

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PANZAR TO INTERROGATORIES OF
THE NEWSPAPER ASSOCIATION OF AMERICA
(NAA/USPS-T11-1-5)

The United States Postal Service hereby provides responses of witness Panzar to the following interrogatories of the Newspaper Association of America: NAA/USPS-T11-1-5, filed on August 27, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
September 10, 1997

RESPONSES OF POSTAL SERVICE WITNESS JOHN C. PANZAR TO
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NAA/USPS-T11-1. Please refer to your testimony at page 7, lines 5-7. Please confirm that economic efficiency is not the sole objective for setting rates under the Postal Reorganization Act. If you cannot confirm, please explain why.

ANSWER: Confirmed.

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NAA/USPS-T11-2. Please refer to your testimony at page 13, lines 4-5. Please explain how each of the "traditional Postal Service costing procedures" is designed to measure the specific fixed costs of the individual mail subclasses.

ANSWER: It is my understanding that cost components which (1) Do not vary with volume; and (2) are caused by only one mail subclass are classified as specific fixed costs. Obviously, most "traditional Postal Service costing procedures" deal with cost components which do not meet this criteria.

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NAA/USPS-T11-3. Please refer to your testimony at page 14, lines 3-7.

- a. Did you independently verify that the operating procedures now used to process mail are unlikely to change in the next few years? If so, please describe this independent verification.
- b. Would the introduction of new mail processing procedures, new processing equipment or enhanced features for current processing equipment render your assumption unrealistic? Please explain.
- c. Please explain how you would compute incremental costs if the operating procedures are changing over the next few years.

ANSWERS.

- a. No.
- b. No. As I explain in c, below, anticipated changes in plant and procedures do not affect the logic of the incremental cost calculations as discussed in my testimony. If the increment in mail volumes at issue was so large that its removal would, itself, result in an alteration in the rate of implementation of the new equipment and procedures, then the incremental cost calculation would have to be adjusted accordingly.
- c. The logic of incremental cost calculations is unchanged. That is, given any planned change in operating procedures, what would be the Postal Service's total costs with and without the mail volumes in question. The difference is the incremental cost of those mail volumes.

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NAA/USPS-T11-4. Please refer to your testimony at page 24, lines 17-20.

- a. How many of the 20 cost segments or components within these cost segments exhibit declining marginal costs?
- b. Please list each cost segment or component that exhibits declining marginal costs.

ANSWERS:

- a. *I have no idea, not having made the calculations which would be necessary. See Witness Takis's response to NAA/USPST41-1.*
- b. *See above.*

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NAA/USPS-T11-5. Please refer to your testimony at page 29, lines 11-13.

a. Please confirm that the rates for every subclass must be set high enough to recover revenues from the subclass equal to the incremental costs of the subclass in order to avoid cross-subsidization. If you cannot confirm, please explain.

b. Assume that the rates for each subclass are initially set to recover revenues equal to the incremental costs of the subclass, so that no subclass was being cross-subsidized. Given this assumption, is the difference between the total costs of the Postal Service and the sum of all subclass incremental costs equal to the "revenue deficiency" that must be recovered in order to ensure that the Postal Service breaks even. If not, please explain why not.

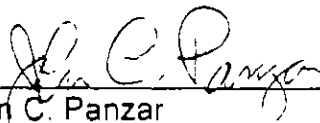
ANSWERS:

a. Confirmed.

b. Not confirmed. The premise should be amended to conclude "so that no individual subclass was being cross-subsidized." Pricing each individual subclass at its average incremental cost is no guarantee that groups of services are not cross-subsidized. This points up the problem with the question. Of course, the difference of the sum of all revenues resulting from some pricing policy and total Postal Service costs is, by construction, a deficit that must be recovered in order for the Postal Service to break even. However, unlike the benchmark of marginal cost pricing, there is no economic efficiency reason to take average incremental cost pricing as one's starting point for rate-making.

DECLARATION

I, John C. Panzar, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



John C. Panzar

Dated: 7-10-17

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.



Eric P. Koetting

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