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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 43

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P R O C E E D I N G S

[9:32 a.m.]

COMMISSIONER OMAS [Presiding]: Good morning.

Today we will continue the hearing in Docket Number R2000-1 for the purpose of considering the Postal Service request for changes in rates and fees.

If you will bear with me for just a minute, and in order to keep things going, the Chairman was running a little late, so I'm going to start things off today.

Does any participant have any matter they would like to raise before we begin today?

[No response.]

COMMISSIONER OMAS: Nine witnesses are scheduled to present ten pieces of testimony today. They are Witnesses Bradley, Pickett, Young, Elliot, Baron, Heath, Taufique, Prescott, and Thompson.

Witness Prescott has two separate pieces of rebuttal testimony. No participants have submitted requests to orally cross two of these witnesses, NNA the National Newspaper Association Witness, Heath, and Office of the Consumer Advocate Witness Thompson.

And is our practice, we will introduce this written testimony first before we receive testimony that is subject to cross examination.

Ms. Rush?

1 [No response.]

2 COMMISSIONER OMAS: She's not here. Well, let's
3 see; let's go to Mr. Costich.

4 MR. COSTICH: Thank you, Commissioner Omas.

5 COMMISSIONER OMAS: Is your witness present here
6 today?

7 MR. COSTICH: Yes, sir. The OCA calls Pamela
8 Thompson, and I believe she's still under oath.

9 COMMISSIONER OMAS: Yes, proceed.
10 Whereupon,

11 PAMELA A. THOMPSON,
12 a witness, having been previously called for examination,
13 and, having been previously duly sworn, was recalled as a
14 rebuttal witness, continued to be examined and continued to
15 testify as follows:

16 DIRECT EXAMINATION

17 BY MR. COSTICH:

18 Q Ms. Thompson, do you have before you, two copies
19 of a document that has been marked for identification as
20 OCA-RT-3?

21 A Yes, I do.

22 Q Could you identify that document?

23 A It's Rebuttal Testimony of Pamela A. Thompson on
24 Behalf of the Office of the Consumer Advocate.

25 Q And does it contain a revised page?

1 [Pause.]

2 A Page 15, yes, it does.

3 Q Was this testimony prepared by you or under your
4 direct supervision?

5 A Yes, it was.

6 Q If you were to testify orally today, would this be
7 your testimony?

8 A Yes, it would.

9 MR. COSTICH: Commissioner Omas, I will hand two
10 copies of this document to the Reporter, and I will ask that
11 it be admitted into evidence.

12 COMMISSIONER OMAS: Is there any objection?

13 [No response.]

14 COMMISSIONER OMAS: Hearing none, I will direct
15 counsel to provide the Reporter with two copies of the
16 corrected Rebuttal Testimony of Pamela A. Thompson. That
17 testimony will be transcribed into the record and received
18 into evidence.

19 [Written Rebuttal Testimony of
20 Pamela A. Thompson, OCA-RT-3, was
21 received into evidence and
22 transcribed into the record.]

23

24

25

OCA-RT-3
Docket No. R2000-1

REBUTTAL TESTIMONY
OF
PAMELA A. THOMPSON

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

AUGUST 14, 2000

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UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
PAMELA A. THOMPSON

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Pamela A. Thompson. I am a senior Postal Rate and Classification
3 Specialist. I have been employed by the Postal Rate Commission since March 1990. A
4 more complete statement of qualifications is provided in my testimony, OCA-T-9,
5 submitted earlier in this proceeding.¹

¹ See Tr. 23/10405-06.

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of my testimony is two-fold. First, I provide a summary of certain
3 USPS cost data resulting from the updated information filed by the Postal Service in
4 response to Commission Order No. 1294. I accomplish this task by providing five
5 tables. Table I summarizes USPS FY 00 costs for the six cost effects presented by
6 USPS witness Kashani (USPS-T-14) and subsequently updated by USPS witness
7 Patelunas (USPS-ST-44), in response to Order No. 1294. Table II summarizes the
8 costs for the seven cost effects used in developing test year, FY 01, after rate costs as
9 presented by USPS witnesses Kashani and Patelunas. Tables III and IV show the
10 different test year after rates work-year mix adjustments made by USPS witnesses
11 Kashani and Patelunas. Table V summarizes the sources of information used by the
12 USPS in preparing updated cost factors for the development of the revenue
13 requirement forecast responsive to Order No. 1294.

14 Second, my testimony responds to the statement, at page 4 of Order No. 1294,
15 that "participants that offer specific test year revenue requirement forecasts also will
16 need to determine how to adjust those forecasts to incorporate actual FY 1999 CRA
17 cost data." The cost update data for the base year 1999 presented by USPS witness
18 Patelunas in his supplemental testimony was filed on July 7. Unfortunately, the FY 99
19 "base year" update did not roll forward FY 99 costs using the more "traditional" method
20 of beginning with the manual input requirement report. The Postal Service submitted its
21 supporting library references as soon as possible; and witness Patelunas's supporting
22 electronic files began to be filed on July 12 (USPS-LR-I-406). However, the files I

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1 needed to complete an update of the OCA model presented in my direct testimony
2 were not filed until late July. Thus, I was not able to provide a complete update of the
3 OCA's proposals reflecting the changes proposed by OCA witnesses Smith and Ewen.
4 Instead, I primarily focus on three changes the Postal Service proposed when it
5 updated the test year forecast—use of ECI versus ECI-1, the work-year mix adjustment,
6 and the addition of a \$200 million "Field Reserve." The three changes should be
7 reviewed carefully by the Commission before being included in the final test year after
8 rates cost forecast.

1 III. A REVIEW OF THE POSTAL SERVICE'S UPDATES FOR FY 99, FY 00 AND
2 FY 01 AFTER RATE COSTS

3 In the USPS initial filing, USPS witness Kashani presented actual cost data for
4 FY 98 as well as forecasted data for FY 99, FY 00 and FY 01 test year before and after
5 rates.² In supplemental testimony, USPS witness Patelunas presented FY 99 actual
6 costs and updated cost projections for FY 00 and FY 01, before and after rates.³

7 In Tables I and II, the column identified as "Original" provides forecasted costs as
8 presented in USPS witness Kashani's testimony and workpapers. The column
9 identified as "Revised" relies upon the costs presented in USPS witness Patelunas's
10 supplemental testimony and USPS-LR-I-410.

11 FY 99 total costs form the basis of the FY 00 cost forecast.⁴ Table I incorporates
12 FY 99 actual (Patelunas) and forecasted (Kashani) total costs as well as the FY 00
13 forecasts for the six USPS cost effects.⁵ The result is the FY 00 total roll-forward
14 forecast.

² Cost detail by segment and component was provided in USPS witness Kashani's workpapers.

³ Cost detail by segment and component was provided in USPS-LR-I-410.

⁴ In Tables I and II, the FY 99 actual and forecasted roll-forward costs do not include the work-year mix adjustment, nor do they contain final adjustments.

⁵ Each of the six cost effects is explained in USPS witness Kashani's testimony. The six cost effects are: (1) cost level effect; (2) mail volume effect; (3) nonvolume workload; (4) additional workday; (5) cost reductions; and (6) other programs.

1 Table I shows that actual FY 99 total costs were \$147,319,000 lower than the
2 comparable costs originally forecasted in USPS witness Kashani's testimony—a
3 decrease of approximately 0.2 percent.⁶

4 Cost level changes refer to price level inputs, or changes in costs to the Postal
5 Service.⁷ The updated FY 00 total cost level increase shown in Table I was
6 \$70,622,000 higher than forecasted in USPS witness Kashani's testimony. FY 00 cost
7 reductions declined \$75,895,000 primarily due to a \$75,700,000 prior year international
8 adjustment.⁸ The single largest increase in forecasted costs for FY 00 occurred in other
9 programs.

10 Other program costs increased 88 percent to \$696,586,000. The two major
11 categories of other program cost increases are (1) non-personnel other program costs
12 (\$266,871,000) and (2) service-wide other program costs (\$86,255,000).⁹ The three
13 largest non-personnel other program cost increases are summarized in USPS witness
14 Patelunas's supplemental testimony as other headquarters programs (\$114,602,000),
15 expedited mail (\$94,428,000), and depreciation and amortization (\$30,814,000).¹⁰ The
16 two largest service-wide other program increases are (1) current workers' compensation
17 (\$77,914,000) and (2) prior workers' compensation (\$64,191,000). The largest

⁶ $(\$147,319,000) \div \$62,539,161,000 = (0.0024)$ or approximately (0.2) percent.

⁷ Docket No. R2000-1, USPS-T-14, see footnote at 4.

⁸ USPS-ST-44, Exhibit USPS-ST-44Z.

⁹ USPS-ST-44, Exhibit USPS-ST-44AA.

¹⁰ *Ibid.*

1 decrease in service-wide other program costs is the re-pricing of annual leave
2 (\$35,782,000).¹¹

3 Netting the cost update increases and decreases, total FY 00 costs rolled
4 forward to FY 01 are \$306,215,000 higher (approximately 0.5 percent) than originally
5 forecasted.

