

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

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POSTAL RATE AND FEE CHANGES, 2000

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Docket No. R2000-1

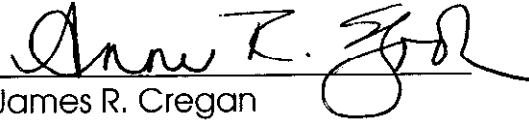
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TIME WARNER INC.
CONCERNING ERRATA TO TESTIMONY
OF WITNESS NELSON (MPA-T-3) (ERRATUM)

(MAY 24, 2000)

Pursuant to the Commission's Rules of Practice, Magazine Publishers of America, et al., hereby provide notice of the filing of errata to the testimony of witness Nelson. These errata correct transcript references at pages 9 (n.4), 10 (n.5), 16 (n.9), 18 (l. 8) and 19 (ll. 4, 11 and 20) -- they do not affect the substance of witness Nelson's testimony. On the attached copies of the revised pages 9, 10, 16, 18 and 19, corrected footnotes appear in a typeface different than that in the original, and corrections to the text appear in boldface type, for ease of reference. The attached

pages replace the original pages filed as part of MPA-T-3 on May 22, 2000.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with the Commission's Rules of Practice.


Anne R. Noble

Washington DC
May 24, 2000

1 generally exhibited a high degree of explanatory power, and high statistical
2 significance for the variables needed to estimate the relevant elasticity.

3 The details of this analysis are presented in a library reference
4 accompanying this testimony. I note that because these models, like the Postal
5 Service models, do not account for the elasticity of gross CFM with respect to net
6 CFM, they likely overstate true variability. Nevertheless, the results of my
7 analysis, which are summarized in Table 1, indicate that total volume variability
8 for purchased highway transportation is approximately 53.1 percent, and that the
9 Postal Service methodology overstates this variability by approximately 28.5
10 percentage points. For Periodicals, the Postal Service methodology overstates
11 volume variable highway transportation costs in BY98 by \$87.8M.

12 13 IV. OTHER TRANSPORTATION COSTING ISSUES

14 15 A. Amtrak Roadrailleurs

16
17 As part of its effort to obtain increased revenues from its mail and
18 “express” business, Amtrak has begun using “Roadrailleurs”. A Roadrailer is a type
19 of trailer that can operate over the highway in a normal tractor/trailer
20 combination, or be quickly adapted to ride on rails without the types of intermodal
21 rail cars normally required to transport highway trailers and shipping containers.
22 When added to the roster of Amtrak service offerings, Roadrailleurs provided a
23 new capability for truckload movement.

24 Roadrailer movements are not sampled by TRACS,⁴ so the precise
25 composition of mail moving on Roadrailleurs is not known. However, because
26 Amtrak is only investing in this technology to attract new business, it can
27 reasonably be concluded that Roadrailleurs are not being used to divert the Postal
28 Service volume that Amtrak already moves (and that is sampled by TRACS).
29 Rather, the speed, reliability, distance and truckload volume characteristics of
30 Roadrailer service make it most analogous to inter-SCF highway transportation

⁴ MPA/USPS-T1-6, Tr. 17/6769

1 with respect to the types of movements for which it could beneficially be used to
2 attract traffic from the Postal Service.

3 The Postal Service has indicated that \$4.5M of BY98 Amtrak accrued
4 costs were associated with Roadrailer movements.⁵ I have removed this amount
5 from the pool of accrued Amtrak costs, and distributed it to classes and
6 subclasses using the inter-SCF distribution key. On this basis, I estimate that the
7 USPS BY98 treatment of Amtrak Roadrailer movements overstates Periodicals
8 costs by \$3.1M.

9 **B. Empty Equipment Movement – Rail**
10

11 The USPS analysis of empty equipment movements via rail improperly
12 treats such costs as if they were caused by the mail that moves on freight rail
13 and Amtrak. Empty equipment movements via rail include equipment moving
14 to/from MTECs that was or will be used for other types of surface
15 transportation.

16 To account for this, I have revised the distribution key applied to rail empty
17 equipment moves so that it reflects the combined distribution of volume variable
18 costs associated with purchased highway, freight rail, Amtrak and water
19 movements. The USPS BY98 treatment of empty equipment movements via rail
20 overstates Periodicals costs by \$5.3M.

21
22 **V. VARIABILITY OF ROUTINE LOOPING/DISMOUNT STOPS ON**
23 **MOTORIZED LETTER ROUTES**
24

25 MPA also requested that I examine an issue relating to city carrier costs,
26 about which I testified in Docket R97-1. My reexamination of this issue leads me
27 to suggest a refinement in my previous analysis.

28 The variability of routine loops/dismounts, which is applied in the analysis
29 of driving time on motorized letter routes in CRA worksheet 7.0.4.4, was first
30 estimated in Docket No. R97-1. The value of 40.99% was determined by me on
31 the basis of the variability characteristics of different types of routine

⁵ MPA/USPS-22, Tr. 21/8926; supplemental response filed 5/18 (not yet designated).

