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 FOURTH SET OF INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE (USPS/MPA-T3-32-44)

(JUNE 29, 2000)

Magazine Publishers of America, Inc. hereby provides the responses of witness Nelson to the following interrogatories of the United State Postal Service: USPS/MPA-T3-32-44, filed on June 15, 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 FOURTH SET OF INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/MPA-T3-32. Please refer to Table 7 in Workpaper WP-4.

a. Confirm that the estimated variability for Inter-BMC is listed as 0.193. If you do not confirm, please present the correct "estimated variability."

b. Confirm that the source of the variability is the estimate coefficient on the variable entitled "LTRC_RL" in the regression presented in Workpaper WP-3, the "Inter-BMC Output Listing." If you do not confirm, please present the source of the variability.

c. Confirm that the t-statistic on that coefficient is 1.21. If you do not confirm, please provide the correct t-statistic for that coefficient.

Response:

a. Confirmed.
b. Confirmed.
c. Confirmed.

USPS/MPA-T3-33. Please refer to Workpaper WP-3.

a. Confirm that the weighted mean value among the observations used to estimate the regression equation for the variable RL is 159.21 in the intra-BMC category. If you do not confirm, please provide the corrected weighted mean value.

b. Confirm that the weighted mean value among the observations used to estimate the regression equation for the variable TRCUBE is 2743.74 in the intra-BMC category. If you do not confirm, please provide the corrected weighted mean value.

c. Confirm that the weighted mean value among the observations used to estimate the regression equation for the variable RL is 260.77 in the inter-Area/tractor trailer category. If you do not confirm, please provide the corrected weighted mean value.

d. Confirm that the weighted mean value among the observations used to estimate the regression equation for the variable TRCUBE is 2735.50 in the inter-Area/tractor trailer category. If you do not confirm, please provide the corrected weighted mean value

Response:

a. Confirmed.
b. Confirmed.
c. Confirmed.
d. Confirmed.

USPS/MPA-T3-34. Please refer to Workpaper WP-3.

a. Confirm that the form of the regression equation estimated in this workpaper is given by:

$$\ln\left(\frac{\text{Cost}}{\#\text{of Runs}}\right)=\sum\alpha_i D_i+\beta_1\ln(\text{Truck Cube}\times\text{Route Length})+\beta_2\ln(\text{Route Length})$$

where the D_i represent the intercept and dummy variables. If you do not confirm, please provide the correct form of the regression equation estimated in Workpaper WP-3.

b. Confirm that your recommended variability (except in those cases in which you choose to abandon your regression results) is given by the coefficient β_1. If you do not confirm, please provide the correct formula for your recommend variability.

c. Provide an economic interpretation for the coefficient β_2.

Response:

a. Confirmed.
b. Confirmed.
c. The elasticity of cost per run with respect to route length.

USPS/MPA-T3-35. Please refer to Workpaper WP-3

a. Confirm that the estimated coefficient for the variable LTRC_RL in the INTRA-CSD, intra-city equation is equal to -0.0909. If you do not confirm, provide the correct coefficient.

b. Confirm that the estimated coefficient for the variable LTRC_RL in the INTRA-CSD, tractor trailer equation is equal to 5.403. If you do not confirm, provide the correct coefficient

c. Confirm that the t-statistic on the estimated coefficient for the variable LTRC_RL in the INTRA-CSD, tractor trailer equation is equal to 4.90. If you do not confirm, please provide the correct t-statistic.

d. Confirm that the estimated coefficient for the variable LTRC_RL in the INTER-P&DC, tractor trailer equation is equal to 1.235. If you do not confirm, provide the correct coefficient.

e. Confirm that the t-statistic on the estimated coefficient for the variable LTRC_RL in the INTER-P&DC, tractor trailer equation is equal to 6.66. If you do not confirm, please provide the correct t-statistic.

Response:

a. Confirmed.
b. Confirmed.
c. Confirmed.
d. Confirmed.
e. Confirmed.