Table I				
FY 2000 Forecasted Roll-Forward Costs (\$000)				
Cost Category	Revised A *	Original B +	Delta A - B	% Chg (A - B) / B
FY 99 TTL	62,391,842	62,539,161	(147,319)	-0.2%
Cost Level	1,969,604	1,898,982	70,622	4%
Mail Volume	820,907	839,260	(18,353)	-2%
NonVolume Workld	183,171	183,934	(763)	0%
Additional Workday	44,848	44,308	540	1%
Cost Reductions	(904,682)	(980,577)	75,895	-8%
Other Programs	696,586	370,993	325,593	88%
FY 00 Roll Fwd Costs	<u>65,202,276</u>	<u>64,896,061</u>	<u>306,215</u>	<u>0.5%</u>
Sources:				
* USPS-LR-I-410, Volume B				
+ USPS-T-14, Workpaper E				

6 Table II provides a comparison of the updated FY 01 test year after rates costs
7 with those presented initially in USPS witness Kashani's testimony. The six FY 01 cost
8 effects are added to the updated FY 00 total roll-forward costs. The following
9 discussion highlights three major areas of change. Updating the factors used in
10 forecasting the FY 01 cost level effect resulted in an increase of 24 percent to

¹¹ *Ibid.*

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OCA-RT-3

1 \$2,732,917,000. Cost reduction programs increased 71 percent to (\$1,118,230,000).¹²
2 Personnel cost reductions of (\$426,729,000)¹³ were responsible for the majority of the
3 change. Forecasted other program costs declined 8 percent to \$918,233,000. A
4 decline in non-personnel other programs of \$154,741,000 was partially offset by the
5 other program service-wide cost increases totaling \$70,717,000.¹⁴ The three major
6 non-personnel other program cost changes are: (1) an E-commerce cost increase of
7 \$145,670,000; (2) a supply chain management cost decrease of \$113,000,000; and (3)
8 an advertising cost decrease of \$110,200,000.¹⁵ The three major service-wide other
9 program costs are: (1) an increase of \$49,321,000 in the CSRS annuitant COLA; (2) an
10 increase of \$31,836,000 in contingent liabilities; and (3) a decrease of \$41,079,000 in
11 current workers' compensation.¹⁶

12 In the test year, the employee work-year mix adjustment increased from a
13 negative \$2,658,000 to a positive \$213,750,000—an increase of \$216,408,000 from the
14 original work-year mix adjustment.¹⁷ I believe the change in the amount of the work-
15 year mix adjustment is significant and warrants a more thorough review than I had time

¹² *Ibid.* Note that the "R00-1 Original USPS Filing" for FY 01 other programs was \$1,001,426,000 not the \$1,125,426,000 shown on exhibit USPS-ST-44AA. Subsequently, the "R00-1 FY 1999 Base Update Filing" for FY 01 other programs should be \$918,233,000 not \$1,042,232,000. This assumes that the information provided in USPS-LR-I-410 is correct.

¹³ USPS-ST-44, Exhibit USPS-ST-44Z.

¹⁴ USPS-ST-44, Exhibit USPS-ST-44AA.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

1 to perform. The summarization of the work-year mix adjustment is shown in Tables III
2 and IV. Table III provides the amount of the FY 01 after rate work-year mix adjustment
3 data used by USPS witness Kashani. Table IV provides the amount of the FY 01 after
4 rate work-year mix adjustment used in the update by USPS witness Patelunas.
5 Comparing Table III and IV shows that FY 01 costs for Clerks A-J increased from
6 (\$6,371,000) to \$162,975,000—an increase of \$169,346,000; City Carrier costs
7 increased from \$6,451,000 to \$18,100,000—an increase of \$11,649,000; and Mail
8 Handler costs increased from (\$2,738,000) to \$32,675,000—an increase of
9 \$29,937,000.

10 Updated FY 01 costs prior to the final adjustment are \$67,962,177,000 and
11 represent a forecast increase of \$495,019,000. Incorporating the updated final
12 adjustments of (\$320,076,000) results in revised FY 01 total accrued costs of
13 \$67,642,101,000. After including the 2.5 percent USPS requested contingency
14 provision, total accrued costs plus contingency for FY 01 are \$69,333,151,000—a
15 forecasted cost increase of approximately one-percent.

¹⁷ For each year, the employee work year mix adjustment is based upon the relationship a given year has to the base year. Consequently, the employee work-year mix adjustment is not part of the costs rolled forward. See also USPS-T-14 at 6.

Table II

FY 2001 Forecasted Costs (\$000)

Cost Category	Revised A *	Original B +	Delta A - B	% Chg (A - B) / B
FY 00 TTL	65,202,276	64,896,061	306,215	0.5%
Cost Level	2,732,917	2,206,847	526,070	24%
Mail Volume	(36,000)	(30,195)	(5,805)	19%
NonVolume Workld	158,013	156,535	1,478	1%
Additional Workday	(108,782)	(106,911)	(1,871)	2%
Cost Reductions	(1,118,230)	(653,947)	(464,283)	71%
Other Programs	918,233	1,001,426	(83,193)	-8%
WorkYr Mix Adj	213,750	(2,658)	216,408	N/A
FY 01 Subtotal	67,962,177	67,467,158	495,019	1%
Final Adjustments	(320,076)	(276,524)	(43,552)	16%
Ttl Accrued	67,642,101	67,190,634	451,467	1%
Contingency	1,691,050	1,679,761	11,289	1%
Ttl Accrued +Cont	69,333,151	68,870,395	462,756	1%

Sources:

* USPS-LR-I-410, Volumes F and G, and USPS-ST-44, Exhibit W

+ USPS-T-14, Workpaper I and J

Table III

Roll-forward Model Work-year Mix Adjustment Summary (Kashani)
(\$000)

FY 2001 After Rates	Clerks A-J	City Carriers	Mail- Handlers	Total
Chg. in Career @ Avg.	(30,178)	208,964	12,642	191,427
Extended Step vs. Avg.	-	-	-	-
Casual	(590)	1,755	605	1,770
Transitional	12,297	(63,651)	-	(51,354)
Subtotal Straight Time	(18,472)	147,068	13,247	141,843
Overtime	12,101	(140,617)	(15,985)	(144,501)
Ttl Chg from 98 Mix	(6,371)	6,451	(2,738)	(2,658)

Source: USPS-LR-I-127, file name WKYRMX00.XLS, worksheet SUMMARY.

Table IV Roll-forward Model Work-year Mix Adjustment Summary (Patelunas) (\$000)				
FY 2001 After Rates	Clerks A-J	City Carriers	Mail-Handlers	Total
Chg. in Career @ Avg.	83,755	14,838	30,046	128,639
Extended Step vs. Avg.	-	-	-	-
Casual	(128,106)	114	(24,048)	(152,040)
Transitional	27,428	(27,857)	-	(429)
Subtotal Straight Time	(16,923)	(12,905)	5,998	(23,830)
Overtime	179,899	31,005	26,677	237,581
Ttl Chg from 99 Mix	162,975	18,100	32,675	213,750
Source: USPS-LR-I-421, file name WKYRMXOR.XLS, worksheet SUMMARY.				

1 The original roll-forward expense factor detail was initially filed by the USPS in
 2 USPS-LR-I-127. In responding to Commission Order No. 1294, the USPS provided an
 3 update to USPS-LR-I-127 with USPS-LR-I-421. To the extent possible, Table V
 4 summarizes the dates of the information utilized by the USPS when it updated the roll-
 5 forward cost factors.¹⁸ For example, many of the cost level factors are impacted by
 6 DRI/McGraw-Hill forecasts. USPS witness Patelunas indicated that the DRI non-
 7 personnel cost level factors were updated with the most current data.¹⁹ The two USPS
 8 DRI/McGraw-Hill files used in preparing the update of non-personnel cost level factors
 9 are USSIM/Trend25Yr 0200 and CISSIM/Control 500. The February 2000
 10 USSIM/Trend25Yr 0200 file is a quarterly forecast; however, the Postal Service
 11 updated the data to include March and April information. The CISSIM/Control 500 file
 12 was updated as of May 2000.²⁰ Section I of Table V provides information on what

¹⁸ USPS-LR-I-127, Appendix I and II. See also, Tr. 36/16817-29.

¹⁹ Tr. 36/16794.

²⁰ Id. at 16822-24.

1 DRI/McGraw Hill indexes are included in each file. Mail volumes did not change. The
2 non-volume workload effect was updated to reflect FY 99 actual data. There was no
3 change in the additional workday assumptions. Cost reductions were updated to the
4 extent that assumptions could be reviewed.²¹ Other programs were updated to reflect
5 FY 00 actuals.²² The dates the forecasts were updated are shown in Table V.

²¹ *Id.* at 16827.

²² *Id.* at 16828.

Table V
Section I - DRI/McGraw Hill Indices
REVENUE REQUIREMENT FORECAST FACTORS

DESCRIPTION OF FACTORS	FACTOR SOURCE	DATE OF FACTOR USED	REFERENCE
I. Cost Level Change Factors			
(a) Non-personnel cost level indexes		June 2, 2000	USPS-LR-I-421
(1) @USSIM/Trend25YR 0200 + March & April	DRI/McGraw-Hill Indexes	February 2000	USPS-LR-I-421
Contract Cleaners (Seg 11)	Rents		
Rental of Motor Vehicles (Seg 12)	Transportation Services		
Contract Station Service (Seg 13)	Rents		
Rental Allowance - Postmasters (Seg 13)	Rents		
Tolls & Ferriage (Seg 13)	Public Transportation		
Freight - Supplies & Materials (Seg 13)	Transportation Services		
Carfare (Seg 13)	Public Transportation		
City Carrier Drive Out (Seg 13)	Carr Drive-out (Lbr Contract)		
Domestic - Alaska Air (Seg 14)	Air Transportation		
Domestic Air (Seg 14)	Air Transportation		
Domestic Highway (Seg 14)	Highway Transportation		
Domestic Rail (Seg 14)	Rail Transportation		
Domestic Water (Seg 14)	Transportation Services		
International (Seg 14)	Transport Ser & Air Transport		
Rent (Seg 15)	Rents		
Heating Fuel (Seg 15)	Fuel/Oil/Coal		
Utilities (Seg 15)	Electricity		
Communications (Seg 15)	WPI for Industrial Commod		
Building Projects Expensed (Seg 15)	WPI for Industrial Commod		
Moving Expense (Seg 15)	Transportation Services		
Reimbursements (Seg 15)	WPI for Industrial Commod		
Printing & Reproduction (Seg 16)	Printing Services		
Stamps & Accountable Paper (Seg 16)	Printing Services		
Money Orders (Seg 16)	Printing Services		
(2) @CISSIM/Control 0500	DRI/McGraw-Hill Index	May 2000	USPS-LR-I-421
Vehicle Supplies & Materials (Seg 12)	Supplies & Materials		
Individual Awards (Seg 13)	CPI Projection		
Banking Fees (Seg 13)	CPI Projection		
Custodial Supplies & Services (Seg 16)	Supplies & Materials		
Misc. Supplies & Services (Seg 16)	Supplies & Materials		
Operating Equipment & Supplies (Seg 16)	Supplies & Materials		
Reimbursements (Seg 16)	Supplies & Materials		
Individual Awards (Seg 18)	CPI Projection		
Supplies and Services (Seg 18)	Supplies & Materials		
Inspection Services Expenses (Seg 18)	CPI Projection		
Reimbursements (Seg 18)	CPI Projection		
Commissions on Money Orders (Seg 18)	CPI Projection		
Contract Training Support (Seg 19)	CPI Projection		
Domestic & Int'l Indemnities (Seg 20)	CPI Projection		
Claims & Loses (Seg 20)	CPI Projection		
(b) Personnel Costs	Labor Contracts	June 2000	USPS-LR-I-421
II. Mail Volume Forecast Changes	DRI	June 1999	USPS-ST-46
(Existing FY 00 and FY 01 forecasts remain the best estimate to date. FY 99 actuals used in the original Docket No. R2000-1 filing.)			

