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

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BERNSTEIN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T31—1-10)

The United States Postal Service hereby provides responses of witness Bernstein to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T31—1-10, filed on August 4, 1997.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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OCA/USPS-T31-1. Please refer to your direct testimony. At page 70, Table 13 shows a net change in consumer surplus from Ramsey pricing of $1.023 billion.

a. Confirm that your analysis measures consumer surplus in dollars across all classes.

b. If confirmed, would it be appropriate to say that for purposes of your analysis, one dollar of positive consumer surplus to the mailer of a First-Class letter is equal to one dollar of positive consumer surplus to a mailer of Standard Enhanced Carrier Route ("ECR") mail?

c. If (b) is confirmed, does this mean that your analysis treats consumer surplus homogeneously, i.e., that consumer surplus (of, say, one dollar) has the same value to all classes of mailers?

RESPONSE:

a. Confirmed.

b. Yes.

c. Yes.

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OCA/USPS-T31-2. Table 13 shows substantial reductions in consumer surplus under Ramsey pricing for mailers of First-Class letters, Periodicals Nonprofit, Periodicals Regular, Standard Regular, and Standard Nonprofit Mail, and substantial gains in consumer surplus for mailers of Priority Mail and Standard ECR Mail.

a. To what extent were changes in the distribution of income and costs between households and businesses taken into account in your analysis?

   (i) For example, did you evaluate the effect on households that would occur if households had less income to spend?

   (ii) Did you examine the distributional changes to determine whether the outcomes were consistent with the criteria of 39 U.S.C. 3622(b)? (You may wish to refer to pages 1-10 of the direct testimony of Donald J. O'Hara, which discusses these criteria.)

b. To what extent were changes in the distribution of income and costs between non-profit institutions and businesses taken into account in your analysis?

   (i) For example, did you evaluate the effect on non-profit institutions that would occur if households had less income to spend?

   (ii) Did you examine the distributional changes to determine whether the outcomes were consistent with the criteria of 39 U.S.C. 3622(b)?

c To what extent were changes in the distribution of income and costs between publishers of periodicals and other businesses taken into account in your analysis?

   (i) For example, did you evaluate the effect on such publishers that would occur if households had less income to spend?

   (ii) Did you examine the distributional changes to determine whether the outcomes were consistent with the criteria of 39 U.S.C. 3622(b)?

d. Do you regard Ramsey pricing of postal services and products to be fully compatible with the criteria of 39 U.S.C. 3622(b)? Please explain fully your answer.

RESPONSE:

a (i). I do not believe that households would have less money to spend if Ramsey pricing were adopted. It may be the case that households would spend more on postage under Ramsey pricing, although some products commonly used by households, e.g., First-Class cards and Priority Mail, have lower postage rates under Ramsey pricing. Nonetheless, it could be expected that declines in the postage rates for mail sent predominantly by businesses would be reflected in a decline in the prices of products sold by those businesses For example, households as consumers pay the costs of mailing a catalog in the form of higher prices for the advertised products. To the extent that Ramsey pricing decreases the costs of sending catalogs by mail, it seems reasonable to expect that the prices of the products would decline. Furthermore, household income is a function of wages and investment earnings. If businesses experience declines in their costs due to Ramsey pricing, it seems reasonable to expect that the increase in business efficiency would lead to higher wages, increased employment, and/or greater investment earnings. Since ultimately, all revenues and costs are borne by households, I would say that Ramsey pricing *increases* the real income of households by approximately one billion dollars per year.

a (ii). Since my analysis is for total consumer surplus in the economy, changes in the distribution of income and costs were not considered. For a discussion of the consistency of Ramsey pricing with the criteria of 39 U.S.C. 3622(b), please see my response to sub-part (d) of this interrogatory.

b (i). I did not consider the effects of higher nonprofit rates on nonprofit institutions other than my estimate of the resulting change in consumer surplus. To the extent that some individuals or groups are harmed by Ramsey pricing, the rest of the economy is helped and the net gain to society is on the order of one billion dollars.

b(ii). Since my analysis is for total consumer surplus in the economy, changes in the distribution of income and costs were not considered. For a discussion of the consistency of Ramsey pricing with the criteria of 39 U.S.C. 3622(b), please see my response to sub-part (d) of this interrogatory.

