

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Experimental Rate and Service Changes
To Implement Negotiated Service Agreement
With Capital One Services, Inc.

Docket No. MC2002-2

PRESIDING OFFICER'S NOTICE
OF ANTICIPATED SPONSORSHIP OF
TESTIMONY ON ECONOMIC ISSUES

(Issued December 20, 2002)

A preliminary review of the record made thus far in this case suggests that the Negotiated Service Agreement that forms the foundation of the rate and classification changes proposed herein presents novel issues of appropriate application of the Reorganization Act's substantive requirements and factors, and that economic analysis may shed light on how these issues should be resolved. While other participants may choose to sponsor such analyses in the responsive testimony due to be filed today, I have chosen to supplement the record independently by arranging for the preparation of an analysis and report by a contractor to the Commission, who will serve as a Presiding Officer's witness in the next stage of hearings.

The contractor is Professor John C. Panzar, who has presented testimony on economic issues in previous Commission proceedings. In order to inform interested participants of the potential scope of his testimony, I am providing the task description from Professor Panzar's Statement of Work as an attachment to this notice. I anticipate that, following submission of his report under the Commission's contract, that document will be made publicly available, probably during the first full week of January, 2003.

George Omas
Presiding Officer

TASK DESCRIPTION FOR PANZAR CONTRACT—DOCKET NO. MC2002-2**I. Scope of Work.**

In order to assist in developing a record on economic issues in Postal Rate Commission Docket No. MC2002-2, the Contractor will perform an analysis of economic issues presented by the Negotiated Service Agreement (NSA) jointly proposed by the United States Postal Service and Capital One Services, Inc. in that proceeding. The analysis should identify issues presented in the areas described below, and identify and apply salient economic principles in addressing those issues.

- (1) The analysis should address the economic implications and potential consequences, in general, of introducing negotiated rate and service terms available to a sole user into a pre-existing regulatory regime of uniform, tariffed rates and conditions of service. Further, the analysis should identify the conditions under which it is economically desirable to introduce declining-block discounts or other rate structures that discriminate among users of the affected services, with or without any basis in identifiable cost differences.
- (2) The analysis should also address the specific economic implications and potential consequences of introducing negotiated rate and service terms available to a sole user where the affected service is provided under a monopoly established by Federal statute. Further, the analysis should take into account that such negotiated arrangements may include preferential pricing terms; that access to the negotiated terms may be limited to a small number of users for administrative or other reasons; and that competition may exist among users of the affected service or services.
- (3) The analysis should identify and describe regulatory measures that might be taken to accommodate potential concerns regarding the impact of such negotiated rate and service arrangements on fairness in regulation and competition.
- (4) The analysis should identify and address any other economic issues that are germane to the case in the professional judgment of the Contractor.

The Contractor will prepare a written report of his analyses and conclusions, and present and defend the report as testimony in public hearings to be held before the Commission.