Section II - Other Sources			
REVENUE REQUIREMENT FORECAST FACTORS			
Table V			
DESCRIPTION OF FACTORS	FACTOR SOURCE	DATE OF FACTOR USED	REFERENCE
III. Non-Volume Workload			
FY 99	Roll-Forward Model Inputs	FY 1999	USPS-LR-1-421
FY 00 and FY 01	NPHSR A/P 13 YTD & HQ functional managers	FY 1999	USPS-LR-1-421
		Changes relate to BY	USPS-LR-1-421 & USFS-ST-44
		No Change	USFS-ST-44
IV. Additional Workday (Additional workday effect factors used in Request were used in the update Any changes relate to update of base year costs.)			
V. Cost Reductions			
FY 00 - Personnel	Headquarters Program Mgrs	June 2000	USPS-LR-1-421
FY 00 - Non-personnel	Logistics Program Mgrs	June 26, 2000	USFS-LR-1-421
FY 01 - Personnel	Headquarters Program Mgrs	June 2000	USFS-LR-1-421
FY 01 - Non-personnel	Logistics Program Mgrs	June 26, 2000	USFS-LR-1-421
VI. Other Programs			
Headquarters Personnel Other Programs			
FY 00			
FY 00 & FY 01 Workyear Increases	FY 00 Operating Budget	FY 00 Bud - A/P 6	USPS-LR-1-421
Cost Of Living Allowances	Headqtrs Mgrs & Budget Staff	June 2000	USFS-LR-1-421
Workers' Compensation Liability	DRI CPI-W	May 2000	USFS-LR-1-421
Workers' Compensation:	DRI CPI-W	May 2000	USFS-LR-1-421
Est. of FY 00 Expense Accrual	FY 00 Q3 Actuals	Actuals	USFS-LR-1-421
Based on FY 00 Q3 Data + Est. 4th Qtr	Casualty Actuarial Services, Inc.	June 10, 2000	USFS-LR-1-421
Estimate of FY 01 Expense	Casualty Actuarial Services, Inc.	June 14, 2000	USFS-LR-1-421
Service-wide Personnel Other Programs	Program/Functional Mgrs.	Nov. 99 & FY 01 update	USFS-LR-1-421
Field Non-personnel Programs	Headquarters Program Mgrs.	June 2000	USFS-LR-1-421
VII. Workyear Mix Adjustment			
FY 99 Actuals	Update for FY 99 Act	July 10, 2000	USFS-LR-1-421 & USFS-ST-44 at 7
(using actual FY 00 data & FY 00 operating plan)			
FY 00 actuals through A/P 6	On Roll&Pd Employee Stats & Program Manager estimates	No date given	
FY 00/01 Overtime Assumptions			
FY 00/01 TE Requirements			
Actuals			
USFS-LR-1-421			
USPS-LR-1-421			
PY 00 Act thru A/P 6			
No date given			

1 IV. TWO POSTAL SERVICE TEST YEAR AFTER RATE PROPOSED CHANGES
 2 BEAR FURTHER EXAMINATION

3 The Postal Service made other changes to its test year estimates that are worthy
 4 of note and careful examination. USPS witness Patelunas indicated that a Field
 5 Reserve of \$200 million was inadvertently omitted from his test year after rate cost
 6 update.²³ Consequently, the Postal Service now forecasts a test year after rate loss of
 7 \$475.3 million.²⁴ The addition of the "Field Reserve" would have the effect of making
 8 the forecasted cost reductions less than they otherwise would be. The Postal Service
 9 indicated that the Field Reserve was a

10 budget technique or strategy to leverage further cost reductions during FY
 11 2001. The Field is challenged to achieve greater cost reductions than
 12 called for by the National budget goal. There is a high degree of risk that
 13 the field may not be able to accomplish their aggressive cost reduction
 14 targets. In those situations, budget relief can be granted, if warranted,
 15 without jeopardizing the national goal. The intent is to push the field to
 16 accomplish as much as possible, while still recognizing the magnitude of
 17 the challenge.²⁵
 18

²³ Revised Response of United States Postal Service witness Patelunas to OCA/USPS-ST44-11(a).

²⁴ Revised Response of United States Postal Service to Presiding Officer's Information Request No. 14, Item 2(b) and (e) – ERRATA.

²⁵ Response of the United States Postal Service to OCA/USPS-ST44-11(e). The Postal Service made this statement in the context of denying that the "Field Reserve" was the same as a contingency provision. However, the use of the phrases "high degree of risk" and "if warranted" suggests that (at least in a nonlegal sense) the "Field Reserve" serves the same function as a contingency provision. That is, the "Field Reserve" is a fund that will be tapped *only if* field management fails to achieve certain goals, *i.e., is contingent on*, the occurrence of an adverse financial event. If a "Field Reserve" of \$200 million is to be included in the FY 2001 revenue requirement, then the provision for contingencies should be reduced by an equal amount.

Docket No. R2000-1

OCA-RT-3
Revised 8/15/00

1 The Postal Service may be overly pessimistic in its ability to achieve the full \$744
2 million Breakthrough Productivity. As quoted above, the field is being challenged to
3 achieve the full cost reduction.

4 The Postal Service also incorporated a change in a key wage rate assumption
5 for FY 01. The change relates to the use of ECI versus the previous use of ECI-1.
6 Using electronic files provided by the Postal Service in USPS-LR-I-421, one may
7 estimate the impact of changing the USPS employment wage assumption from 4.63
8 percent (ECI) to 3.63 percent (ECI-1). Comparing the data in OCA's updated
9 ACC_OR.xls file with the PRFF_OR.xls file submitted by the Postal Service in USPS-
10 LR-I-421 indicates that the cost difference is roughly \$230 million. In other words, the
11 change to ECI increases test year after rate costs by \$230 million above the level that
12 would result from using the historical ECI-1 calculation. However, in continuing to
13 update the USPS-LR-I-421 data files, the file PRFF_OR.xls, which is where the cost
14 model roll-forward cost factors are calculated, indicates that the impact of using ECI-1
15 versus ECI increases the cost difference to approximately \$245 million.²⁶ A copy of the
16 files I used to prepare my estimation of the impact of changing from ECI to ECI-1 are
17 provided in OCA-LR-I-5.

²⁶ Originally, USPS-LR-I-421, file name PRFF_OR.xls, cell I32 was \$48,423,495,000. To change the USPS assumption of ECI to ECI-1, I updated USPS-LR-I-421, file name UNCST_EXT.xls, worksheet COLA-ECI, cell D53. I changed the USPS employment cost assumption from 4.63% to 3.63%. The change flows through to USPS-LR-I-421, file name UNCST_OR.xls. Then, I manually updated the information in USPS-LR-I-421, file name INPUT_OR.xls, worksheet PERS UNIT COST. The costs I manually updated were general pay increases as well as step increases in column F of INPUT_OR.xls, thereby reflecting the wage changes. After I updated Input_OR.xls for the ECI-1 change, I opened the USPS-LR-I-421, file name PRFF_OR.xls, worksheet COST FACTOR CALC, and found that the changes had updated cell I32 to \$48,178,490,000. The difference in the USPS-LR-I-421 value filed and my calculation was approximately \$245 million. In OCA-LR-I-5, are copies of the files I updated. Since I did not include copies of all the electronic files in USPS-LR-I-421, ignore any requests to update links. I did not have time to examine other electronic files in USPS-LR-I-421 to determine what if any additional impacts the change to ECI-1 might have on the FY 01 after rate costs.

1 COMMISSIONER OMAS: This brings us to oral
2 examination. No parties have requested oral cross
3 examination. Is there any party that wants to cross examine
4 Witness Thompson?

5 [No response.]

6 COMMISSIONER OMAS: Are there any questions from
7 the Bench?

8 [No response.]

9 COMMISSIONER OMAS: Ms. Thompson, hearing no
10 requests to cross examine, that completes your testimony
11 here today. And we appreciate your appearance and your
12 contribution to the record. Thank you, and you are excused.

13 [Witness Thompson excused.]

14 COMMISSIONER OMAS: Mr. Koetting, will you
15 introduce the next scheduled witness?

16 MR. KOETTING: Thank you, Commissioner Omas. The
17 Postal Service calls as its next witness, Professor Michael
18 D. Bradley.