c (i). I did not consider the effects of higher Periodicals rates on publishers other than my estimate of the resulting decline in consumer surplus. To the extent that some individuals or groups are harmed by Ramsey pricing, the rest of the economy is helped and the net gain to society is on the order of one billion dollars. Put differently, the non-Ramsey price schedule analyzed in my testimony would have the effect of transferring about $1.5 billion to users of Periodicals Mail at a cost to society of about $2.5 billion, a result that cannot be justified in economic terms, though non-economic considerations could warrant a departure from Ramsey pricing.

c (ii). Since my analysis is for total consumer surplus in the economy, changes in the distribution of income and costs were not considered. For a discussion of the consistency of Ramsey pricing with the criteria of 39 U.S.C. 3622(b), please see my response to sub-part (d) of this interrogatory.

d. It is not the purpose of my testimony to consider whether Ramsey pricing is consistent with all the criteria of 39 U.S.C. 3622(b). Ramsey pricing may not be fully compatible with some of the criteria of 39 U.S.C. 3622(b). Ramsey pricing focuses on achieving economic efficiency (contingent on satisfying a break-even constraint) while it is my understanding that a number of the rate-making criteria discuss non-efficiency considerations. I do believe, however, that economic efficiency should be one of the factors carefully considered by the Commission in setting rate levels.

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OCA/USPS-T31-3. Do you regard dollars spent on mailing to be equal to the value that households place on, or receive from (i.e., consumer utility) such mail? In answering this question, please refer to the following example. Assume that mailer A mails a bank statement via First-Class Mail to householder A, mailer B sends an advertising flyer via Standard ECR to the same householder, and mailer C sends a periodical using an appropriate Periodicals rate. Also assume for purposes of discussion that all three mailers expended the same amount in postage (including costs they expended on workshare). In responding to this question, please refer to the 1995 Household Diary Study, which contains references to the reactions of households to various classes of mail (e.g., Reactions to Advertising Mail By Class at III-10, Attitudes Towards and Treatment of Advertising Mail at III-24, Reaction to Third-Class Bulk Regular Mail at VI-55, etc.).

RESPONSE:

Dollars spent on mailing are not equal to the value that households place on or receive from such mail. It is important to distinguish between the value of the service provided by the Postal Service and the value to either the sender or the recipient of the item being mailed.

Before I address your hypothetical example, let us consider the case of a householder who orders $100 worth of merchandise from a store. The householder can go to the store and pick-up the merchandise or the store can mail the merchandise to the householder using, say, Priority Mail, and include the postage cost of, say, $4, as part of the total charge. Clearly, the value to the householder of the mailing (i.e., the merchandise) exceeds the $4 postage cost; it is likely to exceed $100. The value measured by the demand curve for Priority Mail is the value to the householder of having the merchandise mailed. If this value exceeds $4, the householder will request that the store mail the merchandise. The consumer surplus for this householder is the difference between the amount he or she would have been willing to pay to have the merchandise mailed and the amount that was actually paid. If the householder were willing to pay $5 and only had to pay $4, the resulting consumer surplus is $1.

The same kind of reasoning can be applied to your hypothetical examples. Suppose that the bank mailing, the advertising flyer, and the periodical mailing each cost the mailer 25 cents. Since these items were mailed, it must be the case the value of the service provided by the Postal Service must be at least 25 cents. That is the value measured by the demand curves for each of these mail products and it is from these demand curves for various postal services that my calculations of Ramsey prices and gains to consumers are based.

Consider first the bank statement. The householder may place a value of, say, five dollars on the bank statement, but the value of the bank statement, like the value of the merchandise discussed above, is not the issue. The issue is whether it is worth 25 cents for the householder to receive a statement in the mail as opposed to some other option such as having the householder pick-up the statement at the bank, mailing statements on a bi-monthly or quarterly basis, or faxing the statement to the householder's home computer.

In the case of the advertising flyer, the value of the flyer to the sender is at least as much as the total cost of the flyer, of which postage is only a portion. The value to the recipient is uncertain. My review of the materials from the Household Diary Study cited in this interrogatory indicate that most householders usually read or scan advertising mail (Table 3-10). Table 3-4 shows that about one-third of time, recipients will or may respond to advertising mail. This suggests that a substantial amount of advertising mail has value to the recipient. That value can easily exceed the postage expenditures, as in the case where a household uses a coupon for $2 from a local pizzeria or takes advantage of a special advertised sale.

