DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000	)	**Docket No. R2000-1**

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC.
WITNESS NELSON TO FIRST SET OF INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE
(USPS/MPA-T3-1-15)

(JUNE 16, 2000)

Magazine Publishers of America, Inc. hereby provides the response of witness Nelson to the following interrogatories of the United States Postal Service: USPS/MPA-T3-1-15, filed on June 2, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO FIRST SET OF INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/MPA-T3-1. Please list all documents including testimonies, transcripts, library references, and Commission Opinions and Recommended Decisions from the current and prior proceedings that you reviewed in preparation of your testimony.

Response:

Testimonies: USPS-T-1 (Xie); USPS-T-14 (Meehan); Workpaper B-14; USPS-T-15 (Bozzo); USPS-T-18 (Bradley); USPS-T-19 (Pickett).

Library References: USPS LR-I-1; USPS LR-I-2; USPS LR-I-3; USPS LR-I-50; USPS LR-I-52; USPS LR-I-60; USPS LR-I-63; USPS LR-I-84; USPS LR-I-85; USPS LR-I-86; USPS LR-I-97.

Exhibits: Exhibit USPS-11A.

Responses to Interrogatories: Responses to interrogatories directed to USPS-T-1 and USPS-T-18; Institutional responses of USPS to transportation-related interrogatories.

Documents from Docket No. R97-1: PRC Opinion and Recommended Decision; USPS-RT-3 (Young); Library References USPS LR-H-61, USPS LR-H-62 and USPS LR-H-78; my responses to ADVO interrogatories.

Documents from Docket No. R94-1: USPS LR-G-112

USPS/MPA-T3-2. Refer to your discussion of "Stacking of Pallets" on page 18 of your testimony.

(a) Consider the following hypothetical example of two TRACS-Highway tests: one on truck A and one on truck B. Truck A and B have the same capacity. On truck A, ten pallets are on the floor, with nothing stacking on top of them, and they occupy 10% of the floor space. On truck B, ten pallets are on the floor and ten more are stacked on top of them, for a total of 20 pallets. They occupy 10% of the floor space; the same floor space as the ten pallets on truck A. Is it your understanding that TRACS-Highway will record 10% of the floor space utilization for the 10 pallets on truck A and 10% for the 20 pallets on truck B? Please explain fully.

(b) Consider the following hypothetical example of two TRACS-Amtrak tests: one on train A and one on train B. On train A, ten pallets are on the floor with nothing stacked on top of them. The data collector records that ten pallets were unloaded from the train and that zero were not on the floor (stacked). On train B, ten pallets are on the floor and ten more are stacked on top of them, for a total of twenty pallets. The data collector records that twenty pallets were unloaded from the train and that ten pallets were not on the floor (stacked). Given a default foot print of 13 square feet per pallet, is it your understanding that TRACS-Amtrak will calculate 13*(10-0)=130 square feet for the 10 pallets on train A and 13*(20-10)=130 square feet for the 20 pallets on train B? If not, please explain how you believe TRACS-Amtrak assigns space to pallets.

Response:

(a) Yes, provided that in both cases the given pallets are unloaded at the facility where the TRACS test was taking place.

(b) I do not have a precise understanding of that portion of the TRACS-Amtrak expansion code. The cited portion of my testimony does not rely on any assumptions or beliefs regarding the TRACS-Amtrak expansion process.

USPS/MPA-T3-3. On page 5, line 14 you state that "the Postal Service has considerable latitude to alter the sizes of vehicles used on most routes in response to volume changes without adding trips.

(a) Please describe what you mean by "volume changes" in this context.
(b) Do you believe this statement to be true of

(1) all postal purchased highway transportation?
(2) highway transportation classified as intra-SCF for the purposes of producing costing in this case?
(3) highway transportation classified as inter-SCF for the purposes of producing costing in this case?
(4) highway transportation classified as intra-BMC for the purposes of product costing in this case?
(5) highway transportation classified as inter-BMC for the purposes of product costing in this case?
(6) highway transportation classified as plant load for the purposes of costing in this case?