19 And like the previous witness, I believe Dr.
20 Bradley is already under oath in this proceeding.

21 COMMISSIONER OMAS: Yes.

22 MR. KOETTING: Commissioner Omas, there are two
23 pieces of material to be sponsored by Dr. Bradley this
24 morning, his rebuttal testimony, as well as his response to
25 Notice of Inquiry Number 4.

1 Having queried counsel for the parties, as far as
2 I can determine, there is no cross examination on the NOI-4
3 response, and I would propose that we proceed with that
4 first, on that basis.

5 COMMISSIONER OMAS: All right, without objection.
6 Whereupon,

7 MICHAEL D. BRADLEY,
8 a witness, having been previously called for examination,
9 and, having been previously duly sworn, was recalled as a
10 rebuttal witness, continued to be examined and continued to
11 testify as follows:

12 DIRECT EXAMINATION

13 BY MR. KOETTING:

14 Q Dr. Bradley, I have handed you a copy of a
15 document entitled Response of Michael D. Bradley to Notice
16 of Inquiry No. 4 on Behalf of the United States Postal
17 Service, which is dated August 21st, 2000.

18 Are you familiar with this document?

19 A I am.

20 Q Was it prepared by you?

21 A It was.

22 Q If you were to testify orally today, would this be
23 your testimony?

24 A It would.

25 MR. KOETTING: Mr. Presiding Officer, with that,

1 the Postal Service would move into evidence, the Response of
2 Michael D. Bradley of Notice of Inquiry No. 4 on Behalf of
3 the United States Postal Service. We would also request
4 that these three pages be transcribed as well.

5 COMMISSIONER OMAS: Is there any objection?

6 [No response.]

7 COMMISSIONER OMAS: Hearing none, I will direct
8 counsel to provide the Reporter with two copies of the
9 testimony of Michael A. Bradley, and that testimony is to be
10 transcribed into the record and received into evidence.

11 [Written Response of Michael D.
12 Bradley, NOI-4, 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

RESPONSE OF MICHAEL D. BRADLEY
TO NOTICE OF INQUIRY NO. 4
ON BEHALF OF
THE UNITED STATES POSTAL SERVICE

August 21, 2000

Response of Prof. Michael D. Bradley to Notice of Inquiry No. 4

On August 2, 2000 the Commission issued Notice of Inquiry 4, Concerning Mail Processing Variability Models (hereinafter "NOI 4"). That notice discussed my testimony on mail processing costs in Docket No. R97-1 and requested participants in the current docket to respond to several questions about model specification.

It is not my intention to respond to those questions, as I have not testified about mail processing costs in this docket. However, the Notice of Inquiry makes two statements about what I did in Docket No. R97-1. Those statements are inaccurate, and for the sake of clarifying the record I am submitting this response. I am not disputing matters of opinion or professional judgment. I am simply submitting the correct facts.

NOI 4 states:¹

In Docket No. R97-1, witness Bradley conducted a specification search for a model of mail processing variability. He tested a family of models that lack time indexed coefficients, . . .

This statement is inaccurate. My specification search included models with time-indexed coefficients. My direct testimony in Docket No. R97-1 clearly states:²

I also estimated the panel data model using a correction for time-specific effects in place of the broken trend.

¹ See, Notice of Inquiry 4, Concerning Mail Processing Variability Models, Docket No. R2000-1 at 1.

² See, Direct Testimony of Michael D. Bradley on Behalf of United States Postal Service, Docket No. R97-1, USPS-T-14 at 72, section entitled, "Econometric Equations that Adjust for Time Specific Effects."

NOI 4 goes on to state:³

[witness Bradley] rejected the more restrictive models in favor of the facility-specific fixed-effects model. In Response to Notice of Inquiry No. 4 in R97-1, the facility-specific fixed-effects model was tested and rejected against the general model, which had both time-indexed and facility-indexed coefficients.

This statement is also inaccurate. Notice of Inquiry No. 4 in Docket No. R97-1 did not even address the issue of time indexed coefficients, let alone request a test of the fixed effects model against a model that had both time-indexed and facility-indexed coefficients. That NOI was concerned with testing the fixed-effects model against the set of facility-specific models, not time indexed coefficients. The Notice asked for a response on that very specific issue:⁴

Interested parties are asked to evaluate whether this restriction is statistically supported. They are requested to conduct a statistical test, such as an "F-test," of the stability of the regression slope coefficients across facilities, and to comment on the results.

Consequently, my response did not show that the fixed effects model was rejected in favor of a model that had both time-indexed and facility indexed coefficients. Finally, as show in my direct testimony, the model that had both types of coefficients (often known as the "two-way" model) produced variabilities very similar to those produced by the fixed effects model.⁵

³ See, Notice of Inquiry 4, Concerning Mail Processing Variability Models, Docket No. R2000-1 at 1.

⁴ See, Notice Of Inquiry No. 4 On Mail Processing Variability, Docket No. R97-1, at 3.

⁵ See, Direct Testimony of Michael D. Bradley on Behalf of United States Postal Service, Docket No. R97-1, USPS-T-14 at 74.

1 COMMISSIONER OMAS: This brings us to cross
2 examination. I think you said there's no cross emanation on
3 this particular thing, and we'll go to the Rebuttal
4 Testimony.

5 BY MR. KOETTING:

6 Q Dr. Bradley, I have now handed you a copy of a
7 document entitled Rebuttal Testimony of Michael D. Bradley
8 on Behalf of the United States Postal Service, which has
9 been designated as USPS-RT-8.

10 Are you familiar with this document?

11 A I am.

12 Q Was it prepared by you?

13 A It was prepared by me and under my direction.

14 Q If you were to testify orally today, would this be
15 your testimony?

16 A It would.

17 COMMISSIONER OMAS: Is there any objection?

18 [No response.]

19 COMMISSIONER OMAS: Hearing none, I will direct
20 counsel to provide the Reporter with two copies of the
21 corrected Rebuttal Testimony of Michael D. Bradley, and that
22 testimony is to be transcribed into the record and received
23 into evidence.

24 [Written Rebuttal Testimony of
25 William D. Bradley, USPS-RT-8, was

1 received into evidence and
2 transcribed into the record.]
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USPS- RT- 8

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. 2000-1

REBUTTAL TESTIMONY OF
MICHAEL D. BRADLEY
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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PURPOSE AND SCOPE

The purpose of my testimony is to review, analyze, and determine the accuracy and acceptability of three proposed changes to the established methodology for calculating attributable costs in purchased highway transportation.

The first challenge to the established methodology is an econometric analysis presented by MPA witness Nelson with the goal of calculating lower variabilities for purchased highway transportation. As I show below, Mr. Nelson's testimony includes several types of serious mistakes: (1) the specified model is not consistent with basic economic theory nor is it based upon an operational analysis, (2) the model has neither an analytical (mathematical) basis nor a statistically based specification, (3) the correct "cost per run" model has a different functional form from the one Mr. Nelson estimated, (4) the econometric methods contain several mistakes and do not conform with established econometric practices, (5) the econometric results are internally inconsistent and do not comport with operational experience, and (6) the regression programs contain serious computer programming errors. This last set of mistakes alone means that witness Nelson's actual results are not what he presents and that the variabilities that he recommends to the Commission are unreliable. In sum, Mr. Nelson's econometric work, unfortunately, falls below the standards set by the Commission for econometric studies, and does not present the Commission with useful information.

1 The second proposed change that I review is also put forward by Mr.
2 Nelson. Mr. Nelson observes that the average cost per cubic foot-mile is higher
3 for contracts that have been renewed at some point in their history as compared
4 with those that have not. He conjectures, without evidence, that this difference is
5 due to inefficiencies in the Postal Service contracting system and asserts that the
6 Postal Service is overpaying for renewal contracts. Mr. Nelson recommends that
7 the Commission discard the actual cost of renewal contracts in calculating
8 accrued highway costs and replace that actual cost with a synthetic cost
9 calculated under the assumption that each renewal contract should have been
10 purchased at the overall average cost per cubic foot-mile for non-renewal
11 contracts.

12 This recommendation is flawed because Mr. Nelson apparently failed to
13 recognize that differences in cost per cubic foot-mile between the two groups of
14 contracts may be for reasons other than the way they are contracted. The
15 different groups may have different combinations of contract specifications and
16 conditions that cause the cost differential. I demonstrate that when this basic
17 point is taken into account, support for Mr. Nelson's conjecture dissipates.

18 The last proposed change that I review is a proposal by United Parcel
19 Service witness Neels to change the method by which TRACS allocates empty
20 space to classes and subclasses of mail. Dr. Neels observes that the current
21 Postal Service method is incomplete because it fails to account for the possibility
22 that the capacity on a given trip may be caused by volumes on different
23 segments of the route. He proposes a method that allocates empty space solely

1 on the basis of the mail carried on "more fully loaded" trucks. While Dr. Neels'
2 general point is well taken, his proposed method goes too far and excuses the
3 mail actually carried on a truck from all responsibility for the empty space on the
4 truck.

5 Trucks in the Postal transportation network often must leave because of
6 the service standards and mail processing schedules for the classes of mail
7 being transported. If the transportation of these classes did not have to be
8 expedited, then the Postal Service could simply let the truck wait at the dock until
9 it is full. Thus, the observed empty space in the Postal Service transportation
10 network is at least partly caused by the fact that the truck must leave before it is
11 full, due to the service standards and mail processing requirements for the
12 classes and subclasses of mail on that truck. It is in this sense that the mail on
13 the truck being observed bears some or all of the responsibility for the empty
14 space observed on the truck. Dr. Neels' method ignores this characteristic and
15 disregards this important aspect of the causality of empty space. I propose a
16 compromise method that bridges that gap between the current Postal Service
17 method and Dr. Neels' proposed method.

