm that the cited data in LR-I-156 are the cost data for the test year using the PRC attribution methodology and used by you to compute what you label "After Rates Price (R97-1 Index)" and "R2000-1 price" using the markup identified as "R2000-1 markup" in Table 10 of your direct testimony.
- b. If you are unable to confirm (a), please provide the attributable cost and markups you did use.
- c. If you are able to confirm (a), please confirm that at a "R2000-1 Price" of 0.1594, Standard A ECR would pay a rate with a 7.838 percent mark-up over attributable costs using what you label "2001 Test Year attributable costs as calculated by the Postal Service using the PRC costing methodology."
- d. If you are unable to confirm (c), please provide the correct figure with explanation.

NAA/USPS-T41-15. Please refer to your testimony at page 87, lines 2-4, where you state that the cross elasticity of Standard A Regular with First Class letters means that some of the volume from Standard A Regular that otherwise would be lost as a result of a rate increase would be regained by migration to First Class letters.

- a. Did you consider the possibility of similar migrations between Standard A Regular and ECR?
- b. If so, please explain how. If not, please explain why not.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)

- c. Did you consider the possibility that some of the volume of ECR Mail that would otherwise be lost from ECR rate increases would be regained by migration to First Class?
- d. If so, please explain how. If not, please explain why not.
- e. In your testimony at page 101, Table 14A, you estimate that the change in price (as compared with Before Rates) to implement Ramsey prices for Standard A ECR is a 42.2% cut in prices and an increase of 7.8% for First Class letters. Did you consider that these rates would encourage migration from First Class Mail to ECR?
- f. If so, please explain how. If not, please explain why not.

NAA/USPS-T41-16. Witness Mayes, at USPS-T-32, page 21, lines 3-4, stated that the relatively low price elasticity of demand for single piece First Class letters and workshared letters may be due to the Private Express Statutes. See also her response to NAA/USPS-T32-8.

- a. Did you take this possibility into account in calculating your Ramsey prices?
- b. If so, please explain how. If not, please explain why not.

NAA/USPS-T41-17. Please refer to your testimony at page 105, where you state that the changes in your estimates of Ramsey prices for R2000-1 as compared with R97-1 Ramsey prices are explained in part by changes in demand elasticity.

- a. Did you consider whether the changes in demand elasticity were statistically significant?
- b. If so, please provide all details of the analysis. If not, please explain why not.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)

NAA/USPS-T41-18. Please refer to LR-I-156, page 9, where you state that "R97-1 Index prices" are calculated to satisfy a markup condition, whereby "the new mark-ups will all be the same multiple of the old markups, thereby maintaining relative mark-ups." The variable "m" is undefined on page 9. However on page 2, "m" is defined as "marginal cost (equal to Postal Service volume variable cost per piece plus mailer user cost)." Please also refer to your testimony at page 66, lines 3-15, which describes a process of generating "PRC recommended R97-1 markups" based on "GFY 2001 attributable costs." Table 10, page 69, provides estimates of "R2000-1 price" and R2000-1 markup." The prices in Table 10 appear to be identical to column 1 of Table 3, page 13, labeled "R97-1 Index price."

- a. Please confirm that "m" on page 9 has the same definition as on page 2. If you cannot confirm, please explain.
- b. Please confirm that you use the term "R97-1 Index price" synonymously with "R2000-1 price." If you cannot confirm, please explain.

NAA/USPS-T41-19. Please refer to Library Reference LR-I-149. This contains a column under "markup comparison" entitled "Replic. PRC R2000-1." Please reconcile this column with your calculated "R2000-1 markup" in Table 10, page 69 of your testimony, including your figure comparable to the 54.2% for "Total Mail and Services" in LR-I-149.

NEWSPAPER ASSOCIATION OF AMERICA
SECOND SET OF INTERROGATORIES TO
UNITED STATES POSTAL SERVICE WITNESS
PETER BERNSTEIN (NAA/USPS-T41-4-21)

NAA/USPS-T41-20. Please refer to your direct testimony at page 45, line 24 to page 46, line 12, and page 87, line 24 to page 88, line 6, where you conclude that Ramsey pricing need not take account of the effect of postal prices on private enterprise competitors, in particular those of Standard A ECR Mail. In developing your Ramsey rates, did you make use of any information regarding the cost structures or pricing practices of competitors? If so, please explain what information you used and how it used it.

NAA/USPS-T41-21. Please refer to your testimony at page 106, column 4, labeled "marginal cost change." Please provide all necessary data to reproduce the data in this column.