

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

UNITED STATES POSTAL SERVICE FOLLOW-UP
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
UPS WITNESS SAPPINGTON
(USPS/UPS-T6-53 - 55)

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 UPS witness Sappington: USPS/UPS-T6-53 - 55.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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July 7, 2000

USPS/UPS-T6-53. Please refer to your response to USPS/UPS-T6-42, part b., in which, based on a hypothetical that you present in your response to part a. of the same question, you decline to confirm that customers who are no longer purchasing a service (after a price increase) value the service or products that they consume instead more than they value the service that they have chosen to forgo.

a. Please confirm that when funds are received, they are available to be spent (with rare exceptions such as food stamps) however a person chooses, and are not limited *a priori* to be spent on particular categories of expenditures such as transportation, housing, or postage. If you do not confirm, please explain fully.

b. Please confirm that when the mailer in your hypothetical is postulated to have only \$10 to spend on postal services, it is because she has chosen to allocate her remaining funds to other uses based on her assessment of what those other uses are worth to her. If you do not confirm, please explain fully.

c. Please confirm that given a choice of spending \$10 for one postal service that meets her needs (Service A), or spending \$5 for a different postal service (Service B) that apparently also meets her needs, but to a more limited extent, **plus \$5 for whatever else she wants to buy**, she would only choose to spend the \$10 for Service A if the value to her of the Service A were more than the value to her of Service B, **plus the value of whatever goods or services she can obtain with the remaining \$5**. If you do not confirm, please explain fully.

d. Please confirm that given a choice of spending \$12 for one postal service that she was purchasing previously (Service A), or spending \$6 for a different postal service (Service B) **plus \$6 for whatever else she wants to buy**, she would only choose not

to spend the \$12 for the original postal service if the value to her of the Service A were less than the value to her of Service B, plus the value of whatever goods or services she can obtain with the remaining \$6. If you do not confirm, please explain fully.

e. Given that the gross value of Services A and B remain constant regardless of the price, please confirm that the rationality of your hypothetical is contingent upon this particular mailer placing a disproportionate value on the alternative application of the sixth dollar of the \$6 difference between the new prices of Services A and B (relative to the value of the alternative application of the previous \$5 difference between the old prices of Services A and B). If you do not confirm, please explain fully.

f. Please confirm that any attempt to generalize your hypothetical, to explain why a subclass with a high own price elasticity is nevertheless one which customers value highly, would be dependent upon customers in general (or at least a substantial portion of them) placing the same disproportionate value on the alternative application of the new rate differential as does the particular individual mailer you have posited in your hypothetical. If you do not confirm, please explain fully.

USPS/UPS-T6-54. Please refer to the hypothetical presented in your response to USPS/UPS-T6-42, part a.

a. Please confirm that, in your hypothetical, the price of Services A and B both increase by 20 percent, the volume of Service A decreases, and the volume of Service B increases. If you do not confirm, please explain fully.

b. Please confirm that a necessary implication of your hypothetical is that, for this mailer, the cross-price elasticity of demand for Service B with respect to the price of

Service A must exceed the own-price elasticity of demand for Service B. If you do not confirm, please explain fully.

USPS/UPS-T6-x. Please refer to the hypothetical presented in your response to USPS/UPS-T6-42, part a.

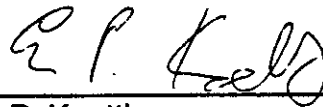
a. Please confirm that the context of the original question was to probe a portion of page 9 of your testimony in which you state that "a price increase may force customers with limited wealth to reduce their usage of a service substantially even though they cherish the service dearly."

b. Please confirm that, in your hypothetical, the mailer has the option of using a premium postal service for \$10, or a slower service for \$5. If you do not confirm, please explain fully.

c. Please confirm that, in reality, when less expensive options are available, persons with "limited wealth" are unlikely to use a premium postal service, and are therefore unlikely to be in a position to "cherish [such a] service dearly." If you do not confirm, please explain fully.

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.



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