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 SECOND SET OF INTERROGATORIES OF THE UNITED PARCEL SERVICE (UPS/MPA-T3-10-20)

(JULY 5, 2000)

Magazine Publishers of America, Inc. hereby provides the response of witness Nelson to the following interrogatories of the United Parcel Service: UPS/MPA-T3-10-20, filed on June 19, 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 THE UNITED PARCEL SERVICE

UPS/MPA-T2-10. Refer to page 6 of your testimony, where you state, "(t)he highway transportation models overstate variability because they fail to reflect the propensity of the Postal Service to adjust capacity through changes in vehicle size rather than change in trip frequency...."

(a) Confirm that changes in highway vehicle capacity are not reflected in the cubic foot miles (CFMs) of a highway contract. If you do not confirm, explain.
(b) Confirm that changes in CFMs only reflect changes in trip frequency. If you do not confirm, explain.

Response:

a. Not confirmed. The annual cubic foot miles (CFM) of capacity obtained from a given contract reflects the combined effects of route length, trip frequency and the specified vehicle cubic capacity. All else equal, a change in vehicle cubic capacity will change CFM. The cited portion of my testimony refers to the fact that the incumbent analysis of highway variability does not account for the ability of the Postal Service to make low-cost vehicle capacity changes - and avoid high-cost trip frequency changes - when transportation schedules permit the use of vehicles of less than the maximum available size.

b. Not confirmed. All else equal, a change in trip frequency will change CFM. See my response to part (a).

UPS/MPA-T2-11. Refer to the testimony of Postal service witness Bradley, pages 31-33, where he presents variability estimates for 17 different accounts (Intra-P&DC Box, Intra-P&DC City, Intra-P&DC Van, Intra-P&DC Trailer, Intra-CSD Box, Intra-CSD City, Intra-CSD Van, Intra-CSD Trailer, Inter-P&DC Van, Intra P&DC Trailer, Intra-Cluster Van, Inter-Cluster Trailer, Inter-Area Van, Inter-Area Trailer, Intra-BMC, Inter-BMC, and Plant Load).

(a) Confirm that you estimate variabilities for the exact same 17 accounts. If not confirmed, explain.
(b) For every account or other cost category for which you estimate a variability, (I) provide accrued cost, your estimated volume variability, and your estimate of volume variable costs, and (ii) the page numbers in the Library References for the inputs to Table 1 on page 20 of your testimony.
(c) Provide a detailed description of the calculation used to generate Table 1.

Response:

a. Not confirmed. I estimate variabilities for 15 of these 17 accounts. For intra-PDC box contracts and intra-CSD box contracts, I did not estimate variabilities.
b. For the 15 accounts I analyzed, the estimated variabilities are shown in Tables 2-7 of my workpaper WP-4 in the rows labeled "Combined Variability". In Tables 2-6, accrued costs for each account are shown in the rows labeled "Cost", and were drawn from Table A1 in USPS-T-18 (Bradley). Accrued costs for the intra-BMC, inter-BMC and plant load accounts were drawn from Workpaper B-14 to USPS-T-11 (Meehan). Volume variable costs for each account can be computed as the product of the accrued cost and estimated variability. These accrued costs and estimated variabilities provide the inputs to Table 1 in my testimony.
c. The cost values in the column labeled "Accrued Cost" and "Volume Variable Cost - USPS BY98" are drawn from WS 14.4 in Workpaper B-14 .

UPS/MPA-T2-12. Refer to page 8 of your testimony, where you state, "(t)his work consisted of the estimation of two sets of models. In the first set, the 'per run' data are further divided by the route length, so the model analyzes cost per mile as a function of cubic feet (and other variables). In the second set, cost per run is analyzed as a function of CFM per run."

(a) Which model did you choose as the basis for your results in Table 1?

(b) How did you decide which model to use as the basis of you results in Table 1?

(c) What statistical tests did you perform in order to compare the two different models? Please provide the results of any statistical tests that you performed.

(d) Did you consider any specifications in addition to the two described in your testimony? If so, describe them in detail.

Response:

a. See Table 1 of my workpaper WP-1.

b. The recommended models were selected judgmentally, giving primary consideration to the overall explanatory power of the model and the statistical significance of the coefficient used to measure variability.

c. None.

d. No.

UPS/MPA-T2-13. Provide the sources for all number in Table 1 on page 20 of your testimony and all computations leading to the number in the final column.

Response:

Please see my response to UPS/MPA-T3-11(c).

