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Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of:

POSTAL RATE AND FEE CHANGE

Docket No.

R2000-1

VOLUME 28

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DATE: Friday, July 14, 2000

PLACE: Washington, D.C.

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Washington, D.C. 20036

(282) 842-6854

1	BEFORE THE POSTAL RATE COMMISSION					
2						
3	In the Matter of: : POSTAL RATE AND FEE CHANGE : Docket No. R2000-1					
4	X					
5	Third Floor Hearing Room Postal Rate Commission					
6	1333 H Street, N.W. Washington, D.C 20268					
7	magningson, b.e nero					
8	Volume XXVIII					
9	Friday, July 14, 2000					
10	The shows entitled matter game on for hearing					
11	The above-entitled matter came on for hearing pursuant to notice, at 9:39 a.m.					
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13						
14	BEFORE: HON. EDWARD J.GLEIMAN, CHAIRMAN					
15	HON. GEORGE A. OMAS, VICE CHAIRMAN HON. W.H. "TREY" LEBLANC, COMMISSIONER					
16	HON. DANA B. "DANNY" COVINGTON, COMMISSIONER HON. RUTH GOLDWAY, COMMISSIONER					
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1	PROCEEDINGS				
2	[9:33 a.m.]				
, 3	CHAIRMAN GLEIMAN: Good morning. Today we				
4	continue our hearings to receive the direct cases of				
5	participants other than the Postal Service in Docket				
6	R2000-1.				
7	Does any participant have a procedural matter that				
8	they would like to raise at this point?				
9	[No response.]				
10	CHAIRMAN GLEIMAN: If not, I'll mention that we				
11	have six witnesses scheduled to appear today. They are				
12	witnesses Navasky, Schroeder, Wells, Sheketoff, Ball, and				
13	Nelson.				
14	There are no requests for oral examination of the				
15	first witness scheduled to appear today. So, Mr. Feldman,				
16	if you would like to proceed, and if you have two corrected				
17	copies of Witness Navasky's testimony and an appropriate				
18	declaration of authenticity, we can perhaps get that				
19	material into the record.				
20	MR. FELDMAN: Mr. Chairman, I do have two copies				
21	of Mr. Navasky's testimony, and I have spoken to Postal				
22	Service counsel and, unfortunately, Mr. Navasky's				
23	declarations didn't arrive last evening. I'm sure they are				
24	probably going to arrive sometime this afternoon.				
25	But in any event, I would like to move them into				

Τ	the record, and supply the declarations, it possible, early
2	next week, when we'll definitely have them.
3	CHAIRMAN GLEIMAN: I think we can accommodate you
4	on that if you want to proceed in that manner.
5	MR. FELDMAN: I appreciate it. I have two copies
6	of Mr. Navasky's testimony. He has not made any changes, to
7	date, from the copies that were filed and served on all
8	parties, and I would like to hand two copies for the record
9	of NA-T-1, Direct Testimony of Victor Navasky.
10	CHAIRMAN GLEIMAN: If there are no objections and
11	the Postal Service is comfortable with inserting the
12	declarations sometime early next week when they arrive, then
13	I'll direct that Mr. Navasky's testimony be transcribed into
14	the record and received into evidence.
15	[Written Direct Testimony of Victor
16	Navasky, NA-T-1, was received into
17	evidence and transcribed into the
18	record.]
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BEFORE THE POSTAL RATE COMMISSION WASHINGTON, D.C. 20268-0001

NA-T-1

POSTAL RATE AND FEE CHANGES, 2000) Dock

Docket No. R2000-1

DIRECT TESTIMONY OF VICTOR NAVASKY On Behalf Of

THE NATION, L.P.

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The Nation, founded in 1865, is America's oldest, continuously published weekly 1 magazine. It is a journal of opinion whose contributors, through the years, have included 2 such as H.L. Mencken, Albert Einstein, Arthur Miller, Emily Dickinson, W.E.B. DuBois, 3 4 Martin Luther King, Jr., Garcia Lorca, I.F. Stone, Kurt Vonnegut, Gore Vidal and Toni 5 Morrison. Its original prospectus promised that "The Nation will not be the organ of any 6 party, body or sect." We have done our best to be faithful to that trust down to the 7 present day. 8 In recent years, the magazine has won more than its share of awards (the National 9 Magazine Award, the George C. Polk Award, the Overseas Press Club Award, the 10 Heywood Broun Award, etc.), its editorial board includes a Nobel Prize-winning novelist 11 and a Pulitzer prize-winning historian, and it is routinely cited, praised and attacked on 12 editorial pages ranging from The Wall Street Journal to the alternative press. 13 My name is Victor Navasky: I am the publisher and editorial director of The Nation. I was the editor from 1978 to 1994 when our publisher made me an offer I 14 should have refused and sold me the magazine for money I didn't have. Prior to my 15 employment at The Nation, I was an editor with the New York Times Magazine, and I 16 wrote a monthly column for the New York Times Book Review about the publishing 17 business ("In Cold Print"). I am the author of, among other books, Kennedy Justice, a 18 19 book about the U.S. Department of Justice under Robert F. Kennedy, and Naming Names, 20 a book about the McCarthy era, which won an American Book Award in 1981. I am coeditor with Katrina vanden Heuvel of a forthcoming anthology, The Best of The Nation. 21 22 I was founding editor and publisher of *Monocle*, a satirical journal. I have a B.A. from Swarthmore College, I am a graduate of Yale Law School and have lectured and 23

24 taught at various colleges and universities. I am the George Delacorte Professor of 25 Magazines and Director of the Delacorte Center for Magazines at Columbia University's 26 Graduate School of Journalism. I appear here formally as publisher of The Nation and informally on behalf of the 27 28 community of small circulation periodicals represented by the Independent Press 29 Association. 30 Like most journals of opinion – Bill Buckley's National Review, The New 31 Republic, and The Washington Monthly included -- The Nation loses money. In fact it 32 has lost money for all but three of its 135 years, and magazine-historians have had trouble locating which three. Historically, however, the journal of opinion exercises influence 33 far beyond its numbers. We are not organized as a non-profit only because under the law 34 that would preclude us from endorsing candidates for public office or devoting any but a 35 small percentage of our pages to try to influence legislation. . 36 For most of its history, The Nation has been published by public-spirited 37 philanthropists. That changed in 1994 when Arthur Carter, whose net worth the New 38 York Times reported as between \$100,000,000 and \$200,000,000, sold it to yours truly. 39 Lacking the personal assets to make up the annual deficit, which was running over 40 \$500,000 a year, I organized a limited partnership which consists of a small group of 41 large shareholders and a "Circle of 100" small shareholders. I even took the OPM course 42 at the Harvard Business School -- It's special program for Owners, Presidents and CEO's 43 -- to learn how to professionalize our business operation 44 We worked up a business plan which requires us to meet and pass the break-even 45 point within the next two or three years, and we put in place a highly professional 46

business staff headed up by Teresa Stack, our president, who came to us from Fairchild 47 Publications – all dedicated to meeting our ambitious goal: To become self-sustaining. 48 49 Despite our modest resources, until we heard about the proposed postal rate 50 increase we thought we had begun to turn the economics of the magazine around. The 51 Nation's circulation has increased by almost 10% since I last testified at the 1995 52 hearings of this commission. Based on our most recent audit statement, circulation is 53 97,213 with 94,176 mailed subscriber copies and 3,037 single copy newsstand sales. (It 54 may sound tiny to you, but not to me. The influence of these publications is, of course, a 55 tribute to the quality rather than the quantity of their subscribers, and we had only 20,000 subscribers when I arrived in 1978.) We currently use two entry points: we truck copies 56 57 bound for the northeast to New York City and the remainder enter the mail stream in 58 Harrisburg, PA, near our printer, Fry Communications in Mechanicsburg. We bar code 59 copies and presort down to carrier-route level where possible. (11% of a recent 60 representative issue was sorted down to the carrier-route.) 61 We have installed money and timesaving telecommunication equipment. We are operating with a smaller staff than when I last appeared before you. We have 62 computerized our production process. We have developed several ancillary sources of 63 revenue, building on the unique loyalty of our readers -- a seminar cruise and an affinity 64 credit card. We have aggressively sought competitive bids on everything from printing 65 our magazine to cleaning our carpets. And during that time we have absorbed lesser 66 67 postal increases. As I pointed out in a colloquy with the Postmaster General at the meeting of the 68 69 AMP which I attended at Boca Raton earlier this year, even the smaller postal rate

70 increase he envisioned would work disproportionate hardship on journals of opinion – 71 which almost by definition have few ads, low circulation and operate with razor-thin 72 margins. 73 Thus we were shocked when we asked the mailing specialist at our printer for a 74 preliminary analysis of our circulation file and the impact of the proposed rate increase. 75 He has informed us that the new rates would mean an increase of 18.6% to The Nation, or 76 approximately \$140,000 annually. 77 It is difficult to imagine how we will absorb such a large increase and continue on 78 the path towards self-sustaining economics. To give you an idea of what \$140,000 will do to our budget, consider the following: Our entire freelance editorial budget for the 79 year (including costly investigative reporting) is \$250,000. One hundred and forty 80 thousand dollars represents 60% of our annual rent, 50% of our employee health care 81 costs, or the paper expense for printing 19 issues of The Nation. None of these 82 expenditures could be cut without serious injury to the quality of the magazine. 83 At the 1995 hearings, it was suggested that we should pass increased postal costs 84 on to our readers. We have tested this possibility and we find that it is unrealistic. For 85 the last seven years we have been unable to raise the new subscriber rates without 86 decreasing the overall response to the point where we end up losing more money in the 87 aggregate. We will, of course, continue to test with every new sales effort. And our 88 long-term readers are paying more, absorbing renewal price increases over the last few 89 years to help cover previous postal increases. Unfortunately, our price testing here also 90 suggests we have reached the outer limits and that additional increases will impact 91

overall circulation to the point where we are earning even less. Circulation and other subscriber-related contributions account for almost 80% of our revenues.

At the hearing in 1995 we were also advised to raise our advertising rates. Unlike most consumer magazines, advertising accounts for only 13% of our revenues. For reasons that are beyond our comprehension most advertisers seem unenthusiastic about appearing in the pages of a magazine which routinely offers its readers independent, controversial, and unpopular ideas, not to mention running exposés of its own advertisers. Magazines in our category do not attract the lucrative advertising contracts that less contentious, mainstream consumer magazines generate. Despite all of these obstacles, we have grown our ad sales, by incrementally raising our rates, by investing in more experienced sales personnel, by careful market research, by expanding into new ad categories, and by developing a web site selling banner ads. We will continue to grow in this area, but the growth is slow and hard won and it will be years before we could ever cover an additional \$140,000 in expenses via increased ad sales.

People familiar with the operations of the postal system tell us that ironically magazines such as *The Nation* are among the least expensive to mail: we're not polybagged, or clogged with scent strips or free internet discs, nor are we loaded with the extra poundage of fall fashion advertising. We are a simple lightweight journal delivered on newsprint, taking advantage of all the postal presorting and bundling options available to us. We've explored the option of co-mailing, but have yet to find another publisher working with compatible deadlines or with complementary business imperatives. We have been doing everything in our power to become as efficient as possible, alleviating as

much of the postal burden as we can while running our business in a smart and fiscally responsible manner.

Our readers depend on us. Those who have been with us four years or more renew at an 80% rate. For many, once they discover us they subscribe for a lifetime. We are, they tell us, "a candle in the dark." And as we testified in the 1995 rate case, we believe that the Founding Fathers correctly saw the dissemination of opinion as the precondition of self-governance. Maybe one day e-mail will change that, but right now the postal system continues to constitute the circulatory system of our democracy. That's why George Washington himself believed that all newspapers, which in those days were the equivalent of journals of opinion, should be delivered free of charge. We don't expect the Commission to adopt George Washington's postal platform. But we do implore you to hold the line against further incursions on the dissemination of opinion.

In connection with the preparation of this testimony I have been in touch with the executive director of the Independent Press Association, whose organization represents in addition to *The Nation*, more than 200 public interest periodicals, including such magazines as *American Prospect, Mother Jones, Lingua Franca*, and the Bulletin of Atomic Scientists. He tells me that *The Nation* is among the most solvent of IPA'S members, (most of whom have circulations under 50,000) and urged me to urge you to take their plight into account. For advertising-heavy periodicals, with circulation in the millions, the proposed new rates will cut into their profits; for journals of opinion, there are no profits to cut into. The proposed new rates could put a number of them out of business.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document in accordance with Section 12 of the Rules of Practice this 22nd day of May 2000

Stephen M. Feldman

1	MR. FELDMAN: I appreciate that, Mr. Chairman, and					
2	I appreciate the Postal Service's agreement.					
3	CHAIRMAN GLEIMAN: The next witness is Witness					
4	Schroeder, and there was no oral cross examination for this					
5	witness, either.					
6	Mr. Przypyszny, if you have the corrected copies					
7	of the witness's testimony and an appropriate declaration of					
8	authenticity, we can proceed.					
9	MR. PRZYPYSZNY: Good morning, Mr. Chairman. I do					
10	have two copies of Ms. Schroeder's testimony, and I would					
11	like to have them entered into the record. They are the					
12	identical testimony that was filed on May 22nd.					
13	CHAIRMAN GLEIMAN: And do you also have a					
14	declaration of authenticity?					
15	MR. PRZYPYSZNY: Yes, Mr. Chairman.					
16	CHAIRMAN GLEIMAN: If you would please provide					
17	that material to the Court Reporter, I'll direct that					
18	Witness Schroeder's testimony be received into evidence and					
19	transcribed into the record.					
20	[Written Direct Testimony of					
21	Patricia Schroeder was received					
22	into evidence and transcribed into					
23	the record.]					
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25						

Before The

POSTAL RATE COMMISSION

WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

Direct Testimony of

Patricia Schroeder

On Behalf of the

ASSOCIATION OF AMERICAN PUBLISHERS

DATED: May 22, 2000

2 3	DIRECT TESTIMONY OF PATRICIA SCHROEDER ON BEHALF OF ASSOCIATION OF AMERICAN PUBLISHERS
4 5	My name is Patricia Schroeder. I am the President and Chief Executive Officer of the
6	Association of American Publishers ("AAP"). I served as a Member of Congress, representing
7	Colorado in the House of Representatives, for 24 years. I was a member of the House Post
8	Office and Civil Service Committee, and was Chair of the House Select Committee on Children,
9	Youth and Families. I am the author of two books: Champion of the Great American Family and
10	24 Years of House Workand the Place is Still a Mess. I am a graduate of the University of
11	Minnesota, and earned my J.D. from Harvard Law School.
12	AAP is the principal representative of the book publishing industry in the United States.
13	It has over 260 members which encompass large and small publishing houses, as well as
14	university and other non-profit publishers. These members make particular use of the Standard
15	Mail (B) Bound Printed Matter ("BPM") subclass. AAP members publish hardcover and
16	paperback books in every field - fiction, general non-fiction, poetry, children's literature,
17	textbooks, reference works, bibles and other religious books, and scientific, medical, technical,
18	professional and scholarly books and journals.

I.	Purpose	of Testimony	ř

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2	The purpose of my testimony is to urge the Commission to exercise its independent
3	review responsibilities and to take steps permitted, and indeed compelled, by the Postal
4	Reorganization Act to lessen the impact of the shocking proposed rate increases for the BPM
5	subclass. The proposed rate increases for BPM are the highest proposed for any subclass in this
6	case. In fact, while the average increase for BPM is 18.1%, for some BPM mail the increase is as
7	high as 25.9%. By any definition, this is "rate shock." No business can long sustain itself by
8	gouging its customers with increases of such a magnitude. These extraordinary rate increase
9	proposals for BPM were made without adequate consideration of several significant factors:
0 1 2 3	 Books contain a high level of educational, cultural, scientific and informational ("ESCI") value. Moreover, the mailing and dissemination of books throughout the country "binds the nation together" in the most profound way by promoting childhood development, literacy and the development of our national culture.
4 5 6	 The BPM subclass in now a subclass mainly composed of books. In FY 1998, 63.7% of BPM was composed of books. The percentage of BPM that consists of books is growing so that it is now predominantly a book subclass.
.7 .8 .9	 BPM is now comparable to Special Standard and Periodicals in ECSI content. Yet, the Postal Service inconsistently refuses to accord BPM similar treatment in proposing the institutional cost burden that the subclass should bear.
20 21	II. The Intent of Congress to Promote the Distribution of Books Would be Thwarted by the Proposed Drastic Rate Increase
22	It is important to remember, as the Postal Service appears to have forgotten, that criterion
23	8 of section 3622(b) of the Postal Reorganization Act is not merely another element to be
24	factored into the Postal Service's ratemaking formulas. It is an expression of an important

national policy. Congress has long recognized the importance of reading and access to books to

- the education of America's children and the need to establish postal rates for such materials at a
- 2 level low enough to guarantee their widest possible dissemination.
- 3 Section 3622(b)(8) reaffirmed Congress' long-standing position that mail with
- 4 educational, cultural, scientific and informational value should be protected from inordinate
- 5 postal rate increases. This policy is based upon the Congress' recognition of the strong public
- 6 benefits derived from reading and literacy and the need to ensure that postal rates promote rather
- 7 than deter the realization of these benefits.
- 8 The encouragement of reading and promotion of literacy continue as national policy.
- 9 Thus, the Administration recently launched the "America Reads" challenge and worked with
- 10 Congress to pass the Reading Excellence Act. These important initiatives were undertaken
- because of research which showed that students who fail to read well by the fourth grade are at
- 12 greater risk of educational failure and that good reading skills provide an important foundation
- for subsequent learning and success. Because of its commitment to this initiative, Congress has
- 14 appropriated \$260 million annually to improve children's reading. Literacy measures have also
- been a part of other legislation such as the Workforce Investment Act (29 U.S.C.A. §2801), the
- 16 Head Start Improvement Act (42 U.S.C.A. §9801), the National Literacy Act (20 U.S.C.A.
- 17 §1201), the Library Services and Construction Act Amendments (20 U.S.C.A. §351), and the
- 18 Homeless Assistance Amendments Act (42 U.S.C.A. §1771).
- 19 In addition, at the bipartisan initiative of Senators Edward Kennedy (D-MA) and Kay
- 20 Bailey Hutchison (R-TX), legislation to be introduced this week will enlist the support of the
- 21 Postal Service in ensuring that young children enter school ready to read. The proposed "Book

2 and encourage their parents to read to them, through the discounted purchase of books and the provision of related education and support services by child care resource and referral agencies 3 throughout the nation. The legislation anticipates that a significant source of funding for this 4 program will be the public's purchase of special postage stamps for child literacy which the 5 Postal Service will be required to issue. In this way, the Postal Service will be able to make a 6 7 unique contribution to help "stamp out" illiteracy. It is ironic that, at the same time the Postal Service is being enlisted to promote children's reading through this legislation, it is proposing 8 9 rate increases that will deter the delivery of books for children to homes, schools and libraries.

Stamp Act" will provide pre-school children with their own developmentally-appropriate books.

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Congress has taken these actions because of a wealth of research that confirms the importance of reading to development in every stage of life – from infancy, through childhood and adolescence, to adulthood. Reading is indeed one of the most important means for binding a nation together.

Thus, the American Academy of Pediatrics recommends that all parents read daily to their children starting at six months of age, and a study by the National Commission on Reading found that reading aloud to children is the single most important intervention for developing literacy skills during infancy. The Educational Testing Service has found that the more types of

¹ Press Statement, American Academy of Pediatrics, April 16, 1997.

² As quoted in "A Pediatric Early Literacy Program," the Program Manual for Reach Out and Read.