(c) Of the types of highway contract service listed in subpart (b) above, which type of service is most likely to be able to alter vehicle size in response to volume increases? Please explain why.
(d) Of the types of highway contract service listed in subpart (b) above, which type of service is least likely to be able to alter vehicle size in response to volume increases? Please explain why.
(e) You use the phrase "alter the sizes of vehicles."

(1) Do you mean on a day-to-day basis? If your answer is no, please explain.
(2) To your knowledge, can a highway contract provide a vehicle in excess of the size required by the contract? Please explain.

(f) On page 5, line 21, you state that there are "circumstances where it is not possible to add capacity without adding vehicle mileage." Please describe all such circumstances.
(g) At the bottom of page 5, you refer to witness Young's testimony in Docket R97-1 to demonstrate the proposition that dropping a facility from a run (such as Merrifield VA) "inherently reduces circuity, and the gross CFM needed to move a given amount of mail."

(1) Please explain how you understand the mail moving between the Washington BMC and Merrifield will get to Merrifield after the stop is skipped.
(2) Is it possible that another route trip can be modified of added to transport the mail from the BMC to Merrifield?
(3) Is it possible that this new route trip can actually have increased CFM and circuity?

(a) Changes in the volumes that determine the size of vehicle procured for a given route. As described by Postal Service witness Young in Docket No. R97-1, it is my understanding that such volumes coincide generally with expected weekly volume peaks.

(b) Yes. This belief is based on the fact that well under half of all purchased highway transportation in each category makes use of the largest available vehicles (trailers or vans) in that category.

(c) As shown in my workpaper WP-4, the contract categories for which the smallest proportion of purchased highway transportation makes use of the largest available vehicles are intra-CSD trailers, intra-PDC trailers and inter-PDC trailers.

(d) As shown in my workpaper WP-4, the contract category for which the largest proportion of purchased highway transportation makes use of the largest available vehicles is inter-cluster vans.

(e)
1. No. It refers to changing the size of the vehicle specified to meet a given route and schedule requirement.

2. Yes. It is my understanding that a highway contractor is generally allowed to provide a vehicle in excess of the size required by the contract.

(f) For a given route and schedule, it is not possible to add capacity without adding mileage:

(i) if the vehicle is already of a maximum size;
(ii) if the density characteristics of the mail and equipment being moved prevent the utilization of additional cubic capacity that may be available in a larger vehicle; or,
(iii) if unique, local physical constraints prevent the use of a larger vehicle.

(g)

1. My understanding, based on witness Young's description, is that the mail moving between the Washington BMC and Merrifield could be diverted to another contract or another trip on the original contract.

2. Yes.

3. It is certainly possible, if not likely, that the diversion of mail to another trip or contract would increase capacity requirements, and thus CFM, for that trip or contract. It may be theoretically possible, but would appear to be extraordinarily unlikely, that the Postal Service would increase total circuity. If the Merrifield mail is diverted to another trip on the same contract, its circuity is unchanged, while the circuity of the Norfolk mail is reduced. If the Merrifield mail is diverted to another contract, total circuity would only increase if the Merrifield mail were diverted to a contract that entailed the addition of circuity in excess of the amount of circuity saved on the Norfolk mail. If the diversion of Merrifield mail in this latter scenario really entailed lower costs than changing capacity on the original route (which would hold circuity constant), the Postal Service would have had an economic incentive not to operate the original route in the first place.

USPS/MPA-T3-4. Please define the terms "gross CFM" and "net CFM" as you use them on page 6, line 3.

Response:

"Gross CFM" refers to the capacity procured on highway contracts, reflecting the product of mileage and cubic capacity for contract movements. "Net CFM" refers to the transportation service received by the mail being moved, reflecting the product of the cubic volume of that mail and the direct, point-to-point distance of the transportation it receives.

USPS/MPA-T3-5. On page 8, you refer to difficulties in using mean centered data in your model. Please explain why mean centered data cannot be used in your model.

