

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C.

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

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DOCKET NO. R2000-1

FIFTH INTERROGATORIES AND REQUEST FOR PRODUCTION
OF DOCUMENTS FROM GREETING CARD ASSOCIATION TO
UNITED STATES POSTAL SERVICE WITNESS PETER BERNSTEIN
(GCA/USPS-T41-77 THROUGH 84)
(MARCH 28, 2000)

Pursuant to Section 20 of the Commission's Rules of Practice, Greeting Card Association ("GCA") hereby serves the following further interrogatories and request for production of documents directed to United States Postal Service witness Peter Bernstein: GCA/USPS-T41-77 through 84. GCA incorporates by reference the instructions in OCA interrogatories OCA/USPS-1-14 (January 24, 2000).

Respectfully submitted,



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

GCA/USPS-T41-77 Please refer to your response to GCA/USPS-T41-35. C. You maintain that the record between R97-1 and R2000-1 shows that changes in elasticities do not lead to wide swings in postal prices, and that 90% of the price swings with Ramsey prices are due to changes in marginal.

- a. To what extent (i.e. magnitudes) are the changes in prices between R97-1 and R2000-1 attenuated because you do not use pure Ramsey prices?
- b. Are you saying that only 10% of the swings in your Ramsey prices are due to changes in demand elasticities? [That is, 100% minus the 90% due to changes in marginal cost]
- c. If your answer to b. is in the negative, please explain what the correlation is between Ramsey prices and demand elasticities, both for your narrow range of price inelastic numbers and a wider band of elasticities from 0.3 to 3.0.
- d. If your answer to b. is in the negative, please state and explain what assumptions you are making about changes in the shape or steepness of your cost curves.

GCA/USPS-T41-78 Please refer to your response to GCA/USPS-T41-36. In this question, a sentence was inadvertently omitted from the end of part a. That sentence reads "If you so confirm, please assume in answering parts b. and d. below that individual consumers in general have different (cardinal) utility functions." The context of questions b. and d. may be clarified if you understand that we are asking whether you can assure us that in a situation where interpersonal comparisons of utility cannot in general be made, your net increase in consumer surplus represents a Pareto improvement, that is no individual mailer is made worse off by the change to Ramsey prices, and at least one individual mailer is made better off.

GCA/USPS-T41-79 Please refer to your response to GCA/USPS-T41-38. B.

- a. With reference to your last sentence, are you saying that the Postal Service does not now use any demand information in recommending postal rates?
- b. Are you saying that the Postal Rate Commission does not now use any demand information in setting postal rates in its O&RDs?
- c. Would you agree that (i) the "changing market environment posited by the GAO" electronic diversion report implies substantial increases in

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

substitutability for First Class letter mail, and (ii) in such circumstances, aggressive price competition in First Class letter mail is one possibly appropriate response by the Postal Service.

GCA/USPS-T41-80 Please refer to your response to GCA/USPS-T41-39.

- a. You refer to "relatively high own-price elasticities of demand" for priority mail and parcel post. Please confirm that your own price elasticity for priority mail puts it within the range of a price inelastic product, that is the absolute value is less than one. Please confirm that when the cross-price elasticity is factored in, that own price elasticity is offset somewhat.
- b. Would you agree that the "demand information" the Postal Service needs to make correct investment and pricing decisions includes shifts in the demand curves for its products?
- c. Would you agree that the Postal Service could use demand information (i.e. shifts in demand curves) to "make correct investment decisions" without resorting to the use of Ramsey prices?
- d. Would you agree that the Postal Service could price more aggressively in First Class letter mail than it is doing (as a result of electronic diversion shifting the demand curve inward), and also could fund capital investments needed to compete for the growing e-commerce business (an upward shift in the demand curve) by raising the price of priority mail more than it is doing in this case.
- e. Would you agree that the "relatively low price elasticity of demand for First-Class letters" along a demand curve does not answer the question about what price policy should be for First Class letters when the demand curve is shifting inward due to electronic diversion?

GCA/USPS-T41-81 Please refer to your response to GCA/USPS-T41-41 and also to Summary Table 3 on page 14.

- a. Please confirm that your Ramsey prices in Summary Table 3 extract \$2.6111 billion dollars in consumer surplus from those mailers that use the First Class letters mail product, which amount would not be extracted under the "R97-1 Index Price."
- b. Please confirm that your Ramsey prices extract \$1.7586 billion dollars in consumer surplus from those mailers that use the periodicals regular mail product, which amount would not be extracted under the "R97-1 Index Price."

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

GCA/USPS-T41-82 Please refer to your response to GCA/USPS-T41-42. In interrogatory a., the word "purely" was inadvertently omitted as the modifier to "competitive". Please answer a. as correctly phrased.

GCA/USPS-T41-83 Please refer to your response to GCA/USPS-T41-44. With respect to question a., there are several competitors in the private market for air transportation and transportation by truck, and it can be reasonably assumed that the pricing structure for these is effectively competitive. If the Postal Service had economies of scale or scope in these arenas relative to purchased transportation, why would it spend billions of dollars on outside transportation as it now does? With respect to b., there are numerous competitors in the market for long haul and short haul transportation, and almost no barriers to entry. Under such conditions, the prices charged are likely to be fully competitive. Please confirm that Ramsey pricing under such circumstances would not make sense.

GCA/USPS-T41-84 Please refer to your response to GCA/USPS-T41-46. While we are aware that your Ramsey prices are not pure Ramsey prices, the question concerns how much farther the Postal Service has moved in this case toward the pure Ramsey prices, relative to a situation where demand conditions were not at all factored into the rate setting process, and prices were purely cost based with equal percentage mark-ups. Please answer the question.

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