

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

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

The United States Postal Service hereby provides the response of witness Bernstein to the following interrogatories of the Newspaper Association of America: NAA/USPS-T41-4 - 21, filed on March 16, 2000.

The 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



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992 Fax -5402
March 30, 2000

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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.

RESPONSE:

- a. The data in Table 7 are found in the spreadsheet file R00DATA.WK4. Please also see my response to NAA/USPS-T41-3 for more detail about R00DATA.WK4.
- b. The data in Table 8 are found in the spreadsheet file R00DATA.WK4. Please also see my response to NAA/USPS-T41-3 for more detail about R00DATA.WK4.
- c. The data in Table 11 are found in the spreadsheet file RAMOUT.WK1.

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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.

RESPONSE:

The small difference in the Standard ECR subclass price is due to a slightly different weighting of the incidence of the parcel surcharge.

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NAA/USPS-T41-6. Please refer to your testimony at page 9, lines 10-11, where you states 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.**

RESPONSE:

- a. Please see the table accompanying this response.**
- b. My calculated overall mark-up is 66.9 percent. The small difference between my figure and Witness Mayes figure of 68.0 percent is due to two factors. First, my**

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calculations use before-rates volume variable cost per piece (marginal cost), which are very close to but not identical to the after-rates costs per piece used by Witness Mayes. Second, Witness Mayes' calculations include some postal products that are not considered in my testimony.

- c. In terms of overall mark-ups above volume variable costs, my calculations show that the Postal Service proposed rates yield an overall mark-up of 66.9 percent while my R97-1 Index rates have an overall mark-up of 67.6 percent. Based on this measure, it appears that the Postal Service proposed rates are somewhat more efficient than my R97-1 Index rates.

- d. Please see the Table accompanying this response. The results show that total consumer surplus is \$14.2 million greater at USPS proposed rates than at the R97-1 Index rates.

TABLE ACCOMPANYING RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN TO NAA/USPS-T41-6(a)

Mail Product	USPS Proposed		After-Rates Volume	Revenue	Volume Variable Cost	Percent Mark-Up
	After-Rates Price	Before-Rates Marginal Cost				
First-Class LFIPPs	\$0.3560	\$0.1852	99,857.394	\$35,546.436	\$18,491.093	92.2%
First-Class Cards	\$0.1939	\$0.1309	5,440.951	\$1,055.164	\$712.269	48.1%
Priority Mail	\$4.4358	\$2.4516	1,226.160	\$5,438.988	\$3,006.108	80.9%
Express Mail	\$14.5760	\$6.6530	72.301	\$1,053.858	\$481.022	119.1%
Periodicals In-County	\$0.0928	\$0.0943	862.061	\$79.960	\$81.272	-1.6%
Periodicals Nonprofit	\$0.1804	\$0.1767	2,052.208	\$370.263	\$362.576	2.1%
Periodicals Classroom	\$0.2610	\$0.2532	55.089	\$14.380	\$13.948	3.1%
Periodicals Regular	\$0.2735	\$0.2741	7,351.808	\$2,010.808	\$2,015.233	-0.2%
Standard A Regular	\$0.2209	\$0.1665	40,998.656	\$9,057.587	\$6,827.793	32.7%
Standard A ECR	\$0.1568	\$0.0752	32,828.211	\$5,148.875	\$2,467.467	108.7%
Standard A Nonprofit	\$0.1302	\$0.1152	11,425.579	\$1,487.885	\$1,316.284	13.0%
Standard A Nonprofit ECR	\$0.0881	\$0.0731	2,851.875	\$251.373	\$208.347	20.7%
Standard B Parcel Post	\$3.2290	\$2.8490	374.096	\$1,207.957	\$1,065.806	13.3%
Standard B Bound Printed	\$1.0713	\$0.9104	524.743	\$562.131	\$477.735	17.7%
Standard B Special Rate	\$1.6443	\$1.4608	205.789	\$338.384	\$300.613	12.6%
Standard B Library	\$1.7918	\$1.6648	28.432	\$50.943	\$47.334	7.6%
Registered	\$9.4645	\$7.7205	10.966	\$103.788	\$84.663	22.6%
Insured	\$2.2903	\$1.7137	44.680	\$102.331	\$76.568	33.6%
Certified	\$2.1463	\$1.6736	274.934	\$590.080	\$460.121	28.2%
COD	\$5.6458	\$4.2240	3.544	\$20.009	\$14.970	33.7%
Return Receipts	\$1.5118	\$1.3047	220.088	\$332.732	\$287.145	15.9%
Money Orders	\$0.9096	\$0.6792	226.435	\$205.964	\$153.792	33.9%
Total				\$65,029.894	\$38,952.159	66.9%