Response:

As shown in my Workpaper WP1 and explained in further detail in my Workpaper WP4, the inter-BMC model yielded statistically insignificant (and negative) results for the CFM variable, but good statistical *significance for the squared and cross-product terms that contain the* CFM variable. I concluded from this that witness Bradley's approach of evaluating the elasticity only from the (mean-centered) first-order term may produce implausible and unusable results in the context of the modified specification being estimated, and that the results from the translog specification may be quite sensitive to the evaluation method chosen.

USPS/MPA-T3-6. On page 9, you begin a discussion of Amtrak Roadrailer service, in which you state "it can reasonably be concluded that Roadrailers are not being used to divert the Postal Service volume that Amtrak already moves."

(a) Is it your understanding that the mix of mail classes and subclasses utilizing Roadrailer service is necessarily different than the mix using conventional Amtrak service because Amtrak is trying to "attract new business?"
(b) Is it not possible that Roadrailer service can be used to attract to Amtrak Periodicals volume that is currently carried by freight rail? Please explain.
(c) Is it not possible that Roadrailer service can be used to attract to Amtrak Periodicals mail currently carried by highway transportation? Please explain.
(d) If Roadrailer service were used exclusively to transport Periodicals mail not previously carried by Amtrak, would you agree that it would be appropriate to distribute the $4.5 million in Roadrailer costs to Periodicals mail? Please explain any answer other than an unqualified "yes".

Response:

(a) It is my understanding that the mix of mail classes and subclasses making use of Roadrailer service is different than the mix using conventional Amtrak service, and that Amtrak's incentives in making this technology available to the Postal Service is a major contributing factor to this. As a witness for Amtrak in the STB proceeding that authorized the expansion of Amtrak's "express" business, I am familiar with Amtrak's initiatives to use the Roadrailer technology to attract new business. As part of my work on that case, I was asked to investigate the characteristics and uses of Roadrailer services procured from Amtrak by the Postal Service. My investigation in that case, which included discussions with knowledgeable Postal Service transportation specialists, indicated that Roadrailers were being used in a manner that generated new business for Amtrak, primarily from highway transportation.

(b) Generally no. While it would be physically possible for Roadrailers to be loaded with the types of inter-BMC mail that typically utilize freight rail transportation, freight rail generally provides a low level of service at a low price. On the other hand, Amtrak provides a high (truck-competitive) level of service at a higher price. In its response to MPA/USPS-24, the Postal Service has indicated that it did not shift freight rail traffic to Amtrak in the presence of major freight rail service disruptions following the merger of UP and SP. This confirms that transportation supplied by Roadrailers is not used by the Postal Service as a substitute for freight rail, and that the two services are in different "markets". I note that if such substitution were to occur, the proportion of freight rail costs distributed to Periodicals would be lower than that resulting from the inter-SCF highway distribution key, which I recommend.

(c) Generally yes. As indicated in my response to (a), Roadrailers are being used to divert movements primarily from highway transportation, and those movements include some Periodicals. I have no reason to believe that such diverted movements are made up disproportionately of Periodicals.

(d) Yes.

USPS/MPA-T3-7. On page 13, line 1 of your testimony, you state that postal purchased highway transportation requirements "are not unlike those of many shippers of high-value, expedited and just-in-time shipments . . . ." Is it your understanding that truckers who provide transportation for expedited and just-in-time in shipments are paid less than other truckers who provide lower value service? Please explain.

Response:

I have not studied the existence or magnitude of a differential in payment between shipments with high vs. lower value and time-sensitivity. The cited portion of my testimony does not require any assumption or conclusion of this type.

USPS/MPA-T3-8. Please refer to your discussion of the reduction in Test Year highway cost associated with "tightening administrative requirements".

(a) Please explain why 1/3 of the savings could be implemented in the test year.
(b) Does this 1/3 apply to FY 2000 and FY 2001 together?
(c) If the answer to part (b) is yes, please indicate the savings by year.

