

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS MAYES
TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/USPS-T32-2 THROUGH 11)

The United States Postal Service hereby provides the responses of witness Mayes to the following interrogatories of United Parcel Service: UPS/USPS-T32-2 through 13 (filed on March 8, 2000).

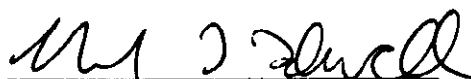
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998 Fax -5402
March 22, 2000

RESPONSE OF POSTAL SERVICE WITNESS MAYES TO UPS INTERROGATORIES

UPS/USPS-T32-2. Refer to your testimony on pages 3-4, where you state that "[t]he Postal Service's proposals in this case have fairness and equity as their most fundamental objectives." Define "fairness" and "equity" as you have employed them to determine the proposed rates

Response:

I meant that all of the pricing criteria were properly considered in the determination of the proposed rate levels, achieving a balance of conflicting interests and not favoring any one of the pricing criteria in particular.

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UPS/USPS-T32-3. Refer to your testimony on page 5, where you (1) discuss "the degree to which usage of the service declines in response to price increases," and (2) state that this concept "has been referred to as the economic value of service." Provide detailed citations to the economic literature that makes such references.

Response:

In making this reference, I did not mean to imply that such terminology was applied to the own-price elasticity in economic literature. Rather, I was referring to usage of this concept in previous postal rate proceedings. See, for example page 19, line 7 of witness Foster's (USPS-T-11) testimony in Docket No. R94-1 or page 4, line 11 of witness O'Hara's (USPS-T-30) testimony in Docket No. R97-1. As with regard to this example, the language of postal ratemaking is sometimes unique.

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UPS/USPS-T32-4. Refer to your testimony on page 8, where you state that "the Postal Service has also considered the effect of its proposed rate increases on competitors, in order to ensure that no particular set of proposed rates or fees was designed with the specific goal of harming a competitor or group of competitors." If, in fact, the rates were not designed with the specific goal of harming competition or competitors, would they necessarily satisfy the fourth criteria [sic] in Section 3622(b) of the Postal Reorganization Act.

Response:

No. As I noted in my testimony, criterion 4 covers other concerns as well, such as the effect of the rate increases on customers. Please also see my responses to NAA/USPS-T32-2, NAA/USPS-T32-19b and AAPS/USPS-T32-4.

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UPS/USPS-T32-5. Refer to your testimony on page 9, where you discuss the fifth criterion in Section 3622(b) of the Postal Reorganization Act and list alternative means of sending and receiving mail matter at reasonable cost. You do not explain how the presence of alternative means should affect proposed rates. Explain what you believe to be the proper qualitative relationship between rates and the availability of reasonable service alternatives.

Response:

Please see my response to DFC/USPS-40, redirected from the United States Postal Service.

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UPS/USPS-T32-6. You generally propose modest rate increases on those services with relatively low economic value (defined as a relatively high price elasticity of demand) and more significant increases on services with relatively high economic value (defined as relatively low price elasticities of demand). Refer to your testimony on page 19, where you state: "no formal use is made of ...Ramsey prices," and that "movement toward or away from Ramsey prices...did not significantly affect conclusions."

(a) Explain the difference between setting rates based on Ramsey principles and setting rates based on the concept of economic value.

(b) Define precisely the term "significant" as you are using it in this context.

Response:

(a) Both Ramsey pricing and the consideration of economic value of service would point toward giving higher increases to the categories of mail that have the lowest economic value of service. However, Criterion 2 is only one of the nine pricing criteria and must be considered in the balance with the other criteria. Criterion 5 requires that consideration be given to those categories of mail with few alternatives. In many respects, I think that criterion 2 and criterion 5 counteract each other. On the one hand, those categories with few alternatives may effectively have no alternative source of service, and would demonstrate low own-price elasticities which criterion 2 and Ramsey principles would translate into higher rate increases. On the other hand, criterion 5 requires that consideration be given to the availability of alternatives and has been interpreted as a request for mercy with regard to setting cost coverages for mail services with no or few alternatives. In addition, I hesitate to grant the premise of

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Response to UPS/USPS-T32-6, cont'd

your question. An examination of my Exhibit USPS-32D in conjunction with Table 2 of my testimony would show that, for instance, two subclasses which received among the highest rate increases, Nonprofit ECR and Priority Mail, also exhibit relatively high elasticities of demand. In contrast, First-Class Letters, which exhibits a relatively low elasticity of demand, received one of the lowest rate increases. I believe that a more accurate generalization would be that, in general, those categories of mail which received the highest rate increases were also those categories of mail that experienced the highest increase in costs since Docket No. R97-1.

- (b) Please refer to my response to OCA/USPS-T32-1 and GCA/USPS-T32-10.**

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UPS/USPS-T32-7. Refer to your testimony on page 22, where you state that the proposed rate increase for First-Class Letters and Sealed Parcels "reflects the concern of the Postal Service about emerging alternatives for...customers." Explain the exact manner in which this concern is reflected in the proposed rate increase.

Response:

Please refer to my response to OCA/USPS-T32-7.

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UPS/USPS-T32-8. Refer to your testimony on page 23 and explain why the Postal Service proposes to raise the rate for single-piece cards by 4.9 percent but proposes no increase at all for Qualified Business Reply Mail.

Response:

The reasons for these pricing proposals are set forth in the testimony of witness Fronk (USPS-T-33, pp. 39-40) and in his response to OCA/USPS-T29-8, redirected from witness Campbell.

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UPS/USPS-T32-9. Refer to your testimony on page 29, where you report that "in the cases preceding Docket No. R97-1, the markup for Express Mail was intentionally mitigated in order to preserve the class of mail in the context of increasing competition." Explain how you believe that this rationale for limiting rate increases is consistent with the fifth criterion in Section 3622(b) of the Postal Reorganization Act.

Response:

Please refer to my response to DFC/USPS-40, redirected from the United States Postal Service. An examination of the dockets to which the Commission referred in its R97-1 Recommended Decision, R90-1 and R94-1, would demonstrate that the rate increases conferred on Express Mail were not insubstantial (15% and 8%, respectively), even as the markups were mitigated.

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UPS/USPS-T32-10. Refer to your testimony on page 30, where you state that the "proposed rate increase [for Express Mail]...should not have a significant effect on competitors." Explain the term "significant" as you are using it in this context.

Response:

In this context, I meant "significant" to convey the idea that any changes to the volumes or revenues of competitors of Express Mail would not be of consequence, would not be critical to the continued viability or profitability of such competitors, and would probably barely be noticeable.

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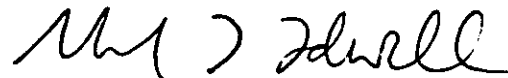
UPS/USPS-T32-11. Refer to your testimony on page 41, where you state that "[t]here is little doubt that competitors of Parcel Post will continue to compete successfully despite the relatively low increase in Parcel Post rates...." Explain the term "compete successfully" as you are using it in this context.

Response:

By "compete successfully" in this context, I meant that I would not expect to see substantive changes in the volume of parcels carried by these competitors, nor in their profitability, nor in their relative positions in market dominance *as a result of the changes in Parcel Post rates proposed in this docket*. The projected change in Parcel Post volume as a result of the proposed rate increase in this case is a loss of approximately 1 percent of Parcel Post volume from TYBR to TYAR.

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.

A handwritten signature in black ink, appearing to read "Michael T. Tidwell". The signature is fluid and cursive, with the first name "Michael" and last name "Tidwell" clearly legible.

Michael T. Tidwell

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