18

19

1
2 A CONCORDANCE OF LIBRARY REFERENCES AND WORKPAPERS
3
4

5 The following Library Reference is associated with my testimony:
6

7 LR-I-452 Electronic Version of Programs for USPS-RT-8 (Bradley
8 Rebuttal)
9

This library reference is a diskette that contains the electronic versions of program and spreadsheets used in my rebuttal analysis.

My testimony relies upon the following workpapers:

RWP-1 Listing Of Erroneous Observations Included And Excluded In MPA
Witness Nelson's Intra-PDC Regression And A Corrected
Estimation Of That Model

RWP-2 Estimation of a Corrected Version MPA Witness Nelson's Cost per
Run Specification

RWP-3 Estimation of a Restricted Version the Corrected MPA Witness
Nelson's Cost per Run Specification

RWP-4 Investigation of the Effect of Renewals -- Econometric Tests

RWP-5 Investigation of the Effect of Renewals -- Matched Pairs Tests

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3 **I. MR. NELSON'S ECONOMETRIC ANALYSIS SUFFERS FROM**
4 **ERRORS IN MODELS SPECIFICATION, ECONOMETRIC METHODS,**
5 **AND COMPUTER PROGRAMMING. THESE ERRORS RENDER HIS**
6 **RESULTS UNRELIABLE AND UNACCEPTABLE TO THE**
7 **COMMISSION.**
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10 In this section of my testimony, I review and evaluate the econometric
11 analysis included in MPA witness Nelson's testimony. This section is broken into
12 two parts. The first part describes Mr. Nelson's econometric testimony and
13 summarizes his arguments and results. The second part evaluates the relevant
14 parts of his testimony and describes the various errors that he makes.

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16 **A. A Description of Mr. Nelson's Econometric Testimony.**
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18 Mr. Nelson challenges the established Commission model for estimating
19 the variability of purchased highway transportation. Interestingly, he does not
20 challenge or refute the evidence on the record from the many previous cases that
21 lead the Commission to adopt the current approach. Instead, he speculates
22 (without evidence) about USPS operating procedures and, based upon that
23 speculation, presents his own alternative regression analysis.

24 Witness Nelson's attack on the established models is based upon two
25 speculations that he makes about USPS transportation operations. Surprisingly,
26 he provides no basis for these speculations. He presents no study of Postal
27 Service purchased highway transportation, cites no Postal Service source
28 documents, and provides no references other than witness Young's testimony
29 from R97-1. This last citation is unusual because witness Young's testimony is

1 entirely consistent with the Postal Service's and Commission's approach to
2 estimating variability for purchased highway transportation. It was presented by
3 the Postal Service and accepted by the Commission for that purpose.

4 Mr. Nelson's first speculation is that the established Commission models
5 overstate the variability of cost with respect to capacity because they fail to
6 reflect the propensity of the Postal Service to adjust capacity through changes in
7 vehicle size rather than changes in trip frequency (to accommodate volume
8 changes on a given transportation schedule).¹ This claim is made despite the
9 fact that the data used to estimate the established model is not a special
10 database constructed just for variability analysis, but rather is a census of all
11 Postal Service purchased highway transportation contracts. As such, it reflects
12 actual Postal Service experience and embodies all historical changes in both
13 vehicle size and trip frequency (as well as routing). The propensity of the Postal
14 Service to change capacity in any particular method is embodied in these data.
15 Moreover, these types of data have been collected for different years over a
16 decade apart, allowing plenty of time for changes in highway contracts by all
17 methods. The econometric results on these different data sets present a
18 consistent pattern of results. There is no need to modify the specification to take
19 into account specific ways the Postal Service adjusts capacity. These methods
20 are already embodied in the estimated cost function.

¹ See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al.,
MPA-T-3, Docket No. R2000-1 at 6.

1 Witness Nelson's second speculation is based upon his claim that the
2 elasticity of "gross cubic foot-miles" with respect to "net cubic foot-miles" is less
3 than 100 percent. If this is true, he claims that the established models overstate
4 the "true" variability.² While there may be some merit to Mr. Nelson's point about
5 "gross" and "net" cubic foot-miles, this point does not imply any change in the
6 existing econometric models.³ The established models are not designed to
7 estimate the response in "gross cubic foot-miles" with respect to "net cubic foot-
8 mile" or more accurately, they are not designed to estimate the response in cubic
9 foot-miles with respect to volume. Instead, they are designed to estimate the
10 response in cost to changes in cubic foot-miles.

11 Mr. Nelson may be correct that response of cubic foot-miles with respect
12 to volume is less than the assumed one hundred percent, but this does not imply
13 adjusting existing econometric models. Rather it implies estimating the correct
14 variability (which Mr. Nelson fails to do) of cubic foot-miles with respect to volume
15 and then applying that variability in the costing procedure.

16 To see how this would be done, one must recognize that the volume
17 variability of purchased highway transportation has two parts, the variability of
18 cost with respect to cubic foot-miles and the variability of cubic foot-miles with
19 respect to volume.⁴

² See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al.,
MPA-T-3, Docket No. R2000-1 at 7.

³ The Commission explicitly acknowledged this point in the last docket.
See, PRC Op., R97-1, Vol.1, at 212.

⁴ See, PRC Op., R97-1, Vol.1, at 211.

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$$\varepsilon_{C,V} = \varepsilon_{C,CFM} * \varepsilon_{CFM,V}$$

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The first of the two variabilities is estimated using the established models. Mr.

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Nelson's concern about "net" and "gross" cubic foot-miles is actually a concern

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about the assumption that the second variability is equal to one. Disappointingly,

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he provides no evidence on what he thinks this variability should be.

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Mr. Nelson also devotes a section of this testimony to making two specific

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criticisms of the accepted empirical methods.⁵ As these are his only formal

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critique of the established econometric methodology they deserve mention and

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review. As it turns out, neither of the two criticisms is accurate. Ironically, these

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two misplaced criticisms lead Mr. Nelson into making two actual mistakes in his

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own econometric procedures.

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First, Mr. Nelson claims that the established treatment of power-only

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contracts is "circular" at best because it use a single cubic foot term in calculating

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cubic foot-miles for power-only contracts within an area while the established

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equation already includes a constant (dummy variable) for each area.⁶

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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.

⁵ See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al., MPA-T-3, Docket No. R2000-1 at 7.

⁶ See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al., MPA-T-3, Docket No. R2000-1 at 7.

1 Although Mr. Nelson never explains what he means by “appears to be
2 circular” or “at best,” he apparently thinks that this treatment of power only
3 contracts has negative implications for the econometric model. Mr. Nelson never
4 even hints what those implications are, but on this basis he deviates from
5 accepted practice and eliminates the power-only contracts from the data used to
6 estimate the regressions. Apparently, he thinks that using the power-only
7 contracts will cause an econometric problem because the constant cube will
8 somehow (and this is not explained in his testimony) interact with the area
9 specific dummy variables. This assertion is wrong. There is no econometric
10 problem from using the constant cube for power-only contracts and there is no
11 basis for eliminating the power-only contracts.

12 To make such an assertion, Mr. Nelson would seem to either
13 misunderstand the construction of cubic foot-miles or misunderstand how
14 regression analysis works. The fact that a constant cube is used in calculating
15 cubic foot-miles for a subset of contracts within an area does not impinge upon
16 the role of the area specific dummy variables in any way. For the inter-BMC,
17 intra-BMC, and plant load account categories (were power only contracts are at
18 issue) there are only a few different cube sizes for trailers. This means that there
19 several groups of non-power-only contracts with a “constant” cube. What
20 matters, of course, for the regression is whether or not cubic foot-miles (the
21 actual variable in the regression) are constant across contracts within an area.

1 As Mr. Nelson has admitted, they are not.⁷ In addition, the cubic foot-miles for
2 power only contracts themselves are not constant within area.

3 Mr. Nelson's point is therefore without substance and he has failed to
4 present an acceptable justification for deviating from the established practice of
5 using the power only contracts. By eliminating them, he is excluding hundreds of
6 observations from the estimation of the intra-BMC, inter-BMC and plant load
7 regressions.

8 In a similar vein, Mr. Nelson claims that the established methods of
9 identifying and controlling for a small number of atypical observations
10 "appear in some instances to exclude good data."⁸ This one sentence of muted
11 criticism is the entire analysis and discussion contained in Mr. Nelson's testimony
12 of the established method of identifying unusual observations. He does not
13 identify the good data points that he thinks are excluded, and his testimony does
14 not explain why he thinks the established methods excludes good data points.
15 Finally, he does not even identify how many good data points he thinks have
16 been excluded.

17 When asked to identify the instances in which the methods at issue
18 excluded "good data," Mr. Nelson admitted that he had not identified when good
19 data were eliminated.⁹ He claimed instead that his "concern" was based upon
20 the presentation in USPS-LR-I-86, that some of the observations were noted as

⁷ See, Response of MPA Witness Nelson to USPS/MPA-T3-52.

⁸ See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al.,
MPA-T-3, Docket No. R2000-1 at 7.

⁹ See, Response of MPA Witness Nelson to USPS/MPA-T3-49.

1 "accurate." But this claim misses the point. The issue was not whether or not
2 the data for the unusual observations are "accurate." The data for the contracts
3 that transport baby chicks, used a wind-sled, or for which 45% of the annual
4 contract cost is tolls are all "accurate." The fact that the data were recorded
5 accurately does not preclude them from being unusual and not typical of the
6 transportation mode in which they are included. It also does not prevent them
7 from distorting the estimation of the true cost relationship.