Response: (a)-(c) Use of 1/3 of the total potential savings was recommended on the basis that approximately 1/3 of the contracts in effect at the time the recommendation was made would be up for renewal before the end of the test year. Use of the 1/3 figure implicitly assumes that supra-competitive rates that may be in effect for a portion of the test year on specific contracts would be offset by other actions USPS might take to reduce its utilization of overpriced transportation services.

USPS/MPA-T3-9. On page 13, beginning on line 22, you discuss changes that occur during the duration of the 4-year highway contracts in effect in FY 1998.

(a) How many mergers were completed among Class 1 railroads in the United States from 1997 through 2000?
(b) How many regularly scheduled Acela trips did Amtrak run from 1997 to 2000?
(c) Please describe how the introduction of DPS affected transportation for Periodicals.
(d) Would you agree that, in theory, one way to deal with high fuel price swings would be to allow the Postal Service to assess fuel surcharges? If not, please explain.

Response:

(a) During the period 1997-2000, CN (including the former GTW property) merged with IC, and NS and CSX each merged with the portions of the former Conrail property that they acquired. Freight rail transportation options during this time were also directly affected by massive service disruptions that occurred during the completion of the UP/SP merger, for which regulatory approval had been received in the latter part of 1996.

(b) The Amtrak website reports that Acela Regional service is currently in operation. I do not know how many regularly scheduled runs will have been completed by the end of 2000.

(c) It is my understanding that DPS may affect the schedule and number of runs needed to distribute processed mail to delivery units. In the context of the cited quote, to the extent that the 4-year standard contract duration has inhibited the adjustment of transportation contracts to meet changes in requirements caused by DPS, USPS has had to purchase unneeded transportation services that Periodicals and other mailers have to pay for.

(d) I agree that in concept the Postal Service could charge rates that included an adjustable fuel surcharge. I do not know whether such rates would be permissible under existing statutes governing postal ratemaking, or otherwise be feasible or desirable to implement.

USPS/MPA-T3-10. Please refer to your discussion of the "Amtrak premium", beginning on page 14. Is it your understanding that Amtrak routings are always less direct than highway routings? Please explain.

Response:

It is my understanding that between virtually all city pairs, the mileage for a rail movement will exceed the mileage for a highway movement. This occurs primarily because trains are less able than cars and trucks to traverse grades, and require a right-of-way that is comparatively flat. Because highways have fewer restrictions of this type, they are generally able to provide transportation links between cities that are shorter on a mileage basis than those provided by railroads.

USPS/MPA-T3-11.

(a) Is it your understanding that the Postal Service consolidates "LTL shipments to truckload volumes" for Amtrak movements?

(b) Suppose the Postal Service hired Amtrak to do the consolidation. How would this be taken into account in you calculations? Would the postal cost you estimated be understated? Would the $15.4 million reduction in Periodicals Amtrak costs be reduced? Please explain.

Response:

(a) It is my understanding that the overwhelming preponderance of Amtrak capacity procured by the Postal Service involves an amount of capacity on a specific train that exceeds the capacity of a tractor trailer. In this way, the Postal Service is consolidating individual mailings into truckload (or greater) quantities for transportation purposes.

(b) I am not able to identify a "consolidation" function that the Postal Service could subcontract in the manner hypothesized. The consolidation referred to in my testimony relates to the combination of different mailer's transportation needs that occurs when those mailers tender mail to the Postal Service.

USPS/MPA-T3-12. Please refer to your discussion of Conrail costs on page 17.

(a) If Conrail were to be awarded an increase for carrying mail in the test year, would you be recommend increasing Conrail-related freight rail costs in the test year? Please explain.

(b) Is it your understanding that Conrail is currently seeking a reduction in its rates for carrying mail? Please explain.

Response:

(a) I would recommend that test year costs be based on the best available estimate of test year conditions.