Finally, in the case of the periodical mailing, suppose a householder has a magazine subscription for twelve issues a year. Suppose further that the cost of this subscription is $12, of which $3 reflects a 25 cent postage charge for each issue. Again, the value to the householder of the magazine must be at least $12 and greatly exceeds the postage cost.

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OCA/USPS-T31-4. Does your analysis of consumer surplus take into account externalities? For example, suppose that consumers do not read or do not find useful "x" percent of some types of mail, which then has to discarded. Discarding mail, it may be argued, imposes costs on the recipients of such mail, either directly (some jurisdictions charge for refuse collection on a per-piece basis) or indirectly (e.g., the municipality must spend tax dollars disposing of refuse). Please comment.

RESPONSE:

My analysis does not take into consideration externalities as they are considered to be at most of second order importance. With respect to your example above, I surmise that the marginal cost of disposing of a piece of mail is extremely small. Furthermore, the costs of disposal are largley unrelated to the percent of the mail that the reader finds "useful." Whether I read a magazine or catalog cover-to-cover or merely skim through it, the item will, in most cases, ultimately be discarded. Taking the issue one step further, there is nothing unique to the paper waste resulting from mailed materials as opposed to other types of paper waste.

Although I do not believe it to be the case, if it were true that paper waste imposed a significant external cost, the issue might better be handled by imposing a tax on paper, thereby encouraging all users to reduce waste.

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OCA/USPS-T31-5. Please refer to page 49. You state: "In this testimony, the Ramsey prices are compared to an illustrative break-even schedule based on the Postal Rate Commission's (PRC) recommended mark-ups in R94-1, applied to 1998 Test Year costs and adjusted to satisfy the Ramsey net revenue requirement of $25,850 million. Various tables in your testimony then use the R94-1 methodology. To fully understand the impact of adopting Ramsey pricing, however, it would seem to be necessary to have other rate schedule comparisons for evaluation.

a. Please supply alternate tables that compare your Ramsey pricing methodology rate schedule to the rates actually proposed by the Postal Service in this proceeding.

b. Please also supply separate tables for Docket No R90-1 (the last truly comprehensive and conventional rate increase proceeding) and Docket No. R87-1 (the case which fully developed the relative markups used as benchmarks in later rate cases). Each table should show the rates under the original Postal Service proposal, the rates under a Ramsey pricing analysis, and the rates recommended by the Commission.

RESPONSE:

a. As a point of clarification, I did not use the R94-1 *methodogy* to establish the non-Ramsey rates I used the R94-1 markups, which were a result of the methodology used by the Commission to recommend rates in that case.

The enclosed Summary Table 1A compares the non-Ramsey prices presented in my testimony, the Postal Service's proposed prices for this case, and the Ramsey prices presented in my testimony. Prices are expressed as average revenues per piece. Note that the Postal Service proposal eliminated Standard A single-piece mail. For 14 of the remaining 21 mail products, the Postal Service's proposed rates differ from the non-Ramsey rates in the same direction as the Ramsey rates. That is, for these 14 mail products, the Postal Service and the Ramsey rate are either both higher or both lower than the non-Ramsey rate. Of the seven products for which the Postal

Service price is not in the same direction as the Ramsey price (relative to the non-Ramsey price), four are the subclasses of Periodicals Mail. Therefore, except for Periodicals Mail, I would say the Postal Service's proposed rates reflect the Ramsey pricing principles to an important degree, although they are clearly not Ramsey prices.

b. I had no occasion to prepare the tables that you requested in this sub-part. If you wish, comparisons of Ramsey pricing with the proposed and recommended mark-ups from R87-1 and R90-1 can be made following the methodology detailed in my testimony and library references. Parenthetically, I would note that if the R87-1 case "fully developed the relative markups used as benchmarks in later rate cases" (including by extension R94-1) then the comparison of Ramsey prices to prices based on the mark-ups in R87-1 and R90-1 should yield results quite similar to those presented in my testimony.