- 1 reading materials there are in the home, the higher students are in reading proficiency.³ And, the
- 2 International Reading Association emphasizes that ongoing development of literacy in
- 3 adolescents is just as important, and requires just as much attention, as that of beginning readers.
- Reading skills are also, needless to say, critical to adults. Research has found that as the
- 5 education level of adults improves, so does their children's success in school. Yet, 40 million
- 6 adults need to improve their literacy skills, and until they do, these adults cannot effectively
- 7 compete for today's jobs.4
- The question is whether there are enough reading materials, including books, in homes
- 9 today. The answer unfortunately is "no." According to the Educational Testing Service,
- students are reading books less and less.⁵ They spend 12 times as much time watching television
- as they do reading.⁶ More distressing is a recent study by the National Assessment of
- 12 Educational Progress which found that only 60% of fourth graders read at the basic level or
- 13 higher.
- Accordingly, a number of organizations, including AAP, have instituted programs aimed
- 15 at encouraging reading. AAP, for example, has designated the month of May as "Get Caught

³ Educational Testing Service. America's Smallest School: The Family, 1999.

⁴ www.nifl.org.

⁵ Educational Testing Service. America's Smallest School: The Family, 1999.

⁶ Id.

⁷ Preventing Reading Difficulties in Young Children, National Research Council (1998).

Reading" month to remind young adults of the joys of reading. Another program, Imagination 1 Library, was founded by Dolly Parton and the Dollywood Foundation for the children of Sevier 2 County, Tennessee, where Dolly Parton grew up. The program begins by mailing The Little 3 Engine That Could to each child on the day they are born. The Dollywood Foundation then 4 attempts to encourage a love of reading by sending pre-school children in Sevier County a hard-5 cover book each month in the mail. This program has been so successful that the Foundation has 6 decided to replicate the program by mailing and distributing these books in communities across 7 8 the country. 9 First Book is still another non-profit organization with the mission of giving 10 disadvantaged children the opportunity to read and own their own books. The primary goal of 11 First Book is to distribute new books to children who, for economic or other reasons, have little 12 or no access to books. First Book thus helps to break down the literacy barrier by providing 13 access to books to disadvantaged families and children. 14 Organizations such as Imagination Library and First Book use BPM to distribute books. 15 The higher the rates, the fewer books these organizations can purchase. The fewer books the 16 organization can purchase, the fewer children these organizations can reach. This equally applies 17 to publishing houses like AAP's members which distribute books to students participating in 18 school book clubs, in Reading is Fundamental programs, in Reach Out and Read community 19 health care centers, and in tutoring programs in after-school facilities. 20 The Postal Service disposes of these considerations in two sentences in this rate case.

Witness Mayes notes that "[o]ver a period of years, a substantial number of books have been

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- 1 mailed as Bound Printed Matter." She thus proposes to accord the subclass "some ECSI
- 2 consideration," leaving it with the shocking increases of 18-25% the Postal Service has
- 3 proposed.8
- This offhand treatment should not be countenanced. The Postal Service appears not to
- 5 understand the extent to which BPM has become a book subclass. The volume witness, Dr.
- Tolley, does not even refer to books in his testimony, and regards it still as a catalog subclass.9
- Witness Mayes relies upon FY 1996 data that books constitute 52% of the subclass. 10 In fact, the
- 8 Postal Service's most recent data from FY 1998 show that 63% of BPM shipments are of
- 9 books. 11 And, the proportion is likely growing. Data collected by AAP shows that U.S. book
- sales totaled over \$24 billion in 1999, a 4.3% increase over 1998. The biggest percentage
- increase was sales of books for children and young adults, showing a 23.5% increase in
- paperbound and 11.1% in hardbound. Over 100 million books are shipped annually to children.
- Moreover, book club materials totaled \$1.3 billion in 1999, a 3.7% increase over 1998.¹²
- BPM has now become a subclass like Periodicals and Special Standard for which full
- 15 criterion 8 treatment is appropriate and necessary. In R-97-1, the Commission gave strong ECSI

⁸ Tr.11/4459, lines 7-14.

⁹ USPS Witness Tolley, USPS-T-6 at 170.

¹⁰ USPS Response to AAP/USPS-T-37-23, Tr.13/5298.

¹¹ USPS Response to AAP/USPS-T6-6(c), Tr.9/3595.

¹² AAP Press Release, February 17, 2000.

- 1 consideration to the Periodicals subclass in the face of proposed rate increases.¹³ In fact, in
- 2 response to interrogatories, Witness Mayes has stated that the Commission's treatment of the
- 3 Periodicals subclass could be instructive on the issue of application of ECSI value to the BPM
- 4 subclass. (AAP/USPS-T-32-10). On this score, AAP agrees.
- In R-97-1, the Commission stated that it was the presence of editorial content which
- 6 entitled all Periodical publications to ECSI consideration and used Criterion 8 to recommend a
- 7 cost coverage of 101%.¹⁴ Specifically, the Commission found that this low cost coverage was in
- 8 "recognition of the educational, cultural, scientific and informational value of Periodicals class
- 9 mail, §3622(b)(8), and recognizes Periodicals important role in binding the nation together."15
- 10 The presence of non-ECSI matter in the form of advertising appropriately did not deter the
- 11 Commission from this conclusion.
- 12 The Commission also found in R-97-1 that the Special Standard subclass merited "special
- consideration under the §3622(b)(8) factor because of the intrinsic educational, cultural,
- scientific and informational value of the prescribed content of the subclass to recipients of these
- 15 materials."16 Today, books are sent by both the Special Standard and BPM subclasses, and given
- 16 the growing predominance of books in BPM, the Postal Service can no longer contend that BPM

¹³ Opinion and Recommended Decision, R97-1 ¶ 5754 (May 11, 1998).

¹⁴ <u>Id.</u> ¶ 5818.

¹⁵ Id.

¹⁶ <u>Id.</u> ¶ 5754.

- is any less a book subclass than Special Standard, which received a cost coverage of 106% in the
- 2 last rate case. Accordingly, the low cost coverage previously afforded to the Special Standard
- 3 subclass likewise supports a low cost coverage to be applied to BPM.

III. Conclusion

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- The goal of the Postal Service is to "bind the nation together through the personal,
- 6 educational, literary and business correspondence of the people."17 Clearly, providing access to
- 7 books to all people regardless of socioeconomic status or geographic location meets this
- 8 standard. AAP appeals to the Commission to examine (1) the current not the historical –
- 9 composition of the BPM subclass and (2) the extraordinary value of books to society. Once
- these factors are considered, it is plain that full ECSI consideration should be given to the BPM
- subclass, and a cost coverage should be applied that is similar to that accorded Periodicals and
- 12 Special Standard.

^{17 39} U.S.C.A. §101(a).

DECLARATION OF PATRICIA SCHROEDER

I declare, under penalty of perjury, that the foregoing Direct Testimony of Patricia Schroeder (AAP-T-1) on behalf of the Associaton of American Publishers was prepared by me, or under my direct supervision, and that if called to testify under oath, it would be my testimony.

Patricia Schroeder

Tatum Schweder

Dated: July 12 2000

1	CHAIRMAN GLEIMAN: And you also have the next
2	witness, Witness Wells. Same question: Do you have two
3	corrected copies and an appropriate declaration of
4	authenticity of this witness's testimony?
5	MR. PRZYPYSZNY: Yes, Mr. Chairman.
6	CHAIRMAN GLEIMAN: That being the case, without
7	objection, the testimony of Witness Rosemary Wells will be
8	received into evidence and transcribed into the record, and
9	if you would please provide the copies to the Court
10	Reporter.
11	[Written Direct Testimony of
12	Rosemary Wells was received into
13	evidence and transcribed into the
14	record.]
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Before The

POSTAL RATE COMMISSION

WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

DOCKET NO. R2000-1

Direct Testimony of

Rosemary Wells

On Behalf of the

ASSOCIATION OF AMERICAN PUBLISHERS

DATED: May 22, 2000

Communications with respect to this document should be sent to:

Mark L. Pelesh John R. Przypyszny Drinker Biddle & Reath LLP 1500 K Street, NW Suite 1100 Washington, DC 20005

1 DIRECT TESTIMONY OF ROSEMARY WELLS ON 2 BEHALF OF ASSOCIATION OF AMERICAN PUBLISHERS 4 My name is Rosemary Wells. I am an author and illustrator of over 60 children's books. 5 6 I have created children's characters such as Max and Ruby, Noisy Nora, Yoko and McDuff in books such as Max's First Word, Max's Chocolate Chicken, Bunny Cakes, Noisy Nora, Yoko and 7 McDuff Moves In. I also have produced a series of books that introduce young children to 8 traditional nursery rhymes, including Here Comes Mother Goose and My First Mother Goose. In 9 my 30 years as an author, I have won numerous awards for my work in children's literature, 10 including more than 20 American Library Association Notable Book citations, the New York 11 12 Times Book Review Best Illustrated Book of the Year Award, and the Boston Globe - Horn Book Award. I also am a long-time advocate of children's literacy. A brief biography and list of 13 14 books that I have published is found in Attatchment-1 to my Testimony. 15 1. Reason for My Testimony Many of my books are published by Scholastic Inc., a member of the Association of 16 American Publishers ("AAP"). I understand that the Postal Service is requesting that the rates 17 18 for "Bound Printed Matter" be raised by as much as 26%. I also understand that one of the important ways in which my books reach children is through the mail, and that such mail is often 19 20 sent at Bound Printed Matter rates. 21 I have reviewed the testimony of Patricia Schroeder, the President of AAP. I support Ms. 22 Schroeder's testimony wholeheartedly, and want to explain to the Commission specifically the 23 effect that my books - and the books of other children's authors - have on the health and well-24 being of the children of our nation. I also want to stress the importance of children's literacy as

1	an underlying value of our society. I believe that these values must be taken into account wher
2	determining the appropriate postal rates for books sent as Bound Printed Matter.

2. Children's Books Are Critical to the Health and Well-being of Our Nation's Children

A children's book is not merely "Bound Printed Matter" but a gateway to a world of learning, understanding and pleasure for children. Any parent or grandparent who has seen the wonder in a child's eyes when they open a new book for the first time knows this. Books stimulate a child to form their own pictures in the mind and thereby foster their imagination. Books create a shared experience between a parent and child, leading to better bonding and caregiving. They invite active response and communication and teach a child to repeat and practice language. Sharing books with children encourages them to associate books, reading and language with a loving and nurturing environment. Fundamentally, books instill values and experiences beyond mass culture – they furnish a child's mind with permanent ideas and images. They are critical not only to the intellectual development of the individual child but also to the health of our nation's children as a whole.

In 1997, I wrote a book, Read to Your Bunny, which conveys the importance of reading.

I wrote it in conjunction with the campaign of the Association of Booksellers for Children to encourage parents to read to their children for 20 minutes a day. Using this book, Scholastic, the American Booksellers Association and the Association of Booksellers for Children also took part in the "Prescription for Reading" Program." Pediatricians were encouraged to give a "prescription" to parents which could be redeemed at local bookstores for a free copy of my book. The program also served as a basis for encouraging pediatricians to explain to parents that

reading to children is part of routine pediatric care, much in the way that pediatricians provide advice regarding nutrition, immunizations and child-safety.

3. Higher Rates for Sending Books Through the Mail Conflicts With Goals That Childhood Reading Seeks to Promote

a requirement does exist.

Books are part of the basic fabric of our nation. They promote our values as a society.

Our children learn by example, and what better way to teach than through books. Our national institutions should advance children's reading and not undermine it. It makes perfect sense that

Congress would have enacted a law that requires that postal rates for mail used to distribute books receive special consideration. Based on Ms. Schroeder's testimony, I understand that such

I am shocked to learn that the Postal Service has decided that the rates for sending books through the mail need to be increased by staggering amounts. I am concerned that these rate increases will hurt the efforts that I and others have undertaken to encourage childhood reading. These consequences of the Postal Service's proposed rate increases may be unintended, but they could have long and lasting effects on our nation's children. I urge the Commission carefully to consider the value of books, particularly books for our children, which are sent as Bound Printed Matter as it conducts the proceeding on the proposed rate increases.

* * Meet Rosemary Wells,

York City and grew up on the New Jersey Shore. Most of her childhood was spent outdoors at a time when New Jersey was still small farms and miles of woods. Her mother was a dancer in the Russian Ballet, and her father a playwright and actor. Mrs. Wells says,"Both my parents flooded me with books and stories. My grandmother took me on special trips to the theater and museums in New York.



When I was two years old I began to draw and they saw right away the career that lay ahead of me and encouraged me every day of my life. As far back as I can remember, I did nothing but draw."



Rosemary Wells attended Boston Museum School and married in her early twenties. She began her career in children's books working as a designer at Macmillan in New York, and it was there that she published her first book, an illustrated edition of Gilbert & Sullivan's I Have a Song to Sing-O.

Rosemary Wells's career as an author and illustrator spans more than 30 years and 60 books. She has won numerous awards, and has given readers such unforgettable characters as Max and Ruby, Noisy Nora, and Yoko. She has also given Mother Goose new life in two enormous, definitive editions, published by Candlewick; the second is due to be published in fall 1999.





AAP-T-3 Attachment 1 Page 2 of 7

Many times when speaking, Mrs. Wells is asked where her ideas come from. She usually answers, "It's a writer's job to have ideas." Sometimes an idea comes from something she reads or hears about, as in the case of her recent book, Mary on Horseback, a story based on the life of Mary Breckenridge, who founded the Frontier Nursing Service. But more often, books appear from everyday incidents in her life. She says, "Authors are accomplished eavesdroppers, and have wonderful selective memory." Timothy

Goes to School, for example was based on an incident in which her daughter was teased for wearing the wrong clothes to a Christmas concert. Her dogs, west highland terriers, Lucy and Snowy, work their way into her drawings in expression and body position.



Mrs. Wells says, "Most of my books use animals rather than children as characters. People always ask why. There are many reasons. First, I draw animals more easily and amusingly than I do children. Animals are broader in range--age, time, and place--than children are. They also can do things in pictures that children cannot. They can be slapstick and still real, rough and still funny, maudlin and still touching.

In Benjamin and Tulip, Tulip falls out of a tree and mashes Benjamin in the mud. If these pictures were of children, they would be too close to violent reality for comfort, and all the humor would be lost."

Max and Ruby and all illustrations ©1999 Rosemary Wells. All rights reserved.





Here Comes Mother Goose, 9/99



Candlewick Press

My Very First Mother Goose, 8/96



Candlewick Press

Read to Your Bunny, 2/97 Scholastic Press

Voyage to the Bunny Planet, 9/92: First Tomato The Island Light Moss Pillows Penguin Putnam Books for Young Readers

The Christmas Mystery, by Jostein Gaarder, 11/96 Farrar, Straus & Giroux

BOARD BOOKS

Pussycat, Pussycat: And Other Rhymes, 11/97 Humpty Dumpty: And other Rhymes, 1/97 Wee Willie Winkie: And other Rhymes, 11/97 Little Boy Blue: And other Rhymes, 11/97 Candlewick Press

Bunny Reads Back Series:
Old MacDonald, 2/98
Itsy Bitsy Spider, 8/98
The Bear Went Over the Mountain, 9/98
Bingo, 9/98
Scholastic Press

Max's First Word, 1/98
Max's Bath, 3/98
Max's Birthday, 1/98
Max's Bedtime, 3/98
Max's New Suit, 1/98
Max's Ride, 3/98
Max's Ride, 3/98
Max's Toys, 3/98
Max's Breakfast, 1/98
Penguin Putnam Books for Young Readers

Jack and the Beanstalk, (illustrated by Norman Messenger), 9/97
Dorling Kindersley

YOUNGER PICTURE BOOKS

Yoko, 9/98



McDuff Series (illustrated by Susan Jeffers)



McDuff Moves In, 4/97 McDuff Comes Home, 4/97 McDuff and the Baby, 10/97 McDuff's New Friend, 9/98 Hyperion Books for Children:

Bunny Cakes, 2/97
Bunny Money, 9/97
Max and Ruby's First Greek Myth: Pandora's Box, 7/98
Max and Ruby's Midas: Another Greek Myth, 4/95
Max's Dragon Shirt, 12/96
Max's Christmas, 7/96
Max's Chocolate Chicken, 3/89

Voyage to the Bunny Planet, 9/92:
First Tomato
The Island Light
Moss Pillows
Penguin Putnam Books for Young Readers

Edward Unready for School, 9/95 Edward in Deep Water, 9/95

Edward's Overwhelming Overnight, 9/95

Benjamin and Tulip, 1/77
Don't Spill it Again, James, 12/77
Fritz and the Mess Fairy, 1/96
Hazel's Amazing Mother, 8/89,
The Fisherman and His Wife, (illustrated by Eleanor Hubbard), 7/98

Morris's Disappearing Bag, 6/78, Night Sounds, Morning Colors, (illustrated by David McPhail), 9/94 Noisy Nora, 5/97 Shy Charles, 4/92 Stanley and Rhoda, 1/81 Timothy Goes to School, 6/81 Penguin Putnam Books for Young Readers

Available in Spanish:

Eduardo Cumpleanos En La Piscina, Santillana Pub Co, 6/96 Eduardo El Primer Dia De Colegio, Santillana Pub Co, 11/97 Lucas Y Virginia, Altea S A Ediciones, 6/81 La Estupenda Mama de Roberta, Santillana Pub Co., 12/95 El Saco De esaparecer, Altea S A Ediciones, 6/84 Nora La Revoltosa, 7/97 Julieta Estate Quieta, 5/95 Chut, Chut, Charlotte!, 5/90 (Schoenhofs Foreign Books) Timoteo va a la Escuela, Altea S A Ediciones, 12/95 Penguin Putnam Books for Young Readers

Tell me a Trudy (by Lore Segal), 7/77
Farrar, Straus & Giroux

OLDER PICTURE BOOKS

Rachel Field's "Hitty, Her First Hundred Years", a new edition by Rosemary Wells (illustrated by Susan Jeffers)

AAP-T-3 Attachment 1 Page 7 of 7

Forest of Dreams, (illustrated by Susan Jeffers), 10/88 The Little Lame Prince, (orig. by Dinah Maria Mulock Craik), 8/90

The Language of Doves, (illustrated by Greg Shedd), 9/96 Lucy Comes to Stay (illustrated by Mark Graham), 5/94 Waiting for the Evening Star, (illustrated by Susan Jeffers), 10/97

Penguin Putnam Books for Young Readers

MIDDLE READERS

Mary On Horseback: Three Mountain Stories, (illustrated by Peter McCarty), 8/98



Lassie Come Home (original by Eric Knight, illustrated by Susan Jeffers), 8/95
Henry Holt

DECLARATION OF ROSEMARY WELLS

I declare, under penalty of perjury, that the foregoing Direct Testimony of Rosemary Wells (AAP-T-3) on behalf of the Association of American Publishers was prepared by me, or under my direct supervision, and that if called to testify under oath, it would be my testimony.

Rosemary Wells

Dated: July/3, 2000

1	MR. PRZYPYSZNY: Thank you.
2	CHAIRMAN GLEIMAN: There was also no request for
3	oral cross examination of our next witness that was
4	scheduled to appear today, Emily Sheketoff.
5	Mr. Levy, same question: Do you have two copies
6	and an declaration?
7	MR. LEVY: Yes, Mr. Chairman. I'll note that this
8	ALA-T-1 reflects the errata that were filed on May 26th, and
9	it's corrected and it has a declaration.
10	With that, I'd like to hand the Reporter two
11	copies and ask that the testimony be admitted into the
12	record.
13	CHAIRMAN GLEIMAN: Is there any objection?
14	[No response.]
15	CHAIRMAN GLEIMAN: Hearing none, if you'd please
16	provide that material to the Court Reporter, Ms. Sheketoff's
17	testimony will be received into evidence and transcribed
18	into the record. Thank you.
19	[Written Direct Testimony of Emily
20	Sheketoff, ALA-T-1, was received
21	into evidence and transcribed into
22	the record.]
23	
24	

ALA-T-1

TESTIMONY OF EMILY SHEKETOFF ON BEHALF OF AMERICAN LIBRARY ASSOCIATION

Please address communications about this document to:

David M. Levy Christopher Shenk Sidley & Austin 1722 Eye Street, N.W. Washington, DC 20006 (202) 736-8000 dlevy@sidley.com

Counsel for American Library Association

My name is Emily Sheketoff. I am the Associate Executive Director of the American Library Association ("ALA") and manager of its Washington Office. In that capacity, I direct government relations efforts before Congress and the Executive Branch to fund libraries. I work on initiatives important to the library community, such as youth literacy, public access to government information, first amendment protection, and intellectual property and copyright issues. I also oversee the policy work done by the Office for Information Technology Policy ("OITP"), an office that promotes the development and utilization of electronic access to information as a means to ensure the public's right to a free and open information society.

