

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

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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS
TO UNITED PARCEL SERVICE WITNESS SAPPINGTON
(USPS/UPS-T6-18-38)

Pursuant to rules 25 and 26 of the Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to United Parcel Service witness Sappington:
USPS/UPS-T6-18-38.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Michael T. Tidwell

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.


Michael T. Tidwell

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June 16, 2000

USPS/UPS-T6-18.

Please refer to your testimony at page 11, lines 11-12, where you state that "such harm to competition and to captive customers should be avoided, and it can be avoided if rates are not systematically lowered as own-price elasticities rise." [footnote deleted]

Is it your testimony that rates have been "systematically lowered as own-price elasticities rise?" If so, please provide supporting evidence. If not, please confirm that this statement is simply a warning and is not meant to reflect on proposals put forth in this docket. If you do not confirm, please explain.

USPS/UPS-T6-19.

Please refer to your testimony at page 11, lines 17-18, where you state:

"When high own-price elasticities are presumed to indicate low-value services and when lower rates are established for such services, the lowest rates will be set for those services that exhibit the highest own-price elasticities."

- a. Is it your opinion that the rates proposed in this docket represent Ramsey prices? If so, please provide the basis for this opinion. If not, please confirm that this statement in your testimony is meant only as a warning and is not meant to reflect on proposals put forth in this docket.
- b. Is it your understanding that the rates proposed in this docket relied solely on a mapping of low rates to high-elasticity products? If so, please provide the basis for this belief. If not, please confirm that this statement reflects only a hypothetical situation and represents a warning, and is not meant to reflect on proposals put forth in this docket.
- c. Is it your understanding that the rate levels proposed in this docket were dependent solely on value of service considerations as measured by own-price elasticities, and that no other pricing criterion influenced the proposed rate levels? If so, please provide supporting evidence for this belief. If not, please confirm that this statement does not apply to the rates proposed in this docket.

USPS/UPS-T6-20.

Please refer to your testimony at page 12, lines 3-4 where you state that "the mechanistic use of own-price elasticities as proxies for service value should be similarly rejected."

- a. What alternate measure of service value should be used?
- b. Please confirm that the "mechanistic use of own-price elasticities for service value" was not proposed in this docket.

USPS/UPS-T6-21.

Please refer to your testimony at pages 17-18 where you state that "the Commission has not yet adopted any such estimates [of incremental cost]" and "[o]nce the Commission is presented with incremental cost estimates..." Have you read the testimonies of Postal Service witnesses Bradley and Kay in this docket? If not, please state why you did not. If so, please confirm that they provide the Commission with incremental cost estimates.

USPS/UPS-T6-22.

Please refer to your testimony at page 19, lines 2-3 and explain how your recommendation of a higher cost coverage is consistent with "the Commission's long-standing emphasis on protecting users of monopoly mail services." [footnote omitted]

USPS/UPS-T6-23.

Please refer to your testimony at pages 18-19, section IV.B. Please provide the percentage rate increases for Priority Mail for the rate cases "prior to R97-1" to which you refer.

USPS/UPS-T6-24.

Please refer to your testimony at page 18 where you state that the rate increase you have proposed "represents a cost coverage of 176% and a markup...of 76%, which is the same markup that the Postal Service proposes for First Class Mail in this case." Please provide the basis for

your representation that the Postal Service is proposing a markup of 76% for First-Class Mail in this case.

USPS/UPS-T6-25.

Please refer to your testimony at page 34, lines 3-11, where you describe the application of § 3622(b)(4) to First-Class Mail. Please provide the quantitative impact of the application of criterion 4 on the markup for First-Class Mail.

USPS/UPS-T6-26.

Please refer to your testimony at page 37, lines 5-8, where you state: "That migration [of Priority to First-Class Mail] has reduced Priority mail volume. The reduced volume implies that a larger rate increase is required to generate enough extra revenue to offset any given increase in attributable costs, ceteris paribus." Please confirm that this is only true for non-volume variable costs. If you do not confirm, please explain.

