

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

UNITED STATES POSTAL SERVICE  
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO  
UNITED PARCEL SERVICE WITNESS NEELS  
(USPS/UPS-T1-13-17)

Pursuant to rules 25 and 26 of the Rules of Practice and procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to United Parcel Service witness Neels: USPS/UPS-T1-13-17.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Susan M. Duchek

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June 2, 2000

USPS/UPS-T1-13. Please refer to your testimony, UPS-T-1, at page 63, lines 5-

9. You state that to “capture the effects of structural changes in the underlying technology and organizational design of the postal system, I analyze the effects of mail volume on work hours using aggregate, system-level time series data on volumes and mail processing costs. These aggregate data, by their very nature, automatically reflect net changes in productivity and efficiency from system-wide structural changes.”

- a. With respect to your statement that “[t]hese aggregate data... automatically reflect net changes in productivity and efficiency from system-wide structural changes,” please confirm that “[t]hese aggregate data” refers to the cost data.
- b. If your response to part (a) does not confirm, please explain how the aggregate volume data you use in the analysis reported in Table 11 and Table 12 of UPS-T-1 purport to capture changes in any factor explaining mail processing cost other than mail volume. As necessary, resolve any inconsistencies between your response and your apparent use of fixed (FY98) class weights  $w_j$  and a fixed worksharing parameter  $\lambda$  to construct your volume index, as described on page 66 of UPS-T-1.
- c. Please confirm that if your aggregate time series analysis excludes relevant explanatory variables other than mail volume, the “volume-variability” results you present in Table 11 and Table 12 of UPS-T-1 will be biased and/or inconsistent except in the special case that volume and the excluded variables are orthogonal. If you do not confirm, please resolve the

inconsistency between your answer and standard econometric theory (cf., e.g., Proposition 9 at pages 39-40 of Peter Schmidt's *Econometrics*).

USPS/UPS-T1-14. Please refer to your testimony, UPS-T-1, at page 64, lines 5-9. You indicate that the cost data for cost segment 3.1 are taken from the Postal Service's response to UPS/USPS-T11-7-17, specifically citing to Tr. 21/9351-9352.

- a. Please explain how, if at all, you account for the effect on Cost Segment 3.1 costs of changes in the definition of Cost Segment 3.1 in your aggregate time series analysis, other than conflating the effect with that of volume.
- b. If you claim that you account for changes in the definition of Cost Segment 3.1 in response to part (a), please provide detailed citations to the section(s) of your testimony and/or workpapers that describe the variable(s) or other quantitative method(s) you use for this purpose.

USPS/UPS-T1-15. Please refer to your testimony, UPS-T-1, at page 69, lines 1-8. At lines 5-7, you discuss the "importance of considering capital costs in evaluating the response of mail processing costs to increases in volume." You also refer at lines 7-8 to "Dr. Bozzo's argument that the capital intensity of mail processing is unaffected by growth in mail volume."

- a. Please confirm that the three cost segments you analyze in your aggregate time series analysis represent labor costs. If you do not confirm, please indicate which non-labor cost segments you include in your analysis.

- b. Please provide a detailed citation to the portion of Dr. Bozzo's testimony containing "Dr. Bozzo's argument that the capital intensity of mail processing is unaffected by growth in mail volume."

USPS/UPS-T1-16. Please confirm that the work sharing parameter,  $\lambda$ , that you describe at page 66, line 14, to page 67, line 1, does not vary by class or subclass. If you do not confirm, please explain.

USPS/UPS-T1-17. Please consider the workhour weights  $w_j$ , which you describe in your testimony, UPS-T-1, at page 66, lines 2 and 14.

- a. Please confirm that the notation  $HRS_{j,98}$  at page 66, line 2, and  $L_{j,98}$  at page 66, line 4, refer to the same thing. If you do not confirm, please explain fully the differences between the two.
- b. Please confirm that the workhours by class that you use in the construction of  $w_j$  do not include workhours from mail processing cost pools other than the nine cost pools in the column headings of the "transition matrix" you present in UPS-T-1, Appendix G.
- c. If you confirm in response to part (b), please explain fully why you ignored the mail processing cost pools other than the nine cost pools in the column headings of the "transition matrix" you present in UPS-T-1, Appendix G.
- d. If you do not confirm in response to part (b), please provide an Excel spreadsheet containing a detailed derivation of the data you present in UPS-T-1, Appendix H.

## 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.

A handwritten signature in cursive script, appearing to read "Susan M. Duchek", is written above a horizontal line.

Susan M. Duchek

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