Before coming to the ALA Washington Office, I was the Budget Coordinator for the Secretary of the U.S. Department of Labor, advising labor agencies on budget initiatives, and developing institutional strategies to communicate their ideas more effectively. Prior to that, as Deputy Assistant Secretary of Labor for OSHA, I ran the day-to-day operations of the Government Enforcement Agency.

My previous positions include Director of Interagency Affairs and White House Liaison for the Office of Personnel Management, Deputy Director for the Office of Priority Placement, Office of Presidential Personnel in the Clinton Administration, and Special Assistant to the Director of the White House Office of Administration in the Carter Administration. In the U.S. Senate, I was a researcher and aide to former Connecticut Senator Lowell P. Weicker on the Senate Watergate Committee, and also served as an investigator and aide to the Staff Director on the House Intelligence Committee investigating the U.S. intelligence community.

I also served as the Washington Bureau Producer for the Monitor
Channel of the Christian Science Monitor, and covered the Pentagon during
the Gulf War. As an assignment editor with World Monitor, I assigned
stories to 20 reporters and 30 producers worldwide, and scheduled taped
pieces for broadcast, as well as producing commentaries. I also worked for the
Canadian Broadcasting Corporation in its Washington Bureau as a booker

8 I hold a Bachelor's Degree in American studies from George 9 Washington University.

and producer.

The American Library Association is the voice for America's libraries.

For more than a century, ALA has provided leadership promoting library and information services of the highest quality, and defended intellectual freedom. Most of our 59,000 members are librarians, but our membership also includes trustees, libraries, publishers, vendors, and other friends of libraries. ALA is a 501(c) charitable and educational organization.

My testimony here concerns the rate increases proposed by the Postal Service in this case for library rate mail. In this case, the Postal Service is proposing an average increase 4.5 percent over the rates implemented less than 18 months ago in Docket No. R97-1. Those rates in turn represented an increase of approximately 14 percent over the library rates established in Docket No. R94-1, and an increase of approximately 90 percent over the library rates established in Docket No. R90-1. The rate increases in Docket No. R97-1 forced the Commission effectively to merge the library rate with its regular counterpart, the Standard (B) "book" rate, eliminating the rate preference contemplated by Congress for library rate mail.

The effects of these rate increases have been devastating. The volume of mail entered at the library rate has plummeted, as many libraries and publishers have converted to the book rate, or even to commercial carriers like UPS.

Libraries and library programs that cannot convert to these alternative modes of shipping—most notably the interlibrary loan and books-by-mail programs that serve small and isolated rural communities—have been especially hard hit, because postage costs represent an enormous percentage of their total budget. For example, a library in Martinsburg, West Virginia, has approximately 140,000 volumes, and does an average of 300 interlibrary loan transactions a month—sending and receiving loaned books. In the last fiscal year the cost of postage was nearly \$7,000. Approximately 60% of that cost, or \$4,000, represented postage on interlibrary loans alone.

While an increase in the library postal rate will harm larger libraries, the financial blow to smaller ones will be even greater. As the cost of shipping books to smaller libraries increases, the larger ones will have no choice but to cut back on the number of books sent to smaller libraries—many of which serve poor and isolated communities that are in the most need of books for education and recreation. Loretta Cecil, the Mail by Book coordinator for the Southwest Kansas Library System in Dodge City, Kansas, explained this in a recent letter to me:

"I am responsible for mailing paperback books to rural and homebound readers in twelve southwest Kansas counties. The Mail a Book program has been a lifeline to our sparsely populated counties since 1972. Many of these counties have very small libraries, with short hours of daily operation. It is an understatement to say many of our readers are geographically remote.

In recent years, the Mail-a-Book Service has been dropped by two of the five systems that provided service in Kansas. This is largely due to postage increases. For example: In 1990 it cost an average of 45 cents to mail one book. In 1999, that average cost is 96 cents. This causes the entire service to suffer terribly. Book inventory is cut to meet the budget restrictions, and the quality of service is reduced. I feel another postal increase would create such a negative effect that this rural service would be lost.

1 2

 Perhaps the most vulnerable to increases in the library rate are America's elderly, physically disabled, and other individuals with limited mobility. Library programs like the interlibrary loan and "Book by Mail" are a lifeline for housebound citizens. Books circulated through these programs, including large print and audio books—provide vital information on preventative health care, financial management, eldercare, and other caregiving. Mary Bidwell, outreach facilitator for the North County Library System in Watertown, New York, has written to me about the impact of a postal rate hike for these programs:

"Outreach Services through the North Country Library System (NCLS) in Watertown, New York, provides materials to homebound, elderly, physically disabled, visually impaired/blind, and/or deaf/hearing impaired patrons. We provide large print books, audio books, closed captioned & educational videos, as well as paperback or regular print books. Our service area includes four counties: Jefferson, Lewis, St. Lawrence and Oswego. Many areas where our patrons reside are rural areas; therefore, most of the material that is sent to patrons is through the postal system.

We provide ALL postage. When material is sent to patrons, we provide the return postage. Some patrons qualify for the "Free Matter" status and there is no postage involved. The majority of our 575 patrons do not receive materials 'Free Matter.'

Our Outreach budget is stretched as far as it can go: Salaries, clerical supplies, materials, and postage. If there is another postal increase, the money for increased postage will be taken from materials. Therefore, we will be purchasing less and less new materials for patrons to enjoy. If the library rate is increased dramatically, the expense to send materials would be so great that the materials-by-mail program would suffer dramatically. In fact, NCLS might not be able to continue to absorb postage costs for returning as well as sending materials to Outreach patrons.

A recent letter from Mary Hedrick of the Harrison Regional Library in Columbiana, Alabama, illustrates the human dimension of these programs:

"[O]ur homebound patrons . . . are the most vulnerable of all American citizens. The few pleasures they have are so limited that each one takes on enormous importance in their daily lives. The Shelby County Public Libraries Books-By Mail program serves homebound Library users. Often times the bags of large print books or books on tape are the only contacts the patron may have with the 'outside' for days.

* *

One of our Books-By-Mail patrons has been receiving materials for over 10 years. First she needed large print books, then books-on-tape. Now she receives talking books. We have come to know her well and in return she depends on us. She will call to find out if the weather is getting bad or if we know who was injured in a local automobile accident. She has no family living near. She looks forward to the mail and her Books-By-Mail bag. Can we say to her that we are sorry but postage costs increased and there will be no more bags? Could you say that to this eighty-year-old lady who worries if the bag is just one day late? She is doing the best she can just to get by, how can we take away her Books-By-Mail?

The Commission, in its recommended decision in Docket No. R97-1, emphasized that its merger of library and book rates in that docket was a temporary solution to the Postal Service's skyrocketing attributable cost estimates, and "should not be considered a proposal to abolish Library Mail as a recognized mail classification." R97-1 Opinion and Recommended Decision (May 11, 1998), p. 509 ¶ 5749. During this case, the Postal Service and others have proposed legislation that would establish a permanent rate preference of five percent for library rate mail. Enactment of the bill as law.

- 1 however, will provide little solace to America's libraries and their patrons if
- 2 the costs attributed to library rate mail—along with other parcel and flat-
- 3 shaped mail—continue to outpace inflation.
- 4 The Commission has repeatedly put the Postal Service on notice in
- 5 recent rate cases about the inadequacy of existing cost data for library rate
- 6 mail, other small mail subclasses, and other subclasses of non-letter mail.
- 7 For this reason, I urge the Commission to hold the Postal Service to its
- 8 burden of demonstrating that the costs attributed by its costing systems to
- 9 library rate mail will actually occur, and to reject claims of increasing costs
- that rest merely on unreliable data or unsubstantiated guesswork.
- 11 Library mail is "special"—different from other regular mail—because
- of the importance that this nation puts on giving equal access to books and
- 13 other informational material to the public which libraries serve. An
- unjustified postal rate hike for library rate mail would effectively strip it of
- that "special" classification, reducing the poor, elderly, homebound, disabled,
- 16 and regionally isolated to second class citizens in their own country,
- unworthy of the same opportunities and privileges that others in our society
- 18 enjoy. This Commission should not, and need not, acquiesce in this outcome.
- I want to thank the Commission for giving me the opportunity to
- 20 testify on this very important issue.

DECLARATION OF

EMILY SHEKETOFF

l, Emily Sheketoff, declare under penalties of perjury as follows:

I am the Associate Executive Director of the American Library Association ("ALA") and manager of its Washington Office.

I am the author of the attached testimony, which was filed on behalf of the ALA in Postal Rate Commission Docket No. R2000-1 on May 22, 2000. The attached document reflects errata filed by the ALA on May 26, 2000. I prepared the testimony and errata personally or under my direct supervision.

The statements set forth therein are true and correct to the best of my knowledge, and I continue to adopt the document as my testimony.

Emily Shehiter

WASHINGTON 174496v1

July 13, 2000

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1 MR. LEVY: Thank you, Mr. Chairman.

2 CHAIRMAN GLEIMAN: I just want to state that the

- 3 fact that there was no oral cross examination requested for
- 4 these witnesses, and that their testimony is just being
- 5 accepted into the record as evidence without their appearing
- 6 here today is not a reflection on the importance of their
- 7 testimony or on the attention that will be paid to it by the
- 8 Commission, as was the case with other witnesses whose
- 9 testimony we have entered in, in this manner.
- 10 The next witness we have scheduled is Mr. Ball,
- 11 Joe Ball, from Florida Gift Fruit Shippers. I understand
- that you have a procedural matter, Mr. Wells, you'd like to
- 13 raise?
- MR. WELLS: Thank you, Mr. Chairman. Yes, Mr.
- 15 Ball partook of some bad fruit last night and has some --
- 16 CHAIRMAN GLEIMAN: From the West Coast of the
- 17 United States, I take it?
- 18 [Laughter.]
- 19 MR. WELLS: I'm not sure where it came from, but
- 20 he spent the night in the bathroom with acute food
- 21 poisoning, and I had mentioned this earlier to you, and
- asked that he be excused from appearing today, and
- 23 rescheduled for next Tuesday, which I understand, can be
- 24 accommodated in the record.
- 25 CHAIRMAN GLEIMAN: Is there any problem with this?

1	There	were	two	parties	who	wanted	to	cross	examine.

- 2 [No response.]
- 3 CHAIRMAN GLEIMAN: There doesn't appear to be any,
- 4 so I think we can accommodate you on that, Mr. Wells.
- 5 MR. WELLS: I have spoken to both UPS and to the
- 6 USPS attorneys.
- 7 CHAIRMAN GLEIMAN: There is no problem with that,
- and we will reschedule Mr. Ball for next Tuesday. Please
- 9 tell him that we hope he is feeling better, and to stay away
- 10 from that West Coast fruit or whatever it is that he ate
- 11 last night.
- [Laughter.]
- 13 CHAIRMAN GLEIMAN: Ms. Noble, you or Mr. Myers or
- 14 whoever is going to handle this witness? I'm never quite
- 15 sure these days. If you would call your next witness.
- 16 MS. NOBLE: Yes, Magazine Publishers of America
- 17 calls Mike Nelson.
- 18 Whereupon,
- 19 MICHAEL A. NELSON,
- 20 a witness, having been called for examination, and, having
- 21 been first duly sworn, was examined and testified as
- 22 follows:
- 23 DIRECT EXAMINATION
- BY MS. NOBLE:
- Q Mr. Nelson, I am about to hand you two copies of

- 1 testimony that you have previously submitted that is
- 2 identified as the Direct Testimony of Michael A. Nelson,
- 3 MPA-T-3, and I would ask that you review them.
- 4 [Pause.]
- 5 Have you have a chance to review them?
- 6 A Yes.
- 7 Q If you were to testify orally today here, would
- 8 your testimony be as indicated in those documents?
- 9 A There would be one change.
- 10 Q Would you make that, please?
- 11 A Yes, on page 6, in line 23, the fifth word in that
- line should be contract, so that it reads: However, because
- of schedule differences between the two facilities, the
- 14 contract at the first facility...
- MS. NOBLE: With that change, Mr. Chairman, I move
- 16 that the Direct Testimony of Michael A. Nelson on Behalf of
- 17 MPA and others, identified as MPA-T-3, with the exception of
- 18 the change that has just been made, which is made on these
- 19 copies, be admitted into evidence and transcribed into the
- 20 transcript of today's proceedings.
- 21 CHAIRMAN GLEIMAN: Is there any objection?
- [No response.]
- 23 CHAIRMAN GLEIMAN: If you would please provide the
- copies to the Court Reporter, I will order that the material
- 25 be received into evidence and transcribed into the record.

1	[Written Direct Testimony of
. 2	Michael A. Nelson, MPA-T-3, was
3	received into evidence and
4	transcribed into the record.]
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MPA-T-3

BEFORE THE POSTAL RATE COMMISSION WASHINGTON DC 20268-0001

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DIRECT TESTIMONY
OF
MICHAEL A. NELSON
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA, INC.
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & CO., INC.
THE McGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
TIME WARNER INC.

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DIRECT TESTIMONY OF MICHAEL A. NELSON

I. INTRODUCTION

My name is Michael A. Nelson. I am an independent transportation systems analyst with more than 17 years of experience advising clients on postal costing issues. My office is in North Adams, Massachusetts. Prior to February 1984, I was a Senior Research Associate at Charles River Associates, an economic consulting firm in Boston, Massachusetts.

I have directed or participated in numerous consulting assignments and research projects in the general field of transportation. My work typically involves developing and applying methodologies based on operations research, microeconomics, statistics and/or econometrics to solve specialized analytical problems. I have extensive experience related to analysis of the cost structure of the Postal Service, with a particular focus on delivery activities. On behalf of the Postal Service, I provided testimony before this Commission in Docket No. R97-1, primarily related to the gathering and analysis of field survey data involving carrier and messenger delivery. From 1992-1996, I also assisted Postal Service management in product development and various marketing issues related to expedited mail. On behalf of United Parcel Service, I provided testimony regarding delivery issues in Docket Nos. RM86-2B, R87-1 and R90-1, and served as principal investigator for the studies of carrier street time underlying the testimony of A. Lawrence Kolbe in Docket No. R84-1.

Of equal or greater importance for the purpose of this testimony, I have extensive experience in analyzing management, cost and competitive issues for the different modes of surface transportation relied upon by the Postal Service to move mail. For example:

On May 16, I filed a statement on behalf of a group of major freight rail shippers recommending changes in merger and regulatory policies administered by the Surface Transportation Board (STB) in Ex Parte No. 582 (Sub-No.1);

- On behalf of Amtrak, a major supplier of transportation to the Postal Service, I provided testimony before the STB regarding the appropriate definition of Amtrak's "express" service (Finance Docket No. 33469). This included analysis of the substitutability of Amtrak, truck and freight rail services, and examination of factors affecting the use of Amtrak by the Postal Service. The STB adopted the definition I proposed, facilitating the recent expansion of Amtrak's mail and express service offerings;
- I assisted Canadian Pacific Railway (CP) in assessing the traffic impacts, competitive issues and potential remedial conditions associated with the division of Conrail between Norfolk Southern (NS) and CSX (STB Finance Docket No. 33388). Conrail was the largest single provider of freight rail transportation for the Postal Service. CP relied upon the results of my studies in reaching its settlements with NS and CSX in that case; and,
- I provided testimony regarding competitive and/or statistical issues in six freight rail merger proceedings before the Interstate Commerce Commission. In the proposed merger of Southern Pacific and Santa Fe (Finance Docket No. 30400) I provided extensive testimony regarding the degree of competition between truck and rail services that provided the only analytical foundation cited by the ICC in denying that merger on competitive grounds.

I have assisted in the preparation of numerous other verified statements presented before various regulatory and legal bodies, and authored many other studies, technical reports and articles in transportation journals.

I received my bachelor's degree from the Massachusetts Institute of Technology in 1977. In 1978, I received two master's degrees from MIT, one in Civil Engineering (Transportation Systems) and one from the Alfred P. Sloan School of Management, with concentrations in economics, operations research, transportation systems analysis and public sector management.

II. PURPOSE AND SCOPE OF TESTIMONY

I have been asked by MPA to investigate issues related to operational and costing practices in the area of purchased transportation, with a particular focus on highway, freight rail and Amtrak. In addition, I address one carrier costing issue related to routine looping and dismount points on motorized letter routes.

In the transportation area, my testimony addresses costing issues and operating practices that have prevented the Postal Service and its mailers from realizing the full benefits of the market forces that have been unleashed in U.S. surface transportation. For the past two decades, U.S. transportation policies have emphasized competition and market forces as a replacement for historical regulatory practices. Freight railroads have been given freedoms to engage in contracts and price competition, and through innovation and aggressive pricing have succeeded in diverting a significant share of long-haul truck traffic to rail. Trucking itself has been largely deregulated and provides ubiquitous, highly competitive transportation options, particularly for high-value, service-sensitive traffic. Even Amtrak, long a recipient of substantial federal operating subsidies, is now operating under a mandate to become self-sufficient, and has aggressively implemented innovations to increase its transportation of mail and other freight.

Against this background of an increasingly competitive transportation environment, the experience of mailers who attempt to rely on the transportation services procured by the Postal Service stands in stark contrast. Some types of mail, including Periodicals, have experienced rapid growth in transportation cost per piece. Mailers of many types are making dramatically higher use of dropshipping and destination-entry products to bypass most or all of the surface transportation purchased by the Postal Service. In effect, these mailers are finding that they can provide themselves with more economical transportation than the Postal Service provides for them. In this light, dropship discounts serve an important efficiency function by making available to mailers the benefits of improved competitiveness in transportation markets.

From a transportation perspective, however, the apparent inability of the Postal Service to compete effectively with dropshipping options is quite incongruous. A typical parcel shipper, whose mail might average 8 lb./c.f., can almost never utilize the full capacity (by weight) of a standard highway trailer. Similarly, a periodicals shipper, whose mail might exceed 20 lb./c.f., may not be able to utilize the full cubic capacity of a standard highway trailer. The Postal Service should be able to create significant economies by combining these (and

other) diverse types of mail in transportation. Recent trends in transportation costs and mailing patterns indicate that the Postal Service is failing to achieve such economies, or is failing to develop its costs and rates in a manner that reflects such economies.

One obvious possible explanation for these circumstances is that Postal Service costing methods do not accurately measure the surface transportation costs associated with different mail subclasses. This testimony examines those methods, focusing primarily on the volume variability determinations for purchased highway transportation made by witness Bradley (USPS-T18).

A second possible explanation for observed transportation-related problems relates to the (in)efficiency of the Postal Service's procured transportation services. Specifically, while transportation services are generally procured through market processes, this testimony identifies ways in which they appear to be unnecessarily costly in satisfying overall transportation requirements.

In the following sections, I first identify aspects of witness Bradley's models that lead to overstatement of volume variable purchased highway costs, and develop and present an alternative analysis that avoids much of this overstatement. I then identify two other transportation costing issues that require corrective action, including the Base Year treatment of rail movements involving Amtrak "Roadrailers" and empty equipment. In the carrier area, I present a refinement that is needed in the analysis of variability for routine looping/dismount points on motorized letter routes. Finally, I present a series of proposed roll-forward adjustments to account for attainable efficiency improvements and future cost savings in transportation.

