

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 MAYES
TO QUESTION POSED BY MAIL ORDER ASSOCIATION OF AMERICA
DURING HEARINGS

The United States Postal Service hereby provides the response of witness Mayes to a Question posed by the Mail Order Association of America during the cross-examination on April 25, 2000.

The question 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



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May 2, 2000

**WRITTEN RESPONSE OF POSTAL SERVICE WITNESS MAYES
TO ORAL CROSS-EXAMINATION OF MOAA**

Q. Well, within the constraint that the Ramsey prices are built to someone's decision that we need to raise X-dollars, however, within that constraint, Ramsey prices would, in fact, also serve to maximize total Postal Service volume? (Tr. 11/4487)

RESPONSE:

No. Ramsey pricing maximizes consumer surplus, subject to the breakeven constraint. Witness Bernstein is the Postal Service's Ramsey pricing witness, and is therefore the logical source of information on the attributes of Ramsey prices. In both Docket No. R97-1 (Tr. 10/5109-11) and in this docket (Tr. 6/2277), Mr. Bernstein has clarified that Ramsey prices do not maximize volume. In Mr. Bernstein's direct testimony in this case, however, he does discuss the fact that his Ramsey prices would be expected to generate substantially more test year volume than would the benchmark prices he uses for comparison purposes, which he refers to as the R97-1 Index prices. (A similar comparison to the test year volumes forecast at the Postal Service's proposed rates would likewise indicate substantially higher volumes at Ramsey prices.)

The relevant portion of Mr. Bernstein's testimony states:

The net income of the Postal Service is unaffected by the move to Ramsey prices. That is because the Ramsey prices and, indeed, any price schedule established for the Postal Service, must satisfy the break even requirement. Net revenues of the mail products considered in this testimony are \$26,078 million for both the Ramsey and the R97-1 Index rates.

Although net revenues are the same under Ramsey pricing, total revenues (and total costs) are greater. The Ramsey total revenue is \$67,029 million while total revenues under the R97-1 Index prices are \$64,666 million. However, the gain in Postal Service revenue is simply a further reflection of the benefits of Ramsey pricing to mailers. Revenue is greater because total volume is greater, 223,651 million pieces as opposed to 202,749 million pieces at the R97-1 Index Rates, an increase of more than ten percent. Volume is greater because rates are set in a

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way that reduces the adverse impact of price increases on usage of the mail.

The increase in total volume means that the non-volume variable costs of the Postal Service are spread out over more pieces of mail.

Consequently, the system-wide mark-up under Ramsey pricing is lower than under R97-1 index pricing, 63.7 percent as compared to 67.6 percent. Average revenue per piece (an aggregate measure of postal prices paid by mailers) under Ramsey pricing is 30.0 cents, or six percent less than the 31.9 cent average revenue at the R97-1 Index rates.

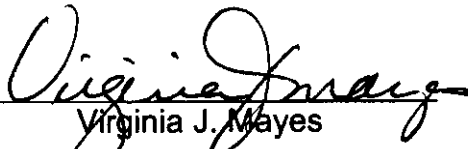
Average volume variable cost per piece is also lower under Ramsey pricing, 18.3 cents as compared to 19.5 cents under R97-1 Index pricing.

Thus, the increase in total revenues under Ramsey pricing comes not from higher average rates or higher average costs (which would be harmful to mailers), but from higher postal volumes (which is a reflection of the benefits to mailers).

USPS-T-41 at 96.

DECLARATION

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


Virginia J. Mayes

Dated: May 2, 2000

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", is written over a horizontal line.

Michael T. Tidwell

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