TABLE ACCOMPANYING RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN TO NAA/USPS-T41-6(d)

Mail Product	R97-1 Index Price	R97-1 Index Volume	USPS Proposed Price	USPS Volume	Change in Consumer Surplus
First-Class LFIPPs	\$0.3442	100,665.820	\$0.3560	99,857.394	(\$1,177.5)
First-Class Cards	\$0.2111	4,974.066	\$0.1939	5,440.951	\$89.7
Priority Mail	\$4.4382	1,186.918	\$4.4358	1,226.160	\$2.9
Express Mail	\$11.2503	106.789	\$14.5760	72.301	(\$297.8)
Periodicals In-County	\$0.0979	855.493	\$0.0928	862.061	\$4.4
Periodicals Nonprofit	\$0.1881	2,021.446	\$0.1804	2,052.208	\$15.7
Periodicals Classroom	\$0.2692	52.857	\$0.2610	55.089	\$0.4
Periodicals Regular	\$0.2927	7,200.226	\$0.2735	7,351.808	\$139.4
Standard A Regular	\$0.2407	38,737.214	\$0.2209	40,998.656	\$788.1
Standard A ECR	\$0.1594	31,907.618	\$0.1568	32,828.211	\$84.0
Standard A Nonprofit	\$0.1450	11,216.215	\$0.1302	11,425.579	\$167.2
Standard A Nonprofit ECR	\$0.1163	2,715.772	\$0.0881	2,851.875	\$78.4
Standard B Parcel Post	\$3.1547	379.007	\$3.2290	374.096	(\$28.0)
Standard B Bound Printed	\$1.2271	482.080	\$1.0713	524.743	\$78.4
Standard B Special Rate	\$1.5895	207.869	\$1.6443	205.789	(\$11.3)
Standard B Library	\$1.7593	28.541	\$1.7918	28.432	(\$0.9)
Registered	\$9.1146	11.071	\$9.4645	10.966	(\$3.9)
Insured	\$2.4969	43.338	\$2.2903	44.680	\$9.1
Certified	\$2.0606	266.612	\$2.1463	274.934	(\$23.2)
COD	\$4.7301	3.634	\$5.6458	3.544	(\$3.3)
Return Receipts	\$1.8502	212.127	\$1.5118	220.088	\$73.1
Money Orders	\$1.0436	210.609	\$0.9096	226.435	\$29.3
Total					\$14.2

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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.**

RESPONSE:

a and b. Confirmed.

c. No, I do not claim that private competitors of ECR mail would be unaffected by the reduction in Standard A ECR mail rates. They may experience a decline in the level of their business as some advertisers shift to Standard A. I have no estimate of the shift of business and, in fact, a good portion of the increase in ECR mail volume results from

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a decline in postage costs which allow current advertising mailers to send more mail, without having to shift resources from other advertising media.

However, from the standpoint of overall economic efficiency, as long as the private firms competing with the Postal Service are pricing at marginal cost (a reasonable assumption given the competitive nature of their enterprise), then "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."

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NAA/USPS-T-41-8. 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.**

RESPONSE:

- a. Please see my response to NAA/USPS-T41-4(b).**
- b. As is the case with the before-rates price of Standard A ECR mail (please see my response to NAA/USPS-T41-5), the tiny difference between my after-rates price of Standard A ECR mail and Witness Moeller's after-rates price is due to a slightly different weighting of the incidence of the parcel surcharge.**

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

- a. Please also 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 result.**
- b. Please also provide for the "R2000-1 Price" as reported by you in Table 10, the "overall % mark-up" (see your Table 2 for examples), together with the necessary source data to reproduce this result.**

RESPONSE:

a. The PRC attributable costs can be found in the spreadsheet file R00DATA.WK4. The source of this data is LR-I-131.

b. I cannot calculate the exact overall % mark-up that results at the R2000-1 Prices presented in Table 10 because I do not have an estimate of the attributable costs that would exist at the volumes corresponding to those prices. However, making the simplifying assumption that attributable costs per piece is constant as volume changes (which is less true than for marginal cost), I can provide an estimated overall % mark-up, as shown in the table accompanying this response.

