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

RECEIVED

SEP 24   4 44 PM '97

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 INTERROGATORY OF
UNITED PARCEL SERVICE
AND MOTION FOR LATE ACCEPTANCE
(UPS/USPS–T11—6)

The United States Postal Service hereby provides the response of witness Panzar to the following interrogatory of United Parcel Service: UPS/USPS–T11—6, filed on September 8, 1997. The Postal Service also moves for late acceptance of this response, which was unavoidably delayed by transmission problems between Chicago and Postal Service Headquarters, and computer network outages which prevented printing.

The 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

Richard T. Cooper

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
(202) 268–2993; Fax –5402
September 24, 1997

RESPONSE OF POSTAL SERVICE WITNESS PANZAR TO UPS INTERROGATORY

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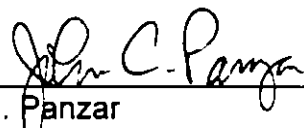
Please explain any nonconfirmations of the above in mathematical terms, including any additional assumptions required to establish these results.

RESPONSE

a.   I cannot confirm, because I have not reviewed the cited portions of testimony of

the other witnesses. I used the term "cost elasticity" in its technical, mathematical

sense.

b.   Confirmed.

c.   I.   Confirmed.

        II.   Confirmed.

        III.   Confirmed.

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: 9-23-97.

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.

Richard T. Cooper

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
September 24, 1997