

BEFORE THE
POSTAL RATE COMMISSION

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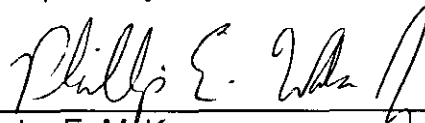
POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

ANSWERS OF UNITED PARCEL SERVICE
WITNESS KEVIN NEELS TO ASSOCIATION OF
AMERICAN PUBLISHERS INTERROGATORIES
(AAP/UPS-T1-1 through 5)
(July 3, 2000)

Pursuant to the Commission's Rules of Practice, United Parcel Service hereby files and serves the answers of UPS witness Kevin Neels to the following interrogatories of the Association of American Publishers: AAP/UPS-T1-1 through 5.

Respectfully submitted,



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ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE ASSOCIATION OF AMERICAN PUBLISHERS

AAP/UPS-T1-1. On page 11 of your testimony at lines 20-22, you state that “[a] cost minimizing provider of mail processing services can be expected to alter systematically its procedures for processing mail in response to changes in mail volumes.” With respect to this statement:

- (a) Please state whether it is your opinion that the Postal Service is in fact a “cost minimizing provider of mail processing services.” If you hold the opinion that the Postal Service is a cost minimizing provider of mail processing services, please provide all studies or other evidence you relied on in support of this opinion.
- (b) Please state whether, for purposes of your testimony, you have assumed that the Postal Service is a “cost minimizing provider of mail processing services.” If you have assumed that the Postal Service is a cost minimizing provider of mail processing services, please provide all studies or other evidence you relied on in support of this assumption.

Response to AAP/UPS-T1-1.

(a) It was not necessary, for the purposes of my testimony, to form an opinion about whether or not the Postal Service is a cost minimizing producer of mail processing services.

(b) The analysis presented in my testimony does not rely on any assumptions about whether or not the Postal Service is a cost minimizing provider of mail processing services.

ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE ASSOCIATION OF AMERICAN PUBLISHERS

AAP/UPS-T1-2. On page 30 of your testimony (lines 8-9), you state that “[b]ecause the number of subclasses is very large, direct estimation of these cost elasticities is often not feasible.” With respect to this statement, please provide an explanation as to why you believe that direct estimation of these cost elasticities is not feasible based on the number of subclasses. Please explain whether it is your opinion, or the opinion of the Postal Service, that the direct estimation of the cost elasticities is not possible.

Response to AAP/UPS-T1-2.

Subclass-level estimation is not feasible because of the paucity of subclass-level data. As far as I am aware, the only available information at the subclass level includes RPW volumes and data collected for the costing distribution, such as the IOCS and TRACS data. These limited data do not provide the degrees of freedom necessary to estimate model parameters econometrically.

ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE ASSOCIATION OF AMERICAN PUBLISHERS

AAP/UPS-T1-3. On page 33 of your testimony (lines 7-11) you indicate that you have conducted an empirical investigation of the relationship between the volume of mail processed at a plant and the number of piece handlings at that plant. Please provide all results and supporting documentation pertaining to that investigation.

Response to AAP/UPS-T1-3.

I have conducted an empirical investigation of the relationship between the volume of mail processed at a plant and the number of piece handlings at that plant. Pages 33-38 and 60-63 of my testimony, UPS-T-1, contain a description of the investigation, the results, and a discussion of the implications of the findings for Dr. Bozzo's estimated variabilities. All supporting documentation, including programs, source data, and details about methodology used in this investigation, are included in UPS-Neels-WP-1. See the table, "Overview of Analysis Programs," located in the subdirectory of the workpapers entitled, "Appendix – Analysis Program Files," for a guide to the appropriate documentation.

ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE ASSOCIATION OF AMERICAN PUBLISHERS

AAP/UPS-T1-4. On page 39 of your testimony (line 9) you state that “[t]he Postal Service has pursued automation as a cost saving strategy.” With respect to this statement, please provide any analysis that you performed or that you relied upon which demonstrates that the Postal Service’s pursuit of automation has in fact resulted in actual cost savings.

Response to AAP/UPS-T1-4.

I have not performed my own analysis to determine the effects of automation on Postal Service costs.

ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE ASSOCIATION OF AMERICAN PUBLISHERS

AAP/UPS-T1-5. On page 40 of your testimony (lines 3-4) you describe a calculation of the elasticity of postal labor costs with respect to “piece handlings.” Please explain why, in this analysis, you have studied labor costs as a function of piece handlings. Is it your testimony that the marginal cost of postal labor should or should not be measured as a function of piece handlings?

Response to AAP/UPS-T1-5.

On page 40 of my testimony, I study the calculation of the elasticity of postal labor costs with respect to “piece handlings” for the sole purpose of investigating the properties of Dr. Bozzo’s variability estimates. This investigation, which is described on pages 39-46 of my testimony, UPS-T-1, uncovers the unreasonable implications of Dr. Bozzo’s results.

It is my testimony that labor costs should *not* be measured as a function of piece handlings. See pages 30-34 of UPS-T-1.

DECLARATION

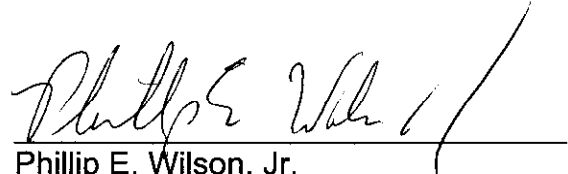
I, Kevin Neels, hereby declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.


Kevin Neels

Dated: 7/3/00

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.


Phillip E. Wilson, Jr.
Attorney for United Parcel Service

Dated: July 3, 2000
Philadelphia, Pa.