

DOCKET SECTION

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

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POSTAL RATE AND FEE CHANGES, 1997

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

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PANZAR TO INTERROGATORY OF
THE MCGRAW HILL COMPANIES, INC.
(MH/USPS-T11-1)

The United States Postal Service hereby provides the response of witness Panzar to the following interrogatory of The McGraw Hill Companies, Inc.: MH/USPS-T11-1, filed on September 17, 1997.

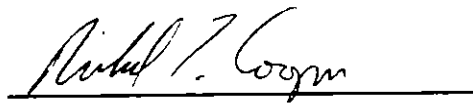
The interrogatory is stated verbatim and is followed by the response.

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.
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October 1, 1997

RESPONSES OF POSTAL SERVICE WITNESS PANZAR TO INTERROGATORIES
SUBMITTED BY MCGRAW HILL

MH/USPS-T11-1. With reference to your response to NAA/USPS-T11-5(b), please explain fully your statement that "[p]ricing each individual subclass at its average incremental cost is no guarantee that groups of services are not cross-subsidized." Among other things, please specify whether "groups of services" refers to groups of subclasses and/or to groups of services (rate categories) within a subclass.


ANSWER: When there are economies of scope, the sum of the incremental costs of a group of services will be less than the incremental costs of the group, taken as a whole.

In other words there are sometimes costs that could be avoided if an entire group of services were eliminated, but would still be incurred if only one service were eliminated.

I use the term "service" to refer to any offering for which a rate is established. If so, revenues can be compared to incremental costs. Thus, in theory, the term "service" may refer to rate categories as well as subclasses. Of course, in any practical application it may be necessary to aggregate several such services when attempting to estimate incremental costs.

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.

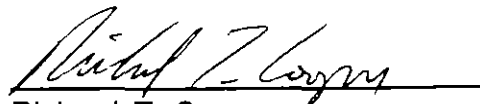


John C. Panzar

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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October 1, 1997