USPS/MPA-T3-36. Please refer to your WP-5 where you create field Ctype. Please provide the list of accounts that are included in each of the following Ctypes:

- Inter-BMC
- Intra-BMC
- Inter-SCF
- Intra-SCF
- Other High
- Water

Response:

Observed records in HCSS98 were classified as follows:

Acct.		Category
53131		Inter-BMC
53133		Inter-BMC
53609		Inter-SCF
53612		Inter-SCF
53613		Inter-SCF
53614		Inter-SCF
53616		Inter-SCF
53617		Inter-SCF
53618		Inter-SCF
53621		Inter-SCF
53622		Inter-SCF
53127		Intra-BMC
53129		Intra-BMC
53121		Intra-SCF
53601		Intra-SCF
53602		Intra-SCF
53603		Intra-SCF
53604		Intra-SCF
53605		Intra-SCF
53607		Intra-SCF
53139	Other	High
53183	Other	High
53191	Other	High
53134	Plant	Load
53135	Plant	Load
53136	Plant	Load
53184	Water	

USPS/MPA-T3-37. In your WP-5 where you create subset table HCSS.BIN, please explain what "water outlier" means.

Response:

The HCSS98 data contain a single record shown as being from a Water account. This record was considered an outlier.

USPS/MPA-T3-38. In your WP-5 where you create subset table HCSS.BIN, please confirm that your procedure "number of boxes is 0" is intended to remove all box routes from the HCSS dataset. If confirmed, please confirm that this is the only way to remove box routes. If not confirmed, please explain how else to remove box contracts.

Response:

Confirmed. I have not assessed or developed other methods that would have the effect of removing box routes.

USPS/MPA-T3-39. In your WP-5 where you create subset table HCSS.BIN, please confirm that "VEHGRP=12 (Power)" is intended to retain all power-only contracts. If confirmed, please confirm that many power only records have cube=0 and will get dropped in your analysis when you remove records where CFM=0. If not confirmed, please explain.

Response:

Confirmed.

HCSS98 was preprocessed to include both power-only and trips serviced by equipment with more than 50 cubic feet. The subset of nonpower-only trips (POWER = "N") was used in the analysis of cost per cubic foot mile.

USPS/MPA-T3-40. In your WP-5 where you create subset table HCSS.BIN, please explain the meaning of

i. RL !=0, and
ii. COST !=0.

Response:

"!=" is the NOT EQUALS operator, so RL != 0 is non-zero route length, COST != 0
is non-zero cost.

USPS/MPA-T3-41. Please refer to Table 2 from your testimony on page 21. Please provide:

- For each Ctype, the contract numbers (HCRIDs) used to produce your results for Cost, Cost/CFM, and Non-renewal cost/CFM.
- The Non-renewal costs for each Ctype and mileage.
- The Renewal and non-renewal CFMs for each Ctype and mileage.
- The formula used to produce the savings figures.
- The number of observations for each Ctype and mileage for renewal and non-renewal.

Response:

a. The requested contract numbers by Ctype are contained in MPA-LR-9, filed herein.

b. Non-renewal costs by contract type and mileage:

Inter-BMC:251-500	528749
Inter-SCF:0-250	17633594
Inter-SCF:251-500	6257051
Inter-SCF:500+	18442300
Intra-BMC:0-250	810218
Intra-BMC:251-500	149459
Intra-SCF:0-250	60238728
Intra-SCF:251-500	1706426
Plant Load:0-250	2763222
Plant Load:251-500	491582
Plant Load:500+	68088

c. Non-renewal CFM by contract type and mileage:

Inter-BMC:251-500	1586931968
Inter-SCF:0-250	36658171904
Inter-SCF:251-500	20010153984
Inter-SCF:500+	62318481408
Intra-BMC:0-250	1696489472
Intra-BMC:251-500	515268544
Intra-SCF:0-250	57675350016
Intra-SCF:251-500	5281177600
Plant Load:0-250	11748245504
Plant Load:251-500	784587456
Plant Load:500+	178341664

Renewal CFM by contract type and mileage:
Inter-BMC:0-250 24684009472
Inter-BMC:251-500 87984775168
Inter-BMC:500+ 482429599744
Inter-SCF:0-250 296261648384
Inter-SCF:251-500 136792072192
Inter-SCF:500+ 77980237824
Intra-BMC:0-250 187406368768
Intra-BMC:251-500 113699979264
Intra-BMC:500+ 29433219072
Intra-SCF:0-250 461475971072
Intra-SCF:251-500 13156861952
Intra-SCF:500+ 3800621312
Plant Load:0-250 19759007744
Plant Load:251-500 728032640
Plant Load:500+ 778332800

d. Savings = Cost x (1 - ((Nonrenewal Cost/CFM)/(Cost/CFM))), as presented in Table 2. The values for "Cost" and "Cost/CFM" reflect renewal contracts only.

