

SECRET SECTION

BEFORE THE
POSTAL RATE COMMISSION

RECEIVED

FEB 10 1 06 PM '98

POSTAL RATE AND FEE CHANGES, 1997

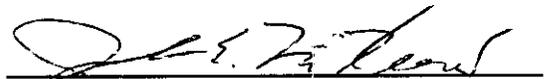
DOCKET NO. R97-1

**ANSWERS OF UNITED PARCEL SERVICE WITNESS
J. STEPHEN HENDERSON TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/UPS-T3-1 through 3)**

(February 10, 1998)

Pursuant to the Commission's Rules of Practice, United Parcel Service ("UPS") hereby serves and files the responses of UPS witness J. Stephen Henderson to interrogatories USPS/UPS-T3-1 through 3 of the United States Postal Service.

Respectfully submitted,



John E. McKeever
Attorney for United Parcel Service

PIPER & MARBURY
3400 Two Logan Square
18th & Arch Streets
Philadelphia, PA 19103
215-656-3310

and

1200 Nineteenth Street, N.W.
Washington, D.C. 20036-2430
(202) 861-3900

Of Counsel.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T3-1. Please refer to your testimony at page 10. Please confirm that if the price of a postal product or service exceeds its average incremental cost, that product or service will make a “contribution” to joint and common (“institutional”) costs. If you do not confirm, please explain fully.

Response to USPS/UPS-T3-1. Confirmed.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T3-2. Please refer to Opinion and Recommended Decision, Docket No. R94-1, paragraph 4010. Please explain how, if at all, employing markups over average incremental cost would determine the “assignment’ of the remainder [non-attributable cost] based upon non-cost factors.”

Response to USPS/UPS-T3-2. The "assignment" is accomplished by the method outlined in paragraph 4010. The Commission has in past cases attributed costs to the subclasses and then assigned non-attributed costs based on the Section 3622(b) factors by using a markup over attributable costs. I propose that the Commission continue this practice.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS HENDERSON TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T3-3. Please refer to your testimony at page 12. Does your discussion of “the appropriate basis for postal pricing markups” assume that the long-run incremental cost of a postal product or service is greater than the short-run incremental cost of that product or service? Please explain fully.

Response to USPS/UPS-T3-3. On page 12 of my testimony, I note that a long run concept of incremental cost would include costs that are avoidable in a two to four year time frame, such as those costs labeled by the Postal Service as "specific fixed costs" that can be adjusted in such a time frame but that may not be volume variable. As a general matter, in the absence of decreasing returns to scale long run incremental costs will always be at least as great as short run incremental costs. This is true because in the long run, the Postal Service would be able to eliminate more costs than it would be able to eliminate in the short run.

DECLARATION

I, J. Stephen Henderson, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.



J. Stephen Henderson

Dated: FEBRUARY 9, 1998

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.



John E. McKeever

Dated: February 10, 1998
Philadelphia, PA