SUMMARY TABLE 1A
Price Comparison
Accompanying the Response to OCA/USPS-T31-5

Mail Product	After-Rates Price (based on R94-1)	After-Rates Price (USPS Proposed)	After-Rates Price (Ramsey Pricing)
First-Class Letters	$0.3488	$0.3518	$0.3551
First-Class Cards	$0.1612	$0.1972	$0.1420
Priority Mail	$4.4053	$3.7770	$2.4124
Express Mail	$14.0132	$13.4120	$11.2947
Periodicals In-County	$0.1001	$0.0928	$0.1416
Periodicals Nonprofit	$0.1704	$0.1585	$0.2409
Periodical Classroom	$0.2991	$0.2168	$0.4229
Periodicals Regular	$0.2694	$0.2363	$0.4724
Standard Single Piece	$1.4731	N.A.	$1.6402
Standard Regular	$0.1903	$0.2132	$0.2575
Standard ECR	$0.1630	$0.1500	$0.0802
Standard Nonprofit	$0.1248	$0.1281	$0.1498
Standard NP ECR	$0.0866	$0.0783	$0.0554
Parcel Post	$3.6199	$3.3364	$4.1123
Bound Printed Matter	$0.8816	$0.9128	$0.8435
Special Rate	$1.3657	$1.7572	$1.7775
Library Rate	$1.7643	$1.8249	$2.0383
Registry	$8.2301	$8.5808	$8.3269
Insurance	$2.0851	$2.4331	$2.9067
Certified	$2.1812	$1.4993	$1.7266
COD	$4.5288	$4.6381	$9.3372
Money Orders	$0.7171	$1.0136	$0.8368

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OCA/USPS-T31-6. Please refer to page 8 of your direct testimony. You state: "Economic theory argues that product price should be equal to product marginal cost, defined as the additional cost associated with a one unit increase in production. If the Postal Service were to set product price equal to marginal cost (which is essentially equal to per piece volume variable cost), product revenues would be less than total costs, equal to total volume variable costs." Please refer to the following quotation from an economics textbook [Robin W. Boadway, Public Sector Economics (1979), pp. 36-37]:

> The analysis of the efficiency of competitive markets requires that firms' technologies exhibit constant or decreasing returns to scale. If increasing returns to scale exists in an industry up to relatively high levels of output, the competitive analysis of market behavior breaks down for two reasons. First, the market structure of such an industry would not be such as to induce competitive behavior. Because of the increasing returns or economies of scale, large firms would force small firms out of business by producing at a lower cost, and ultimately the industry would end up as a monopoly if the scale economies continued to large enough outputs. Since monopoly pricing does not set prices equal to marginal costs, the overall Pareto-optimal conditions are violated and efficiency of resource allocation is not attained.
>
> A second problem arises when increasing returns to scale prevail. Even if competitive market structure did exist or if firms could be coerced into behaving as firms in a competitive industry do, the private sector could not profitably sustain marginal cost pricing. With increasing returns to scale, the average cost curves of a firm will everywhere slope downward, [footnote omitted] yielding marginal costs that are less than average costs. *Pricing at marginal cost would be equivalent to pricing below average cost and therefore firms would be unable to cover costs.* Because of this, the private sector could not behave according to Pareto-optimizing rules.

Is the material cited from your testimony on page 8 consistent with (i.e., perhaps a short-hand version of) the Boadway excerpt. If not, please explain.

RESPONSE:

The Boadway excerpt is consistent with my testimony.

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OCA/USPS-T31-7. Please refer to page 38. You state: "It is assumed that in the range of volumes being considered, volume variable cost per piece, and therefore marginal cost, is constant *for every mail product*." [Emphasis added]. Upon what empirical evidence do you base this assumption.

RESPONSE:

As a point of clarification, each postal product has a unique marginal cost. I assumed that marginal cost of a product is unaffected by the volume of that product. I do not assume that all products have the same marginal cost, which may have been your interpretation as indicated by the added emphasis.

I have not directly examined empirical evidence to support the view that marginal cost is unaffected by volume. However, the assumption that for a given postal product, marginal cost is unaffected by volume is consistent with the rate making methodology employed by the Postal Service and the Postal Rate Commission. That is, the after-rates volume variable cost per piece (i.e., marginal cost) is assumed to be essentially equal to the before-rates volume variable cost per piece, even though the after-rates and before-rates volumes are different.