e. Number of non-renewal observations by contract type and mileage:
Inter-BMC:251-500 1
Inter-SCF:0-250 173
Inter-SCF:251-500 22
Inter-SCF:500+ 31
Intra-BMC:0-250 1
Intra-BMC:251-500 1
Intra-SCF:0-250 853
Intra-SCF:251-500 6
Plant Load:0-250 46
Plant Load:251-500 29
Plant Load:500+ 9

Number of renewal observations by contract type and mileage:
Inter-BMC:0-250 16
Inter-BMC:251-500 37
Inter-BMC:500+ 114
Inter-SCF:0-250 918
Inter-SCF:251-500 120
Inter-SCF:500+ 41
Intra-BMC:0-250 146
Intra-BMC:251-500 47

Intra-BMC:500+	13
Intra-SCF:0-250	5501
Intra-SCF:251-500	19
Intra-SCF:500+	3
Plant Load:0-250	169
Plant Load:251-500	26
Plant Load:500+	23

USPS/MPA-T3-42. Please refer to Table 2 on page 21 of your testimony. Suppose the renewal cost was actually less than the non-renewal costs, for a particular Ctype. In your analysis, which cost did you include in your savings estimate, the renewal cost or non-renewal cost? Please explain.

Response:

As shown in Table 2, the renewal costs were found to be lower than the nonrenewal costs for intra-BMC and intra-SCF moves of 0-250 miles. The negative "savings" estimates associated with using the nonrenewal costs in these categories were included in my overall savings estimate. If the renewal costs were used in those instances, the overall savings estimate would be higher.

USPS/MPA-T3-43 Please refer to footnote 11 on page 21.

i. Please explain why Inter-SCF types are good proxies for the missing non-renewed cost/CFMs.

ii. Did you consider any other proxies? Please explain.

iii. If you considered any other proxies, please provide all workpapers, programs, and analyses which used these other proxies .

Response:

i. They are believed to entail service requirements that are equivalent to or more stringent than the service standards of the categories for which they are used as proxies. To the extent that unit costs vary with service levels, use of inter-SCF costs should tend to understate the savings at issue in this analysis. See also my response to part (ii).

ii. Within the context of this analysis, sufficient observations for nonrenewal contracts are only available in inter-SCF, plant load and 2 of 3 mileage blocks for intra-SCF. Among these options, I believed that intra-SCF could be influenced by vehicle size considerations, while plant load is operationally different. Inter-SCF seemed to be the most appropriate of the available options, particularly for intra-BMC and inter-BMC transportation. I note that the intra-SCF category requiring use of a proxy is quite small.

iii. No analyses were performed using any other proxies.

USPS/MPA-T3-44. Please refer to Table 2 on page 21 of your testimony . Please explain the rationale for the Length breakout (0-250, 251-500, 500+). Did you consider any other breakouts for Length? If so, please provide all workpapers, programs, and analyses which used these other proxies .

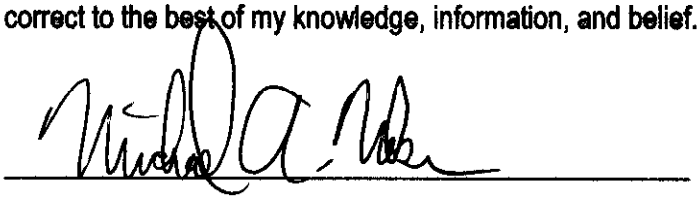
Response:

The length breakout is based upon my judgment and experience in freight transportation analyses. It reflects variations in cost characteristics that may occur at different trip distances, primarily as a result of driver hours of service and domicile issues. The short mileage range (0-250 miles) generally encompasses trip distances that a single driver can cover in a day and return home. Up to the vicinity of 500 miles, a single driver would generally be able to drive the route in a day, but would have to sleep away from home. On longer distances, multiple days away would generally be required for single drivers, and movements that have high service requirements may utilize team drivers. Obviously, these are general characterizations to which there may be exceptions in specific situations.

No other length breakouts were considered or utilized.

DECLARATION

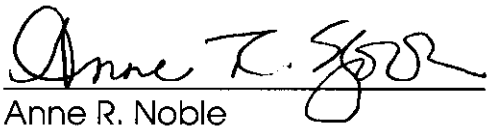
I, Michael A. Nelson, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.



Date: 6-29-00

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, D.C.
June 29, 2000