I

III. ANALYSIS OF PURCHASED HIGHWAY TRANSPORTATION COSTS

The models of purchased highway transportation costs estimated by witness Bradley are inconsistent in two important respects with the operating

practices of the Postal Service. These inconsistencies cause the highway transportation models to overstate volume variability.

As described by USPS rebuttal witness Young (USPS-RT-3) in Docket R97-1, USPS transportation requirements are set primarily by processing and delivery schedules at the facilities being served. Furthermore, transportation schedules are set "to make efficient use of postal employees, who account for about 80 percent of postal operating costs." Docket R97-1, Testimony of witness Young, USPS-RT-3, at p. 8, II. 11-13. Because transportation routes and schedules are set primarily according to these types of constraints, and not a process that attempts to minimize transportation costs, the Postal Service procures transportation using vehicles with a wide range of capacities. These vehicles are typically not the largest capacity vehicles (vans or trailers) that are available.

As a result, the Postal Service has considerable latitude to alter the sizes of vehicles used on most routes in response to volume changes without adding trips. Witness Young specifically described how increasing the capacity of a contracted vehicle costs little in comparison with the cost of additional runs, and how the Postal Service seeks to tailor the capacity it procures to the peak volume requirement on a route without adding runs. Docket R97-1, Testimony of witness Young, USPS-RT-3, at p. 6.

Of course, there are some circumstances where it is not possible to add capacity without adding vehicle mileage. In cases where the vehicle serving the route is already the biggest van or trailer available, it is not possible for the Postal Service to increase the vehicle size. However, when a run must be added, it typically provides an opportunity for the Postal Service to adjust routes in a way that provides more direct service, and reduce the gross CFM that must be procured to satisfy a given transportation requirement. Witness Young presented an example of how a route from the Washington BMC to Merrifield and Norfolk could be "re-worked ...to skip a stop at the Merrifield P&DC..." in response to an increase in volume destined for Norfolk. Docket R97-1, Testimony of witness Young, USPS-RT-3, at p. 7, II. 8-18. In a transportation network of this type,

skipping a stop and establishing a direct run inherently reduces circuity, and the gross CFM needed to move a given amount of mail. In short, there is an elasticity of gross CFM with respect to net CFM that is less than 1.0, and that causes the Postal Service highway transportation models to overstate the true variability of cost with respect to the volume of mail being moved (as opposed to the CFM procured).

The highway transportation models also overstate variability because they fail to reflect the propensity of the Postal Service to adjust capacity through changes in vehicle size rather than changes in trip frequency to accommodate volume changes in the context of a given transportation schedule. Instead, the highway transportation models measure variability as if changes in capacity requirements are routinely satisfied through changes in trip frequency as well as vehicle capacity. The observations in those models include observations from contracts that vary widely with respect to the number of trips supplied. The elasticities estimated by witness Bradley therefore include the impacts on costs associated with hypothetically changing the number of trips to obtain CFM, as well as changing vehicle size.

The type of biased variability resulting from the Postal Service highway models can be illustrated in a simple example. In this example, assume that there are two highway contracts for routes serving different facilities. The route on each contract is 50 miles long, costs \$100, and is served by a 40-foot tractor/trailer combination. However, because of schedule differences between the two facilities, the **contract** at the first facility calls for one run, while the contract at the second facility calls for two runs. In witness Bradley's model formulation, which relies on annual cost and CFM data, the second contract would appear to be providing twice as much transportation (as measured by annual CFM) at twice the cost. All else equal, the model would suggest that there is essentially 100 percent volume variability.

If volume increased at either facility, however, the Postal Service would avail itself of the fact that increasing the size of the trailer would generally only increase cost by a small amount¹. As indicated by the Postal Service:

...the cubic capacity of a vehicle is generally regarded as being inexpensive relative to the cost of adding extra trips. For this reason it makes economic sense to buy a large vehicle to avoid paying for extra trips.

MPA/USPS-28 (response of USPS).

 In the given example, if the Postal Service could obtain service from a 45-foot trailer by increasing the contract rate by 5 percent, it could accommodate up to a 12.5 percent increase in volume. "To avoid paying for extra trips," this would most likely be the way an actual volume change would be accommodated, and the volume variability would be only 40 percent. Unless the vehicle in use is already of a maximum size, or some unusual situation exists, the Postal Service's rational response to a volume increase is to increase the size of the vehicle without increasing trip frequency when it is feasible to do so. Because of this, the degree of volume variability that occurs in practice is lower than that suggested by witness Bradley's model.

In addition to these two major factors, the Postal Service's highway models appear to be questionable with respect to at least two items:

- the treatment of power-only contracts appears to be circular at best, as a constant cubic foot estimate is developed for each area, then used in a model that contains a constant term for each area; and,
- the methods used by witness Bradley to identify outliers appear in some instances to exclude good data.

To develop an analysis of highway volume variability that is consistent with Postal Service operating practices, I began by partitioning the contracts to segregate the largest vans and the largest trailers from the others. For each vehicle type, I defined "largest" to include vehicles within 300 cubic feet of the maximum possible size. For trailers, this included vehicles ranging from 3001-3300 cubic feet, encompassing 53-foot trailers and tandem 28-foot trailers. For

Professor Bradley appears to acknowledge that trailer costs represent a small fraction of the total cost of a given contract. USPS-T-18 at

vans, this included vehicles ranging from 1350-1649 cubic feet. Contracts in each of these categories were treated as 100 percent volume variable, reflecting an assumption that capacity increases could only be obtained through the addition of trips.

For the remaining contracts, I revised the econometric analysis so that it isolated the effects of vehicle capacity changes on costs, holding aside the effects of trip frequency changes. The basic method I used to achieve this was to divide the annual cost and CFM data by the number of runs made on the contract, so that the data for each contract reflected the "cost per run" and "CFM per run". In this way, the model observations no longer differ with respect to the number of runs they represent, and variations in cost associated with variations in vehicle size can be measured.²

Initially, I attempted to implement this refinement directly within witness Bradley's models. However, I encountered immediate difficulties with witness Bradley's evaluation method, in which the model is estimated on mean-centered data and the variability is taken from the coefficient on the relevant first-order term. To avoid a digression into lengthy debate over proper methods of evaluation³, the balance of my work was conducted using log-log models, for which methods of interpretation are unambiguous.

This 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. In both sets, I excluded power-only contracts from the estimation process (applying to power-only contracts and trailer leasing costs the variability found in the analysis of the remaining contracts), and I excluded "outliers" using a small number of consistent criteria. Even with the simpler specifications, the models used in my analysis

^{24,} lines 5-7.

² In the model estimation process, each observation was weighted according to the number of runs it represented from the original contract data.

³ A partial history of various theories and arguments in this area is presented in the testimony of Postal Service witness Bozzo (USPS-T15).

generally exhibited a high degree of explanatory power, and high statistical significance for the variables needed to estimate the relevant elasticity.

The details of this analysis are presented in a library reference accompanying this testimony. I note that because these models, like the Postal Service models, do not account for the elasticity of gross CFM with respect to net CFM, they likely overstate true variability. Nevertheless, the results of my analysis, which are summarized in Table 1, indicate that total volume variability for purchased highway transportation is approximately 53.1 percent, and that the Postal Service methodology overstates this variability by approximately 28.5 percentage points. For Periodicals, the Postal Service methodology overstates

IV. OTHER TRANSPORTATION COSTING ISSUES

volume variable highway transportation costs in BY98 by \$87.8M.

A. Amtrak Roadrailers

As part of its effort to obtain increased revenues from its mail and "express" business, Amtrak has begun using "Roadrailers". A Roadrailer is a type of trailer that can operate over the highway in a normal tractor/trailer combination, or be quickly adapted to ride on rails without the types of intermodal rail cars normally required to transport highway trailers and shipping containers. When added to the roster of Amtrak service offerings, Roadrailers provided a new capability for truckload movement.

Roadrailer movements are not sampled by TRACS,⁴ so the precise composition of mail moving on Roadrailers is not known. However, because Amtrak is only investing in this technology to attract new business, it can reasonably be concluded that Roadrailers are not being used to divert the Postal Service volume that Amtrak already moves (and that is sampled by TRACS). Rather, the speed, reliability, distance and truckload volume characteristics of Roadrailer service make it most analogous to inter-SCF highway transportation

⁴ MPA/USPS-T1-6, Tr. 17/6769

with respect to the types of movements for which it could beneficially be used to attract traffic from the Postal Service.

The Postal Service has indicated that \$4.5M of BY98 Amtrak accrued costs were associated with Roadrailer movements.⁵ I have removed this amount from the pool of accrued Amtrak costs, and distributed it to classes and subclasses using the inter-SCF distribution key. On this basis, I estimate that the USPS BY98 treatment of Amtrak Roadrailer movements overstates Periodicals costs by \$3.1M.

B. Empty Equipment Movement - Rail

The USPS analysis of empty equipment movements via rail improperly treats such costs as if they were caused by the mail that moves on freight rail and Amtrak. Empty equipment movements via rail include equipment moving to/from MTESCs that was or will be used for other types of surface transportation.

To account for this, I have revised the distribution key applied to rail empty equipment moves so that it reflects the combined distribution of volume variable costs associated with purchased highway, freight rail, Amtrak and water movements. The USPS BY98 treatment of empty equipment movements via rail overstates Periodicals costs by \$5.3M.

V. <u>VARIABILITY OF ROUTINE LOOPING/DISMOUNT STOPS ON</u> MOTORIZED LETTER ROUTES

MPA also requested that I examine an issue relating to city carrier costs, about which I testified in Docket R97-1. My reexamination of this issue leads me to suggest a refinement in my previous analysis.

The variability of routine loops/dismounts, which is applied in the analysis of driving time on motorized letter routes in CRA worksheet 7.0.4.4, was first estimated in Docket No. R97-1. The value of 40.99% was determined by me on the basis of the variability characteristics of different types of routine

⁵ MPA/USPS-22, Tr. 21/8926; supplemental response filed 5/18 (not yet designated).

looping/dismount stops, and their relative proportions, using input from a survey of delivery supervisors. The rationale for the specific computation was described in my response to an interrogatory. *See* Docket R97-1, ADVO/USPS-T19-9 (response of USPS witness Nelson).

Basically, routine loops that are established on the basis of volume/weight were treated as 100% volume variable because of the constraints on the formation of such loops imposed by the 35-lb. weight limit on carrier satchel loads. Routine loops and dismounts established for reasons other than the volume/weight of mail were treated as 0% volume variable, as the number of such stops would remain fixed as volume changes. The proper treatment for the remaining stops – dismounts established on the basis of mail volume/weight – was somewhat ambiguous.

On the one hand, existing dismounts made because of volume/weight will remain fixed if volume increases. On the other hand, volume increases likely will cause new dismounts to be made because of volume/weight. In the absence of any other information, this group of dismounts was ascribed the cumulative variability of the other 3, leading to the overall estimated variability of 0.4099, as shown below:

		% of Stops	Volume
Stop Type	Total Stops		Variability
Loops Due to	242,294,460	0.3215	1.0000
Volume/Weight			
Loops Due to Other	85,273,149	0.1131	0
Factors	. 1		
Dismounts Due to	263,516,968	0.3496	0
Other Factors			
Dismounts Due to	162,610,282	0.2158	0.4099 ⁶
Volume/Weight			
Total	753,694,859	1.0000	0.4099

Further consideration has led me to conclude that there is an interaction between volume-driven looping points and volume-driven dismounts that was not accounted for in the R97-1 analysis. Basically, stops that would become new volume-driven dismounts in the presence of a volume increase are currently

 $^{^{6}}$ Calculated as (242,294,460/(242,294,460 + 85,273,149 + 263,516,968)).

- served on loops. The conversion of such stops from loop delivery points to
- 2 (volume-driven) dismounts as volume increases moderates the need to add
- 3 looping points. If the analysis assumes that a volume increase on volume-driven
- 4 loops is accommodated entirely by an equal percentage increase in the number
- of loop parking points, none of the stops on those loops will need to be converted
- 6 to dismounts, and the number of volume-driven dismounts will not change. In
- 7 light of these considerations, if the 100% figure is used for volume-driven looping
- 8 points, it would be most reasonable to treat volume-driven dismounts as fixed
- 9 (i.e., 0% variable). This treatment yields an overall variability of 0.3215, and is
- 10 shown below:

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		% of Stops	Volume
Stop Type	Total Stops		Variability
Loops Due to	242,294,460	0.3215	1.0000
Volume/Weight			
Loops Due to Other	85,273,149	0.1131	0
Factors			
Dismounts Due to	263,516,968	0.3496	0
Other Factors			
Dismounts Due to	162,610,282	0.2158	0
Volume/Weight			
Total	753,694,859	1.0000	0.3215

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VI. ROLL-FORWARD ISSUES

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A. Highway Contract Renewal Process

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Under current contracting procedures, the rates paid when highway contracts are renewed are, on average, materially higher than the rates paid when the Postal Service obtains (competitive) bids for new contracts. As shown in Table 2, the "premium" being paid on renewed contracts is over \$100M annually, and in BY98 cost Periodicals over \$19M. This represents 8.9 percent of total BY98 highway transportation costs for Periodicals.

The Postal Service may pay such a premium in the belief that it is required to retain contractors who are prepared to provide the Postal Service with a high level of performance. For the trucking industry, however, the security and

processing requirements of the Postal Service are not unlike those of many

2 shippers of high-value, expedited and just-in-time shipments that are handled

successfully every day. The Postal Service, like any shipper, must select

contractors and manage purchased services with care. However, it is simply

5 unnecessary for them to pay a premium to retain qualified highway contractors.

6 In the highly competitive trucking industry, where modest shifts in the economy or

factor prices can wreak havoc with individual firms, the stability provided by the

8 4-year duration of a standard USPS highway contract, the regularity of USPS

schedules and the durability of the organization itself provides a comfort level

unattainable from most shippers. If anything, USPS should be commanding a

discount, and not paying a premium, to fulfill its highway contracting

12 requirements.

Tightening administrative requirements to ensure competitive terms on renewed contracts would enable these costs to be saved. Because of the 4-year duration of highway contracts, 1/3 of these savings could be implemented by the end of the test year. To reflect this in the Test Year, purchased highway costs should be reduced by (8.9/3=) 3.0 percent. This would result in savings for Periodicals of approximately \$3.9M.

B. Highway Contract Obsolescence

 There is an inherent tension between the Postal Service's practice of using long-term contracts to foster a stable operating system, and the provision of a system that can be efficient and flexible in the face of change. Within the duration of a standard highway contract (4 years), there have been multiple railroad mergers (affecting the competitiveness of freight rail services); wide fuel price swings; freight rail service disruptions; new Amtrak service initiatives (e.g., Roadrailers, Acela); changes in USPS product offerings and changes in USPS operations (e.g., DPS). Any of these changes have the potential to alter the preferred mix of ground transportation services procured by the Postal Service.

The attachment to the Postal Service's response to MPA/USPS-16 shows that upon expiration, approximately 3.2 percent of highway contracts are for service that is no longer needed. If the events that produce such obsolescence occur at a uniform rate over time, on average 1.6 percent of highway contracts in effect at any given time are for service that is no longer needed.

Except in very unusual circumstances, highway contractors should be amenable to renegotiation of unneeded contracts to serve needed routes and schedules, particularly if such renegotiation would in effect extend the term of their contract (i.e., by restarting the 4-year contract term on the new route). A program to identify and renegotiate unneeded contracts prior to their expiration would affect approximately \$29.4M of BY98 purchased highway costs, of which \$3.5M was distributed to Periodicals. To account for the effects of such a program in the Test Year, 1.6 percent of purchased highway cost should be removed. This would result in savings for Periodicals of approximately \$2.0M.

C. Amtrak Premium and Terms

In the response to an interrogatory (MPA/USPS-26), the Postal Service characterizes Amtrak as a less-than-truckload network. However, in BY98 approximately \$58.3M (over 94%) of the \$61.5M spent on regularly-contracted Amtrak segments accrued on movements where the cubic feet of procured Amtrak capacity exceeded the cubic capacity of a tractor-trailer.⁷

I have analyzed the relationship between Amtrak costs on these segments, and cost that would be incurred by the Postal Service to obtain equivalent capacity through additional procurement of inter-SCF highway transportation. Specifically, I compared the cost incurred by the Postal Service for each Amtrak segment, as shown in Appendix I of USPS-LR-I-50, with the estimated cost of inter-SCF transportation over the mileage of the corresponding point-to-point highway movement. To estimate the highway cost, I used the cost per CFM (by mileage block) for inter-SCF transportation supplied by tractor-

⁷ This is approximated as 30 or more linear feet of Amtrak space.

trailers on non-renewal contracts shown in HCSS, and an assumption that each linear foot of Amtrak space corresponds to 90 cubic feet of capacity.

This assumption may overstate the amount of capacity actually supplied by Amtrak, as most Amtrak capacity is believed to be supplied using MHC's, which provide 69.8 to 78.3 cubic feet per linear foot. The analysis may also overstate the cost of substitute highway transportation, since it assumes that the trucks will follow the Amtrak route, and will not take advantage of shorter paths that likely exist between origins and destinations that utilize transfers between Amtrak routes.

Despite these conservative assumptions, my conclusion is that approximately \$57.3M is spent on Amtrak segments where the payments to Amtrak exceed the cost of purchased highway transportation. As shown in Figure 1, these segments comprise virtually the entirety of Amtrak's transcontinental service, as well as its north-south service on the East Coast. If the Postal Service replaced this Amtrak service with new contract highway service procured at the rates it paid in BY98 for tractor trailers providing inter-SCF transportation, at least \$19.0M would be saved. Put another way, 30.9% (= 19.0/61.5) of BY98 Amtrak contracted capacity costs reflect a premium above the cost of equivalent and readily available truck transportation.

If the Postal Service is already consolidating LTL shipments to truckload volumes, it receives no particular benefit from paying Amtrak supra-competitive rates to move those volumes. Indeed, this situation produces disadvantages for all parties:

- Mailers pay a "premium" of over 30 percent without discernible benefit;
- The cost floor of Postal Service products is pushed upwards by the assumed 100% variability of these costs; and,
- Amtrak, by pricing higher than truck, fails to attract highway volume from the Postal Service that could economically move via Amtrak, a nd would enhance Amtrak's net revenues and prospects for selfsufficiency.

⁸ MPA/USPS-44, Tr. 21/8944.

1	Several approaches are available to address this issue:				
2	i.	USPS could use this information to negotiate more vigorously with			
3		Amtrak to obtain a truck-competitive rate;			
5	ii.	If this does not produce satisfactory results, USPS could actually			
6		convert the traffic to truck and obtain an appropriately reduced rate;			
7		or,			
8					
9	iii.	USPS and Amtrak could create additional benefits for all parties by			
10 11		restructuring their agreement so that for a fixed payment, USPS obtains the option to use Amtrak at marginal rates that are			
12		somewhat below truck rates. On a terms-of-incurrence basis, this			
13		would produce volume-variability of less than 100%, while creating			
l 4		an opportunity for the Postal Service to economize on a portion of			
15		the \$660+ million it spends annually on inter-SCF and inter-BMC			
16 17		highway transportation, and an opportunity for Amtrak to make money from that traffic.			
1 <i>7</i> 18		money from that traine.			
	If the Deetel	On the made teles and of these autients with meaning the Australia			
19	If the Postal Service undertakes any of these options, volume variable Amtrak				
20	costs would be reduced by at least the amount of the premium. To account for				
21	this in the Test Year, Amtrak costs should be reduced by \$19.0M. The portion of				
22	this savings associated with Periodicals is \$15.4M. If option (iii) is developed, it				
23	would produce additional savings for mail now moving on purchased highway				
24	transportation.				
25					
26 27	D. <u>Fre</u>	eight Rail Rates			
	t- 14-	was was to an MDA interpretation of subject included a second for			
28	In its response to an MPA interrogatory ⁹ , which included a request for				
29	"documentation of any and all volume incentive rate, discount or credit terms in				
30	effect for [freight rail] transportation provided to the Postal Service in BY98". The				
31	Postal Servi	ce states:			
32		"(t)here are no such rates, discounts or terms. There is not			
33		language in postal contracts with the freight railroads that			
34	•	des for the credit, volume discounts, incentive rates and the The Postal Service simply does not have the volume of			
35 36		ess with the freight railroads required to obtain these terms."			
77	Daoin	out min me mergin ramedad required to obtain those terms.			

