

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

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BERNSTEIN TO INTERROGATORY OF
THE AMERICAN POSTAL WORKERS UNION, AFL-CIO
(APWU/USPS-T31-1)

The United States Postal Service hereby provides the response of witness Bernstein to the following interrogatory of the American Postal Workers Union, AFL-CIO: APWU/USPS-T31-1, filed on August 29, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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September 12, 1997

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN
TO INTERROGATORIES OF APWU

APWU/USPS-T31-1. On page 81, line 21 ff., you state:

“. . . the type of mail that is most likely to shift from single-piece to workshare mail is probably relatively low cost single-piece mail. As a result, when the workshare discount is increased, the mail that shifts from single-piece to workshare probably has a cost that is less than the average cost of all single-piece mail, a consideration that is relevant to both Ramsey Pricing and Efficient Component Pricing.”

On page 85, lines 1 -3, you state:

“A key assumption of the price calculation is that when a piece of mail shifts from single-piece to workshare, the postal marginal cost of that mail falls from the single-piece marginal cost of \$0.2324 to the workshare marginal cost of \$0.0991, thereby saving the Postal Service saves [sic] \$0.1333 per piece.”

- a. Please confirm that the marginal cost figure you used on page 85 for mail shifting from single-piece to workshare mail is the marginal cost of single-piece mail, and not the lower marginal cost that you said on page 81 should be used for mail shifting from single-piece to workshare.
- b. Please explain why the marginal cost figure you used on page 85 for the mail shifting from single-piece to workshare mail is the marginal cost of single-piece mail, and not the lower marginal cost you said on page 81 should be used for mail shifting from single-piece to workshare.

RESPONSE:

a and b. The two quotes referred to in your interrogatory come from different sections of my testimony. The first quote is contained in a discussion of some of the conceptual issues that are part of the pricing of single-piece and workshared letters. One of those conceptual issues relates to the theory of Efficient Component Pricing which states that the workshare discount should be set equal to the Postal Service cost savings that result from mailer worksharing. Postal Service cost savings can be approximated by the difference between the Postal Service cost of single-piece and workshare mail. At page 81 of my testimony, I point out that the difference between the

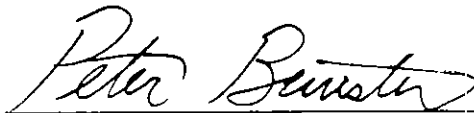
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Postal Service costs of single-piece and workshare mail may not reflect the Postal Service's cost savings from mailer worksharing. The mail that shifts from single-piece to workshare (in response to an increase in the workshare discount) is single-piece mail that has a relatively low mailer cost for worksharing. It may be the case that the very characteristics of a piece of mail that make it relatively less costly for the mailer to prepare might also make that mail less costly for the Postal Service. Therefore, the difference between the Postal Service cost of single-piece and workshare letters may not exactly equal the Postal Service cost savings that result when mail shifts from single-piece to workshare.

The second quote is contained in a section that makes illustrative empirical calculations of single-piece and workshare letter prices. Part of the purpose of this exercise is to determine the inter-relation between the principles of Efficient Component Pricing and Ramsey Pricing. The marginal costs of single-piece and workshare letters are necessary inputs for the price and discount calculations. While it may be the case that there are in fact differences in the postal marginal costs of different types of single-piece (and, for that matter, workshare) mail, I have no information regarding what might be the marginal cost of single-piece mail that shifts to workshare mail. Instead, I make the assumption that all single-piece has the same postal marginal cost and that all workshare mail has the same (lower) postal marginal cost. This assumption allows me to calculate separate Ramsey prices for single-piece and workshare letters.

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.

A handwritten signature in cursive script that reads "Peter Bernstein". The signature is written in dark ink and is positioned above a solid horizontal line.

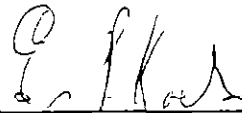
(Signed)

September 8, 1997

(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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