

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

RECEIVED
SEP 19 5 04 PM '97
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 ASSOCIATION OF ALTERNATE POSTAL SYSTEMS
(AAPS/USPS-T31-1)

The United States Postal Service hereby provides the response of witness Bernstein to the following interrogatory of the Association of Alternate Postal Systems: AAPS/USPS-T31-1, filed on September 5, 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



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
September 19, 1997

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN
TO INTERROGATORIES OF AAPS

AAPS/USPS-T31-1. In response to NAA/USPS-T31-15, you state that a "two-part tariff" does not "appear ... practical" for the Postal Service. Is Ramsey pricing "practical" for the Postal Service? Please explain.

RESPONSE:

Yes, I believe that Ramsey pricing is practical for the Postal Service. In response to NAA/USPS-T31-15, I stated that the two-part tariff discussed in that interrogatory was impractical because of the various administrative complications that would arise. I do not envision any administrative problems arising from Ramsey pricing. The basic pricing concept would remain as it is now, with product prices marked-up above volume variable costs per piece in a way that satisfies the break-even requirement. Moreover, I do not believe that one has to adopt the exact Ramsey prices presented in my testimony in order to realize some or most of the benefits from efficient pricing.

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN
TO INTERROGATORIES OF AAPS

AAPS/USPS-T31-2. Does competition promote efficiency? Please explain.

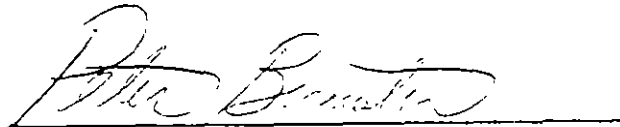
RESPONSE:

In general, competition promotes efficiency because it leads to marginal cost pricing. In a truly competitive environment, no firm could price above marginal cost because it would lose all its business to other competing firms pricing at marginal cost. Furthermore, competition would cause firms to minimize their costs, since a less efficient firm would be unable to charge a higher price to offset its higher marginal costs of production.

However, it is well known that there are occasions in which competition -- defined as many firms serving a market -- will not be economically efficient. One such occasion is when there exist economies of scale or scope which make it less costly for one firm to serve the entire market. Under these conditions, a single firm would be able to charge a lower price than could be charged by two or more competing firms.

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, appearing to read "Peter Bernstein", is written above a horizontal line.


(Signed)

The date "9/10/97" is handwritten in cursive script above a horizontal line.

(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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 19, 1997