(b) It is my understanding that "Conrail" no longer exists in the form that it has in the past, and that freight rail intermodal shippers in 2001 will have the benefit of market competition between NS and CSX across a broad territory that previously was served almost exclusively by Conrail.

USPS/MPA-T3-13. Please refer to your discussion of stacking pallets on page 18. At lines 24-25, you state that pallets "could be stacked on each other if required." (Footnote reference omitted.)

(a) When you say "if required", are you considering imposing the requirement on mailers or the Postal Service? Please explain.
(b) Is it your opinion that, except for the 72-inch maximum height of a pallet stack that you mention on line 24, there are no other limitations to the stacking of pallets?
(c) If you believe that there are other limitations of which you are aware of with regard to stacking pallets.

Response:

(a) Neither. The phrase "if required" refers to the degree of floorspace utilization as discussed in the preceding sentence. Specifically, that sentence indicates that pallets "...may not be stacked when floorspace utilization is low." The phrase "could be stacked on each other if required" refers to a condition normally created by a high degree of floorspace utilization, and not to any new operational requirements.
(b) No.
(c) It is my understanding that stacking pallets would sometimes create the possibility of damage to mail due to shifting of upper pallets; that pallets originating at different facilities will generally occupy different floorspace; and that the Postal Service generally avoids stacking loose mail on top of pallets to prevent significant delays in unloading. The Postal Service response to MPA/USPS-28 also suggests that the Postal Service may avoid stacking pallets in order to facilitate prompt unloading. It is my understanding that the stacking of pallets does not inherently introduce significant delays in unloading.

I note that the cited portion of my testimony refers to pallets that are not stacked as a result of low floorspace utilization, and does not address or depend upon any assumptions or beliefs regarding pallets that may not be stacked due to other factors.

USPS/MPA-T3-14. Please refer to Table 2 on page 21 of your testimony. Please provide all programs, calculations, workpapers, and documentation sufficient to understand and replicate the information shown in this table. If such information has already been provided, please provide appropriate references.

Response: The information reported in the first 6 columns of Table 2 is developed from HCSS using the procedures described in my workpaper WP-5. The figures in the column labeled "%" represent the percentage that the figures in the column labeled "Savings" form of the corresponding FY98 accrued costs reported in Line 39 of Worksheet 14.4 of Workpaper B-14 to USPS-T-11. This percentage is then applied to the corresponding Periodicals cost shown in Line 16 of that Worksheet to compute the figures shown in the column labeled "BY98 2C Savings".

For example, the "Savings" of $39.5M in the inter-SCF category represents 8.7 percent of the $451.8M accrued inter-SCF costs shown in C12L39 of Worksheet 14.4. The "BY98 2C Savings" of $4.7M represents 8.7 percent of the $53.5M shown in C12L16 of Worksheet 14.4.

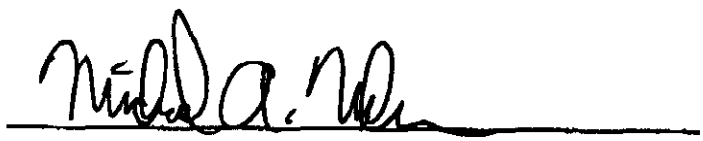
USPS/MPA-T3-15. Please refer to your estimate of the "Amtrak Premium" discussed on pages 14-16 of your testimony. Please provide all programs, calculations, workpapers, and documentation sufficient to understand and replicate the information shown in this table. If such information has already been provided, please provide appropriate references.

Response:

This information is developed using the procedures described in my workpaper WP-5.

DECLARATION

I, Michael A. Nelson, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.



Date: June 16, 2000

DECLARATION

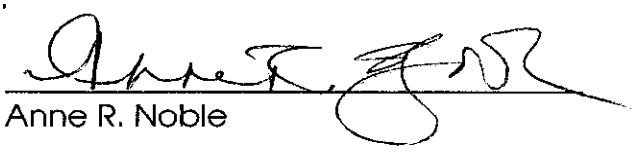
I, Michael A. Nelson, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

_____

Date:

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
June 16, 2000