

DOCKET SECTION

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF MCGRAW-HILL
(MH/USPS-T30-1, 2e, 3, 4)**

The United States Postal Service hereby files the responses of witness O'Hara to the following interrogatories of McGraw-Hill, dated September 17, 1997: MH/USPS-T30-1, 2e, 3 and 4.

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

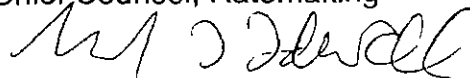
MH/USPS-T30-2a-d have been redirected to the Postal Service for response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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October 1, 1997

**RESPONSE OF U.S. POSTAL SERVICE WITNESS O'HARA TO
INTERROGATORIES OF THE MCGRAW-HILL COMPANIES**

MH/USPS-T30-1. With respect to your testimony at p. 4 ("Value of Service"), as applied to Periodicals Regular mail at pp. 29-30 of your testimony:

(a) Please explain fully the source and justification for your statement at p. 4 that apart from the "intrinsic value" of the service provided, "[a]nother aspect of value of service is the degree to which usage of the service declines in response to price increases, often referred to as the economic value of service."

(b) Please confirm that own-price elasticity of demand, standing alone, is not necessarily the sole indicator, much less a dispositive determinant, of the economic value of service. To the extent that you are unable to confirm, please explain fully.

(c) Please confirm that own-price elasticity of demand is a less reliable indicator of the economic value of service to the extent that own-price elasticity of demand reflects lack of available alternatives. See, e.g., USPS-T-30, p. 23 lines 4-6, 11-15; response to ABP/USPS-T30-1. To the extent that you are unable to confirm, please explain fully.

(d) Please explain fully any underlying economic justification, and/or common sense rationale, for concluding that the "economic value" of a mail service is higher than the "intrinsic value" of the service provided.

RESPONSE:

(a) Please see the Opinion and Recommended Decision in Docket No. 87-1, paragraph 4085.

(b) For the purposes of my testimony, I use the term "economic value of service" solely with reference to the own-price elasticity. I believe this is a reasonable and natural use of the term because a low own-price elasticity means that users value the service so much that they will reduce their use of it by only a small percentage when the price is increased.

(c) Not confirmed; the cited lines of my testimony refer to a situation (First-Class Mail) in which the low-elasticity/high value of service may be due to statutory

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restrictions on the use of alternatives. In this situation, the economic value of service is no less, but there may be reason to mitigate, under criterion 5, the extent to which this economic value of service is reflected in a high cost coverage.

- (d) Intrinsic value of service addresses the specific characteristics of the service provided, such as mode of transportation and priority of delivery, and considers the relative positions of the various subclasses with respect to these characteristics. The own-price elasticity, which I refer to as an indicator of the economic value of service, reflects the value that the users of the various subclasses place on the entire package of service characteristics comprising the subclass. Since the users (and uses) of the subclasses differ, two subclasses could be very close in their intrinsic value of service and differ substantially in their economic value, and it is not surprising that the subclasses' relative levels of economic and intrinsic value of service are not perfectly aligned.

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MH/USPS-T30-2. With respect to the "intrinsic value" of mail service provided for Periodicals mail, which you describe (p. 29, line 22, through p. 30, lines 1-2) as "moderately high" by comparison with other mail classes:

(a) Please describe fully the data collection program known as "EX2C", including its purpose, methodology, time-frame, and results.

(b) Please explain fully all of the reasons why the EX2C program was terminated.

(c) Please provide as a library reference all reports, summaries, analyses, and aggregations of the data (redacted if necessary to protect the identity of program participants) generated by the EX2C program.

(d) Please identify any and all other information available to the Postal Service (whether or not based upon "nationally representative" data) relating to the extent to which Periodicals (second class) service have or have not been met from January 1994 forward, and provide all documents reflecting such information.

(e) Please state the extent to which, and the reasons why, Periodicals (second-class) mail has been processed with (or after) Standard A (third-class) mail at ADCs (or other mail processing facilities other than delivery units) since January 1996, resulting in a delay (loss of preference) in the processing or delivery of Periodicals (second-class) mail, and provide all documents relating to such practice.

RESPONSE:

(a)-(d) Redirected to the Postal Service.

(e) Please see witness Moden's response to an identical question, MH/USPS-T4-4.

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MH/USPS-T30-3. With respect to your testimony (p. 30, lines 20-22) that "[t]he Postal Service is undertaking an analysis to understand what factors may have contributed to increases in flats mail processing costs, especially for Periodicals", please explain fully the reasons why it was determined that such analysis is necessary, and provide all documents reflecting the reasons that led the Postal Service to undertake such analysis.

RESPONSE:

Please see the testimony of witness Moden, USPS-T-4, pages 11-13. Another factor supporting the need for this analysis is the fact that, from FY 1993 to FY 1996, the unit mail processing costs for Periodicals, as reported in the Cost Segments and Components Report, grew faster than salaries and benefits per workhour.

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MH/USPS-T30-4. With respect to your testimony (p. 12, lines 1-11) that "[f]or assessing the burden of meeting the revenue requirement, the appropriate comparison is the ratio of revenue to volume variable cost", rather than to "attributable cost" as defined in prior proceedings, please explain fully whether and how specific-fixed costs, and/or other (sub)class-specific costs that are not volume variable, are to be taken into account in determining proposed cost coverages (including mark-up over volume variable costs) and rates for the various classes and subclasses.

RESPONSE:

Specific-fixed costs are included in incremental costs; the cost coverage for each subclass must be high enough that revenues exceed incremental cost.

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.

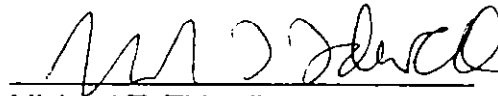


Donald J. O'Hara

10-1-97
Date

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 "Michael T. Tidwell", is written over a horizontal line.

Michael T. Tidwell

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October 1, 1997