⁹ See the supplemental response of the Postal Service to MPA/USPS-40 (b), dated 5/2/00 (not yet designated).

With approximately \$200M in annual freight rail traffic, USPS is not the largest intermodal customer. By comparison, in public statements UPS estimates its use of freight rail to be approximately \$750M annually. However, UPS has so much clout that entire trains are scheduled to accommodate its needs.

The Postal Service may have come to believe that it isn't big enough to qualify for volume discount rates by virtue of having been primarily a customer of Conrail. Over 54 percent of USPS freight rail expenses in BY98 were for service from Conrail, by far the largest USPS expenditure on any single freight railroad.

Operating as a near-monopoly over much of its service area, Conrail historically did not experience the type of intramodal competitive pressure that has driven the proliferation of volume discount rates among other carriers. However, because of the recent break-up of Conrail, the Test Year will see competition between 2 and in some cases 3 Class I railroads take the place of Conrail.

A fundamental premise of the Conrail break-up transaction was that intermodal rates in the Conrail service area would drop by approximately 10% as a result of increased competition. To account for this, Test Year freight rail costs should be reduced by 5.4 percent. This reflects a 10 percent reduction on Conrail's 54 percent share, and would lead freight rail costs for Periodicals to be reduced by \$0.9M.

In addition to this reduction, the Postal Service should be able to obtain volume discounts from at least some of the other railroads from which it purchases transportation services. Freight railroads generally seek to obtain high utilization of their infrastructure, and volume discounts have been a common tool used to ensure that the traffic of even moderately large shippers is tendered to a given railroad, and not to its competitor(s). The Postal Service may not be the largest of rail intermodal shippers, but it is easily large enough to command volume discounts in a competitive marketplace. Greater aggressiveness on the part of the Postal Service in seeking such terms could be expected to lead to additional savings.

E. Additional Items For Which Data Not Yet Available

A number of additional items may produce savings for Periodicals that are achievable by TY01. These include the following:

1. Conversion from Freight Rail to Highway

 In the response to MPA/USPS-31b (**Tr. 21/8934**), the Postal Service indicates that it anticipates higher costs as a result of the service-driven conversion of freight rail traffic to highway. Current post-merger rail service disruptions in the East, like those that occurred in the West beginning in 1997, are expected to dissipate by the Test Year, removing any need for conversion to highway.

The Postal Service should remove from the Test Year any increment in costs associated with an assumed need to convert freight rail traffic to highway.

2. Stacking of Pallets

The generally low capacity utilization in purchased highway transportation interacts with methods used to collect TRACS data to overstate cost causality for some types of mail. Specifically, pallets (typically used for bulk movement of Periodicals) may not be stacked when floorspace utilization is low. In a TRACS test, no adjustment is made for the fact that such pallets do not preclude use of the airspace above them (up to 72"), and could be stacked on each other if required 10. The Postal Service should modify the TRACS-Highway data collection process so that it collects information about the stacking of pallets similar to TRACS-Amtrak tests. In the meantime, the Postal Service should estimate the potential reduction in floorspace utilization that would be associated with the stacking of pallets, and make appropriate adjustments in the TRACS-Highway distribution keys.

¹⁰ FGFSA/USPS-T1-25, Tr. 17/6763.

1 2 3	 Study of Transportation Utilization and "Reductions in Unutilized Capacity"
4	As described in its response to MPA/USPS-17c, Tr. 21/8923, the Postal
5	Service is conducting a study of transportation utilization, and may be able to
6	realize savings through reductions in unutilized capacity. Any such savings that
7	are identified for the Test Year should be applied.
8	
9	4. \$100M Future Cost Reduction
10	
11	As described in its response to MPA/USPS-30, Tr. 21/8933, the Postal
12	Service is expecting to realize \$100M savings in purchased highway
13	transportation through reductions in vehicle mileage, fuel and trailer leasing
14	expenses. Any such savings that are identified for the Test Year and do not
15	duplicate savings reported elsewhere should be applied.
16	
17 18 19	 Process Improvements, Cycle Time Reductions, and Possible Unit Cost Reductions
20	As described in its response to MPA/USPS-45, Tr. 21/8945, the Postal
21	Service may be able to achieve savings through process improvements, cycle
22	time reductions and unit cost reductions. Any such savings that are identified for
23	the Test Year and do not duplicate savings reported elsewhere should be
24	applied.

Table 1
Summary of Results Regarding Analysis of Purchased Highway Transportation Volume Variability

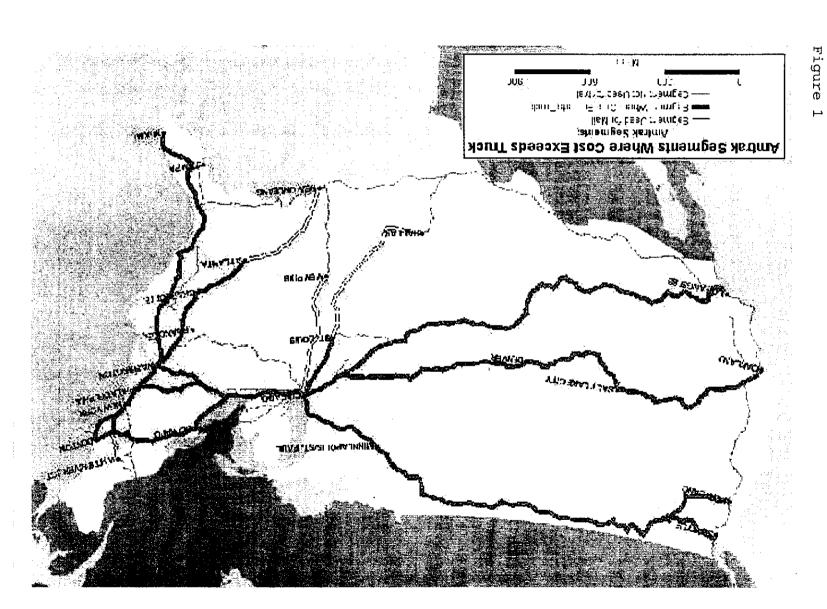
		Volume Variable	Volume Variable
Account Type	Accrued Cost	Cost - USPS BY98	Cost - Revised
Intra-SCF	780,882	501,814	350,327
*		0.643	0.449
Inter-SCF	451,826	409,337	350,340
8		0.906	0.775
Intra-BMC	272,745	268,989	171,348
8		0.986	0.637
Inter-BMC	264,390	259,271	79,855
8		0.981	0.302
Plant Load	45,685	41,025	9,228
8		0.898	0.202
Total Highway	1,838,700	1,500,532	976,651
8		0.816	0.531

Table 2
Estimated Savings from Highway Contract Renewal at Market Rates

	[Cost	Cost/	Non-renewal	Savings		BY98 2C
Туре	Mileage	(\$M)	CFM	Cost/CFM ¹¹	(\$M)	8	Savings (\$M)
Inter	0-250	164.3	.000555	.000481	21.9		
-SCF	251-500	55.9	.000409	.000313	13.1		
	500+	27.6	.000353	.000296	4.5		
	Total				39.5	8.7	4.7
			222405	000401			
Inter	0-250	12.3	.000497	.000481	0.4		
-BMC	251-500	35.3	.000401	.000313	7.7		
	500+	181.2	.000376	.000296	38.6		
	Total				46.7	17.7	8.7
T	0.250	85.1	.000454	.000481	(5.1)		
Intra	0-250			.000481	9.8		
-BMC	251-500	45.4	.000399		0.9	<u> </u>	
	500+	9.6	.000325	.000296		2 1	0.6
	Total				5.6	2.1	0.6
Intra	0-250	476.9	.001033	.001044	(5.1)	 	
-SCF	251-500	6.0	.000455	.000323	1.7		
	500+	2.0	.000525	.000296	0.9		
	Total				(2.5)	(0.3)	(0.2)
				200025	10.6		
Plant	0-250	15.3	.000773	.000235	10.6		
Load	251-500	2.2	.002991	.000627	1.7		
	500+	0.4	.000505	.000382	0.1		
	Total		<u> </u>		12.4	27.1	5.5
	 		<u> </u>	GRAND TOTAL	101.7		19.3

Source: HCSS.

¹¹ Intra-SCF over 500 mi., inter-BMC and intra-BMC have at most 1 non-renewed contract in each cell. Inter-SCF cost is used as proxy.



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 DC May 22, 2000

CHAIRMAN GLEIMAN: Mr. Nelson, have you had an 1 2 opportunity to examine the packet of designated written cross examination that was made available to you earlier 3 4 today? 5 Let me make sure that there, indeed, were some. 6 There were Designated Interrogatories that you had 7 previously provided. 8 THE WITNESS: I don't believe I've seen the 9 package today. 10 CHAIRMAN GLEIMAN: Well, then, we'll have to take 11 a moment so that you can look them over, because the question is if these questions were asked of you today, 12 would your answers be the same as those you previously 13 provided in writing? 14 [Pause.] 15 16 You can take the time you need to look through 17 them and also to let us know if there were any additions, 18 changes, deletions. 19 THE WITNESS: There are three changes in the 20 response to UPS/MPA-T3-12 in part (a). It should read, "See 21 Table 1 of my Workpaper WP4." In UPS/MPA-T3-27, my response to part (a) should read as follows, "Confirmed, I note that 22 the referenced portion of the program segregates 23 24 observations that contain missing values. This is redundant to a function performed automatically by SAS. The existence 25

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- of the syntax error, therefore, does not affect the reported
- 2 model results."
- And then in USPS/MPA-T3-34, part (c), the response
- 4 should read, "I am not aware of any economic interpretation
- 5 for that coefficient."
- 6 CHAIRMAN GLEIMAN: Thank you, Mr. Nelson.
- 7 Ms. Noble, do you know whether those changes have
- 8 been incorporated into the packages?
- 9 MS. NOBLE: They have not been incorporated. They
- were provided for counsel for the Postal Service yesterday
- 11 evening and I have the corrected pages with me, extra copies
- 12 of them.
- 13 CHAIRMAN GLEIMAN: Okay. We are going to take a
- 14 break for just a moment or two so that we can get the
- 15 corrected pages into the package before we give it to the
- 16 court reporter.
- MS. NOBLE: Thank you very much, Mr. Chairman.
- 18 CHAIRMAN GLEIMAN: And I just want to remind
- 19 people again that when you are not actively participating in
- the exchange in the hearing room, that it is a good idea to
- 21 turn your mike off because the proceedings are being
- 22 broadcast over the Internet. And if you are having
- 23 discussions with someone that you are sitting next to about
- something that is going on in the hearing room, I don't
- 25 believe you might want them broadcast over the Internet.

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1	So, good idea to just flip off your mike when you are not
2	talking for the record.
3	[Pause.]
4	CHAIRMAN GLEIMAN: The changes that Mr. Nelson
5	spoke to, I believe have been incorporated into the packets
6	now.
7	Ms. Noble, if you would please provide that
8	material to the court reporter, I will direct that it be
9	transcribed into the record and entered into evidence.
10	[Designated Written
11	Cross-Examination of Michael A.
12	Nelson, MPA-T-3, was received into
13	evidence and transcribed into
14	evidence.]
15	
16	
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BEFORE THE POSTAL RATE COMMISSION WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION OF MAGAZINE PUBLISHERS OF AMERICA WITNESS MICHAEL A. NELSON (MPA-T-3)

<u>Party</u>

Interrogatories

United Parcel Service

UPS/MPA-T3-1-2, 4-6, 10-12, 19

United States Postal Service

UPS/MPA-T3-1-20 USPS/MPA-T3-1-57

Respectfully submitted,

Cypil J. Pittack Acting Secretary

INTERROGATORY RESPONSES OF MAGAZINE PUBLISHERS OF AMERICA WITNESS MICHAEL A. NELSON (T-3) DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
UPS/MPA-T3-1	UPS, USPS
UPS/MPA-T3-2	UPS, USPS
UPS/MPA-T3-3	USPS
UPS/MPA-T3-4	UPS, USPS
UPS/MPA-T3-5	UPS, USPS
UPS/MPA-T3-6	UPS, USPS
UPS/MPA-T3-7	USPS
UPS/MPA-T3-8	USPS
UPS/MPA-T3-9	USPS
UPS/MPA-T3-10	UPS, USPS
UPS/MPA-T3-11	UPS, USPS
UPS/MPA-T3-12	UPS, USPS
UPS/MPA-T3-13	USPS
UPS/MPA-T3-14	USPS
UPS/MPA-T3-15	USPS
UPS/MPA-T3-16	USPS
UPS/MPA-T3-17	USPS
UPS/MPA-T3-18	USPS
UPS/MPA-T3-19	UPS, USPS
UPS/MPA-T3-20	USPS
USPS/MPA-T3-1	USPS
USPS/MPA-T3-2	USPS
USPS/MPA-T3-3	USPS
USPS/MPA-T3-4	USPS
USPS/MPA-T3-5	USPS
USPS/MPA-T3-6	USPS
USPS/MPA-T3-7	USPS
USPS/MPA-T3-8	USPS
USPS/MPA-T3-9	USPS
USPS/MPA-T3-10	USPS
USPS/MPA-T3-11	USP\$
USPS/MPA-T3-12	USPS
USPS/MPA-T3-13	USPS

USPS/MPA-T3-14	USPS
USPS/MPA-T3-15	USPS
USPS/MPA-T3-16	USPS
USPS/MPA-T3-17	USPS
USPS/MPA-T3-18	USPS
USPS/MPA-T3-19	USPS
USPS/MPA-T3-20	USPS
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USPS/MPA-T3-41	USPS
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USPS/MPA-T3-44	USPS
USPS/MPA-T3-45	USPS
USPS/MPA-T3-46	USPS
USPS/MPA-T3-47	USPS
USPS/MPA-T3-48	USPS
USPS/MPA-T3-49	USPS
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USPS/MPA-T3-51	USPS
USPS/MPA-T3-52	USPS

USPS/MPA-T3-53	USPS
USPS/MPA-T3-54	USPS
USPS/MPA-T3-55	USPS
USPS/MPA-T3-56	USPS
USPS/MPA-T3-57	USPS

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO FIRST SET OF INTERROGATORIES OF THE UNITED PARCEL SERVICE

<u>UPS/MPA-T3-1</u>. Refer to your testimony on page 5, lines 11-13, where you describe the procurement of purchased highway transportation services by the Postal Service and state that "These vehicles are typically not the largest capacity vehicles (vans or trailers) that are available." Please indicate which of the following definitions applies to the term "available" in this sentence. If none of these definitions applies, please supply an appropriate definition.

- (a) "Available" in the sense that the larger vehicles were owned or operated by providers of purchased highway transportation services to the Postal Service.
- (b) "Available" in the sense that firms that bid unsuccessfully to provide purchased highway transportation services to the Postal Service offered such vehicles in their bids.
- (c) "Available" in the sense that other firms comparable to those providing purchased highway transportation services that were not being used to meet existing contract commitments.
- (d) "Available" in the sense that some number of such vehicles were operated by some firms somewhere in the U.S.

Response:

Available in the sense that the Postal Service procures transportation from its highway contractors using larger vehicles of the given type (van or trailer).

<u>UPS/MPA-T3-2.</u> Refer to your testimony on page 4, lines 12-15, which states, "while transportation services are generally procured through market processes, this testimony identifies way in which they appear to be unnecessarily costly in satisfying overall transportation requirements." Consider now two hypothetical changes in Postal Service behavior. In the first hypothetical, consider a situation in which the Postal Service minimizes the cost of purchased transportation, subject only to the constraints that all mail is delivered and service standards are met. In the second hypothetical, consider a situation in which the Postal Service minimizes its total cost of operations, subject only to the constraints that all mail is delivered and service standards are met.

- (a) Would purchased transportation costs be the same in these tow situations?
- (b) Would purchased transportation costs in the second hypothetical situation be lower, equal to, or higher than purchased transportation costs in the first hypothetical situation?
- (c) Would it be efficient for the Postal Service to seek to minimize purchased transportation costs without regard to the effects that the resulting changes would have on other types of costs?

- a. Probably not, for reasons explained by Postal Service witness Young in Docket No. R97-1.
- b. My expectation would be that the second hypothetical situation would lead to higher transportation costs than the first hypothetical situation.
- c. In part. Postal Service witness Young explained how transportation requirements are determined largely by mail processing and distribution schedules and requirements. For any given set of transportation requirements, it would be efficient for the Postal Service to seek to minimize transportation costs by avoiding the payment of unneeded rate premiums and/or the procurement of unneeded services. This is the primary thrust of the cited portion of my testimony. It does not rule out the possibility that a different set of transportation requirements (associated with changed mail processing and distribution schedules and requirements) would lead to a lower total cost of operations.

<u>UPS/MPA-T3-3.</u> Refer to your testimony on page 8, lines 14-15, where you refer to "difficulties" encountered with Postal Service witness Bradley's evaluation method. Please provide a complete description of these difficulties, and of the way in which your approach solves each of these difficulties.

Response:

Please see my response to USPS/MPA-T3-5.

<u>UPS/MPA-T3-4.</u> Refer to your testimony on page 8, line 18, where you state that "the balance of my work was conducted using log-log models." Such models represent a special case of the more general translog models used by Dr. Bradley.

- (a) Did you perform any test to determine whether the restricted model form you used could be rejected statistically? If so, please provide the results of these tests.
- (b) Did you investigate any functional forms other than the log-log model whose results you report? If so, please provide the results of these investigations.

- a. No.
- b. No.

<u>UPS/MPA-T3-5.</u> Refer to your testimony on page 10, lines 13-15. What percentage of empty equipment movements via rail represented "equipment moving to/from MTESCs that was or will be used for other types of surface transportation"?

Response:

I do not have the requested percentage. The incumbent costing methodology relies upon an implicit assumption that empty equipment moving by rail is caused only by the mail that moves via freight rail or Amtrak. The cited portion of my testimony states the reason that this assumption is less appropriate than an assumption that other mail moved via surface transportation also has causal responsibility for the costs associated with moving empty equipment by rail.

<u>UPS/MPA-T3-6.</u> Is it your opinion that postal rates should be set on the basis of the Postal Service's actual costs, or on the basis of what the Postal Service's costs would be if it operated at the maximum possible efficiency? Please provide a complete explanation for your answer.

Response:

Within what I understand to be the statutory framework for postal ratemaking, it is my opinion that postal rates should be established on the basis of the best available estimates of costs and conditions that will be applicable in the test year.

<u>UPS/MPA-T3-7.</u> Refer to your testimony on page 13, lines 13-18, where you describe reductions in highway costs that the Postal Service can achieve by demanding more competitive terms from its contractors.

- (a) Is it your expert opinion that these cost reductions (I) can, and (ii) will, in fact be achieved in the test year?
- (b) What specific steps, if any, are you aware of that the Postal Service has taken to achieve these cost reductions?

- a. It is my expert opinion that 1/3 of the total potential savings of this type that I estimate can be achieved in the test year. Please see also my response to USPS/MPA-T3-8. It is up to the Postal Service to determine whether it will take the actions needed for these savings to be realized in the test year.
- b. It is my understanding, from MPA witness Cohen, that the Postal Service is assessing the merits of taking steps to achieve these savings in the test year.

<u>UPS/MPA-T3-8.</u> Refer to your testimony on page 14, lines 6-14, where you describe reduction in highway costs that the Postal Service can achieve by identifying and renegotiating unneded contracts.