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OCA/USPS-T31-8. You state on page 33 that "Ramsey prices depend on own- and cross-price elasticities of demand." At Table 6, you use cross-price elasticities for postal products and services only.

a. Are cross-price elasticities of non-postal products and services relevant? If not, why not?

b. In Table 6 you show cross-price elasticities between various classes of mail, but for Priority Mail you do not indicate the Express Mail cross-price elasticity, whereas you give the reciprocal figures. Please explain.

RESPONSE:

a. Please see my response to the Presiding Officer's Information Request No. 1, part 4, for a discussion of the issue of cross-price elasticities of non-postal products and services.

b. The elasticities for Priority and Express Mail are obtained from the testimony of Dr. Musgrave (USPS-T-8). Dr. Musgrave included the price of Priority Mail in the demand equation for Express Mail but did not include the price of Express Mail in the demand equation for Priority Mail.

OCA/USPS-T31-9. On page 38 you state: "The incremental cost of a product is the cost that the Postal Service would save if the product were eliminated entirely. In addition to covering the product's volume variable costs, postal prices (Ramsey or otherwise) should generate sufficient revenues to cover the product's incremental cost. If not, the Postal Service and mailers would be better off if the product were discontinued." On page 39 you state: "As it turns out, Express Mail and Registry mail have Ramsey prices that generate revenues below incremental costs. Consequently, the prices of these two products are constrained above their Ramsey prices so that revenues cover incremental costs."

a. If the Commission were to adopt Ramsey pricing, would it be your position that the Postal Service should propose eliminating these classes? Please explain.

b. What is the "third-best" pricing rule when both a break-even constraint and an incremental cost coverage constraint are binding. Please show the derivation of this rule.

RESPONSE:

a. Of course not. If Express Mail and Registry mail were eliminated, mailers would be deprived of all the consumer surplus provided by these products. An economically more efficient approach would be to the set the prices of Express Mail and Registry Mail at a level necessary to cover their incremental costs as was done in my testimony.

b. I do not have a formal derivation of this rule. It seems obvious to me that if the Ramsey price is less than the price necessary to cover incremental costs, then the "third-best" price would be the price necessary to cover incremental costs, since any price above the incremental cost coverage price would be even further away from the Ramsey price. Please also see my response to NAA/USPS-T31-6.

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OCA/USPS-T31-10. Please refer to pages 68-69. You state: "However, because the cross-price elasticities between postal products are generally quite small or non-existent, the resulting shift in the demand curves are also quite small. Consequently, the actual gains to consumers will not be substantially different from the estimated gains presented in this section." On page 37, Table 6, the cross-price elasticities between Express Mail and Priority Mail, and between Standard B parcel post and Priority Mail are .46 and .45, respectively. Please explain why this does not affect the reliability of your estimates of the change in consumer surplus.

RESPONSE:

Cross-price elasticities between postal products are included in the Ramsey price calculations. While the presence of cross-price elasticities affects the estimate of consumer surplus of individual products with cross-elasticities, it is another question whether the total change in consumer surplus across all postal products is meaningfully affected. Cross-price elasticities measure shifts by mailers from one postal product to another leading to offsetting effects. The loss of consumer surplus by shifting out of one product is offset by the gain from shifting into the other product.

Without cross-price elasticities, the change in consumer surplus is equal to the integral of the demand curve between the non-Ramsey and the Ramsey price. This integral was approximated by equation 9C from my testimony:

$$\text{Change in Consumer Surplus} = \tfrac{1}{2}(V_R + V_0)\cdot(P_0 - P_R)$$

When cross-price elasticities exist, a change in the price of product j causes the demand curve for product i to shift. The calculation of the integral of the demand curve for product i is therefore complicated by the fact that there is no longer a single demand curve for product i. Instead, there are two relevant demand curves for product i, one that exists at the non-Ramsey price of product j and the other that exists at the Ramsey price of product j.