The data used in constructing the table are found in R00DATA.WK4.

TABLE ACCOMPANYING RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN TO NAA/USPS-T41-9

Mail Product	Price	Attributable Cost/Piece	Volume	Revenue	Attributable Cost	Percent Mark-Up
First-Class LFIPPs	0.3442	0.2030	100,665.820	\$34,651.986	\$20,433.148	69.6%
First-Class Cards	0.2111	0.1422	4,974,066	\$1,050.265	\$707.068	48.5%
Priority Mail	4.4382	2.7140	1,186.918	\$5,267.764	\$3,221.246	63.5%
Express Mail	11.2503	9.9497	106.789	\$1,201.408	\$1,062.520	13.1%
Periodicals In-County	0.0979	0.0974	855.493	\$83.759	\$83.358	0.5%
Periodicals Nonprofit	0.1881	0.1872	2,021.446	\$380.274	\$378.455	0.5%
Periodicals Classroom	0.2692	0.2679	52.857	\$14.227	\$14.159	0.5%
Periodicals Regular	0.2927	0.2899	7,200.226	\$2,107.292	\$2,087.230	1.0%
Standard A Regular	0.2407	0.1806	38,737.214	\$9,323.730	\$6,996.871	33.3%
Standard A ECR	0.1594	0.0801	31,907.618	\$5,087.267	\$2,556.438	99.0%
Standard A Nonprofit	0.1450	0.1243	11,216.215	\$1,626.259	\$1,394.400	16.6%
Standard A Nonprofit ECR	0.1163	0.0778	2,715.772	\$315.901	\$211.306	49.5%
Standard B Parcel Post	3.1547	2.9294	379.007	\$1,195.637	\$1,110.267	7.7%
Standard B Bound Printed	1.2271	0.9142	482.080	\$591.546	\$440.739	34.2%
Standard B Special Rate	1.5895	1.5083	207.869	\$330.406	\$313.531	5.4%
Standard B Library	1.7593	1.7132	28.541	\$50.213	\$48.897	2.7%
Registered	9.1146	7.4411	11.071	\$100.905	\$82.378	22.5%
Insured	2.4969	1.7465	43.338	\$108.210	\$75.690	43.0%
Certified	2.0606	1.8396	266.612	\$549.372	\$490.448	12.0%
COD	4.7301	4.7120	3.634	\$17.191	\$17.125	0.4%
Return Receipts	1.8502	1.3047	212.127	\$392.471	\$276.759	41.8%
Money Orders	1.0436	0.7193	210.609	\$219.785	\$151.495	45.1%
Total				\$64,665.868	\$42,153.528	53.4%

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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 member 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.**
- 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?"**

RESPONSE:

- a. In general, the consumers considered in my testimony are mailers. Therefore, the beneficiaries of the decrease in Standard A ECR mail rates are the users of this mail service, principally advertisers. However, the demand curve for Standard A ECR mail reflects the benefits that this product provides to others involved in its use, namely the businesses that use advertising mail and the households or businesses that benefit from the receipt of advertising mail.**

b and c. Yes.

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- d. **No, because Standard A ECR mail is not priced at marginal cost. Therefore, movements toward marginal cost increase economic efficiency, balanced against the impact on Postal Service net revenues as measured by the Ramsey leakage factor k.**

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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 ECSI (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.**

RESPONSE:

a and b. Confirmed. My focus on the ECSI considerations of Periodicals Mail was based on my view that both the Postal Service and the Postal Rate Commission give considerable weight to this issue in their pricing of Periodicals Mail.