8 In fact, Mr. Nelson could identify only one observation that "concerned"
9 him.¹⁰ As it turns out, that observation is for the inter-BMC account category.
10 Table 10 of my direct testimony shows that elimination of unusual observations
11 (including this one) for the inter-BMC account category had no effect on the
12 estimated variability.¹¹ Thus, Mr. Nelson's "concern" is void of empirical content
13 and provides no basis for substituting his own arbitrary method. The drawbacks
14 and implications of Mr. Nelson's proposed method are presented below, but
15 Table 1 presents a comparison of Mr. Nelson's proposed method and the
16 approved method for identifying and excluding unusual observations. This table
17 makes clear that there is no justification for substitution of Mr. Nelson's method
18 for the approved method.

¹⁰ See, Response of MPA Witness Nelson to USPS/MPA-T3-49.

¹¹ See, Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, Docket No. R2000-1, USPS-T-18 at 40.

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Table 1 A Comparison of Mr. Nelson's and the Approved Methods for Identifying Unusual Observations		
	Nelson Method	Approved Method
Method of identifying unusual observations.	Application of a set of arbitrary rules with no justification or analysis.	Review of all individual data points. Identification based upon an explained and justified set of criteria.
Separate identification and presentation of the unusual observations?	No	Yes
Investigation of each of the unusual observations and presentation of the results of that investigation?	No	Yes
Identification of the total number of unusual observations?	No	Yes
Presentation of the number of unusual observations in each of the regression equations?	No	Yes
Investigation of the effects of elimination of the unusual observations on the results?	No	Yes
Estimation of the regressions with and without unusual observations included?	No	Yes
Number of observations eliminated	202*	233

* This is my calculation of number eliminated observations. Mr. Nelson never presents such a number, even in response to an interrogatory requesting him to do so. See, Response of MPA Witness Nelson to USPS/MPA-T3-23.

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Mr. Nelson's testimony discusses regression equations that are supposed to remedy his conjecture that the established variabilities are overstated. In doing, so he presents three sets of estimations. In all three sets, he attempts to identify the contract cost segments with the largest capacity vehicles and

1 arbitrarily sets the variability for those contracts cost segments at 100 percent.¹²

2 The regressions are then supposed to be estimated with the data from the
3 contracts with smaller than the largest capacity vehicles.¹³ In this section of my
4 testimony, I review and explain the three models that Mr. Nelson estimates.

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7 **MODEL 1.** Estimation of a translog model with cost per run as the dependent
8 variable and cubic foot-miles per run and route length as right hand
9 side variables.

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12 Mr. Nelson states that he estimated this model for only two account
13 categories, inter-BMC and inter-Area.¹⁴ The coefficient on cubic foot-miles in the
14 inter-BMC regression is negative and not significant. Mr. Nelson then abandons
this approach apparently because of this result.¹⁵

¹² See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al., MPA-T-3, Docket No. R2000-1 at 7.

¹³ See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al., MPA-T-3, Docket No. R2000-1 at 8.

¹⁴ See, Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 at 2. Mr. Nelson complains in this workpaper, at page 2, about having to estimate a model for so many "disaggregations" and how having to do so increases the likelihood of obtaining "anomalous" results. Of course, this could be looked at as an opportunity to test the robustness of a proposed model. The established model does quite well when facing this challenge. What Mr. Nelson is apparently complaining about is having to subject his model to a rigorous test.

¹⁵ It is curious that witness Nelson also obtains negative variabilities for certain account categories for his other two models, but does not abandon them. See, Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 at 4 and 5. He does not explain why his standard for the second and third models is lower than it is for his first model.

1 In an attempt to paper over the deficiencies of the cost-per-run
2 specification, Mr. Nelson claims that this result is due to the method of evaluating
3 the equation (after it is estimated):¹⁶

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5 I concluded from this that witness Bradley's approach of evaluating the
6 elasticity only from the first-order term may produce implausible and
7 unusable in the context of the modified specification.
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10 Of course, Mr. Nelson is in error when he claims that mean centering the data to
11 calculate the variability uses "only the first order term" to calculate the elasticity.
12 It can be demonstrated mathematically that mean centering is equivalent to
13 estimating the equation without mean centering the data and then using all of the
14 coefficients to estimate the variability at the arithmetic mean. Mean centering is
15 convenience that simplifies that calculation.

16 While Mr. Nelson may wish to abandon this model due to poor
17 performance, he cannot justify that abandonment on the method of evaluation.
18 His poor econometric results exist before the equation is evaluated; the
19 coefficient on cubic foot-miles is negative and insignificant regardless of the
20 method of evaluation used.

21 Mr. Nelson also uses his poor results to arbitrarily eliminate all higher
22 order terms from subsequent regressions and uses a simple "log/log" model.
23 This elimination is in violation of accepted econometric practice and is at odds
24 with his own results. That is, he eliminates higher order terms despite the fact

¹⁶ See, Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 at 2.

1 that he found that Model 1 had "good statistical significance for the squared
2 cross-product terms that contain the CFM variable."¹⁷

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5 **MODEL 2.** Estimation of a "log-log" model in which cost per run per route
6 length is the dependent variable and cubic capacity and the inverse
7 of run length are the right hand side variables.
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9 Mr. Nelson estimated this model for the entire set of transportation
10 categories. Here, he divided the cost per run by route length so the dependent
11 variable is now apparently cost per run per mile. This model gives a range of
12 variabilities from -2 percent to 429 percent. This model seemed to have
13 particular trouble in the transportation categories with longer route lengths (for
14 example, the inter-Area tractor-trailer variability was estimated to be one tenth of
15 one percent)¹⁸ so Mr. Nelson tried yet a third model.

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18 **MODEL 3.** Estimation of a "log-log" model with cost per run as the dependent
19 variable and cubic foot-miles per run and route length as right-
20 hand-side variables.
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22 This model appears to be Mr. Nelson's preferred model, but even here the
23 econometric results are internally inconsistent and unreliable. For example, Mr.
24 Nelson must abandon his preferred model for 1/3 of his regressions and has to
25 use "proxy variabilities." Moreover, even when Mr. Nelson uses the model, the
26 results have great and unexplained variability. For example, consider the results
27 for tractor-trailer transportation. Mr. Nelson's estimated variabilities range from a

¹⁷ See, Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 at 2.

¹⁸ See, Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 at 4.

low of 16 percent to a high of over 500%. For purposes of comparison, I include in Table 2 the tractor-trailer variabilities from my direct testimony:

Table 2
Tractor Trailer Variabilities

	MPA-T-3	USPS-T-18
Intra-CSD	540.3%	109.6%
Intra-PDC	87.5%	86.8%
Inter-PDC	123.5%	96.3%
Inter-Cluster	45.2%	96.2%
Inter-Area	109.3%	94.4%
Intra-BMC	56.0%	98.3%
Inter-BMC	19.3%	97.9%
Plant Load	16.2%	89.8%

Sources: Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 and Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, Docket No. R2000-1, USPS-T-18.

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2 **B. An Evaluation of Mr. Nelson's Testimony**

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4 1. Standards of Evaluation

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6 This section of my testimony will evaluate the models and empirical results
7 put forth by witness Nelson. That evaluation will be based upon the following
8 standards:

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10 1. Is the specified model based upon or consistent with economic theory?
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12 2. Are the results consistent with a reasonable operational interpretation of
13 Postal Service activities?
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15 3. Does the model have a sound mathematical basis?
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17 4. Does the econometric analysis apply well established, if not state of the
18 art, econometric practice?
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20 5. Are the computer programs without error? Do they produce what the
21 analyst thinks that they do?
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23 6. Are the empirical results robust and consistent?
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27 2. Deficiencies in model specification

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29 An important starting point for econometric modeling is the specification of
30 the model to be estimated. Generally, the modeler uses economic theory or
31 some other analytical basis for constructing the model. Unfortunately, Mr.
32 Nelson's model has neither underlying economic theory nor an analytical basis.
33 He presents no justification for the functional form that he chooses, other than it
34 is non-controversial to calculate the relevant elasticity.¹⁹

¹⁹ See, Direct Testimony of Michael A. Nelson on Behalf of MPA et. al.,
MPA-T-3, Docket No. R2000-1 at 8.

1 Mr. Nelson's model is not a cost function. The established model is a cost
2 function. Mr. Nelson's model is not an input demand function; it does not have
3 an input as the dependent variable. Moreover, Mr. Nelson specifies "cost per
4 run" as a dependent variable but does not make clear why the Commission
5 should be interested in the variability of the "cost per run." Purchased highway
6 transportation is generally purchased on an annual basis, not on a "run" basis. In
7 addition, the costing issue before the Commission is to find the percentage
8 response in total purchased highway transportation cost from a given percentage
9 change in volume. Mr. Nelson's equations do not provide that. Instead, he
10 attempts to estimate the volume variability of the "cost per run" but does not
11 explain how changes in cost per run translate into changes in total cost.²⁰

12 Mr. Nelson also claims that his various models capture only changes in
13 truck size, but as I demonstrate below, they also include the effect of changes in
14 runs. He asserts, but provides no analytical justification for why the cost per run
15 would not depend upon the number of runs. If it does (and subsequent empirical
16 evidence shows that it does) then his assertion that his regressions capture only
17 the effect of truck size is false. As a result, his artificial partitioning of the data
18 does not provide the control that he asserts it does.

²⁰ At one point Mr. Nelson appears to be attempting to justify his general approach (although not the functional form) on the basis that the Postal Service does not minimize purchased transportation costs without reference to overall costs. This comment simply confuses unconstrained optimization with constrained optimization. As witness Young explained in Docket No. R97-1, the Postal Service attempts to minimize its transportation cost subject to the constraints of service standards and operational mail processing schedules. See, Rebuttal Testimony of James D. Young on Behalf of the United States Postal Service, Docket No. R97-1, USPS-RT-3 at 8.

1 Although he fails to incorporate economic theory into his specification, Mr.
2 Nelson could still have provided a mathematical or operational basis for the
3 functional form he chose. Again, unfortunately, he did not.

