

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, 1997)

Docket No. R97-1

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS DONALD J. O'HARA
(OCA/USPS-T30-5-7)
August 6, 1997

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories 1-7 to the United States Postal Service dated July 16, 1997, are hereby incorporated by reference.

Respectfully submitted,



GAIL WILLETTE

Director

Office of the Consumer Advocate



EMMETT RAND COSTICH

Assistant Director

Office of the Consumer Advocate

OCA/USPS-T30-5. Please refer to your direct testimony. At page 2 you set forth the criteria of 39 U.S.C. §3622(b). At page 20 you state that Ramsey pricing "does provide a useful framework for demonstrating the effects of different pricing decisions and provides a sense of direction toward prices that reduce the excess burden of raising the revenue needed to operate the Postal Service on a breakeven basis. At the same time, the Postal Service recognizes that the Act directs that postal ratemaking consider a variety of factors, not all of which are directed toward economic efficiency." As a professional economist, do you regard Ramsey pricing of postal services and products to be compatible or incompatible with the criteria of 39 U.S.C. §3622(b)? Please fully explain your answer as to each criterion.

OCA/USPS-T30-6. On page 21 you state: "I make no formal use of the Ramsey prices developed by witness Bernstein in USPS-T-31. In general, however, all else being equal, I view movement of rates in the direction of Ramsey prices to be beneficial. Therefore, whether a particular rate level would move rates closer to, or farther away from, Ramsey prices was one of the many factors I considered in evaluating potential rate levels." You conclude that "the consideration of movement toward or away from Ramsey prices did not have a major effect on my conclusion."

- a. Confirm that consideration of Ramsey pricing goals had some, and more than a *de minimis* effect on your conclusions. If not confirmed, please explain fully.
- b. Describe in detail as to each of the classifications set forth at pages 45-46 of your direct testimony the specific effect Ramsey pricing had on your conclusions

as to proposed percentage changes in rates. Replicate and describe fully each specific numerical calculation that was altered through consideration of Ramsey pricing analysis, and specify the percentage change that consideration of Ramsey pricing caused.

- c. Please supply all documents that you consulted in the preparation of your testimony (including data calculations supporting such testimony) relating to Ramsey pricing.

OCA/USPS-T30-7. At page 4 you discuss the “value of service” criterion. You state that the lower (in absolute value) the own-price elasticity, the higher the value of service.

- a. 39 U.S.C. §3622(b) (2) also refers to “the value of the mail service actually provided each class or type of mail service to both the sender and the *recipient*.” [Emphasis added.] Please explain whether or not you have considered value of service to the recipient in your analysis.
- b. Comment on the proposition that mail recipients in general place a higher value of service on their receipt of First-Class Mail than mail of other classes.
- c. Comment on the proposition that household recipients of mail place a higher value of service on their receipt of First-Class Mail than mail of other classes, e.g., households arguably place a relatively high value on receiving First-Class Mail from other households, and from companies with which they do business. Note in your consideration that the 1995 Household Diary Study states that in

terms of percentage of First-Class Mail volume, the largest current users are banks, credit card companies, and insurance companies. See Diary at I-12.

Note further that significant percentages of First-Class Mail received by households consist of Total Personal (7.1%), Bill/Invoice/Premium (15.9%) and Financial Statement (5.2%). See Diary at IV-26, Table 4-10.

- d. At page 10 you set forth the so-called ECSI statutory criterion (educational, cultural, scientific, and informational value to the recipient). You state that “[t]he Postal Service’s rate-level proposals conform to this practice.” However, you provide no additional explanation. Please discuss ECSI in terms of both households’ and non-households’ receipt of First-Class Mail versus other classes of mail. In your discussion of households, discuss specifically households’ receipt of personal, bill/invoice/premium, and financial statement mail versus receipt of mail containing only advertising.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


EMMETT RAND COSTICH
Attorney

Washington, D.C. 20268-0001
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