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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.**

a and b. Confirmed. If two products have the exact same marginal cost (i.e., volume variable cost per piece) and the exact same demand elasticity, then they will have the same Ramsey price, regardless of any differences in specific fixed costs between the two products. However, the Ramsey price of the product with specific fixed costs might be adjusted upward if the revenues generated at the Ramsey price are less than the incremental costs (which include specific fixed costs) of the product.

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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.

RESPONSE:

I believe the Postal Service's estimates of volume variable costs are a measure of the actual marginal costs of the Postal Service. As I discussed in my testimony, citing the R87-1 testimony of Professor William Baumol, it is the actual marginal costs of the Postal Service which are the relevant measure to be used in postal rate-making.

Furthermore, I have some difficulty interpreting the notion of the "efficient provider of postal services." Is this so-called "efficient provider" subject to the same rules and regulations as the Postal Service, bound by the same contracts, and obligated to provide the same level of service? If so, I see no reason why their costs would be different from the actual Postal Service. If not, I see no relevance of considering the costs of a hypothetical firm that operates under different conditions from the firm whose prices are being set in this regulatory proceeding.

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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 costs 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.

RESPONSE:

a and b. Confirmed.

c. and d. Not confirmed. At a price of \$0.1594 and an attributable cost per piece of \$0.08012, Standard A ECR mail has a mark-up of 99.0 percent, as presented in my Table 10. You may be thinking of the mark-up of the Ramsey price of \$0.0864 over an attributable cost of \$0.080120. This mark-up is 7.838 percent.

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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.**
- 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.**

RESPONSE:

a through f. My testimony is based on the demand equations estimated by Mr. Thress (USPS-T-7) and Dr. Musgrave (USPS-T-8). Mr. Thress does not include a cross-price elasticity between Standard A ECR mail and Standard A Regular mail or First-Class letter mail. Therefore, I did not consider the shifts of mail posited in your question since such shifts are inconsistent with the demand equations used in my testimony.

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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.**

a and b. I did not take any explicit account of the Private Express Statutes in the calculation of my Ramsey prices. My Ramsey prices are based on the estimated elasticities of demand which may to some degree be influenced by the Private Express Statutes. However, the relevant demand elasticities for pricing are those expected to prevail in the Test Year, during which time the Private Express Statutes will continue to be in force.

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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.**

RESPONSE:

a and b. For my testimony, I did not investigate the statistical significance of the change in any estimated elasticities between R97-1 and R2000-1. The statistical significance of the change is not relevant to the Ramsey prices or volumes which, like all other prices and volumes considered in this case, are based on the point estimates of the R2000-1 elasticities.

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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.

RESPONSE:

- a. Confirmed. "m" refers to marginal cost throughout LR-I-156.
- b. The R2000-1 price presented in Table 10 is identical to the R97-1 Index price discussed later in my testimony.

**RESPONSES OF POSTAL SERVICE WITNESS BERNSTEIN
TO INTERROGATORIES OF NAA**

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.

RESPONSE:

The table accompanying my response to NAA/USPS-T41-9 shows my calculation of the R2000-1 overall mark-up over attributable costs is 53.4 percent. The slight difference between this figure and the 54.2 percent figure cited in your question is due to (1) my use of before-rates attributable costs per piece and (2) the 54.2 percent figure is based on calculations including some mail products not considered in my testimony.

**RESPONSES OF POSTAL SERVICE WITNESS BERNSTEIN
TO INTERROGATORIES OF NAA**

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.

RESPONSE:

I have no detailed information on the cost structure of Postal Service competitors. It is my view that these firms operate in competitive markets where marginal cost pricing is likely.

**RESPONSES OF POSTAL SERVICE WITNESS BERNSTEIN
TO INTERROGATORIES OF NAA**

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.

RESPONSE:

The marginal cost change is equal to the percentage difference between the marginal costs used in my R2000-1 testimony reported in Table 7 at page 55 and the marginal costs used in my R97-1 testimony reported in Table 7 at page 40 (Docket No. R97-1, USPS-T-31).

DECLARATION

I, Peter Bernstein, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.

A handwritten signature in cursive script, appearing to read "Peter Bernstein", written over a horizontal line.

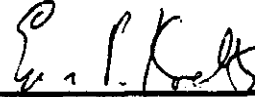
(Signed)

3/24/06

(Date)

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.



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992 Fax -5402
March 30, 2000