

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

**FIFTH SET OF INTERROGATORIES FROM UNITED PARCEL SERVICE
TO UNITED STATES POSTAL SERVICE WITNESS PANZAR
(UPS/USPS-T11-18 through 21)**

(September 17, 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-T11-18 through 21).

Respectfully submitted,



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

UPS/USPS-T11-18. Your recommendation that incremental cost be used to establish pricing floors, but not used as the basis for pricing markups, is based on the theory of contestable markets with free entry and no sunk costs. This theory posits a knife-edge response of entrants to provide a service having a postal price that exceeds its stand-alone costs or to provide a service when the postal price of other services fall short of their incremental costs. Please refer to page 10, lines 3-11, of your testimony. You state that real-world markets are not so contestable as to exhibit in actuality the knife-edge behavior of entrants expected from the contestable market theory. Do you agree that the marginal distortion of the decision making of potential entrants in practice should be addressed in evaluating the deviation of postal prices from incremental costs? If you agree, please explain and distinguish the practical consequences of postal pricing when an entrant must incur sunk costs from theoretical contestable markets. If you disagree, please explain why.

UPS/USPS-T11-19. Please refer to lines 1 through 10 on page 8 of your testimony. What specifically are the strictures to which you are referring when you refer to "such" strictures in stating on lines 9-10 that "the economics literature has come to interpret such strictures as requiring that the rate schedule be free from *cross-subsidy*."

UPS/USPS-T11-20. Please refer to lines 9 through 11 on page 10 of your testimony. What do you mean by a "true" competitive advantage in that sentence?

**INTERROGATORIES OF UNITED PARCEL SERVICE
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UPS/USPS-T11-21. Please refer to pages 8-10 and lines 1 through 22 on page 11 of your testimony. What is the difference, if there is any, between incremental costs and stand-alone costs?

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.



Stephanie Richman

Dated: September 17, 1997
Philadelphia, PA