1 Several approaches are available to address this issue:

- 2 i. USPS could use this information to negotiate more vigorously with
3 Amtrak to obtain a truck-competitive rate;
4
5 ii. If this does not produce satisfactory results, USPS could actually
6 convert the traffic to truck and obtain an appropriately reduced rate;
7 or,
8
9 iii. USPS and Amtrak could create additional benefits for all parties by
10 restructuring their agreement so that for a fixed payment, USPS
11 obtains the option to use Amtrak at marginal rates that are
12 somewhat below truck rates. On a terms-of-incurrence basis, this
13 would produce volume-variability of less than 100%, while creating
14 an opportunity for the Postal Service to economize on a portion of
15 the \$660+ million it spends annually on inter-SCF and inter-BMC
16 highway transportation, and an opportunity for Amtrak to make
17 money from that traffic.
18

19 If the Postal Service undertakes any of these options, volume variable Amtrak
20 costs would be reduced by at least the amount of the premium. To account for
21 this in the Test Year, Amtrak costs should be reduced by \$19.0M. The portion of
22 this savings associated with Periodicals is \$15.4M. If option (iii) is developed, it
23 would produce additional savings for mail now moving on purchased highway
24 transportation.
25

26 D. Freight Rail Rates 27

28 In its response to an MPA interrogatory⁹, which included a request for
29 “documentation of any and all volume incentive rate, discount or credit terms in
30 effect for [freight rail] transportation provided to the Postal Service in BY98”. The
31 Postal Service states:

32 “(t)here are no such rates, discounts or terms. There is not
33 even language in postal contracts with the freight railroads that
34 provides for the credit, volume discounts, incentive rates and the
35 like. The Postal Service simply does not have the volume of
36 business with the freight railroads required to obtain these terms.”
37

⁹ See the supplemental response of the Postal Service to MPA/USPS-40 (b), dated 5/2/00 (not yet designated).

1 E. Additional Items For Which Data Not Yet Available
2

3 A number of additional items may produce savings for Periodicals that are
4 achievable by TY01. These include the following:

5
6 1. Conversion from Freight Rail to Highway
7

8 In the response to MPA/USPS-31b (Tr. 21/8934), the Postal Service
9 indicates that it anticipates higher costs as a result of the service-driven
10 conversion of freight rail traffic to highway. Current post-merger rail service
11 disruptions in the East, like those that occurred in the West beginning in 1997,
12 are expected to dissipate by the Test Year, removing any need for conversion to
13 highway.

14 The Postal Service should remove from the Test Year any increment in
15 costs associated with an assumed need to convert freight rail traffic to highway.
16

17 2. Stacking of Pallets
18

19 The generally low capacity utilization in purchased highway transportation
20 interacts with methods used to collect TRACS data to overstate cost causality for
21 some types of mail. Specifically, pallets (typically used for bulk movement of
22 Periodicals) may not be stacked when floorspace utilization is low. In a TRACS
23 test, no adjustment is made for the fact that such pallets do not preclude use of
24 the airspace above them (up to 72"), and could be stacked on each other if
25 required¹⁰. The Postal Service should modify the TRACS-Highway data collection
26 process so that it collects information about the stacking of pallets similar to
27 TRACS-Amtrak tests. In the meantime, the Postal Service should estimate the
28 potential reduction in floorspace utilization that would be associated with the
29 stacking of pallets, and make appropriate adjustments in the TRACS-Highway
30 distribution keys.

¹⁰ FGfSA/USPS-T1-25, Tr. 17/6763.

1 3. Study of Transportation Utilization and “Reductions in Unutilized
2 Capacity”
3

4 As described in its response to MPA/USPS-17c, **Tr. 21/8923**, the Postal
5 Service is conducting a study of transportation utilization, and may be able to
6 realize savings through reductions in unutilized capacity. Any such savings that
7 are identified for the Test Year should be applied.
8

9 4. \$100M Future Cost Reduction
10

11 As described in its response to MPA/USPS-30, **Tr. 21/8933**, the Postal
12 Service is expecting to realize \$100M savings in purchased highway
13 transportation through reductions in vehicle mileage, fuel and trailer leasing
14 expenses. Any such savings that are identified for the Test Year and do not
15 duplicate savings reported elsewhere should be applied.
16

17 5. Process Improvements, Cycle Time Reductions, and Possible Unit
18 Cost Reductions
19

20 As described in its response to MPA/USPS-45, **Tr. 21/8945**, the Postal
21 Service may be able to achieve savings through process improvements, cycle
22 time reductions and unit cost reductions. Any such savings that are identified for
23 the Test Year and do not duplicate savings reported elsewhere should be
24 applied.