POSTAL RATE AND FEE CHANGES, 1997 : DOCKET NO. R97-1

THIRD SET OF INTERROGATORIES FROM UNITED PARCEL SERVICE TO UNITED STATES POSTAL SERVICE WITNESS PANZAR (UPS/USPS-T11-6)

(September 8, 1997)

Pursuant to the Commission's Rules of Practice, United Parcel Service

hereby serves the following interrogatories and requests for production of documents

directed to United States Postal Service witness Panzar (UPS/USPS-T11-6).

Respectfully submitted,

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UNITED PARCEL SERVICE THIRD SET OF INTERROGATORIES
TO UNITED STATES POSTAL SERVICE WITNESS PANZAR

UPS/USPS-T11-6. In reference to your response to UPS/USPS-T11-5, assume that cost driver D_1 is jointly determined by mail volumes of service classes 1 and 2, that cost driver D_2 is exclusively determined by mail of service class 2, and that there are no other costs associated with these two services classes.

a. Confirm that your use of the term "cost elasticity" has the same meaning and is equivalent to the term "volume variability" or "variability" as used by USPS witnesses Moden (USPS-T4 at page 3), Bradley (USPS-T13 at page 6), Nelson (USPS-T19 at page 6), and Wade (USPS-T20 at page 3).

b. Confirm that volume variable costs are $\varepsilon_0 g_0 \max(D_1, D_2)$.

c. Confirm that if cost drivers D_i are proportional to mail volume ($D_1 = \alpha(M_1 + M_2)$ and $D_2 = \alpha M_2$), then:

   (i) unit volume variable costs are $\alpha \varepsilon_0 g_0$ for both service classes;

   (ii) the incremental cost of service class 1 is the joint cost of $g_0 \alpha^{\varepsilon_0}(M_1 + M_2)^{\varepsilon_0}$ of both mail service classes less the stand alone cost $g_0 \alpha^{\varepsilon_0} M_2^{\varepsilon_0}$ of service class 2;

   (iii) volume variable costs are appropriately distributed in proportion to shares of cost driver D_1, irrespective of cost driver D_2.

Please explain any nonconfirmations of the above in mathematical terms, including any additional assumptions required to establish these results.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in

accordance with section 12 of the Commission's Rules of Practice.

_____
Albert P. Parker, II

Dated: September 8, 1997
Philadelphia, PA