BEFORE THE
POSTAL RATE COMMISSION

POSTAL RATE AND FEE CHANGES, 2000	:	DOCKET NO. R2000-1

ERRATA FILED BY UNITED PARCEL SERVICE
TO THE DIRECT TESTIMONY OF UPS
WITNESS KEVIN NEELS (UPS-T-1)
(June 30, 2000)

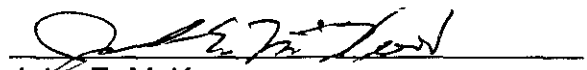
As indicated in the response of UPS witness Kevin Neels to interrogatory USPS/UPS-T1-7(a) filed on June 14, 2000, certain sources referenced on page 62 of Dr. Neels' testimony (UPS-T-1) were misidentified. The necessary revisions are noted on the attached sheet, and a revised page 62 is also attached.

Similarly, in response to interrogatory USPS/UPS-T1-25 filed on June 23, 2000, Dr. Neels noted that the term "SPBS" should not appear on line 6 of page 28 of his testimony (UPS-T-1). Again, the attached sheet reflects the necessary change, and a revised page 28 is attached.

Finally, the reference to Appendix C on line 14 of page 35 should be to Appendix D, as noted on the attached sheet and revised page 35.

UPS regrets the inconvenience these oversights may have caused.

Respectfully submitted,



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IDENTIFICATION OF ERRATA TO
DIRECT TESTIMONY OF UPS
WITNESS KEVIN NEELS (UPS-T-1)

Page	Line	Revision
28	6-7	Change "for SPBS, Manual Parcels, and" to "for Manual Parcels and"
35	14	Change "Appendix C" to "Appendix D"
62	Note 3	Change "Exhibit 9" to "Table 8"; change "Appendix 5" to "Appendices E and F"
62	Note 4	Change "Exhibit 10" to "Table 6"
62	Note 5	Change "Exhibit 11" to "Table 7"

Manual Parcels, these data series are likely to have other errors that are undetectable by simple screens.

(c) Implications for Econometric Results

Measurement error in an explanatory variable of a linear regression model renders the estimator inconsistent and frequently biases coefficient estimates towards zero. Dr. Bozzo himself explains that the likely reason his variabilities for Manual Parcels and Priority Mail are considerably higher than those reported by Dr. Bradley in R97-1 is that the newer results reflect the use of tighter selection criteria to eliminate unusable observations. It is clear, however, that errors remain in Dr. Bozzo's data, despite his use of tighter selection criteria. This fact suggests that the relatively low volume variabilities he reports for the manual operations may be attributable to this remaining measurement error rather than to true economies of scale.

(d) Dr. Bozzo's Fixed Effects Estimator Does Not Solve the Data Quality Problems.

Although Dr. Bozzo concedes that the manual piece handling data series (at least for parcels) continue to be subject to measurement error even after his scrubs, he argues that the nature of the measurement error is such that it is not of concern. In particular, he asserts that the measurement error is likely to vary systematically across sites,[26] and he claims that therefore the inclusion of site-specific effects in the panel fixed effects model attenuates this errors-in-variables problem. Dr. Bozzo says, ". . . models such as fixed effects . . . are completely effective at controlling for omitted factors associated with sites and/or time periods, when panel data are available."[27]

26. USPS-T-15, p. 85.

27. USPS-T-15, p. 104.

and a set of eighteen time dummies, one for each quarter excluding the second quarter of 1994. For each MODS group, the full estimating equation is:

$$\ln(FHP_{it}) = \alpha_i + \beta_1 \ln(THP / F_{it}) + \beta_2 \ln(TPH / F_{it})^2 + \beta_3 \ln(DPT_{it}) + \beta_4 TimeDummies_{it} + u_{it}$$

where the subscripts *i* and *t* index the site and time period, respectively. To investigate the importance of DPT and the time dummies, I also estimate a restricted model. The restricted estimating equation is:

$$\ln(FHP_{it}) = \alpha_i + \beta_1 \ln(THP / F_{it}) + \beta_2 \ln(TPH / F_{it})^2 + u_{it} .$$

Following Dr. Bozzo's approach, I estimate the parameters of both equations using panel fixed effects estimation with the modified Baltagi and Li's generalized least squares procedure, to allow the regression disturbances to exhibit first-order serial correlation.

Table 6 presents the estimated elasticities of TPH with respect to FHP, instead of the individual regression coefficients, for both specifications. The full set of regression coefficients is presented in Appendix **D**. Because of the problem of commingling of data between the manual parcels and SPBS pools, I combine them into a single composite parcels pool. F-tests uniformly find in favor of the full specification, indicating that local network characteristics and time specific effects are important determinants of the relationship between FHP and TPH. Moreover, the estimated marginal effects resoundingly reject the proportionality assumption. In every case, the estimated elasticity of TPH with respect to FHP is greater than one, and often by a very large margin.

Table 9

MODS-Level Estimates of the Elasticity of Labor Costs with Respect to First Handled Pieces

MODS Group	Bozzo's Variability of Costs w.r.t. TPH	MODS Level Variability of TPH w.r.t. FHP	Shapes Level Variability of TPH w.r.t. FHP	Volume Variability With MODS Level Correction	Volume Variability With Shapes Level Correction
OCR	0.751	1.597	2.062	1.199	1.549
LSM	0.954	1.069	2.062	1.020	1.967
BCS	0.895	2.091	2.062	1.871	1.845
Manual Letters	0.735	1.229	2.062	0.903	1.516
FSM	0.817	1.544	1.318	1.261	1.077
Manual Flats	0.772	1.010	1.318	0.780	1.017
Parcels[3]	0.750	1.795	1.795	1.346	1.346
Priority	0.522	1.010	1.013	0.527	0.529

Notes and Sources:

1. Volume variability is defined as :

$$\frac{\partial \ln C}{\partial \ln FHP} = \frac{\partial \ln C}{\partial \ln TPH} x \frac{\partial \ln TPH}{\partial \ln FHP}$$

2. Bozzo's variabilities taken from USPS-T-15, pp. 119-120.
3. For Parcels, the elasticity of costs with respect to (w.r.t.) TPH was estimated by combining the SPBS and Manual Parcels MODS groups, as described in the text of my report and presented in Table 8. The full set of coefficients used to construct this variability is presented in Appendices E and F.
4. The MODS-level variability of TPH w.r.t. FHP is taken from Table 6.
5. The Shapes-level variability of TPH w.r.t. FHP is taken from Table 7. Letter variability of TPH w.r.t. FHP applied to MODS groups OCR, LSM, BCS, and Manual Letters. Similarly, Flats variabilities applied to Manual Flats and FSM.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Commission's Rules of Practice.

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Dated: June 30, 2000
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