- (a) Is it your expert opinion that these cost reductions (I) can, and (ii) will, in fact be achieved in the test year?
- (b) What specific steps, if any, are you aware of that the Postal Service has taken to achieve these cost reductions?

- a. It is my expert opinion that the savings of this type that I estimate can be achieved in the test year. It is up to the Postal Service to determine whether it will take the actions needed for these savings to be realized in the test year.
- b. It is my understanding, from MPA witness Cohen, that the Postal Service is assessing the merits of taking steps to achieve these savings in the test year.

<u>UPS/MPA-T3-9.</u> Refer to your testimony on page 16, lines 1-24, where you describe reductions in cost that the Postal Service can achieve either by renegotiating its agreements with Amtrak, or by moving traffic from Amtrak to truck.

- (a) Is it your expert opinion that these cost reductions (1) can, and (ii) will, in fact be achieved in the test year?
- (b) What specific steps, if any, are you aware of that the Postal Service has taken to achieve these cost reductions?

- a. It is my expert opinion that the savings of this type that I estimate can be achieved in the test year. It is up to the Postal Service to determine whether it will take the actions needed for these savings to be realized in the test year.
- b. It is my understanding, from MPA witness Cohen, that the Postal Service is assessing the merits of taking steps to achieve these savings in the test year.

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO SECOND SET OF INTERROGATORIES OF THE UNITED PARCEL SERVICE

<u>UPS/MPA-T2-10.</u> 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.

- 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).

<u>UPS/MPA-T2-11.</u> 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.

- 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.

<u>UPS/MPA-T3-12.</u> Refer to page 8 of your testimony, where you state, "(†) 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.

- a. See Table 1 of my workpaper WP-4.
- 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.

<u>UPS/MPA-T2-13.</u> 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).

<u>UPS/MPA-T2-14.</u> 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.

<u>UPS/MPA-T2-15.</u> 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.

<u>UPS/MPA-T2-16.</u> 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.

<u>UPS/MPA-T2-17.</u> 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).

<u>UPS/MPA-T2-18.</u> 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.

<u>UPS/MPA-T2-19</u>. 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.

<u>UPS/MPA-T2-20.</u> 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.

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<u>USPS/MPA-T3-1</u>. Please list all documents including testimonies, transcripts, library references, and Commission Opinions and Recommended Decisions from the current and prior proceedings that you reviewed in preparation of your testimony.

Response:

Testimonies: USPS-Ť-1 (Xie); USPS-T-14 (Meehan); Workpaper B-14; USPS-T-15 (Bozzo); USPS-T-18 (Bradley); USPS-T-19 (Pickett).

Library References: USPS LR-I-1; USPS LR-I-2; USPS LR-I-3; USPS LR-I-50; USPS LR-I-52; USPS LR-I-60; USPS LR-I-63; USPS LR-I-84; USPS LR-I-85; USPS LR-I-86; USPS LR-I-97.

Exhibits: Exhibit USPS-11A.

Responses to Interrogatories: Responses to interrogatories directed to USPS-T-1 and USPS-T-18; Institutional responses of USPS to transportation-related interrogatories.

Documents from Docket No. R97-1: PRC Opinion and Recommended Decision; USPS-RT-3 (Young); Library References USPS LR-H-61, USPS LR-H-62 and USPS LR-H-78; my responses to ADVO interrogatories.

Documents from Docket No. R94-1: USPS LR-G-112

<u>USPS/MPA-T3-2</u>. Refer to your discussion of "Stacking of Pallets" on page 18 of your testimony.

- (a) Consider the following hypothetical example of two TRACS-Highway tests: one on truck A and one on truck B. Truck A and B have the same capacity. On truck A, ten pallets are on the floor, with nothing stacking on top of them, and they occupy 10% of the floor space. On truck B, ten pallets are on the floor and ten more are stacked on top of them, for a total of 20 pallets. They occupy 10% of the floor space; the same floor space as the ten pallets on truck A. Is it your understanding that TRACS-Highway will record 10% of the floor space utilization for the 10 pallets on truck A and 10% for the 20 pallets on truck B? Please explain fully.
- (b) Consider the following hypothetical example of two TRACS-Amtrak tests: one on train A and one on train B. On train A, ten pallets are on the floor with nothing stacked on top of them. The data collector records that ten pallets were unloaded from the train and that zero were not on the floor (stacked). On train B, ten pallets are on the floor and ten more are stacked on top of them, for a total of twenty pallets. The data collector records that twenty pallets were unloaded from the train and that ten pallets were not on the floor (stacked). Given a default foot print of 13 square feet per pallet, is it your understanding that TRACS-Amtrak will calculate 13*(10-0)=130 square feet for the 10 pallets on train A and 13*(20-10)=130 square feet for the 20 pallets on train B? If not, please explain how you believe TRACS-Amtrak assigns space to pallets.

- (a) Yes, provided that in both cases the given pallets are unloaded at the facility where the TRACS test was taking place.
- (b) I do not have a precise understanding of that portion of the TRACS-Amtrak expansion code. The cited portion of my testimony does not rely on any assumptions or beliefs regarding the TRACS-Amtrak expansion process.

<u>USPS/MPA-T3-3</u>. On page 5, line 14 you state that "the Postal Service has considerable latitude to after the sizes of vehicles used on most routes in response to volume changes without adding trips.

- (a) Please describe what you mean by "volume changes" in this context.
- (b) Do you believe this statement to be true of
 - (1) all postal purchased highway transportation?
 - (2) highway transportation classified as intra-SCF for the purposes of producing costing in this case?
 - (3) highway transportation classified as inter-SCF for the purposes of producing costing in this case?
 - (4) highway transportation classified as intra-BMC for the purposes of product costing in this case?
 - (5) highway transportation classified as inter-BMC for the purposes of product costing in this case?
 - (6) highway transportation classified as plant load for the purposes of costing in this case?
- (c) Of the types of highway contract service listed in subpart (b) above, which type of service is most likely to be able to alter vehicle size in response to volume increases? Please explain why.
- (d) Of the types of highway contract service listed in subpart (b) above, which type of service is least likely to be able to alter vehicle size in response to volume increases? Please explain why.
- (e) You use the phrase "after the sizes of vehicles."
 - (1) Do you mean on a day-to-day basis? If your answer is no, please explain.
 - (2) To your knowledge, can a highway contract provide a vehicle in excess of the size required by the contract? Please explain.
- (f) On page 5, line 21, you state that there are "circumstances where it is not possible to add capacity without adding vehicle mileage." Please describe all such circumstances.
- (g) At the bottom of page 5, you refer to witness Young's testimony in Docket R97-1 to demonstrate the proposition that dropping a facility from a run (such as Merrifield VA) *inherently reduces circuity, and the gross CFM needed to move a given amount of mail."

- (1) Please explain how you understand the mail moving between the Washington BMC and Merrifield will get to Merrifield after the stop is skipped.
- (2) Is it possible that another route trip can be modified of added to transport the mail from the BMC to Merrifield?
- (3) Is it possible that this new route trip can actually have increased CFM and circuity?
- (a) Changes in the volumes that determine the size of vehicle procured for a given route. As described by Postal Service witness Young in Docket No. R97-1, it is my understanding that such volumes coincide generally with expected weekly volume peaks.
- (b) Yes. This belief is based on the fact that well under half of all purchased highway transportation in each category makes use of the largest available vehicles (trailers or vans) in that category.
- (c) As shown in my workpaper WP-4, the contract categories for which the smallest proportion of purchased highway transportation makes use of the largest available vehicles are intra-CSD trailers, intra-PDC trailers and inter-PDC trailers.
- (d) As shown in my workpaper WP-4, the contract category for which the largest proportion of purchased highway transportation makes use of the largest available vehicles is inter-cluster vans.

(e)

- 1. No. It refers to changing the size of the vehicle specified to meet a given route and schedule requirement.
- 2. Yes, It is my understanding that a highway contractor is generally allowed to provide a vehicle in excess of the size required by the contract.
- (f) For a given route and schedule, it is not possible to add capacity without adding mileage:
 - if the vehicle is already of a maximum size;
- (ii) if the density characteristics of the mail and equipment being moved prevent the utilization of additional cubic capacity that may be available in a larger vehicle; or,
- (iii) if unique, local physical constraints prevent the use of a larger vehicle.

(g)

- 1. My understanding, based on witness Young's description, is that the mail moving between the Washington BMC and Merrifield could be diverted to another contract or another trip on the original contract.
- 2. Yes.
- 3. It is certainly possible, if not likely, that the diversion of mail to another trip or contract would increase capacity requirements, and thus CFM, for that trip or contract. It may be theoretically possible, but would appear to be extraordinarily unlikely, that the Postal Service would increase total circuity. If the Merrifield mail is diverted to another trip on the same contract, its circuity is unchanged, while the circuity of the Norfolk mail is reduced. If the Merrifield mail is diverted to another contract, total circuity would only increase if the Merrifield mail were diverted to a contract that entailed the addition of circuity in excess of the amount of circuity saved on the Norfolk mail. If the diversion of Merrifield mail in this latter scenario really entailed lower costs than changing capacity on the original route (which would hold circuity constant), the Postal Service would have had an economic incentive not to operate the original route in the first place.

<u>USPS/MPA-T3-4.</u> Please define the terms "gross CFM" and "net CFM" as you use them on page 6, line 3.

Response:

"Gross CFM" refers to the capacity procured on highway contracts, reflecting the product of mileage and cubic capacity for contract movements. "Net CFM" refers to the transportation service received by the mail being moved, reflecting the product of the cubic volume of that mail and the direct, point-to-point distance of the transportation it receives.

<u>USPS/MPA-T3-5</u>. On page 8, you refer to difficulties in using mean centered data in your model. Please explain why mean centered data cannot be used in your model.

Response:

As shown in my Workpaper WP1 and explained in further detail in my Workpaper WP4, the inter-BMC model yielded statistically insignificant (and negative) results for the CFM variable, but good statistical significance for the squared and cross-product terms that contain the CFM variable. I concluded from this that witness Bradley's approach of evaluating the elasticity only from the (mean-centered) first-order term may produce implausible and unusable results in the context of the modified specification being estimated, and that the results from the translog specification may be quite sensitive to the evaluation method chosen.

<u>USPS/MPA-T3-6.</u> On page 9, you begin a discussion of Amtrak Roadrailer service, in which you state "it can reasonably be concluded that Roadrailers are not being used to divert the Postal Service volume that Amtrak already moves."

- (a) Is it your understanding that the mix of mail classes and subclasses utilizing Roadrailer service is necessarily different than the mix using conventional Amtrak service because Amtrak is trying to "attract new business?"
- (b) Is it not possible that Roadrailer service can be used to attract to Amtrak Periodicals volume that is currently carried by freight rail? Please explain.
- (c) Is it not possible that Roadrailer service can be used to attract to Amtrak Periodicals mail currently carried by highway transportation? Please explain.
- (d) If Roadrailer service were used exclusively to transport Periodicals mail not previously carried by Amtrak, would you agree that it would be appropriate to distribute the \$4.5 million in Roadrailer costs to Periodicals mail? Please explain any answer other than an unqualified "yes".

Response:

(a) It is my understanding that the mix of mail classes and subclasses making use of Roadrailer service is different than the mix using conventional Amtrak service, and that Amtrak's incentives in making this technology available to the Postal Service is a major contributing factor to this. As a witness for Amtrak in the STB proceeding that authorized the expansion of Amtrak's "express" business, I am familiar with Amtrak's initiatives to use the Roadrailer technology to attract new business. As part of my work on that case, I was asked to investigate the characteristics and uses of Roadrailer services procured from Amtrak by the Postal Service. My investigation in that case, which included discussions with knowledgeable Postal Service transportation specialists, indicated that Roadrailers were being used in a manner that generated new business for Amtrak, primarily from highway transportation.

- (b) Generally no. While it would be physically possible for Roadrailers to be loaded with the types of inter-BMC mail that typically utilize freight rail transportation, freight rail generally provides a low level of service at a low price. On the other hand, Amtrak provides a high (truck-competitive) level of service at a higher price. In its response to MPA/USPS-24, the Postal Service has indicated that it did not shift freight rail traffic to Amtrak in the presence of major freight rail service disruptions following the merger of UP and SP. This confirms that transportation supplied by Roadrailers is not used by the Postal Service as a substitute for freight rail, and that the two services are in different "markets". I note that if such substitution were to occur, the proportion of freight rail costs distributed to Periodicals would be lower than that resulting from the inter-SCF highway distribution key, which I recommend.
- (c) Generally yes. As indicated in my response to (a), Roadrailers are being used to divert movements primarily from highway transportation, and those movements include some Periodicals. I have no reason to believe that such diverted movements are made up disproportionately of Periodicals.
- (d) Yes.

<u>USPS/MPA-T3-7.</u> On page 13, line 1 of your testimony, you state that postal purchased highway transportation requirements "are not unlike those of many shippers of high-value, expedited and just-in-time shipments" Is it your understanding that truckers who provide transportation for expedited and just-in-time in shipments are paid less than other truckers who provide lower value service? Please explain.

Response:

I have not studied the existence or magnitude of a differential in payment between shipments with high vs. lower value and time-sensitivity. The cited portion of my testimony does not require any assumption or conclusion of this type. <u>USPS/MPA-T3-8.</u> Please refer to your discussion of the reduction in Test Year highway cost associated with "tightening administrative requirements".

- (a) Please explain why 1/3 of the savings could be implemented in the test year.
- (b) Does this 1/3 apply to FY 2000 and FY 2001 together?
- (c) If the answer to part (b) is yes, please indicate the savings by year.

Response: (a)-(c) Use of 1/3 of the total potential savings was recommended on the basis that approximately 1/3 of the contracts in effect at the time the recommendation was made would be up for renewal before the end of the test year. Use of the 1/3 figure implicitly assumes that supra-competitive rates that may be in effect for a portion of the test year on specific contracts would be offset by other actions USPS might take to reduce its utilization of overpriced transportation services.

<u>USPS/MPA-13-9.</u> On page 13, beginning on line 22, you discuss changes that occur during the duration of the 4-year highway contracts in effect in FY 1998.

- (a) How many mergers were completed among Class 1 railroads in the United States from 1997 through 2000?
- (b) How many regularly scheduled Acela trips did Amtrak run from 1997 to 2000?
- (c) Please describe how the introduction of DPS affected transportation for Periodicals.
- (d) Would you agree that, in theory, one way to deal with high fuel price swings would be to allow the Postal Service to assess fuel surcharges? If not, please explain.

- (a) During the period 1997-2000, CN (including the former GTW property) merged with IC, and NS and CSX each merged with the portions of the former Conrail property that they acquired. Freight rail transportation options during this time were also directly affected by massive service disruptions that occurred during the completion of the UP/SP merger, for which regulatory approval had been received in the latter part of 1996.
- (b) The Amtrak website reports that Acela Regional service is currently in operation. I do not know how many regularly scheduled runs will have been completed by the end of 2000.
- (c) It is my understanding that DPS may affect the schedule and number of runs needed to distribute processed mail to delivery units. In the context of the cited quote, to the extent that the 4-year standard contract duration has inhibited the adjustment of transportation contracts to meet changes in requirements caused by DPS, USPS has had to purchase unneeded transportation services that Periodicals and other mailers have to pay for.
- (d) I agree that in concept the Postal Service could charge rates that included an adjustable fuel surcharge. I do not know whether such rates would be permissible under existing statutes governing postal ratemaking, or otherwise be feasible or desirable to implement.

<u>USPS/MPA-T3-10.</u> Please refer to your discussion of the "Amtrak premium", beginning on page 14. Is it your understanding that Amtrak routings are always less direct than highway routings? Please explain.

Response:

It is my understanding that between virtually all city pairs, the mileage for a rail movement will exceed the mileage for a highway movement. This occurs primarily because trains are less able than cars and trucks to traverse grades, and require a right-of-way that is comparatively flat. Because highways have fewer restrictions of this type, they are generally able to provide transportation links between cities that are shorter on a mileage basis than those provided by railroads.

<u>USPS/MPA-T3-11.</u>

- (a) Is it your understanding that the Postal Service consolidates "LTL shipments to truckload volumes" for Amtrak movements?
- (b) Suppose the Postal Service hired Amtrak to do the consolidation. How would this be taken into account in you calculations? Would the postal cost you estimated be understated? Would the \$15.4 million reduction in Periodicals Amtrak costs be reduced? Please explain.

- (a) It is my understanding that the overwhelming preponderance of Amtrak capacity procured by the Postal Service involves an amount of capacity on a specific train that exceeds the capacity of a tractor trailer. In this way, the Postal Service is consolidating individual mailings into truckload (or greater) quantities for transportation purposes.
- (b) I am not able to identify a "consolidation" function that the Postal Service could subcontract in the manner hypothesized. The consolidation referred to in my testimony relates to the combination of different mailer's transportation needs that occurs when those mailers tender mail to the Postal Service.

<u>USPS/MPA-T3-12.</u> Please refer to your discussion of Conrail costs on page 17.

- (a) If Conrail were to be awarded an increase for carrying mail in the test year, would you be recommend increasing Conrail-related freight rail costs in the test year? Please explain.
- (b) Is it your understanding that Conrail is currently seeking a reduction in its rates for carrying mail? Please explain.

- (a) I would recommend that test year costs be based on the best available estimate of test year conditions.
- (b) It is my understanding that "Conrail" no longer exists in the form that it has in the past, and that freight rail intermodal shippers in 2001 will have the benefit of market competition between NS and CSX across a broad territory that previously was served almost exclusively by Conrail.

<u>USPS/MPA-T3-13.</u> Please refer to your discussion of stacking pallets on page 18. At lines 24-25, you state that pallets "could be stacked on each other if required." (Footnote reference omitted.)

- (a) When you say "if required", are you considering imposing the requirement on mailers or the Postal Service? Please explain.
- (b) Is it your opinion that, except for the 72-inch maximum height of a pallet stack that you mention on line 24, there are no other limitations to the stacking of pallets?
- (c) If you believe that there are other limitations of which you are aware of with regard to stacking pallets.

Response:

- (a) Neither. The phrase "if required" refers to the degree of floorspace utilization as discussed in the preceding sentence. Specifically, that sentence indicates that pallets "...may not be stacked when floorspace utilization is low." The phrase "could be stacked on each other if required" refers to a condition normally created by a high degree of floorspace utilization, and not to any new operational requirements.
- (b) No.
- (c) It is my understanding that stacking pallets would sometimes create the possibility of damage to mail due to shifting of upper pallets; that pallets originating at different facilities will generally occupy different floorspace; and that the Postal Service generally avoids stacking loose mail on top of pallets to prevent significant delays in unloading. The Postal Service response to MPA/USPS-28 also suggests that the Postal Service may avoid stacking pallets in order to facilitate prompt unloading. It is my understanding that the stacking of pallets does not inherently introduce significant delays in unloading.

I note that the cited portion of my testimony refers to pallets that are not stacked as a result of low floorspace utilization, and does not address or depend upon any assumptions or beliefs regarding pallets that may not be stacked due to other factors.

<u>USPS/MPA-T3-14.</u> Please refer to Table 2 on page 21 of your testimony. Please provide all programs, calculations, workpapers, and documentation sufficient to understand and replicate the information shown in this table. If such information has already been provided, please provide appropriate references.

Response: The information reported in the first 6 columns of Table 2 is developed from HCSS using the procedures described in my workpaper WP-5. The figures in the column labeled "%" represent the percentage that the figures in the column labeled "Savings" form of the corresponding FY98 accrued costs reported in Line 39 of Worksheet 14.4 of Workpaper B-14 to USPS-T-11. This percentage is then applied to the corresponding Periodicals cost shown in Line 16 of that Worksheet to compute the figures shown in the column labeled "BY98 2C Savings".

