

DOCKET SECTION

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

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DOCKET No. R97-1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
THE OFFICE OF THE CONSUMER ADVOCATE WITNESS O'BANNON
(USPS/OCA-T200-6-11)

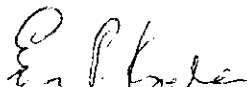
Pursuant to rules 25 and 26 of the Rules of Practice and Procedure and rule 2 of the Special Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to the Office of the Consumer Advocate witness O'Bannon: USPS/OCA-T200-6-11.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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January 26, 1998

POSTAL SERVICE INTERROGATORIES FOR OCA WITNESS O'BANNON
USPS/OCA-T200-6.

(a) Please confirm that the purpose of attempting to measure "own price" elasticities is to estimate the effect of changes in price of the good or service in question on its own volume, holding constant all other factors also believed to affect its volume. If you do not confirm, please explain fully, and include citations to supporting literature.

(b) Please confirm that the purpose of attempting to measure "cross price" elasticities is to estimate the effect of changes in price of other goods or services on the volume of the good or service in question, holding constant all other factors also believed to affect volume of the good or service in question. If you do not confirm, please explain fully, and include citations to supporting literature.

(c) Please confirm that if own-price changes and cross-price changes occur simultaneously, it is **not** economically implausible that cross-price effects might supersede own-price effects on a particular category. If you do not confirm, please explain fully.

USPS/OCA-T200-7. Please confirm that the discussion on page 4 of your testimony which purports to describe the Postal Service's volume distribution method is less than totally accurate, at least to the extent that it omits to note that the after-rates forecasts (lines 13-19) may include the effects of cross-price changes (in other categories) as well as own-price changes. If you do not confirm, please explain fully.

USPS/OCA-T200-8.

(a) Please confirm that the results that you present in your Appendix 3 cannot properly be characterized as own-price elasticities because, while the price changes are restricted to proposed changes in own prices, the forecasted volume changes reflect proposed changes in cross prices as well as own prices. If you do not confirm, please explain fully.

(b) Please confirm that the results that you present in your Appendix 3 would have been different if you had backed out all Priority Mail cross price effects from the volume forecasts before applying your formula. If you do not confirm, please explain fully.

(c) Please confirm that the results you present in Appendix 4, including the SMD values, would have been different if you had backed out all Priority Mail cross price effects from the volume forecasts before computing that Appendix. If you do not confirm, please explain fully.

(d) Please confirm that Section IV of your testimony ("Empirical Analysis") would have been different if you had backed out all Priority Mail cross price effects from the volume forecasts before computing Appendix 4. If you do not confirm, please explain fully.

(e) Please confirm that certain statements in your Conclusion on page 14 (e.g., the last sentence in the first paragraph, the second sentence in the second paragraph) might have been different if you had backed out all Priority Mail cross price effects from the volume forecasts before computing Appendix 4. If you do not confirm, please explain fully.

USPS/OCA-T200-9. Please refer to your response to USPS/OCA-T200-1(h).

(a) In the last sentence, you state that witness Mayes "ignores the cross-price elasticities among the cells in a given category." Please confirm that, as stated on page 7 of your testimony, your analysis assumes ("Assumption 2") that there are no cross-price elasticities among the cells in a given category. If you cannot confirm, please explain fully.

(b) Are you suggesting that witness Mayes "ignores the cross-price elasticities among the cells" and instead relies exclusively on own-price elasticities? Please explain fully.

(c) Would you agree that the use of the "pre-rate change proportions" to distribute an aggregate category forecast can be thought of as implicitly assuming that, for each rate cell, the combined effect on volume of all relevant rate changes (i.e., its own price and all relevant intra-category, inter-category, and intra-subclass price changes, each multiplied by the corresponding own-price or cross-price elasticity) will be the same? If you do not agree, please explain.

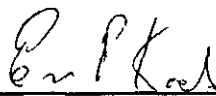
(d) Might it not be the case that, rather than "ignor[ing] the cross-price elasticities among the cells in a given category," witness Mayes uses pre-rate case proportions precisely because she lacks the full range of own-price and cross-price elasticity information she would need to properly "take into account the effects of relative changes in rates between the cells in any one category"? Please explain fully.

USPS/OCA-T200-10. Please refer to your response to USPS/OCA-T200-1(k). To restate your criticism of the proportional distribution method as succinctly as possible, would it be fair to suggest that you are troubled by the fact that in any instance in which rates for some cells in a category move in the opposite direction than rates for most cells (in this instance, rates decline for 2 cells out of 276), the proportional distribution method, all else being held equal, will cause the volume distributed to those cells to move in the same direction as the volume in the rest of the cells, notwithstanding the difference in direction of rate changes? If you do not agree, please explain fully.

USPS/OCA-T200-11. Please reconcile the statement in your response to USPS/OCA-T200-1, subpart (k), that "[t]he existence of positive own price elasticities is the indicator of the problem" with your confirmation of subpart (g) that, with TYAR DBMC total volumes higher than TYBR volumes despite a rate increase for DBMC from TYBR to TYAR, application of the formula shown on your page 3 would suggest a "positive implicit own price elasticity" for the DBMC category as a whole. Specifically, are you suggesting that there is a "problem" with the forecast of higher total volume for the DBMC category?

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.



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