

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001

RECEIVED

JUN 28 4 22 PM '00

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

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 PARCEL SERVICE  
(UPS/MPA-T3-1-9)

---

(JUNE 28, 2000)

Magazine Publishers of America, Inc. hereby provides the responses of witness Nelson to the following interrogatories of the United Parcel Service: UPS/MPA-T3-1-9, filed on June 14, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



James R. Cregan  
Anne R. Noble  
Counsel  
Magazine Publishers of America, Inc.  
Suite 610  
1211 Connecticut Avenue NW  
Washington DC 20036  
(202) 296 7277

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

**UPS/MPA-T3-1.** Refer to your testimony on page 5, lines 11-13, where you describe the procurement of purchased highway transportation services by the Postal Service and state that "These vehicles are typically not the largest capacity vehicles (vans or trailers) that are available." Please indicate which of the following definitions applies to the term "available" in this sentence. If none of these definitions applies, please supply an appropriate definition.

- (a) "Available" in the sense that the larger vehicles were owned or operated by providers of purchased highway transportation services to the Postal Service.
- (b) "Available" in the sense that firms that bid unsuccessfully to provide purchased highway transportation services to the Postal Service offered such vehicles in their bids.
- (c) "Available" in the sense that other firms comparable to those providing purchased highway transportation services that were not being used to meet existing contract commitments.
- (d) "Available" in the sense that some number of such vehicles were operated by some firms somewhere in the U.S.

**Response:**

Available in the sense that the Postal Service procures transportation from its highway contractors using larger vehicles of the given type (van or trailer).

**UPS/MPA-T3-2.** Refer to your testimony on page 4, lines 12-15, which states, "while transportation services are generally procured through market processes, this testimony identifies way in which they appear to be unnecessarily costly in satisfying overall transportation requirements." Consider now two hypothetical changes in Postal Service behavior. In the first hypothetical, consider a situation in which the Postal Service minimizes the cost of purchased transportation, subject only to the constraints that all mail is delivered and service standards are met. In the second hypothetical, consider a situation in which the Postal Service minimizes its total cost of operations, subject only to the constraints that all mail is delivered and service standards are met.

- (a) Would purchased transportation costs be the same in these two situations?
- (b) Would purchased transportation costs in the second hypothetical situation be lower, equal to, or higher than purchased transportation costs in the first hypothetical situation?
- (c) Would it be efficient for the Postal Service to seek to minimize purchased transportation costs without regard to the effects that the resulting changes would have on other types of costs?

**Response:**

- a. Probably not, for reasons explained by Postal Service witness Young in Docket No. R97-1.
- b. My expectation would be that the second hypothetical situation would lead to higher transportation costs than the first hypothetical situation.
- c. In part. Postal Service witness Young explained how transportation requirements are determined largely by mail processing and distribution schedules and requirements. For any given set of transportation requirements, it would be efficient for the Postal Service to seek to minimize transportation costs by avoiding the payment of unneeded rate premiums and/or the procurement of unneeded services. This is the primary thrust of the cited portion of my testimony. It does not rule out the possibility that a different set of transportation requirements (associated with changed mail processing and distribution schedules and requirements) would lead to a lower total cost of operations.

**UPS/MPA-T3-3.** Refer to your testimony on page 8, lines 14-15, where you refer to "difficulties" encountered with Postal Service witness Bradley's evaluation method. Please provide a complete description of these difficulties, and of the way in which your approach solves each of these difficulties.

**Response:**

Please see my response to USPS/MPA-T3-5.

**UPS/MPA-T3-4.** Refer to your testimony on page 8, line 18, where you state that "the balance of my work was conducted using log-log models." Such models represent a special case of the more general translog models used by Dr. Bradley.

- (a) Did you perform any test to determine whether the restricted model form you used could be rejected statistically? If so, please provide the results of these tests.
- (b) Did you investigate any functional forms other than the log-log model whose results you report? If so, please provide the results of these investigations.

**Response:**

- a. No.
- b. No.

**UPS/MPA-T3-5.** Refer to your testimony on page 10, lines 13-15. What percentage of empty equipment movements via rail represented "equipment moving to/from MTESCs that was or will be used for other types of surface transportation"?

**Response:**

I do not have the requested percentage. The incumbent costing methodology relies upon an implicit assumption that empty equipment moving by rail is caused only by the mail that moves via freight rail or Amtrak. The cited portion of my testimony states the reason that this assumption is less appropriate than an assumption that other mail moved via surface transportation also has causal responsibility for the costs associated with moving empty equipment by rail.

**UPS/MPA-T3-6.** Is it your opinion that postal rates should be set on the basis of the Postal Service's actual costs, or on the basis of what the Postal Service's costs would be if it operated at the maximum possible efficiency? Please provide a complete explanation for your answer.

**Response:**

Within what I understand to be the statutory framework for postal ratemaking, it is my opinion that postal rates should be established on the basis of the best available estimates of costs and conditions that will be applicable in the test year.

**UPS/MPA-T3-7.** Refer to your testimony on page 13, lines 13-18, where you describe reductions in highway costs that the Postal Service can achieve by demanding more competitive terms from its contractors.

- (a) Is it your expert opinion that these cost reductions (i) can, and (ii) will, in fact be achieved in the test year?
- (b) What specific steps, if any, are you aware of that the Postal Service has taken to achieve these cost reductions?

**Response:**

a. It is my expert opinion that 1/3 of the total potential savings of this type that I estimate can be achieved in the test year. Please see also my response to USPS/MPA-T3-8. It is up to the Postal Service to determine whether it will take the actions needed for these savings to be realized in the test year.

b. It is my understanding, from MPA witness Cohen, that the Postal Service is assessing the merits of taking steps to achieve these savings in the test year.



**UPS/MPA-T3-8.** Refer to your testimony on page 14, lines 6-14, where you describe reduction in highway costs that the Postal Service can achieve by identifying and renegotiating unneeded contracts.

- (a) Is it your expert opinion that these cost reductions (i) can, and (ii) will, in fact be achieved in the test year?
- (b) What specific steps, if any, are you aware of that the Postal Service has taken to achieve these cost reductions?

**Response:**

a. It is my expert opinion that the savings of this type that I estimate can be achieved in the test year. It is up to the Postal Service to determine whether it will take the actions needed for these savings to be realized in the test year.

b. It is my understanding, from MPA witness Cohen, that the Postal Service is assessing the merits of taking steps to achieve these savings in the test year.

**UPS/MPA-T3-9.** Refer to your testimony on page 16, lines 1-24, where you describe reductions in cost that the Postal Service can achieve either by renegotiating its agreements with Amtrak, or by moving traffic from Amtrak to truck.

(a) Is it your expert opinion that these cost reductions (i) can, and (ii) will, in fact be achieved in the test year?

(b) What specific steps, if any, are you aware of that the Postal Service has taken to achieve these cost reductions?


**Response:**

a. It is my expert opinion that the savings of this type that I estimate can be achieved in the test year. It is up to the Postal Service to determine whether it will take the actions needed for these savings to be realized in the test year.

b. It is my understanding, from MPA witness Cohen, that the Postal Service is assessing the merits of taking steps to achieve these savings in the test year.

**DECLARATION**

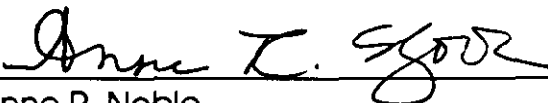
I, Michael A. Nelson, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

  
\_\_\_\_\_

Date: 6-28-00

**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 28, 2000