DOCKET SECTION

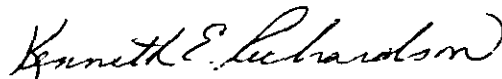Postal Rate and Fee Changes, 1997   )   Docket No. R97-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: ROGER SHERMAN (USPS/OCA-T300-1-9)
(JANUARY 27, 1998)

The Office of the Consumer Advocate hereby submits the answers of Roger

Sherman to interrogatories USPS/OCA-T300-1-9, dated January 13, 1998. Each

interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

Kenneth E. Richardson

KENNETH E. RICHARDSON
Attorney
Office of the Consumer Advocate

USPS/OCA-T-300-1. Please confirm that Table 3 on page 21 of your testimony shows that limiting the Ramsey price of Periodicals Regular mail (i.e., imposing the "too high" constraint) has the effect of moving the constrained Ramsey prices of Periodicals In-County, Periodicals Nonprofit, and Periodicals Classroom Rate mail closer to their unconstrained Ramsey prices. If you cannot confirm, please explain fully.

A.   Confirmed.

USPS/OCA-T300-2. Please refer to Table 3 at page 21 of your testimony.

a. Please confirm that the Model (3) Ramsey average revenues for Periodicals In-County, Nonprofit, and Classroom Rate mail are 0.1928, 0.3281, and 0.5759, respectively. If you cannot confirm, please give the correct figures.

b. Please confirm that the Model (4) Ramsey average revenues for Periodicals In-County, Nonprofit, and Classroom Rate mail are 0.1416, 0.2409, and 0.4229, respectively. If you cannot confirm, please give the correct figures.

A. Because of a production error during the filing of my direct testimony, there are

small errors in many of the values in these tables, and significant errors in Model (4)

Ramsey Contributions (Table 5). Corrected tables are being filed as errata to my direct

testimony. The disk in library reference OCA-LR-5 contains correct figures.

USPS/OCA-T300-3. Please refer to Table 5 at page at page 34 of your testimony.

a.   Please confirm that the Model (3) Ramsey contributions from Periodicals In-County, Nonprofit, and Classroom Rate mail are $61.874 million, $319.668 million, and $4.630 million. If you cannot confirm, please give the correct figures.

b.   Please confirm that the Model (4) Ramsey contributions from Periodicals In-County, Nonprofit, and Classroom Rate mail are $70.317 million, $374.470 million, and $4.931 million. If you cannot confirm, please give the correct figures.

c.   Please explain how it is possible for the Model (4) Ramsey contributions from Periodicals In-County, Nonprofit, and Classroom Rate mail to be greater than the Model (3) Ramsey contributions from these mail subclasses, when Table 3 shows that the Model (4) average revenues of each these mail subclasses is less than their Model (3) average revenues.

A.   a.   There are small errors in many of the values in Tables 3-6, and significant errors in Model (4) Ramsey Contributions (Table 5). Corrected tables are being filed as errata to my direct testimony. The disk in library reference OCA-LR-5 contains correct figures.

b.   Model (4) Ramsey contributions from Periodicals In-County, Nonprofit, and Classroom Rate mail are $36.458 million, $171.581 million, and $3.333 million.

c.   The contributions in revised Table 5 are lower under Model (4) than under Model (3), as is to be expected.

USPS/OCA-T300-4.

a.   Please confirm that if the pricing criteria of the Act, such as educational, cultural, scientific, and informational (ECSI) considerations, are interpreted to require that the mark-up on Periodicals Regular mail should be less than its Ramsey mark-up, then the most efficient way of recouping the lost contribution from Periodicals Regular mail is from relatively larger increases in the prices of less elastic mail (e.g., First-Class letters) and relatively smaller increases in the more elastic mail (e.g., Standard A Enhanced Carrier Route mail). If you cannot confirm, please explain fully.

b.   Please confirm that for any given amount of reduced contribution from Periodicals Regular mail (relative to its unconstrained Ramsey contribution) based on the pricing criteria of the Act, a constrained Ramsey model should indicate the most efficient way to spread that required contribution increase over the other classes and subclasses. If you cannot confirm, please explain fully.

A.   a.   It is true that if the markup on Periodicals Regular mail was held at *less* than the Ramsey markup, efficient pricing to make up the lost revenue would call for relatively larger increases for other mail services with less elastic demands. But the Revenue Forgone Reform Act (RFRA) *raises* the markups for Periodicals mail relative to their pure Ramsey levels. RFRA reduces markups on Standard A Nonprofit and Nonprofit Enhanced Carrier Route so much that the rate for Periodicals Regular mail, which has relatively less elastic demand, increases to replace their lost contribution. The rise in markup of Periodicals Regular mail in turn raises markups for all other Periodicals subclasses under the RFRA, and the result is higher markups also in those subclasses than pure Ramsey prices would call for.

b.   I can confirm that if constraints on prices must be imposed, after their

effects are taken into account, constrained Ramsey prices will raise necessary revenue

most efficiently. In the Periodicals example, however, the effect of RFRA alone would

be to increase the revenue from Periodicals Regular rather than to reduce it.

USPS/OCA-T300-5. Please confirm that if the unconstrained Ramsey price of a mail product is below the product's average incremental cost, then pricing the product at its average incremental cost is more efficient than pricing the product above its average incremental cost. If you cannot confirm, please explain fully.

A.   Confirmed. In this example, pricing *at* incremental cost is closer to Ramsey

pricing than pricing *above* incremental cost.

USPS/OCA-T300-6. Please confirm that Ramsey pricing of single-piece and workshared letters cannot be less efficient (in terms of total consumer and producer surplus) than imposition of the efficient component pricing rule in which the discount for workshared letters is set equal to the cost difference between single-piece and workshared letters. If you cannot confirm, please explain fully.

A.   Confirmed. Ramsey pricing should only improve efficiency.

USPS/OCA-T300-7. Please confirm that price elasticities of demand are important to the efficient pricing of single-piece and workshared letters, and to the establishment of the efficient discount for workshared letter mail. If you cannot confirm, please explain fully.

A.   Confirmed in part. Price elasticities of demand are important to the pricing of

single-piece and workshared letters, but those currently available and used by the

Postal Service may not be the ideal ones to use. A willingness on the part of mailers to

supply worksharing services, represented in the form of a supply elasticity, may also be

important.

USPS/OCA-T300-8.
a. If there exist two mail categories, A and B, and the volume of each category does not depend on the price of the other or on the price difference between the two mail categories, then please confirm that there is no cross-price or discount elasticity between these two products. If you cannot confirm, please explain fully.
b. Please confirm that if there are no cross-price or discount elasticities between two mail categories, then the efficient prices of these mail categories should be based on their own-price elasticities and own marginal costs, and not on the cost difference between the two mail categories. If you cannot confirm, please explain fully.

A.   a.   Confirmed.

        b.   It is possible that the marginal cost of one of the two services can be estimated best from knowledge of a second service's marginal cost and the difference in the two services' marginal costs. In that case the difference in marginal costs would have an influence on price.

USPS/OCA-T300-9. Have you performed any independent econometric analysis of the price elasticities of First-Class single-piece letters or First-Class workshared letters? If so, please provide a brief summary, and the statistical results of that analysis.

A.   No.

DECLARATION

I, Roger Sherman, declare under penalty of perjury that the answers to interrogatories USPS-OCA-T300-1-9 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed _Jan. 21, 1998_

Roger Sherman

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.

[signature]

KENNETH E. RICHARDSON
Attorney

Washington, DC   20268-0001
January 27, 1998