UPS/MPA-T2-14. Provide the exact distribution key used to allocate the $4.5 million figure on page 10, line 3, of your testimony.

Response:

The referenced amount was credited in the proportions of Amtrak costs shown in column 21 of WS 14.4 in Workpaper B-14 to USPS-T-11. It was distributed in the proportions of the USPS distribution of volume-variable inter-SCF costs (presented in column 12 of WS 14.4 in Workpaper B-14 to USPS-T-11). See columns 38-40 in WS 14.4 in MPA-LR-11.

UPS/MPA-T2-15. Provide the revised distribution key referred to on page 10, line 16, of your testimony.

Response:

The revised key credits each class/subclass with the distribution it received of the $28.825M in volume variable rail empty equipment costs, as shown in column 24 of WS 14.4 in Workpaper B-14 to USPS-T-11. The $28.825M is then distributed in proportion to the sum of columns 20-23 and 28 of WS 14.4 in Workpaper B-14 to USPS-T-11. See columns 41-43 in WS 14.4 in MPA-LR-11.

UPS/MPA-T2-16. Provide the precise source of the number in the seventh column (%) in Table 2 on page 21 of your testimony.

Response:

The percentages in the referenced column are the percentages that the total "Savings" reported for each highway contract type (as reported in the preceding column) form of the corresponding accrued costs by contract type, as reported in Line 39 of WS 14.4 in Workpaper B-14 to USPS-T-11.

UPS/MPA-T2-17. Provide all sources of and computations leading to the figures of $29.4 million and $3.5 million on page 14, lines 11 and 12, of your testimony.

Response:

The referenced $29.4M represents 1.6 percent of accrued BY98 purchased highway transportation costs ($1,838.7M, as shown in Line 39, Column 20 of WS 14.4 in Workpaper B-14 to USPS-T-11). The referenced $3.5M represents 1.6 percent of BY98 purchased highway transportation costs distributed to Periodicals ($216.0M, as shown in Line 16, Column 20 of WS 14.4 in Workpaper B-14 to USPS-T-11).

UPS/MPA-T2-18. Provide all sources of and computations leading to the figure of $15.4 million on page 16, line 22 of your testimony.

Response:

The referenced figure is computed by applying the proportion of Amtrak costs that is distributed to Periodicals (59,283/73,040 as shown in Column 21 of WS 14.4 in Workpaper B-14 to USPS-T-11) to the $19.0M figure from page 15, line 17 and page 16, line 21 of my testimony. The $19.0M figure is developed using the methods presented in my workpaper WP-5.

UPS/MPA-T2-19. Provide a supporting reference to the 10% reduction in Conrail rates alluded to on page 17, line 16 of your testimony.

Response:

The referenced reduction in Conrail intermodal rates was incorporated in various applicant projections submitted to the STB in the Conrail case (Finance Docket 33388). On behalf of Canadian Pacific Railway, I conducted detailed analyses of the competitive impacts of the proposed transaction. I am no longer in possession of relevant workpapers. However, the anticipation of the referenced rate reduction is manifest in the $82M anticipated public benefit related to more competitive pricing, and to the extensive public and private benefits associated with the post-transaction diversion of approximately 1 million intercity truck movements annually to NS and CSX. These figures are presented and described in the STB's Decision No. 89 in the case, decided July 20, 1998. This decision is available from the STB website (www.stb.dot.gov). I will continue to search for a specific reference to the 10 percent figure.

UPS/MPA-T2-20. Provide all computations leading to the figure of $0.9 million on page 17, line 20, of your testimony.

Response:

As indicated in the Supplemental Response of USPS to MPA/USPS-40(a) (filed 5/2/00), Conrail accounted for approximately 54 percent (108/200) of USPS freight rail expenditures in BY98. The BY98 distribution of freight rail costs (excluding plant load and empty equipment) to Periodicals was $16.495M, as shown in Line 16, Column 22 of WS 14.4 in Workpaper B-14 to USPS-T-11. The figure $0.9M results from the multiplication of $16.495M x 0.54 x 0.10.

DECLARATION

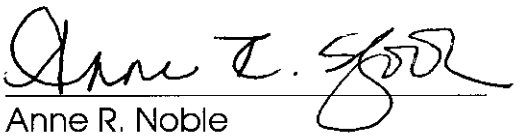
I, Michael A. Nelson, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.

Michael A. Nelson

Date: 7/5/00

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.
July 5, 2000