One way to gauge the importance of this demand shift is to re-calculate the volume of each subclass of mail assuming the price of each product's substitute had not changed from its non-Ramsey price. With the price of the substitute products held constant at the non-Ramsey price, the change in consumer surplus for a product from a move to Ramsey pricing can be estimated along a single demand curve, following equation (9C).

A second way to re-estimate the change in consumer surplus for these products, with the price of each product's substitute equal to its Ramsey price. Again, with a constant price of substitutes, the change in consumer surplus from the non-Ramsey to the Ramsey price can be estimated along a single demand curve.

Tables A, B, and C below provide the relevant comparisons. Table A presents the prices and volumes used in my testimony to estimate consumer surplus from Express Mail, parcel post, and Priority Mail.. Table B re-calculates the Ramsey volumes of these three products assuming that substitute product prices remained at their non-Ramsey level. For example, a shift in the demand curves for Express Mail and parcel post occurs because the non-Ramsey price of Priority Mail is $4.4053 while the non-Ramsey price is $2.4124. Applying the Test Year effective cross-price elasticity (which differs from the long-run cross-price elasticities discussed in your interrogatory) of Express Mail to the ratio of the non-Ramsey to the Ramsey prices yields the cross-price projection factor. Mathematically, this is equal to $[4.4053/2.4124]^{0.326854}$, or 1.2175. Multiplying the Ramsey volume of Express Mail (65.222 million pieces) by 1.2175 gives the volume of Express Mail (79.410 million pieces) that would occur at the Ramsey price of this product, holding the price of Priority Mail at its non-Ramsey price. Similar calculations give an adjusted Ramsey volume for parcel post (holding the price of

Priority mail at its non-Ramsey price) and an adjusted Ramsey volume for Priority Mail (holding the price of parcel post at its non-Ramsey price). Each product's change in consumer surplus can then be estimated along a single demand curve, unaffected by the change in substitute prices.

Table C re-calculates the non-Ramsey volumes of each product, assuming that the price of substitute products were equal to their Ramsey price. Again, the product's change in consumer surplus is estimated along a single demand curve.

Table A
Calculation of Change in Consumer Surplus
Volumes as Presented in USPS-T-31

Product	Non-Ramsey Volume	Non-Ramsey Price	Ramsey Volume	Ramsey Price	Change in Consumer Surplus ($ millions)
Express Mail	62.093	$14.0132	65.222	$11.2947	+$173.1
Parcel Post	231.151	$3.6199	171.990	$4.1123	-$99.3
Priority Mail	997.928	$4.4053	1,444.393	$2.4124	+2,433.7
Total					**+2,507.5**

Table B
Calculation of Change in Consumer Surplus
Ramsey Volumes Adjusted
to Eliminate Effect of Change in Price of Substitute Product

Product	Non-Ramsey Volume	Non-Ramsey Price	Ramsey Volume (adjusted)	Ramsey Price	Change in Consumer Surplus ($ millions)
Express Mail	62.093	$14.0132	79.410	$11.2947	+$192.3
Parcel Post	231.151	$3.6199	207.539	$4.1123	-$108.0
Priority Mail	997.928	$4.4053	1,428.800	$2.4124	+2,418.1
Total					**+2,502.4**

Table C
Calculation of Change in Consumer Surplus
Non-Ramsey Volumes Adjusted
to Eliminate Effect of Change in Price of Substitute Product

Product	Non-Ramsey Volume (adjusted)	Non-Ramsey Price	Ramsey Volume	Ramsey Price	Change in Consumer Surplus ($ millions)
Express Mail	50.999	$14.0132	65.222	$11.2947	+$158.0
Parcel Post	191.557	$3.6199	171.990	$4.1123	-$89.5
Priority Mail	1,008.819	$4.4053	1,444.393	$2.4124	+2,444.5
Total					**+2,513.0**

Tables A, B, and C show that while the three calculations of the individual changes in consumer surplus for each product are somewhat different, the sum of the consumer surpluses across all three products is virtually unchanged. In fact, the individual and total changes in consumer surplus presented in my testimony (as shown in Table A), fall between the changes presented in Tables B and C. This result reflects the intuitive point mentioned earlier in this response, namely, that shifts of volume from one postal product to another have largely offsetting effects on total consumer surplus.

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.

Peter Bernstein

(Signed)

8/15/97

(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

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August 18, 1997