

BEFORE THE
POSTAL RATE COMMISSION

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
DOCKET NO. R2000-1

ANSWERS OF UNITED PARCEL SERVICE
WITNESS KEVIN NEELS TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE
(USPS/UPS-T1-48 through 50)
(July 7, 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 United States Postal Service: USPS/UPS-T1-48 through 50.

Respectfully submitted,



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ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/UPS-T1-48. Please refer to your response to USPS/UPS-T1-14(a). You state, "Several changes in the definition [of cost segment 3.1] have occurred. Because they do not appear to be of a significant nature, I have not accounted explicitly for these changes."

- a. Please confirm that you did not conduct any alternative analysis to determine whether the changes in the definition of cost segment 3.1 are "of a significant nature" with respect to your aggregate time series analysis. If you do not confirm, please explain why you did not describe the analysis in your response to USPS/UPS-T1-11(b).
- b. Please confirm that in the FY 1997 and FY 1998 CRAs (computed using the Postal Service's method), the Postal Service included the so-called "migrated" costs in the cost segment 3.1 total. If you do not confirm, please explain.
- c. Please confirm that in the FY 1997 and FY 1998 CRAs (computed using the Commission's method), the cost segment 3.1 total is based on essentially the same IOCS-based method as in the previous years. If you do not confirm, please explain.
- d. Please confirm that the cost segment 3.1 total in the FY 1997 CRA, using the Commission's method, is \$13,147,837,000. If you do not confirm, please provide the figure you believe to be correct, and a detailed citation to its source.
- e. Please confirm that the cost segment 3.1 total in the FY 1998 CRA, using the Commission's method, is \$13,378,733,000. If you do not confirm, please provide the figure you believe to be correct, and a detailed citation to its source.

ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

Response to USPS/UPS-T1-48.

(a) The ambiguity of the term "alternative analysis" makes it difficult for me to answer this interrogatory. As I stated in my response to USPS/UPS-T1-14(a), I reviewed the changes that have occurred in the definition of cost segment 3.1 and decided that for purposes of measuring system wide volume variability, they did not appear to be significant. Arguably, this review constitutes an "analysis." If the interrogatory is directed at alternative *econometric* analyses, I note that as I describe in my testimony on page 67, I have run a number of different econometric analyses using different definitions of the dependent variable. For these reasons, I must answer not confirmed. The reason why I did not describe these "alternative analyses" in my response to USPS/UPS-T1-11(b) was that I had described the use of the different definitions of the dependent variable in my response to USPS/UPS-T1-11(a), and USPS-UPS-T1-11(b) asked about alternatives to the models described in my response to USPS/UPS-T1-11(a).

(b) Confirmed.

(c) Confirmed that the total 3.1 dollar amount is from the IOCS total.

(d) Confirmed.

(e) Confirmed.

ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
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USPS/UPS-T1-49. Please refer to your response to USPS/UPS-T1-15(b). You cite material at page 40 of USPS-T-15 to support your claim that Dr. Bozzo argues that “the capital intensity of mail processing is unaffected by growth in mail volume.”

- a. Please confirm that the material you quote from page 40 is, specifically, from lines 12-13. If you do not confirm, please explain.
- b. Please confirm that the entire sentence, including the material you cite, reads, “Homotheticity implies that changing the level of output of the operation will not alter relative factor demands such as the capital/labor ratio, in equilibrium (and other things equal).” If you do not confirm, please explain.
- c. Please confirm that the sentence preceding the material you quote from page 40 reads, “In fact, the capital and labor variabilities will be identical, in equilibrium, under the assumption that the cost pool-level production (or cost) functions are *homothetic*” [emphasis in original].
- d. Please confirm that the material you cite from page 40 discusses the assumptions required to equate capital and labor variabilities at the cost pool level. If you do not confirm, please explain.

Response to USPS/UPS-T1-49.

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.

ANSWER OF UNITED PARCEL SERVICE WITNESS NEELS
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/UPS-T1-50. Please refer to your response to USPS/UPS-T1-17(c). You indicate that you used data from reg9398.xls to obtain the FY98 MODS hours you use to construct the labor weights for your aggregate volume index, and as a result the reliability of your time series analysis depends in part on the assumption that the labor weights "based on these direct MODS pools reflect the distribution of volume by class in indirect MODS pools and in other parts of the mail processing system..."

- a. When you reviewed the available data sources for your analysis, were you aware that FY98 MODS workhours by cost pool, for every MODS cost pool, as well as total BMC and non-MODS workhours from the Pay Data System, are provided at pages I-7 to I-28 of USPS-LR-I-106?
- b. If your response to part (a) indicates that you were aware of the data in USPS-LR-I-106, please explain why you chose not to use those data.

Response to USPS/UPS-T1-50.

- (a) No.
- (b) Not applicable.

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.

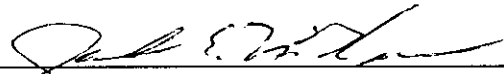


Kevin Neels

Dated: July 7, 2000

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.



John E. McKeever
Attorney for United Parcel Service

Dated: July 7, 2000
Philadelphia, Pa.

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