For example, the "Savings" of \$39.5M in the inter-SCF category represents 8.7 percent of the \$451.8M accrued inter-SCF costs shown in C12L39 of Worksheet 14.4. The "BY98 2C Savings" of \$4.7M represents 8.7 percent of the \$53.5M shown in C12L16 of Worksheet 14.4.

<u>USPS/MPA-T3-15.</u> Please refer to your estimate of the "Amtrak Premium" discussed on pages 14-16 of your testimony. Please provide all programs, calculations, workpapers, and documentation sufficient to understand and replicate the information shown in this table. If such information has already been provided, please provide appropriate references.

Response:

This information is developed using the procedures described in my workpaper WP-5.

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO SECOND SET OF INTERROGATORIES OF UNITED STATES POSTAL SERVICE

<u>USPS/MPA-T3-16</u>. Please refer to your testimony on page 3, line 8.

- a) Please define what you refer to as "a significant share of long-haul truck traffic" that has been diverted to rail.
- b) What share are you referring to? What products have shifted? Provide all calculation and data underlying the share before and after division?
- c) Is it your understanding that the shift was based on price? Please explain.
- d) Is it your understanding that freight railroads typically provide service comparable to highway carriers engaged in just in time service? Please explain.
- e) Is it your understanding that freight railroads typically provide service comparable to highway carriers engaged in trucking mail? Please explain.

RESPONSE:

- (a) The referenced "significant share of long-haul truck traffic" involves a large proportion of the 8.8+ million trailers and containers that move annually by freight rail in intermodal service. A brief overview of this traffic is provided in "Intermodal Transport: The Fastest Growing Segment Of The Railroad Industry", which is presented in the "Stats & Facts" section of the website of the Association of American Railroads (AAR), at http://www.aar.org/.
- (b) I am not referring to a specific numerical share of a precisely defined "market", and have not performed a "before and after" comparison for specific commodity flows. Data presented in the "Intermodal Transport" document referenced in (a) indicate that overall intermodal volumes increased by approximately 184 percent between 1980 and 1998. It is my understanding that since 1998 this pattern of growth has continued.

- (c) It is my understanding that both price and service considerations have played a part in the diversion of long-haul truck traffic to rail. In the presence of market forces, cost-reducing technological innovations, such as double-stacking of containers, have proliferated, and contributed to the ability of rail carriers to provide intermodal service at comparatively low prices. At the same time, railroad mergers have broadened the geographical coverage of single-line service offerings, and coordinated intermodal services involving multiple railroads have been developed. Railroads generally attempt to give priority to intermodal trains in scheduling and dispatching so as to provide transit times that are competitive with truck in some markets.
- (d) It is my understanding that freight rail intermodal service is often somewhat slower and less reliable than the service provided by highway carriers, and that these differences have been magnified by pronounced but transient service disruptions that have accompanied recent railroad mergers. Intermodal service is also constrained by the arrival and departure time limitations imposed by train schedules and loading/unloading requirements, and is not well-suited to the provision of en-route stops. Nevertheless, in specific situations, it is my understanding that railroads have been able to effectively satisfy transportation requirements associated with "just-in-time" industrial processes.
- (e) Please see my response to part (d). It is my understanding that freight rall typically provides service that is sufficiently comparable to truck that it is utilized in lieu of truck for transportation of significant volumes of mail. This is manifest in the Postal Service's substantial use of freight rail intermodal service, and the even greater use of intermodal service made by United Parcel Service.

<u>USPS/MPA-T3-17.</u> Please refer to your statement on page 3, lines 14 through 22: "In effect, these mallers are finding that they can provide themselves with more economical transportation that the Postal Service provides for them."

- (a) Please provide all studies you have conducted that have lead you to this conclusion.
- (b) Please provide the cost per mile of highway transportation used by mailers during the period of "rapid growth" to which you refer.
- (c) Please list all mailers with whom you have communicated who told you that they can provide "more economical transportation".
- (d) Is it you understanding that mailers bypass postal transportation solely on the basis of relative transportation cost? If your answer is no, please provide all other reasons why Periodicals mailers may choose to provide their own transportation.

- (a) The referenced conclusion is a broad characterization based on the considerations outlined in the preceding sentences. It is not based on the results of any specific study.
- (b) I do not have the requested information, and did not rely on any specific assumption regarding transportation costs for mailers. Section VI.A. of my testimony describes and quantifies the degree to which the Postal Service pays a premium when highway contracts are renewed. Section VI.B of my testimony describes and quantifies the degree to which mailers pay for obsolete service requirements under current highway contracting practices. It is my understanding that mailers would generally avoid these costs in their procurement of highway transportation. It is also my understanding that the transportation utilized by mailers to take advantage of dropshipping and destination-entry rates generally achieves higher levels of capacity utilization than that achieved by the Postal Service, contributing to lower effective unit costs.
- (c) During the preparation of my testimony, I was provided descriptive information of this type by MPA witness Cohen based on her knowledge of the growth in dropshipping of periodicals. Subsequent to the preparation of my testimony, I was retained by a major mailer to assist in the development of initiatives to reduce mailing costs through reduction or avoidance of USPS transportation costs and substitution of mailer transportation as needed. This mailer has indicated an intention to minimize total mailing costs (including transportation), and further indicated that many other mailers have common interests in this area.

(d) No. Some mailers may choose to provide their own transportation due to service considerations. Entering the postal system closer to the point of delivery may also provide incidental service improvements for dropshipping that is undertaken for the primary purpose of reducing costs. However, it is my understanding, from the information sources described in my response to part (c), that most dropshipping of periodicals is undertaken primarily to reduce costs, and not improve service.

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO THIRD SET OF INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

<u>USPS/MPA-T3-18.</u> Please confirm that the following header appears on all of the SAS logs and listings in Workpaper WP-1, Workpaper WP-2 and Workpaper WP-3. If you do not confirm, please provide the corrected version of the header.

DISCLAIMER-THESE RESULTS WERE DEVELOPED THORUGH ADAPTATION OF THE PROGRAMS SUPPLED IN USPS-LR-1-84. THOSE PROGRAMS CONTAIN COMMENTS AND LABELS THAT APPEAR HEREIN, BUT MAY NOT ACCURATELY DESCRIBE THE MODELS CONTAINED IN THIS WORKPAPER.

Response:

<u>USPS/MPA-T3-19.</u> Confirm that the Postal Service generally pays for service on a regular purchased highway contract according to an annual rate. If you do not confirm, please explain your use of the HCCS variable "ANNUAL COST."

Response:

I can neither confirm nor deny the stated assertion. In the context of my econometric analysis of purchased highway transportation costs, my use of the "Annual Cost" variable from HCSS is intended to obtain cost information that corresponds to the annual mileage information presented for each contract.

<u>USPS/MPA-T3-20.</u> Refer to Workpaper WP-4, page 1. There you state that the "cost per run" outlier cutoffs "reflect a priori bounds on plausible unit pricing levels." Confirm that these cutoffs were selected before review of the individual data points. If you do not confirm, please provide your meaning for the term, "a priori."

Response:

<u>USPS/MPA-T3-21.</u> Please confirm the you did not test the presence of heteroskedasticity in any of your estimated regressions. If you do not confirm, please indicate the location in you workpapers where the tests were performed.

Response:

<u>USPS/MPA-T3-22.</u> Confirm that you have presented all regressions that you estimated (or had estimated under your supervision) on the HCSS data. If you do not confirm:

- a. Provide SAS logs and listings for all equations that you did not present in your workpapers.
- b. For each regression, provide a justification why that regression was not presented.

Response:

<u>USPS/MPA-T3-23.</u> Workpaper WP-4, page 1, provides a list of the criteria used to identify "outliers."

- a. Please provide a listing (including an electronic spreadsheet version) of all observations omitted from subsequent regressions because they were identified by you as an "outlier." For each observation, include the HCRID, the cost segment (route part) and the values for cost, cost per cubic foot-mile, cost per mile, route length, and cubic foot miles.
- b. For each regression that you estimated, please provide the number of observations that were omitted due to elimination of outliers.
- c. Confirm that you did not run the regressions with the "outliers" included. If you do not confirm, please provide specific citations to the locations in you workpapers of where the regressions with outliers included appear.
- d. Confirm that you have presented no empirical evidence of the effect on the regression results. f (sic) eliminating the outliers (sic) If you do not confirm, please provide the location in your workpapers where the evidence appears.

- a. I do not have such a listing, and did not rely upon one in my analysis. Descriptive information regarding the observations I excluded as outliers is contained in the SAS output listing for each model estimated. See my workpapers WP-1, WP-2 and WP-3.
- b. The requested information is contained in the SAS output listing for each model estimated. See my workpapers WP-1, WP-2 and WP-3.
- c. Confirmed.
- d. Confirmed. The outliers were not excluded on the basis of their effect on the regression results.

<u>USPS/MPA-T3-24.</u> Please provide a definition of the term "outlier" as you use it in Workpaper WP-4.

Response:

Observations drawn from data that likely are bad or reflective of anomalous operating circumstances.

<u>USPS/MPA-T3-25.</u> Please confirm that you did not adjust any of your regression equations for heteroskedasticity. If you do not confirm, please indicate the location in your workpaper that the adjustments are made.

Response:

<u>USPS/MPA-T3-26.</u> Please confirm that you did not perform any F-tests for the statistical significance of higher order terms in your "log-log" regressions. If you do not confirm please provide the location in you workpapers where those statistical tests are performed.

Response:

Confirmed. There are no such terms in my log-log models.

<u>USPS/MPA-T3-27.</u> Please refer to line 132 of the SAS log entitled "Plant Load Equation—SAS LOG" in Workpaper WP-3.

- a. Confirm that there is a syntax error in line 132 and that SAS printed out the following error message: "The SAS system stopped processing this step because of errors." If you do not confirm, please provide the correct version of the error message.
- b. Please confirm that this part of the SAS program was potentially eliminating observations to create tow data sets, one entitled "PLANT2" and one entitled "MISS." If you do not confirm, please explain the purpose of the SAS data step.
- c. Please confirm that following line 136 that SAS log contains the following error message:

The data set "WORK.PLANT2 may be incomplete."

If you do not confirm, please provide the correct error message.

- a. Confirmed. I note that the referenced portion of the program segregates observations that contain missing values. This is redundant to a function performed automatically by SAS. The existence of the syntax error therefore does not affect the reported model results.
- b. Confirmed.
- c. Confirmed.

<u>USPS/MPA-T3-28.</u> Please refer to line 131 of the SAS log entitled "Plant Load Equation—SAS LOG" in Workpaper WP-3.

Explain the meaning of the following comment statement: "NOTE: SCL source line."

Response:

Unknown.

<u>USPS/MPA-T3-29.</u> Please refer to page 2 of Workpaper WP-4. Please provide a definition of the term "run" as it is used in the expressions "number of runs" and "per run."

Response:

A "run" reflects a single repetition of the operation of a route whose length is shown by the variable RL.

<u>USPS/MPA-T3-30.</u> Refer to Workpaper WP-2.

- a. Confirm that the dependent variable used in the regressions is found by dividing the variable "COST" by the variables "NUMRUNS" and "RL" and then taking a log of that ratio. If you do not confirm, please provide the correct formula for the dependent variable in the regression.
- b. Confirm that the variable "NUMRUNS" is the sum of the variable "NUMRUNS" for each observation on a contact cost segment (e.g. see lines 353-357 of the INTRA-CSD equations SAS log.) If you do not confirm, please explain the construction of the variable "NUNRUNS" for the regression analysis.
- c. Please provide the mathematical formulas for the following variables that appear in Workpaper WP-2: NUMRUNS, CUBECLAS, C_PER_N,TRC_RL,C_PER_NRL.

- a. Confirmed.
- b. Confirmed.
- c. As is the case in WP-1 accompanying USPS-T-18, the mathematical definitions of the variables are given in the source code.

<u>USPS/MPA-T3-31.</u> For each regression presented in Table 1 in Workpaper WP-4, please provide the number of observations used to estimate the regression.

Response:

The requested information is contained in the SAS output listing for each model estimated. See my workpapers WP-1, WP-2 and WP-3.

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.

- 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

- 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 \$\mathbb{\eta}_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 .

- a. Confirmed.
- b. Confirmed.
- c. I am not aware of any economic interpretation for that coefficient.

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.
- 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.

- 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. 53131 53133 53609		<u>Category</u> Inter-BMC Inter-BMC Inter-SCF Inter-SCF
53612		Inter-SCF
53613		Inter-SCF
53614		Inter-SCF
53616		Inter-SCF
53617		Inter-SCF
53618 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 2763222 Plant Load:0-250 Plant Load:251-500 491582 Plant Load:500+ 88086

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:
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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
Piant 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.

- 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.

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO FIFTH SET OF INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

<u>USPS/MPA-T3-45.</u> Please refer to Workpaper WP-3.

- a. Confirm that you estimated weighted least squares regressions. If you do not confirm, please explain the use of the command "Weight" in the "Proc Reg" statement.
- b. Confirm that the variable NUMRUNS is used as the weight. If you do not confirm, please provide the correct variable that is used as the weight.
- c. Is the variable NUMRUNS proportional to the reciprocals of the error variances from the regression equation? If you answer in the affirmative, please provide empirical evidence to support this claim.
- d. Please provide the mathematical formula for the variance of the regression coefficient on the variable LTRC_RL under the weighted least squares method.

- a. Confirmed.
- b. Confirmed.
- c. Unknown.
- d. I am not in possession of the requested formula. The value of the standard error for each regression coefficient is computed by SAS.

<u>USPS/MPA-T3-46.</u> Please provide a both mathematical and operational definition of the term "cubic foot miles" as you use it in Workpaper WP-4.

Response:

In the context of my Workpaper WP-4, the term is a unit of measurement for purchased highway transportation capacity procured by the Postal Service. It reflects the product of the cubic capacity of the vehicle and the miles the vehicle operates. The term "cubic-foot-mile data" at the top of page 2 refers to USPS witness Bradley's analysis, in which annual mileage (and annual CFM) are used. In my analyses conducted using runlevel data CFM refers to the product of vehicle capacity (TRCUBE) and route length (RL).

<u>USPS/MPA-T3-47.</u> Please provide a list of all published econometric studies that you have authored or co-authored.

Response:

I was the author of the econometric studies of the following cost characteristics of USPS delivery operations, which were presented in Exhibit USPS-19C in Docket No. R97-1:

- * variability of vehicle stops with respect to activities for motorized letter routes, special purpose routes and special delivery messengers (LDC 24);
- variability of deviation delivery stops with respect to piece volume on motorized letter routes, and variability of individual delivery stops with respect to piece volume on special purpose routes and special delivery messengers (LDC 24); and
- * variability of time at individual delivery stops with respect to accountable piece volume, nonaccountable piece volume and the number of such stops for special purpose routes and special delivery messengers (LDC 24).

To the best of my knowledge, these results were accepted by the PRC and incorporated by the Postal Service in the CRA.

Previously, I submitted various econometric studies to the PRC in the course of my work in Dockets R90-1, R87-1 and RM-862b.

Prior, nonpostal econometric studies for which I was an author or co-author include:

New York City Transit Authority Revenue Feasibility Study: Economic Analyses and Projections. Final Report. Prepared by Charles River Associates for Metropolitan Transportation Authority, New York, NY. October, 1982.

UMTA/TSC Project Evaluation Series, *User-Side Subsidies for Shared-Ride Taxis In Kinston, North Carolina*. Final Report. Prepared by Charles River Associates for U.S. Department of Transportation. October, 1980. Appendix C.

Mellman, Robert, Michael Nelson and Jane Piro. 1980. Forecasts of Passenger and Air Cargo Activity at Logan International Airport. Transportation Research Record 768.

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO SIXTH SET OF INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

<u>USPS/MPA-T3-48.</u> Please refer to Workpaper WP-3 at Intra-BMC Equation Output listing.

- a. Confirm that one of the observations used in estimating the regression equation has a route length of one mile. If you do not confirm, please explain the meaning of the route number "1.0" under the column heading "Minimum" for the variable "RL" in the Proc Means Output immediately preceding the regression output.
- b. Confirm that a variable that has the value of one in levels will have a value of zero when it is converted to logs.
- c. Confirm that if there is an observation with the value of one for RL, then it will have a value of zero for LRL the variable used in the regression. If you do not confirm, please explain what value LRL will have if the value for RL is one.

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

<u>USPS/MPA-T3-49</u>. Please refer to your testimony at page 7 where you state "the methods used by witness Bradley to identify outliers appear in some instances to exclude good data."

- a. Piease identify all such instances in which the methods used by witness Bradley excluded "good data."
- b. Please identify in each instance the equation from which the "good data" were excluded.
- c. Please confirm that Table 10 on page 40 of witness Bradley's testimony includes regression results with the unusual observations included and excluded. If you do not confirm, please explain what is presented in Table 10 on page 40 or witness Bradley's testimony.

- a. The referenced portion of my testimony does not rely on a complete enumeration of instances in which witness Bradley's methods exclude good data, and I have compiled no such list. USPS-LR-I-86 contains numerous instances where a contract was identified by witness Bradley as being "unusual," but the data for that contract was validated as being accurate by field personnel. An example of the type of exclusion that gave me particular concern can be found in HCRiD 19218, which appears on page 2 of USPS-LR-I-86. This large contract appears to have been excluded simply because it is large. Observations that were excluded by witness Bradley but included in my analyses can be identified through examination of the variable "UO" for each model I estimate.
- b. Please see my response to part (a).
- c. Confirmed.

<u>usps/MPA-T3-50</u>, Please confirm that witness Bradley's regressions are based upon actual, not hypothetical data. If you do not confirm, please provide exact citations to the sources of any hypothetical data used by witness Bradley to estimate his regression equations.

Response:

Not confirmed. Witness Bradley's own testimony describes how he imputes average values for cubic capacity to power-only contracts (USPS-T-18 at 24-27). In these instances, his regressions are explicitly based on assumed and not actual data regarding the size of trailer moved under each contract.

<u>USPS/MPA-T3-51.</u> Please refer to Workpaper WP-3; which contains weighted least squares regressions for the various equations to be estimated.

- a. Confirm the purpose of your weighting is to increase the importance of those observations that have a high number of runs relative to those that have a low number of runs. If you do not confirm, please provide the reason for the weighting.
- b. Confirm that the effect of weighting is to increase the importance of observations with many runs in the normal equations. If you do not confirm, please explain the effect of the weighting on the normal equations.

- a. Generally confirmed. It is to ensure that the weight afforded to each observation corresponds to the number of runs that it represents.
- b. Not confirmed. I assume that the term "normal equations" refers to the equations estimated by witness Bradley. I do not recommend that these weights be used in the equations estimated by witness Bradley. I also do not recommend that "per run" equations be estimated without these weights. Please see my response to part (a).

<u>USPS/MPA-T3-52.</u> Consider the following information on the distribution of cubic-foot miles within areas. In the following table, MEANCFM refers to the mean value of CFM within the designated area, STDCFM is the standard deviation of CFM within the designated area, MAXCFM is the maximum value for CFM within the designated area and MINCFM is the minimum value for CFM within the designated area.

AREA	NEAMCEN	STDCFH	HAXCPH	HINCPH
1	1126886118.48	1339156263.85	3638661671.5	\$1296960.0
2	1111316788.11	1129575729.97	4453273304.0	58712789.2
4	906189736.82	800617670.86	3488922807.4	\$9999940.0
5	592583511.82	371200121.53	1178916822.0	44238480.0
7	1240173430.99	989557328.49	4536108513.0	138424524.4
	1083347892.85	924271523.21	4005045105.0	101635120.8
•	1972422875.46	1706516007.75	4352370715.3	216898102.0
10	1300103544.20	1710645994.92	3832370482.5	69654420.0
12	1341480311.46	1347902330.83	5140074746.6	92455084.8

Confirm that these statistics indicate that the value for CFM is not constant within an area. If you do not confirm please explain how STDCFM could be positive and MAXCFM and MINCFM could be unequal if the value for CFM were constant with the area.

