

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001**

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POSTAL RATE AND FEE CHANGES, 2000

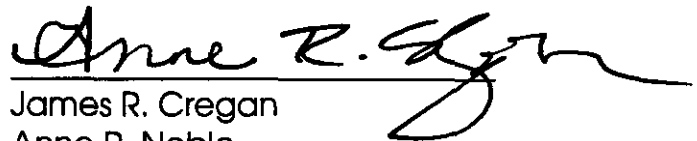
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Docket No. R2000-1

**RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC.
WITNESS NELSON TO SECOND SET OF INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE
(USPS/MPA-T3-16-17)**

(JUNE 22, 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-T3-16-17, filed on June 8, 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 SECOND SET OF INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/MPA-T3-16. Please refer to your testimony on page 3, line 8.

- a) Please define what you refer to as "a significant share of long-haul truck traffic" that has been diverted to rail.
- b) What share are you referring to? What products have shifted? Provide all calculation and data underlying the share before and after division?
- c) Is it your understanding that the shift was based on price? Please explain.
- d) Is it your understanding that freight railroads typically provide service comparable to highway carriers engaged in just in time service? Please explain.
- e) Is it your understanding that freight railroads typically provide service comparable to highway carriers engaged in trucking mail? Please explain.

RESPONSE:

- (a) The referenced "significant share of long-haul truck traffic" involves a large proportion of the 8.8+ million trailers and containers that move annually by freight rail in intermodal service. A brief overview of this traffic is provided in "Intermodal Transport: The Fastest Growing Segment Of The Railroad Industry", which is presented in the "Stats & Facts" section of the website of the Association of American Railroads (AAR), at <http://www.aar.org/>.
- (b) I am not referring to a specific numerical share of a precisely defined "market", and have not performed a "before and after" comparison for specific commodity flows. Data presented in the "Intermodal Transport" document referenced in (a) indicate that overall intermodal volumes increased by approximately 184 percent between 1980 and 1998. It is my understanding that since 1998 this pattern of growth has continued.

- (c) It is my understanding that both price and service considerations have played a part in the diversion of long-haul truck traffic to rail. In the presence of market forces, cost-reducing technological innovations, such as double-stacking of containers, have proliferated, and contributed to the ability of rail carriers to provide intermodal service at comparatively low prices. At the same time, railroad mergers have broadened the geographical coverage of single-line service offerings, and coordinated intermodal services involving multiple railroads have been developed. Railroads generally attempt to give priority to intermodal trains in scheduling and dispatching so as to provide transit times that are competitive with truck in some markets.
- (d) It is my understanding that freight rail intermodal service is often somewhat slower and less reliable than the service provided by highway carriers, and that these differences have been magnified by pronounced but transient service disruptions that have accompanied recent railroad mergers. Intermodal service is also constrained by the arrival and departure time limitations imposed by train schedules and loading/unloading requirements, and is not well-suited to the provision of en-route stops. Nevertheless, in specific situations, it is my understanding that railroads have been able to effectively satisfy transportation requirements associated with "just-in-time" industrial processes.
- (e) Please see my response to part (d). It is my understanding that freight rail typically provides service that is sufficiently comparable to truck that it is utilized in lieu of truck for transportation of significant volumes of mail. This is manifest in the Postal Service's substantial use of freight rail intermodal service, and the even greater use of intermodal service made by United Parcel Service.

USPS/MPA-T3-17. Please refer to your statement on page 3, lines 14 through 22: "In effect, these mailers are finding that they can provide themselves with more economical transportation that the Postal Service provides for them."

- (a) Please provide all studies you have conducted that have lead you to this conclusion.
- (b) Please provide the cost per mile of highway transportation used by mailers during the period of "rapid growth" to which you refer.
- (c) Please list all mailers with whom you have communicated who told you that they can provide "more economical transportation".
- (d) Is it your understanding that mailers bypass postal transportation solely on the basis of relative transportation cost? If your answer is no, please provide all other reasons why Periodicals mailers may choose to provide their own transportation.

Response:

(a) The referenced conclusion is a broad characterization based on the considerations outlined in the preceding sentences. It is not based on the results of any specific study.

(b) I do not have the requested information, and did not rely on any specific assumption regarding transportation costs for mailers. Section VI.A. of my testimony describes and quantifies the degree to which the Postal Service pays a premium when highway contracts are renewed. Section VI.B of my testimony describes and quantifies the degree to which mailers pay for obsolete service requirements under current highway contracting practices. It is my understanding that mailers would generally avoid these costs in their procurement of highway transportation. It is also my understanding that the transportation utilized by mailers to take advantage of dropshipping and destination-entry rates generally achieves higher levels of capacity utilization than that achieved by the Postal Service, contributing to lower effective unit costs.

(c) During the preparation of my testimony, I was provided descriptive information of this type by MPA witness Cohen based on her knowledge of the growth in dropshipping of periodicals. Subsequent to the preparation of my testimony, I was retained by a major mailer to assist in the development of initiatives to reduce mailing costs through reduction or avoidance of USPS transportation costs and substitution of mailer transportation as needed. This mailer has indicated an intention to minimize total mailing costs (including transportation), and further indicated that many other mailers have common interests in this area.

(d) No. Some mailers may choose to provide their own transportation due to service considerations. Entering the postal system closer to the point of delivery may also provide incidental service improvements for dropshipping that is undertaken for the primary purpose of reducing costs. However, it is my understanding, from the information sources described in my response to part (c), that most dropshipping of periodicals is undertaken primarily to reduce costs, and not improve service.

DECLARATION

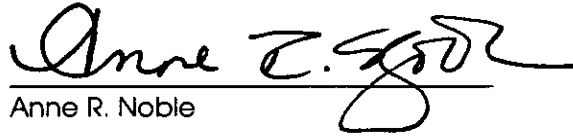
I, Michael A. Nelson, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Michael A. Nelson", is written over a horizontal line.

Date: 6-22-00

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 22, 2000