USPS/UPS-T6-27.

Please confirm that you are recommending that the rate increase for Priority Mail exceed the increase in costs since Docket No. R97-1.

USPS/UPS-T6-28.

Please refer to your testimony at page 38, lines 11-14, where you state: "if convincing evidence to the contrary arises which demonstrates that the recommended 40.3% rate increase would unduly affect Priority Mail users, then some further mitigation of the rate increase might be appropriate."

- a. Please provide your estimated TYAR volume for Priority Mail, given your recommended rate increase.
- b. Please define "unduly affect" as used in this section of your testimony.
- c. Please confirm that the long-run own-price elasticity for Priority Mail as presented by Dr. Musgrave in this docket is -0.819 . If you do not confirm, please provide the correct figure.

- d. What percent decline in Priority Mail volume would you consider to represent a result indicating the rate increase “unduly affected” Priority Mail?
- e. What would represent to you “convincing evidence” that the rate increase you propose would “unduly affect” Priority Mail?
- f. What should be the goals of such “further mitigation”?

USPS/UPS-T6-29.

Please confirm that the rate levels you have proposed for Parcel Post and Priority Mail have been proposed outside of the context of a set of rate levels designed to achieve financial breakeven in the test year. If you cannot confirm, please provide a complete set of cost coverage proposals designed to achieve financial breakeven.

USPS/UPS-T6-30.

Please refer to your testimony at page 42, line 6, where you refer to “the extremely low cost coverage that Parcel Post has had in recent years.” To which years are you referring? Please provide the cost coverages for each of those years to which you refer, and indicate whether such measurement of the cost coverage was before or after the revision of the RPW data for additional Parcel Post volume and revenue.

USPS/UPS-T6-31.

Please refer to your testimony at page 43, lines 6-7, where you state: “in practice, revenue and cost forecasts can diverge substantially from actual levels of revenue and cost.” Please confirm that such divergences may be in either direction. If you cannot confirm, please explain fully.

USPS/UPS-T6-32.

Please refer to your testimony at page 43, lines 9-10, where you state: “revenue below attributable cost is inconsistent with § 3622(b)(3) of the Act.” Is it your interpretation of the Act that criterion 3 refers to each and every year, or to the estimates upon which the Postal Rate Commission recommends test year rates and fees?

USPS/UPS-T6-33.

Please refer to your testimony at page 43, lines 14-15, where you state: "with only two exceptions, Parcel Post revenues have fallen short of attributable costs in every year between FY1989 and FY1997." If the additional volume of Parcel Post indicated by the revised RPW data is incorporated for each of those years, for how many of those years to which you refer is Parcel Post revenue below attributable cost?

USPS/UPS-T6-34.

Should the Commission fail to adopt the cost revisions suggested by witness Luciani, is it still your position that the appropriate cost coverage for Parcel Post be 111%, lower than the cost coverage proposed by the Postal Service in this docket?

USPS/UPS-T6-35.

Please confirm that the Postal Service's proposed cost coverage of 114% for Parcel Post would also "reduce the likelihood of violating § 3622(b)(3) of the Act and of disadvantaging competitors and other mail users unfairly, without burdening Parcel Post mailers unduly (§ 3622(b)(4))." [UPS-T-6 at page 44]

USPS/UPS-T6-36.

Please confirm that the average delivery time of "less than four days" for Parcel Post is due in part, or in large part, to mailer participation in dropship workshare programs in which mailers provide some portion of transportation prior to entering the packages as Parcel Post. If you cannot confirm, please explain fully.

USPS/UPS-T6-37.

In your opinion, does criterion 4 encompass cumulative rate increases, *i.e.*, rate increases from previous and recent cases in addition to the proposed rate increase from the current docket? Please explain.

USPS/UPS-T6-38.

Please confirm that the long-run own-price elasticity for Parcel Post as presented by Dr. Tolley in this docket is -1.23 , the second highest own-price elasticity presented in this case. If you cannot confirm, please provide the correct figure.