4 For example, a widely used approach when the true functional form is
5 unknown is the transcendental logarithmic function (the "translog"). The translog
6 is a "flexible" functional form that provides a good approximation to the unknown
7 true functional form. This is one of its major advantages. It permits estimation of
8 parameters like cost elasticity (volume variability) without first requiring
9 knowledge of the underlying functional form. Mr. Nelson rejects the flexible
10 functional form and specifies an exact function to be estimated. This
11 specification choice compounds the error of omitting economic theory or a
12 mathematical basis. Mr. Nelson is specifying an exact functional form with no
13 analytical basis for that form.

14 The function that Mr. Nelson specifies has the following form (omitting the
15 region specific dummies):

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$$\frac{\text{Cost}}{\text{Frequency}} = \lambda \left(\frac{\text{Cube} * \text{Route Length}}{\text{Frequency}} \right)^{\eta} (\text{Route Length})^{\delta}$$

25 Mr. Nelson provides no reason why this functional form is correct or even
26 applicable. In fact, it is not the functional form that would be derived if one were
attempting to estimate an equation for cost per run in the "log/log" world. To

1 derive the correct functional form for that exercise, one starts with the "log/log"
2 total cost function:²¹

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$$4 \quad \text{Cost} = \alpha (\text{Cubic Foot Miles})^\beta = \alpha (\text{Cube} * \text{Frequency} * \text{Route Miles})^\beta$$

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7 One then divides both sides by "Frequency" (number of runs) to obtain the
8 associated function for "cost per run":

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$$\frac{\text{Cost}}{\text{Frequency}} = \frac{\alpha (\text{Cube} * \text{Frequency} * \text{Route Length})^\beta}{\text{Frequency}} = \alpha (\text{Frequency})^{\beta-1} (\text{Cube} * \text{Route Length})^\beta$$

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14 Taking logarithms of both sides of the equation puts the equation in "log/log"

15 format. The equation then becomes:

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$$\ln \left[\frac{\text{Cost}}{\text{Frequency}} \right] = \ln \alpha + (\beta - 1) * (\text{Frequency}) + \beta (\text{Cube} * \text{Route Length})$$

This specification suggests that if the variability of cost with respect to cubic foot-
miles is less than one hundred percent, then "Frequency" (or the number of runs)
should have a negative coefficient. Said otherwise, a variability less than one
hundred percent implies that the cost per run declines as the number of runs

²¹ This derivation is not intended to suggest that the log/log approach is the correct one. Statistical tests conclusively demonstrate that this is not the appropriate functional form. Instead, the derivation is designed to demonstrate that even within the class of mis-specified models, Mr. Nelson did not derive the correct functional form for his regression equation.

1 increases. It also means that the overall variability can be extracted from a "per
2 run" regression by adding one to the estimated coefficient on frequency (number
3 of runs).²² While I am not endorsing this approach or this functional form, I do
4 think that if one is going to pursue the "cost-per-run" approach, then the
5 appropriate equation should be estimated.

6 Finally, it is also important to note the witness Nelson does not provide a
7 statistical basis for the functional form he proposes. One could start with a
8 general flexible form like the translog and then test various restrictions on that
9 general form. For example, the double log specification is nested within the
10 translog and could be justified if the data fail to reject the restriction that the
11 coefficients on the higher order terms are equal to zero. Unfortunately, Mr.
12 Nelson undertakes no such tests but the empirical evidence he does present
13 from Model 1 suggests that the restriction would be rejected. Thus, there is no
14 empirical basis for Mr. Nelson's functional form.

15 One thus comes to the conclusion that there is no economic, operational,
16 or statistical basis for the functional form that Mr. Nelson estimates. Perhaps it
17 should not be surprising, as a result, that it performs so poorly.

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3. Deficiencies in econometric procedures

22 Mr. Nelson's econometric procedures are plagued with many deficiencies.
23 They include both errors of commission and errors of omission. In this section, I

²² An alternative estimate could be obtained by simply taking the coefficient on the "cube times route length variable." However since the focus of this equation is on cost per run, it seems appropriate to use the coefficient on number of runs.

1 review several of these deficiencies. Any one of these deficiencies is sufficient to
2 disqualify Mr. Nelson's regression analysis; taken together, they help explain the
3 internally inconsistent and operationally illogical results that Mr. Nelson obtains.
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5 3.a. *Mr. Nelson failed to consider, let alone control for,*
6 *heteroscedasticity.*
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8 It is a common characteristic of cross-sectional regressions that they are
9 subject to heteroscedasticity, non-constant error variances. The HCSS data are
10 known to suffer from heteroscedasticity which has important implications for
11 hypotheses testing. As I explained in my Docket No. R97-1 testimony:²³

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13 Heteroscedasticity is the condition of non-constant
14 variance in the residuals. Ordinary Least Squares
15 (OLS) estimates will be unbiased and consistent in
16 the presence of heteroscedasticity, but they will be
17 inefficient.
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19 In practical terms, this means that the OLS
20 point estimates or estimated coefficients are not
21 influenced by heteroscedasticity, but their estimated
22 standard errors are. It can be shown that, under
23 heteroscedasticity, the standard errors estimated by
24 OLS will be biased downward. This means that
25 inferences using those standard errors may be
26 invalid. In particular, understated standard errors
27 imply overstated t-statistics. Thus, heteroscedasticity
28 may cause the analyst to attribute causality to
29 variables where it is not justified. The equation may
30 include variables that are not statistically significant.
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²³ See, Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, Docket No. R97-1, USPS-T-13 at 41.

1 It is standard econometric practice to test for and correct for
2 heteroscedasticity in cross sectional regressions.²⁴ However, Mr. Nelson admits
3 that he did not test for heteroscedasticity²⁵ and he made no adjustment to the
4 regression analysis for its presence.²⁶ This means that all of his statistical tests
5 are suspect. For example, when Mr. Nelson claims that the coefficient on cubic
6 foot-miles is positive and significant in a particular regression, the Commission
7 cannot accept that inference as valid. Because Mr. Nelson does not correct for
8 heteroscedasticity, his standard errors are understated and t-tests are biased
9 upward. That means he could be appearing to reject the null hypothesis of no
10 significance even though it is true. Failure to correct for heteroscedasticity is a
11 serious deficiency that, by itself, seriously undermines Mr. Nelson's econometric
12 work.

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3.b. Application of an arbitrary and unknown data scrub.

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²⁴ See, William Greene, Econometric Analysis, Macmillan, New York, 1993, at Chapter 14, "Heteroscedasticity" or Jan Kmenta, Elements of Econometrics, Macmillan, New York, 1971 at Section 8.1, "Heteroskedasticity."

²⁵ See, Response of MPA Witness Nelson to USPS/MPA-T3-21.

²⁶ See, Response of MPA Witness Nelson to USPS/MPA-T3-25.

1 high and low cutoff. These are mechanical scrubs eliminating any observations
2 for which the cost per run is either greater than "50 + 3 x run length" or less than
3 "0.3 x run length."²⁷ Mr. Nelson gives no justification for these cutoffs except that
4 in his view they "reflect a priori bounds on plausible unit pricing levels."²⁸ Mr.
5 Nelson does not explain why 50 is the correct cutoff rather than 40 or 75. In
6 addition, he does not explain why 3 is the correct number to multiply by route
7 length. Why not 2.5 or 3.5? Why is a multiplicative relationship on run length
8 (presumably average route length) appropriate for this cutoff?

9 Mr. Nelson was forced to admit that he did not inspect the data before
10 establishing these cutoffs so he does not know whether or not these cutoffs
11 identify unusual observations that are different from the rest of the data.²⁹ Thus,
12 he cannot be sure that his cutoffs eliminated the truly unusual observations from
13 the data. For example, in his intra-BMC data set, Mr. Nelson included an
14 observation that had a route length of one mile, annual miles of 27,393 miles, a
15 cost of \$342,422 and a cost per mile of \$12.50.³⁰ As it turns out, this contract is
16 a "trailer rental contract" and the "cost per mile" is actually the daily unit rate for
17 each trailer.³¹ This is clearly an atypical non-transportation contract that should
18 be eliminated from the data set. Mr. Nelson's scrubs did not eliminate it.

²⁷ See, Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 at 1.

²⁸ See, Workpaper WP-4 of Michael A. Nelson to Accompany MPA-T-3 at 1.

²⁹ See, Response of MPA Witness Nelson to USPS/MPA-T3-20.

³⁰ See, Response of MPA Witness Nelson to USPS/MPA-T3-48.

³¹ See, USPS-LR-I-86 at 29.

1 This omission is not of purely academic interest as this single unusual
2 observation has a dramatic impact on Mr. Nelson's regression results. With the
3 observation included Mr. Nelson estimates an intra-BMC variability of 56 percent.
4 When this single observation is removed and nothing else changes, the
5 estimated variability falls in half to 28 percent. This result demonstrates the
6 fragility of Mr. Nelson econometric results.

7 In addition, Mr. Nelson did not identify the observations he omitted and
8 never reviewed them after applying his scrubs. In fact, he did not even generate
9 a list of the scrubs and could not provide an enumeration of the number of
10 observations eliminated.³² Finally, he never investigated the impact of his
11 omissions on the regressions. That is, he never estimated the regressions with
12 all data points to provide a basis for comparison.³³

13 In sum, Mr. Nelson's scrubs are mechanical, arbitrary, unjustified, and
14 ineffective. They cast further doubt on the reliability of his results.

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16

17 3.c. *Mr. Nelson did no testing for higher order terms and imposed an*
18 *arbitrary and inappropriate exclusion of those terms.*

19
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21 Because of his inability to fit an acceptable model (perhaps due to model
22 mis-specification and econometric deficiencies) Mr. Nelson was forced into
23 arbitrary truncation of the translog model. As discussed above, his argument that
he was not able to evaluate the mean centered translog holds no water because

³² See, Response of MPA Witness Nelson to USPS/MPA-T3-23.

