

BEFORE THE
POSTAL RATE COMMISSION

POSTAL RATE AND FEE CHANGES, 1997

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FOURTH SET OF INTERROGATORIES FROM UNITED PARCEL SERVICE
TO UNITED STATES POSTAL SERVICE WITNESS PANZAR
(UPS/USPS-T11-7 through 17)

(September 12, 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-T11-7 through 17).

Respectfully submitted,



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**INTERROGATORIES OF UNITED PARCEL SERVICE
TO UNITED STATES POSTAL SERVICE WITNESS PANZAR**

UPS/USPS-T11-7. Please refer to page 28 of your testimony, lines 14-19.

Please confirm that the concept of economic efficiency used in your analysis is that associated with the short-run economic efficiency of mailing decisions affecting volume-variable costs, as opposed to a long-run concept of economic efficiency that would consider investment decisions. If not confirmed, please explain how distortions of longer-run decision making, such as potential investment decisions, are measured in your concept of markups of price over marginal costs, which you refer to as unit volume variable costs on line 15.

UPS/USPS-T11-8. On page 6 of your testimony, from lines 5 through 22, you describe the reasons why it would be "economically inefficient for price to be set below marginal cost" (line 16). Please confirm that the positions you set out in the referenced section apply for each subclass of mail at each and every point in time at which the postal rate for that subclass is in effect. If not confirmed, please explain.

UPS/USPS-T11-9. On page 7 of your testimony at lines 13 and 14, you state that "estimates of marginal costs can be used by the rate-making authority to avoid . . . providing services which consumers value less than the resources used to produce them." Please confirm that if at any point in time the Postal Service charges the user of any subclass of mail a rate that is less than the cost of the resources used to provide that service, economic inefficiency results. If not confirmed, please explain.

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UPS/USPS-T11-10. Please refer to page 7 of your testimony, lines 19-21. Please confirm that the proposition you set forth there applies at each and every point in time. If not confirmed, please explain.

UPS/USPS-T11-11. Please refer to page 8 of your testimony, lines 3 through 23, where you state that the requirement for fair and reasonable postal rates requires that the postal rate schedule be free from cross-subsidy and that cross-subsidy free rates should meet the incremental cost test. Please confirm that for any specific subclass of mail the conclusions you state in the referenced testimony apply at each and every point in time when the rate for that subclass of mail is in effect. If not confirmed, please explain.

UPS/USPS-T11-12. Please refer to page 10, lines 23-25, and page 11, lines 1-4, where you state that if a monopolist's prices are set below per unit incremental costs, economically efficient entry of firms with superior productive techniques would be deterred.

(a) Please confirm that your conclusion holds true even if a firm is not a monopolist. If not confirmed, please explain.

(b) Please confirm that these principles and conclusions apply to each and every subclass of mail at each and every point in time in which a price for that subclass of mail service is in effect. If not confirmed, please explain.

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UPS/USPS-T11-13. Please refer to pages 13 through 16 of your testimony, where you discuss deriving economically relevant marginal and incremental cost measures from Postal Service accounting data.

(a) Please confirm that any estimates of marginal or incremental costs derived from historical accounting data will always be subject to uncertainty. If not confirmed, please explain.

(b) Please confirm that any estimates of price elasticities for subclasses of mail service or revenue projections based on historical accounting data will always be subject to uncertainty. If not confirmed, please explain.

(c) Please explain how the uncertainty associated with cost, elasticity and revenue estimates and projections should be reflected in postal ratemaking.

UPS/USPS-T11-14. Please refer to pages 16 through 20 of your testimony, Section II C and D. Assume that the Postal Service were to announce that it intended to implement in the test year significant cost reduction initiatives, or significant changes in its product offerings, or significant changes in its operating plan, or some other significant change. How should such changes be reflected in the marginal and incremental cost estimates for the test year?

UPS/USPS-T11-15. Please refer to page 28 of your testimony, lines 11 to 19. Assume that for a given subclass of mail (call it subclass X) the effective rate was

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set so that it was precisely equal to incremental cost and therefore, as you define it, the rate is cross-subsidy free. (For this question assume that the incremental cost of the subclass is greater than its marginal cost).

(a) What benefits, if any, would flow to users of other subclasses of mail as a result of the Postal Service providing the specified mail subclass X?

(b) What benefits, if any, result from the provision of a mail service at a price *precisely equal to incremental cost*?

(c) In the hypothesized situation, what advice would you offer the Postal Service with respect to the price it should charge for subclass X?

(d) Under what circumstances, if any, should the Postal Service continue to offer subclass X as a mail service, if the price charged merely recovered its incremental cost?


UPS/USPS-T11-16. (a) Please list all Postal Rate Commission decisions which you read, either in whole or in part, before you prepared your testimony.

(b) In those instances where you have read only part of a Commission decision, please identify those portions of each such decision which you read before you prepared your testimony.

UPS/USPS-T11-17. Identify all sections of the Postal Reorganization Act which you read in connection with the preparation of your testimony.

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

Dated: September 12, 1997
Philadelphia, PA