

DOCKET SECTION

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 INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION, INC.
(DMA/USPS-T31-1-2)

The United States Postal Service hereby provides responses of witness Bernstein to the following interrogatories of the Direct Marketing Association, Inc.:
DMA/USPS-T31-1-2, filed on September 15, 1997.


Each 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

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September 29, 1997

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN
TO INTERROGATORIES OF DMA

DMA/USPS-T31-1. Please refer to Table 11 on page 55 of your direct testimony, Exhibit USPS-30B, and Exhibit USPS-30G.

- a. Please confirm that if the Postal Service used the R97-1 After-Rates Ramsey Prices shown in Table 11 of your testimony, then: (1) the mark-up on Standard A Commercial mail (excluding Single-Piece mail) would be 56.6 percent, (2) the volume of Standard A Commercial mail (excluding Single-Piece mail) would be 74.7 billion, (3) the cost of Standard A Commercial mail (excluding Single-Piece mail) would be \$7.052 billion, and (4) the revenue from of Standard A Commercial mail (excluding Single-Piece mail) would be \$11.749 billion.
- b. Please confirm the following Test Year After Rates statistics under the USPS-proposed rates: (1) USPS-proposed markup on Standard A Commercial mail is 74.1 percent, (2) Standard A Commercial mail volume is 66.3 billion pieces, (3) Standard A Commercial cost is \$7.078 billion, and (4) Standard A Commercial revenue is \$12.326 billion.
- c. Please confirm that, under R97-1 After-Rates Ramsey Prices, Standard A Commercial Test Year After Rates Volume would be approximately eight billion pieces higher than under the USPS-proposed rates.
- d. Please confirm that, under R97-1 After-Rates Ramsey Prices, Standard A Commercial Test Year After Rates revenue would be approximately \$400 million lower than under the USPS-proposed rates.

RESPONSE:

a through d. Confirmed.

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DMA/USPS-T31-2. Please refer to Table 13 on page 70 of your testimony.

- a. Please confirm that moving from Non-Ramsey to Ramsey prices increases consumer surplus by \$1.023 billion.
- b. Please confirm that moving from Non-Ramsey prices to Ramsey prices for the Standard A Commercial subclasses (excluding the Single-Piece subclass) increases consumer surplus by \$752 million.
- c. Are the Non-Ramsey prices shown in Table 13 based upon the R97-1 USPS-proposed rates or are they R97-1 After-Rates Prices based on the R94-1 Mark-Up Index?
- d. If the Non-Ramsey prices shown in Table 13 are not developed from R97-1 USPS-proposed rates, please provide a revision of Table 13 which uses R97-1 USPS-proposed rates to develop the figures in the "Non-Ramsey Prices" column.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The Non-Ramsey prices presented in Table 13 are R97-1 After-Rates prices based on the R94-1 Mark-Up Index.
- d. Table 13 provides the estimated change in Test Year consumer surplus resulting from a move from the Non-Ramsey rates to Ramsey rates. A calculation of the change in consumer surplus resulting from a move from USPS-proposed rates to Ramsey rates is complicated by the fact that the USPS rate proposal included a number of initiatives that were not considered in the calculation of the Ramsey or Non-Ramsey rates

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presented in Table 13. For example, the USPS proposal eliminates the Standard A single-piece mail subclass and projects that the before-rates volume of this subclass would be entered into other mail remaining mail subclasses. No calculation of the effect of this proposal on consumer surplus is made. Furthermore, the USPS proposal includes various features which affect total revenues, total costs, and net revenues that were not considered in my testimony. In addition, the Postal Service proposal results in total revenues that were somewhat greater than total costs, whereas the Ramsey prices were constrained to yield total revenues exactly equal to total costs. Overall, then, the total contribution from the 22 mail products considered in my testimony is \$266.8 million less than the contribution obtained under USPS-proposed rates. The total gain to society from a move to Ramsey pricing from the USPS-proposed rates, therefore, is equal to the gain in consumer surplus less \$266.8 million, as shown in Table 13-A accompanying this response.

As Table 13-A shows, the estimated total gain from Ramsey pricing as opposed to the USPS proposal is equal to \$388.8 million.

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TABLE 13-A
Change in Consumer Surplus from Ramsey Pricing

Mail Product	USPS-Proposed Price	Ramsey Price	Change in Consumer Surplus (\$ millions)
First-Class Letters	\$0.3518	\$0.3551	-319.5
First-Class Cards	\$0.1972	\$0.1420	+337.4
Priority Mail	\$3.7770	\$2.4124	+1,771.8
Express Mail	\$13.4120	\$11.2947	+135.5
Periodicals In-County	\$0.0928	\$0.1416	-40.2
Periodicals Nonprofit	\$0.1585	\$0.2409	-171.8
Periodicals Classroom	\$0.2168	\$0.4229	-7.7
Periodicals Regular	\$0.2363	\$0.4724	-1,634.5
Standard Single Piece	N.A.	\$1.6402	N.A.
Standard Regular	\$0.2132	\$0.2575	-1,552.3
Standard ECR	\$0.1500	\$0.0802	+2,475.5
Standard Nonprofit	\$0.1281	\$0.1498	-221.5
Standard NP ECR	\$0.0783	\$0.0554	+67.0
Parcel Post	\$3.3364	\$4.1123	-157.8
Bound Printed Matter	\$0.9128	\$0.8435	+39.7
Special Rate	\$1.7572	\$1.7775	-4.1
Library Rate	\$1.8249	\$2.0383	-6.0
Registry	\$8.5808	\$8.3269	+3.7
Insurance	\$2.4331	\$2.9067	-14.4
Certified	\$1.4993	\$1.7266	-69.8
COD	\$4.6381	\$9.3372	-17.5
Money Orders	\$1.0136	\$0.8368	+42.0
Total Change in Consumer Surplus			+655.6
Difference in Ramsey and USPS Net Revenues			-266.8
Total Gain from Ramsey Pricing			+388.8

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)

9/26
(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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