

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

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OFFICE OF THE SECRETARY

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA  
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER  
ADVOCATE  
(OCA/USPS-T30-8 AND 9)**

The United States Postal Service hereby files the responses of witness O'Hara to the following interrogatories of the Office of the Consumer Advocate, dated August 22, 1997: OCA/USPS-T30-8 and 9.

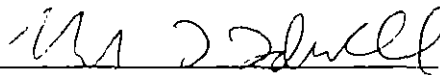
The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
Michael T. Tidwell

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202)268-2998/FAX: -5402  
September 5, 1997

**RESPONSE OF POSTAL SERVICE WITNESS O'HARA TO THE  
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-T30-8.** Do you consider the use of cost coverages instead of markups to determine rate levels to be compatible with Ramsey pricing? Please explain why or why not.

**RESPONSE:**

As I understand the question, the distinction between cost coverages and markups has no importance in this context. That is, I can think of no reason that the choice between cost coverages or markups as the basis for determining rate levels would have any predictable or systematic impact on the degree to which these rate levels approached or departed from Ramsey prices. Conversely, prices determined through Ramsey analysis can be equivalently expressed in terms of either cost coverages or markups.

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**OCA/USPS-T30-9.** At page 15, footnote 7, you state that, "In fact, for most postal products, incremental cost does exceed volume-variable cost. However, there are several Special Services for which the reverse is true; for example, the incremental cost for Certified Mail is 9% below its volume-variable cost." Please explain fully how this comports with the avoidance of cross-subsidy between postal products (as discussed by both you and Dr. Panzer) and your use of incremental costs under Criterion 3 as the appropriate test of this.

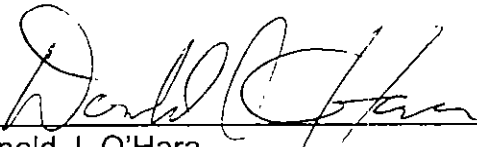
**RESPONSE:**

There is no conflict; cross-subsidy is avoided as long as revenue is at least equal to incremental cost even when incremental cost is below volume-variable cost. However, in such cases, which arise when marginal cost rises with volume, there are efficiency reasons to set prices at least equal to unit volume-variable cost (or marginal cost), and this has been done for Certified Mail (the proposed cost coverage is 138%).

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.

9.5.97  
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.

  
\_\_\_\_\_  
Michael T. Tidwell

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