Response:

From the information provided, I am unable to discern the definition of the "CFM" for which the data are being presented. Absent any specific analysis, I can confirm that contracts within any area cannot be assumed to have a constant CFM.

RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC. WITNESS NELSON TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

<u>USPS/MPA-T3-53.</u> Please refer to page 14, footnote 7 of your testimony. Please confirm that your analysis excludes Amtrak routes with fewer than 30 feet of contracted footage. Please explain why you excluded Amtrak routes with less than 30 feet of contracted footage.

Response:

Confirmed. As indicated on page 14 of my testimony, lines 18-26 and footnote 7, my analysis addresses Amtrak segments where the cubic feet of procured capacity exceeds the capacity of a tractor-trailer. Thirty (30) linear feet of Amtrak space is used to approximate the capacity of a tractor-trailer.

<u>USPS/MPA-T3-54.</u> Please refer to page 3 of WP-5. Please confirm that you use non-renewal Inter-SCF transportation costs. If confirmed, please explain the meaning of the variable Hkey. Specifically, please explain the meaning of the trailing "Y" in the expression: "Inter-SCF:" + {"0-250", "251-500", "500"} + "Y".

Response:

Confirmed. If the Postal Service were to solicit bids for new (4-year) highway transportation contracts to replace current Amtrak service, it would pay non-renewal rates in the test year. Hkey was used to join to the cost/CFM table. The "Y" refers to regular contracts.

<u>USPS/MPA-T3-55.</u> Please confirm that the Inter-SCF tractor-trailer (Cube.=1650) Cost/CFMs that you use in your calculations by mileage breakdown (0-250, 251-500, 500+) are the following:

0-250+ .000401 251-500 .000313 500+ .000296

Response:

Confirmed. Note that the first mileage category is defined as 0 to and including 250, the next is more than 250 to and including 500, and the final is more than 500.

<u>USPS/MPA-T3-56.</u> Please confirm that you match the 0-250, 251-500, 500+ highway mileages with the same Amtrak lengths. If not confirmed, please detail which Cost/CFMs you use.

Response:

Not confirmed. The highway Cost/CFM used for each segment is selected based on the highway distance – not the Amtrak distance – between the endpoints of the segment.

<u>USPS/MPA-T3-57.</u> Please refer to page 15 of your testimony where you state:

"The analysis may also overstate the cost of substitute highway transportation, since it assumes that trucks will follow the Amtrak route, and will not take advantage of shorter paths that will likely exist between origins and destinations."

Please refer to page 3 of WP-5 where you calculate highway distances between Amtrak O-D pairs. Please confirm that the highway routings in TransCD mirror the Amtrak routings. If not confirmed, please explain.

Response:

Confirmed. The highway routing uses the shortest path on the National Highway Planning Network between the origin and destination points of each Amtrak segment. The "origins and destinations" in the cited portion of my testimony refer to mail movements, and not Amtrak segments. For example, mail moving on Amtrak between the east coast and the west coast generally makes use of more than one Amtrak segment (e.g., with a connection at Chicago). Substitute highway transportation could potentially make use of direct routes between some such origins and destinations. To the extent that this occurred, the CFM of highway capacity needed to substitute for Amtrak service would be lower than the amount used in my analysis.

1	CHAIRMAN GLEIMAN: Is there any additional written
2	cross-examination for this witness?
,3	[No response.]
4	CHAIRMAN GLEIMAN: If not, that brings us to oral
,5	cross-examination. The Postal Service is the only party
6	that has requested oral cross-examination of Witness Nelson.
7	Does anyone else wish to cross-examine the witness?
8	[No response.]
9	CHAIRMAN GLEIMAN: If not, then Mr. Koetting.
10	MR. KOETTING: Thank you, Mr. Chairman. Perhaps
11	before I begin oral cross-examination, I might mention
12	Category 2 Library References, I believe this witness did
13	have some Category 2 Library References, and might it not be
14	appropriate to have him sponsor those?
15	CHAIRMAN GLEIMAN: It would be if we have them. I
16	am not sure which ones you are making reference to at this
17	point because I don't have the list for Library References
18	right in front of me. We can certainly take a break for a
19	moment and sort through this one. Counsel.
20	MR. KOETTING: Perhaps they are aware which of
21	their Library References are associated with the testimony
22	of this witness. I know Library Reference 5, for example,
23	MPA.
24	CHAIRMAN GLEIMAN: I will tell you what we will
25	do, Mr. Koetting, in the interest of time, why don't you

- 1 proceed with your cross-examination. If you give me a sense
- of how long it is going to be, then I can juggle things
- around and make sure that we get the Library Reference list,
- 4 not very long.
- 5 MR. KOETTING: It is not going to be very long.
- 6 CHAIRMAN GLEIMAN: Okay. Well, before we let the
- 7 witness off the stand, we will take a short break and sort
- 8 out the Library Reference issue if we don't do it before
- 9 then. Okay. Thank you.
- 10 MR. KOETTING: That's fine.
- 11 BY MR. KOETTING:
- 12 Q Mr. Nelson, I quess it makes as much sense as
- anything to begin with the response to the Postal Service
- 14 Interrogatory 34 that you just changed the answer to subpart
- 15 (c). That question asked for you to provide an economic
- interpretation for the coefficient beta 2. And, originally,
- 17 you did provide an interpretation, and now you have changed
- 18 your response to say that you are not aware of any economic
- 19 interpretation for that coefficient, and I was just
- 20 wondering if you could explain why you felt it necessary to
- 21 make that change.
- 22 A Sure. My original response was to the effect that
- 23 the elasticity of cost per run with respect to route length
- 24 would be represented by that coefficient by itself. But on
- 25 further reflection, I recognize that the term "route length"

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- also appears in the preceding term where it is part of a
- 2 multiplicative product with truck cube. So I do not believe
- 3 that the elasticity of post per run with respect to route
- 4 length is necessarily represented by that coefficient by
- 5 itself.
- 6 Q Thank you for that clarification. I would like
- you to refer to your discussion of renewal and non-renewal
- highway contracts which begins on page 13 of your testimony,
- 9 although I am not sure that we will actually be referring to
- any particular part of your discussion, but that is where it
- 11 appears in your testimony.
- Now, if I understand your analysis correctly, you
- 13 divided highway contracts in three ways. You divided them
- 14 by contract type, by route length and whether the contract
- was a renewal contract or a non-renewal contract, is that a
- 16 fair statement of your analysis?
- 17 A Yes, basically, as presented in Table 2.
- 18 Q And in terms of route length, you subdivided the
- 19 contracts into three groups, zero to 250, 250 to 500, and
- 20 500 plus miles, is that correct?
- 21 A With the clarification that the second group would
- 22 be over 250 to 500.
- 23 Q Right.
- 24 A Yes.
- Q And let's focus, if we can, just on inter-SCF

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- 1 contracts. Within the zero to 250 mileage block, did you
- 2 examine whether renewal contracts tend to have longer or
- 3 shorter route length than non-renewal contracts?
- 4 A No.
- 5 Q Within the second block, 250 to 500, would your
- answer be the same, you didn't examine that?
- 7 A That's correct.
- 8 Q And the same for the third block of 500 plus?
- 9 A That's correct.
- 10 Q Would you agree that the cost per cubic foot mile
- of a highway contract might vary depending on what area of
- the country the contract is performed in?
- 13 A It's possible.
- 14 Q Is it also possible that the cost per cubic foot
- mile of a highway contract might vary by the number of
- 16 trips?
- 17 A It's possible, but I would expect not to a great
- 18 degree.
- 19 Q Is it possible that the cost per cubic foot mile
- 20 might vary by the number of trucks?
- 21 A I believe my answer would be the same.
- 22 Q Last along this line, is it possible it might
- 23 vary, cost per cubic foot mile, the highway contract, by the
- 24 type of truck and by type of truck I mean a straight truck
- 25 versus a tractor trailer?

- 1 A Yes, that's possible.
- Q With regard to all of these factors that we just
- 3 discussed, did you conduct any analysis to determine how
- 4 those factors might vary between renewal and nonrenwal
- 5 contracts?
- -6 A No.
- 7 Q I would next like to refer you to your response to
- 8 Postal Service Interrogatory 36.
- 9 A I have it.
- 10 Q In your answer you describe the accounts you use
- in your analysis, at least one of your analyses. According
- to this response you have included Account 53136 as a plant
- 13 load contract account, is that correct? Again, that number
- 14 is 53136.
- 15 A Yes, that is what is shown here.
- 16 Q Are you by any chance familiar with the definition
- 17 of that account?
- 18 A Not off the top of my head, no.
- MR. KOETTING: If I may approach the witness, I
- 20 would like to show him a definition which comes out of
- 21 Handbook F-8, the General Classification of Accounts, an
- 22 electronic version of which was filed by the Postal Service
- in this case as LRI-183.
- 24 [Pause.]
- 25 BY MR. KOETTING:

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1 Q Have you had a chance to look at that, Mr. Nelson?

- 2 A Yes.
- Q Let me read what it says -- "For Account 53136,
- 4 highway services, this is intra-BMC leased trailer fleet.
- 5 This account is used to record the expense for lease of
- 6 trailers to fill the fleet used by and within a BMS service
- 7 area in conjunction with contract tractor and driver
- 8 service."
- 9 It is my understanding that that BMS is a type and
- 10 it should refer to a BMC service area.
- Do you have any reason to believe that this isn't
- the actual definition of contract category 53136?
- 13 A I accept that this is the definition as it is
- 14 reported in this Handbook. The categorization that is
- 15 presented in the response to your Interrogatory 36 was
- developed from information that I believe is in your Library
- 17 Reference 1, so it was not drawn from this same source and I
- 18 would need to review the source that it came from to
- 19 determine whether there is an error here that needs to be
- 20 corrected.
- 21 Q I understand that, but would you nevertheless
- 22 agree that as far as this description goes that it would
- 23 appear that that account, if this is the correct
- 24 description, does not appear to have anything to do with
- 25 plant load activity?

- 1 A Yes, I would agree based on this description.
- 2 Q And do you know whether or not Dr. Bradley
- 3 included Account 53136 as plant load or not?
- A Off the top of my head I don't know.
- 5 Q Well, that's fine. I'm sure the record will
- 6 reflect that.
- 7 If you could refer, please, to your response to
- 8 Postal Service Interrogatory 43, please.
- 9 A I have that.
- 10 Q Your response states that inter-SCF types entail
- service requirements equivalent to or more stringent than
- the service standards of the categories for which they are
- 13 used as proxies.
- 14 Could you please explain your meaning of service
- 15 standards in that statement?
- 16 A Generally I'd be referring to the requirement to
- 17 perform service according to the schedule requirements of
- 18 the facilities being served.
- 19 Q Could you please confirm that you use inter-SCF
- 20 nonrenewal cost as a proxy for inter-BMC and intra-BMC
- 21 nonrenewal cost as well as intra-SCF nonrenewal cost?
- 22 A As indicated in my footnote 11 on page 21, which
- is Table 2 of my testimony, the use in intra-SCF is only in
- the category of over 500 miles.
- 25 O That's correct.

1	A And, yes, I otherwise confirm that it is used as a
2	proxy for the inter-BMC and intra-BMC categories.
3	Q Thank you for that clarification. I had that here
4	and I neglected to realize its significance. In your
5	development of these proxies, the use of inter-SCF,
6	non-renewal cost as proxies for these inter-BMC and
7	intra-BMC categories, did you consider any possible
8	differences in the distribution across areas of contracts
9	between the categories you the inter-SCF you were using
10	as a proxy for the intra inter- and intra-BMC categories?
11	A By areas, are you referring to geographic areas?
12	Q That's correct.
13	A No.
14	Q Did you consider any differences in route length
1 5	within the mileage blocks?

- 16 A No.
- 17 Q Any differences in truck size?
- 18 A Not as an explicit part of the analysis where I
- 19 would make a numerical adjustment for it. I did have a
- 20 belief that the truck sizes for the BMC movements would be
- 21 likely to be larger on average than the ones associated with
- 22 the proxy that I was using and that the proxy might,
- therefore, tend to overstate the actual cost and potentially
- 24 understate the savings.
- Q What about the difference in the number of trucks

- per contract, did you examine that?
- 2 A No.
- 3 MR. KOETTING: Thank you, Mr. Nelson.
- 4 That is all we have, Mr. Chairman.
- 5 CHAIRMAN GLEIMAN: Is there any follow-up?
- 6 Questions from the bench? One question from the bench from
- 7 Commissioner LeBlanc.
- 8 COMMISSIONER LeBLANC: Mr. Nelson, I just need a
- 9 clarification. I couldn't find it in your testimony, maybe
- 10 I overlooked it, but you claim that contract renewal at
- 11 market rates would save \$101-\$102 million, plus or minus,
- and there doesn't to be a breakdown. Can you break it down
- for me, or are you talking about just renewing the contract
- 14 itself? And if you are talking about just renewing the
- 15 contract, doesn't the Postal Service have like escalation
- 16 clauses built in? Or is that what you are talking about, or
- 17 are you talking about the transportation side? I mean what
- 18 are we talking about here?
- 19 THE WITNESS: I am talking about when the
- 20 contracts are renewed, they are renewed at rates that
- 21 produce costs about \$102 million over what the cost would be
- 22 if the renewals occurred on the same terms as the new
- 23 competitive contracts that are procured. So, as part of the
- 24 renewal process, the rates that are embedded in the renewal
- 25 contracts are higher than the rates on the new competitively

- 1 procured contracts.
- 2 COMMISSIONER LeBLANC: But, again, this is not
- 3 broken -- you didn't do any particular study on this thing?
- 4 This wasn't broken down here where you actually had some
- 5 cold, hard figures, this was --
- THE WITNESS: Oh, yes, this is from the Highway
- 7 Contract Support System Data.
- 8 COMMISSIONER LeBLANC: Okay. That is what I was
- 9 trying to get to.
- 10 THE WITNESS: Yes.
- 11 COMMISSIONER LeBLANC: It did come originating
- 12 from there then?
- THE WITNESS: Yes, that is footnoted in Table 2 on
- page 21, that the source is the HCSS data.
- 15 COMMISSIONER LeBLANC: You are right, I did miss
- 16 that. Thank you very much.
- 17 Thank you, Mr. Chairman.
- 18 CHAIRMAN GLEIMAN: I have been searching our
- database while the cross-examination was going on. There
- 20 are 11, as best I can tell, MPA Library References, one of
- 21 which Mr. Koetting identified correctly inasmuch as it also,
- in the database, makes reference to Witness Nelson, and that
- is MPA-LR-5. There may be several others that the witness
- 24 also utilized. I wasn't able to determine in going through
- 25 his testimony whether, in fact, he had used other Library

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- 1 References.
- So, I think what we would like to do is break now,
- 3 give you some time to discuss with your witness to prepare
- 4 for redirect, if you wish to have redirect, and during that
- 5 break, we will check and make sure that we haven't missed
- 6 any Category 2 Library References.
- 7 When we come back, then we can have that material
- 8 placed into the evidentiary record. As is our practice, we
- 9 don't transcribe Library References, but we do include the
- 10 material as evidence in the record.
- 11 So, with that, we will take 10.
- MS. NOBLE: Thank you, Mr. Chairman.
- 13 [Recess.]
- 14 CHAIRMAN GLEIMAN: As agreed before we took the
- 15 break, before we get to the issue of redirect, let's take
- 16 care of Library References. If you'd like to ask your
- 17 witness to take a look at any Library References that he's
- 18 going to be sponsoring into evidence?
- 19 MS. NOBLE: Thank you, Mr. Chairman. I
- 20 conveniently have a copy of Library Reference MPA-LR-5, and
- 21 I'm going to show it to the witness.
- 22 Mr. Nelson, would you review that and state for
- 23 the record whether that was your Library Reference, and that
- you would like to adopt it so that we can place it into the
- 25 record of this case?

1	THE WITNESS: Yes.
2	MS. NOBLE: Thank you, Mr. Chairman.
3	CHAIRMAN GLEIMAN: That being the case, the
4	Library Reference will be received into evidence, but not
5	transcribed into the record.
6	[Library Reference MPA-LR-5 was
7	received into evidence.]
8	CHAIRMAN GLEIMAN: I thank you, Mr. Koetting, Ms.
9	Noble. This is a new procedure in this case, and I think
10	all of us will have to go back, both the Postal Service and
11	Intervenors will have to go back and take a look to see
12	whether there are other Library References which, in our
13	zeal to move ahead, we've not included in the record, where
14	appropriate.
15	Perhaps some certifications will need to be filed
16	somewhere along the line as we proceed, just to make sure
17	that Library References, Category II Library References are,
18	indeed, in evidence and in the record.
19	I'll have to change my script a little bit to make
20	sure that I ask everyone, every time, which I think I did
21	the first time around with Postal Service hearings, but have
22	been somewhat remiss with the Intervenors. We'll correct
23	that on our end.
24	That brings us to redirect. Do you wish to have
25	redirect?

1	MS. NOBLE: I do, Mr. Chairman. We have one
2	followup question.
3	CHAIRMAN GLEIMAN: Certainly.
4	REDIRECT EXAMINATION
5	BY MS. NOBLE:
6	Q Mr. Nelson, the Postal Service asked you a number
7	of questions about the analysis and the scope of the
8	analysis that you conducted in preparing your testimony.
9	Would you please elaborate on why you did not do
10	the refinements in the refined analysis that the Postal
11	Service asked you about in this proceeding?
12	A Yes. When I was analyzing the savings that could
13	potentially be realized through changes in the rates on
14	renewal contracts, I was aware from a Postal Service
1 5	interrogatory response that the Postal Service apparently
16	was already working on this issue.
17	The Postal Service's response to MPA Interrogatory
18	45, which I discuss briefly on page 19 of my testimony, in
19	lines 20-24 indicated that the Postal Service was attempting
20	to achieve savings through process improvements, cycle time
21	reductions, and unit cost reductions.
22	And my analysis of renewal contracts, I would
23	believe, would be parallel to an effort to reduce unit costs
24	in highway transportation.
25	I would agree that it would be possible to pursue

1	any of the refinements that the Postal Service asked me
2	questions about.
3	I believed, in preparing my estimate of the
4	savings, that my estimates were unbiased, and, if anything,
5	were conservative, for the reasons that I previously gave.
6	And I also understand that the Postal Service has
7	since submitted an estimate as part of its efforts to
8	integrate the FY99 data. They have submitted an estimate of
9	\$75 million in savings in highway transportation, and that
10	would seem to corroborate all of this, at least as far as
11	we're able to understand the details of where that estimate
12	comes from.
13	CHAIRMAN GLEIMAN: Is that it?
14	MS. NOBLE: Yes.
15	CHAIRMAN GLEIMAN: Is there any further recross?
16	MR. KOETTING: There is, Mr. Chairman.
17	RECROSS EXAMINATION
18	BY MR. KOETTING:
19	Q Are you suggesting that the \$75 million is
20	directly tied to renewal versus a non-renewal analysis?
21	A No.
22	MR. KOETTING: That's all we have, Mr. Chairman.
23	CHAIRMAN GLEIMAN: Anything more?
24	MS. NOBLE: No, Mr. Chairman.

CHAIRMAN GLEIMAN: If not, that concludes our

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1	proceedings today. Mr. Nelson, that completes your
2	testimony. We appreciate your appearance and your
3	contributions to our record, and you're excused.
4	[Witness Nelson excused.]
5	CHAIRMAN GLEIMAN: We will reconvene on Monday
6	next, the 17th, at 9:30, and we will receive testimony from
7	Witnesses Morrow, Gerarden, Jones, Prescott, Boggs, Haldi,
8	Bentley, Lubenow, Zimmerman, and Collins.
9	I thank you all, and you have a very nice weekend.
10	[Whereupon, at 10:22 a.m., the hearing was
11	recessed, to be reconvened on Monday, July 17, 2000, at 9:30
12	a.m.]
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