

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PANZAR TO INTERROGATORIES OF
THE FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
AND MOTION FOR LATE ACCEPTANCE
(FGFSA/USPS-T11-1-3)

The United States Postal Service hereby provides responses of witness Panzar to the following interrogatories of the Florida Gift Fruit Shippers Association: FGFSA/USPS-T11-1-3, filed on September 16, 1997. The Postal Service also moves for late acceptance of these responses, which were delayed due to the high volume of recent discovery and the requirements of the witness's teaching schedule.

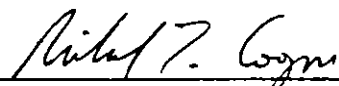
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSES OF POSTAL SERVICE WITNESS PANZAR TO
INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FGFSA/USPS - T11-1. The Postal Service contracts for highway transportation to service Intra-BMC mail. Each contract is for a specific route to be operated on a prescribed, contracted for time schedule, to provide service of a specified cube capacity, regardless of actual mail volume, from a BMC to one or more SCFs or other postal facilities, with scheduled intermediate stops for unloading and partial loading, together with a return from those postal facilities to the BMC.

- a) Do you categorize those contracts as being examples of marginal or incremental costs? If not, how do you categorize them?
- b) Is each segment or leg of the route an example of marginal or incremental costs? If not, how do you categorize them?
- c) If actual mail volume exceeds the contracted for capacity, and additional transportation service is obtained to handle the excess, is the cost of the additional transportation an example of marginal costs? If not, please explain.
- d) Are these contracts "intermediate inputs" as you use those terms on page 20 of your testimony?

ANSWERS:

a) As I understand it, the costs of those contracts make up part of a Postal Service cost component. As such, they would become part of the marginal and incremental costs of the various subclasses of mail, as described in my testimony.

b) The way the question is posed, it seems that "segments" or "legs" of a route are not priced separately in the contract. Thus, without further elaboration, I do not see how their costs would be analyzed separately from those of the route as a whole. As discussed above, contract route costs are reflected in the marginal and incremental costs of various mail subclasses.

c) The costs of the additional transportation would form part of the marginal costs of the various mail subclasses which utilize it.

d) The *services provided under the contracts* would be intermediate inputs, not the contracts themselves.

RESPONSES OF POSTAL SERVICE WITNESS PANZAR TO
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FGFSA/USPS-T11-2. Do you agree that the cost of each Intra-BMC contract is a joint cost, as that term is used by an economist, of providing the transportation service for the entire route? If not, please explain.

ANSWER: No. The mail subclasses that utilizes the contracted service are not provided in fixed proportions, as is required by the usual economic definition of joint costs.

RESPONSES OF POSTAL SERVICE WITNESS PANZAR TO
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FGFSA/USPS-T11-3. Refer to page 18 of your testimony and your reliance on the article "Measuring Product costs for Rate-making: The United States Postal Service" and the costing concepts discussed therein.


- a) Do you agree that joint costs exist where there are two or more outputs which are produced in fixed proportions?
- b) Is an example of such joint costs the contract cost for a truck to provide Intra-BMC transportation outbound from the BMC to one or more SCFs or other postal facilities, with a return trip inbound to the BMC from those postal facilities?
- c) Do you agree that postal service production exhibits joint or common costs with the outputs for a given amount of resources being variable in their proportion?
- d) The article suggests that with joint or common costs, some "demand consideration must be used in setting rates to cover all costs" (p.134) Do you agree with this? Please explain any negative response.
- e) Also on page 134 of the article it is said: "An example of common costs arises when a letter carrier approaches a house and is carrying three classes of mail. These costs are common because changes in the relative distribution among pieces, by class, have no impact on cost....It is thus impossible to say which of the three classes "caused" the trip to the house."
 - i. Do you agree with this? Please explain any negative response.
 - ii. Mailed to be delivered caused the trip from the route to the house. Did that same mail cause the trip from the house back to the route?

ANSWERS:

- a) Yes, that is the usual economic definition.
- b) No, because the mail subclasses utilizing the contracted service are not required to be in fixed proportions.
- c) The term "common costs" is usually used by economists to describe situations in which costs are incurred by two or more services which are *not* provided in fixed proportions. Postal Service production exhibits many examples of this kind.
- d) Yes.
- e)
 - i. Yes.
 - ii. Yes.

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. 10-1-97

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

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