

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

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POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-11

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF THE AMERICAN BUSINESS PRESS
(ABP/USPS-T30-1 - 7)**

The United States Postal Service hereby files the responses of witness O'Hara to the following interrogatories of the American Business Press, filed August 20, 1997: ABP/USPS-T30-1 through T30-7.


The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

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September 3, 1997

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO
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ABP/USPS-T-30-1.

One of the statutory ratemaking factors you address is available alternatives. All other things being equal, does application of this factor mean that more costs, or that fewer costs, should be assigned to a particular type of mail if there are no (or minimal) readily available alternatives.

RESPONSE:

One manifestation of limited alternatives may be a low own-price elasticity, which is taken to indicate a high value of service, with a corresponding indication of a relatively high cost coverage, under criterion 2. Given that this aspect of the availability of alternatives has been considered under value of service, I interpret criterion 5 as providing a basis for considering whether and to what extent a relatively high cost coverage might need to be mitigated, perhaps because alternatives are especially limited for a particular sub-group within the overall body of users of the subclass in question. This is especially true in the case of First-Class Mail where there are statutory restrictions on the delivery of certain hard-copy messages.

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ABP/USPS-T-30-2.

You state at page 21 that "all else being equal, I view movement of rates in the direction of Ramsey prices to be beneficial ." Please explain what you mean by "all else being equal" in this context.

RESPONSE:

If, for example, two subclasses received equal evaluations on all criteria except economic value of service (or own-price elasticity), then I would consider that "all else" was equal.

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ABP/USPS-T-30-3.

You state at page 21 that movement toward or away from Ramsey prices did not have a "major" effect on your conclusions. Did it have a minor effect? If so, please explain how.

RESPONSE:

Please see my response to OCA/USPS-T30-6a.

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ABP/USPS-T-30-4.

You state at page 21 that one reason for the modest impact of Rarnsey prices on your conclusions is the "Postal Service's desire to keep increases for all subclasses close to the overall average where possible...." What assurances can or is the Postal Service willing to give that such desire will be present in future cases?

RESPONSE:

My statement is made specifically in the context of this case.

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ABP/USPS-T-30-5.

You testify at page 29, lines 20-21, that the "value of service " received by periodicals is "moderately high in terms of intrinsic service characteristics ..." Is this statement based upon service standards or on service actually received? If the later, please provide copies of all studies or data in the possession of the Postal Service or contractors and generated in the past three years that addresses the actual service (in terms of days to delivery) received by periodicals.

RESPONSE:

Criterion 2 and this statement refer to service actually provided (see page 2, lines 8-11 of my testimony). However, the Postal Service has not developed any nationally representative data on the days to delivery for periodicals.

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ABP/USPS-T-30-6.

You state at page 31, lines 6-7, that smaller publications with geographically dispersed circulation had recently experienced substantial rate increases as a result of "Classification Reform," and that these increases were taken into account here. Please provide an estimate of the percentage of regular rate periodical titles that experienced an increase as a result of the decision in MC95-1 and provide an estimate of the "typical" or the range of increases experienced.

RESPONSE:

I have no basis for estimating the percentage of regular rate periodical titles that experienced a rate increase as a result of MC95-1. The typical percentage rate increase for smaller publications with geographically dispersed circulation is difficult to state with any precision, but I would note the following:

- a. The non-advertising pound rate increased from 15.9 to 16.1 cents, or 1.3%;
- b. The advertising pound rates for zones 3 to 8 either did not change or increased 0.1 cent, or 0.5% at most.
- c. For the piece-rate portion of postage, there were quite modest increases for publications so small and geographically dispersed that most of their pieces are presorted only to Level A; the non-barcoded rate increased from 23.2 to 24.0 cents, or 3.4%, and the barcoded rate increased from 20.6 to 20.9 cents, or 1.5%.
- d. For publications with intermediate size/dispersion, primarily presorted to Level B, the piece-rate increases were somewhat greater, from 18.3 to 20.2 cents (or 10.4%) for non-barcoded pieces, and from 16.6 to 17.5 cents (or 5.4%) for barcoded pieces.

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ABP/USPS-T-30-7:

In response to NDMS/USPS-T3-18, Postal Service Witness Sharkey states: "The principles of Ramsey Pricing are useful guide posts in the setting of rates at the subclass level. Rate setting below the subclass level should look to the pricing criteria in the PRA as the principle source of guidance." Do you agree with this statement? Please explain your views on this subject if they are different in any respect.

RESPONSE:

I would simply clarify witness Sharkey's statement to note explicitly that the pricing criteria of the PRA are the principal source of guidance at the subclass level (as well as below the subclass level). As witness Sharkey notes in a portion of his response not quoted, witness Bernstein discusses both theoretical and practical aspects of Ramsey pricing below the subclass level in connection with worksharing discounts.

DECLARATION

I, Donald J. O'Hara, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

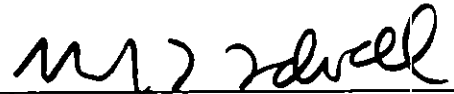
9-3-97
Date



Donald J. O'Hara

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.

A handwritten signature in black ink, appearing to read "M. T. Tidwell", written over a horizontal line.

Michael T. Tidwell

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