³³ See, Response of MPA Witness Nelson to USPS/MPA-T3-23c.

1 evaluation comes after estimation. Moreover, even without mean centering, the
2 coefficient of cost with respect to cubic foot-miles would still have been negative
3 in Mr. Nelson's equation.

4 For whatever reasons, Mr. Nelson arbitrarily excludes all higher order
5 terms and estimates a log/log model. He did not test this specification and
6 admits that he did not undertake any tests of the significance of higher order
7 terms.³⁴ This exclusion is not justified unless one has a theoretical model the
8 produces this specific functional form. Mr. Nelson does not. The arbitrary
9 exclusion is particularly egregious in this case because higher order terms were
10 shown to be significant in Dockets No. R87-1 and R97-1. In addition, higher
11 order terms were significant in my testimony in this docket. Finally, in Mr.
12 Nelson's own preliminary regressions the higher order terms were statistically
13 significant.

14 This evidence makes clear that arbitrary elimination of statistically
15 significant higher order terms caused Mr. Nelson to mis-specify his models. The
16 estimated coefficients from witness Nelson's model are thus subject to bias and
17 are unreliable.

18
19

³⁴ See, Response of MPA Witness Nelson to USPS/MPA-T3-26.

1
2 4. Mr. Nelson's computer programs contain numerous
3 programming errors.
4

5 Mr. Nelson's regression analysis is marred by numerous computer-
6 programming errors. I'm not sure that I detected them all and, by his own
7 admission, several remain unexplained.³⁵

8 I was able to identify several specific programming errors and they are
9 presented in this section. First, following the established procedure, Mr. Nelson
10 attempts to estimate separate equations for straight truck (van) and tractor-trailer
11 (trailer) transportation. This requires segregation of observations by cubic
12 capacity of the trucks used on the contract cost segments. Trucks with a cubic
13 capacity greater than or equal to 1,650 cubic feet are considered tractor-trailers.
14 Mr. Nelson attempts to go farther in this segregation by cubic capacity by
15 eliminating, from both the van and trailer data subsets, those trucks with the
16 largest possible cubic capacity. This is done by identifying those trucks that have
17 a capacity within 300 cubic feet of the maximum listed capacity and excluding
18 their observations from the data set.³⁶

19 Unfortunately, neither of these segregations was correctly carried out in
20 the computer code. Because of programming errors, for example, Mr. Nelson
21 has straight body trucks in his tractor-trailer regressions. To observe this error,

³⁵ See, for example USPS/MPA-T3-27, ("The data set 'Work.Plant2 may be incomplete") or USPS/MPA-T3-28 for unexplained programming errors.

³⁶ No reason or justification is provided for this 300 cubic foot cutoff. Witness Nelson does not explain why 300 is appropriate or why he did not simply eliminate those trucks with the largest listed cubic capacity.

consider the intra-PDC tractor-trailer regression. That regression is based upon 709 observations,³⁷ which should represent the number of tractor-trailer contract cost segments in the account, excluding those in the largest truck category. As it turns out there are only 666 such observations. How then does witness Nelson end up having 709 observations? By including 76 van contract cost segments in the tractor-trailer regressions. Twenty examples of such erroneous observations are included in the following table. The complete set is presented in Workpaper RWP-1.

Table 3 Examples of Van Contract Cost Segments Erroneously Included in Nelson's Intra-PDC Tractor Trailer Regression		
Observation	HCRID	Truck Capacity
1	48734	800.0
2	25562	825.0
3	26339	825.0
4	28340	825.0
5	39431	850.0
6	47934	850.0
7	47938	850.0
8	48688	850.0
9	71241	850.0
10	50053	872.5
11	56032	872.5
12	24032	900.0
13	25531	900.0
14	27930	900.0
15	38371	900.0
16	39435	900.0
17	43431	900.0
18	47433	900.0
19	62536	900.0
20	95274	900.0

Source: Workpaper RWP-1.

³⁷ See, Workpaper WP-3 of Michael A. Nelson to Accompany MPA-T-3 at 54.

1
2 A check of the arithmetic presented above suggests that another problem
3 exists. If one takes Mr. Nelson's 709 observations and subtracts the 76 van
4 contract cost segments mistakenly included in the data set, one obtains 633
5 observations, not the 666 available observations. This second discrepancy
6 arises because witness Nelson also erroneously excluded contract cost
7 segments whose trucks were not in the largest group (by his own definition). As
8 it turns out, Mr. Nelson excluded 33 observations for tractor-trailer contract cost
9 segments that have a cubic capacity less than 3001 cubic feet (his tractor trailer
10 cutoff). The difference between the 76 van observations erroneously included
11 and the 33 tractor-trailer observations erroneously excluded is the 43 observation
12 difference between 709 and 666.

13 Examples of the types of observations erroneously excluded from the
14 regressions are presented in the following table. It is clear that contract cost
15 segments with truck capacities well below the maximum were erroneously
16 excluded from the regression.

1

Table 4 Examples of Non-Maximum Capacity Tractor Trailer Contract Cost Segments Erroneously Excluded from Witness Nelson's Intra-PDC Tractor Trailer Regression		
Observation	HCRID	Truck Capacity
1	00630	1800
2	00683	1850
3	86012	2025
4	90230	2025
5	90234	2025
6	90235	2025
7	90240	2025
8	91733	2025
9	78035	2070
10	33549	2122
11	72010	2150
12	72762	2150
13	90233	2175
14	91739	2175
15	91741	2175
16	91763	2175
17	92030	2175
18	92041	2175
19	92635	2175
20	94530	2175

Source: Workpaper RWP-1

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I also discovered three other programming errors in witness Nelson's programs. First, in some instances Mr. Nelson miscalculates cubic foot-miles. Whenever there is a contract cost segment that has multiple truck sizes, Mr. Nelson's computer program overstates the number of runs on that contract cost segment by the number of different truck sizes. For example, suppose that a contract cost segment has a 2400 cube trailer with a frequency of 305 runs per year and a 2700 cube trailer with a frequency of 270 runs per year. The total number of runs for this contract cost segment is 575 per year. In calculating cubic foot-miles for this contract cost segment, witness Nelson's computer code assumed that there were 1,150 runs. He thus overstated cubic foot-miles for those observations. In similar fashion, for this type of observation he understated

cost per run because his program divides by the wrong (too large) number of runs. Finally, misstating the number of runs also causes the weights he uses in his regressions to be in error as he uses excessive weights for multiple truck size contract cost segments.

These mistakes can have a material effect on witness Nelson's results. Simply correcting these programming errors and making no other changes has the following material effect on witness Nelson's results for the intra-PDC account:³⁸

Table 5 Effects on the Intra-PDC Regressions of Correction Programming Errors In Witness Nelson's Programs				
	Corrected Results		Nelson Erroneous Results	
	Estimated Variability	Number of Obs.	Estimated Variability	Number of Obs.
City	0.2601	388	0.1356	388
Van	0.2266	5,201	0.2250	5,115
Tractor Trailer	-0.1686	666	0.8750	709

Source: Workpaper RWP-1.

³⁸ Because of the possibility of remaining computer-programming errors, I cannot assure the Commission that the corrected results have removed all errors. I thus would strongly caution the Commission from relying upon them in any way.

- 1 5. Correcting Mr. Nelson's mistakes shows that the cost-per-
 2 run analysis actually corroborates the results from the
 3 established model.
 4
 5

6 I am not endorsing the "cost per run" or the "double log" approach
 7 proffered by Mr. Nelson. As I demonstrated above this approach has
 8 fundamental flaws and does not meet the basic standards for econometric work
 9 set by the Commission. The Commission most definitely should not adopt the
 10 results of this approach. However, I must admit to being curious about what sort
 11 of results one would get if one followed Mr. Nelson's cost-per-run approach, but
 12 corrected his substantial errors.

13 To satisfy that curiosity, I corrected his programming errors, derived the
 14 analytically correct functional form, and excluded truly unusual observations. I
 15 then re-estimated the cost per run equations with Mr. Nelson's deficiencies
 16 removed. Note, to ensure consistency with Mr. Nelson's approach, I did not use
 17 power only contracts and did not remove Mr. Nelson's filters.³⁹ I also maintained
 18 (and corrected) Mr. Nelson's segregation by truck capacity. That is, these
 19 regressions are estimated only on those data that according to Mr. Nelson allow
 20 for changes in capacity, not frequency.

21 Recall that the model to be estimated was derived above as:

$$\ln \left[\frac{\text{Cost}}{\text{Frequency}} \right] = \ln \alpha + (\beta - 1) * (\text{Frequency}) + \beta (\text{Cube} * \text{Route Length})$$

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 29 Results of the estimation are given in Table 6 below:

³⁹ These defects alone disqualify these results from consideration.

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Table 6 Empirical Results of a Per Runs Equation Correcting Mr. Nelson's Programming Errors				
		Estimated Coefficient for # of Runs	Implied Variability	USPS-T-18 R2000-1
Intra-PDC	City	-0.2634	0.7366	0.661
	Van	-0.2535	0.7465	0.646
	Tractor Trailer	-0.1051	0.8949	0.868
Intra-CSD	City	-0.2250	0.7750	0.734
	Van	-0.3514	0.6486	0.508
	Tractor Trailer	-0.0699	0.9301	1.096
Inter-PDC	Van	-0.3065	0.6935	0.645
	Tractor Trailer	-0.0254	0.9746	0.963
Inter-Cluster	Van	-0.2105	0.7895	0.685
	Tractor Trailer	-0.0546	0.9454	0.962
Inter-Area	Van	-0.2226	0.7774	0.671
	Tractor Trailer	-0.0535	0.9466	0.944
Intra-BMC	Tractor Trailer	-0.0176	0.9824	0.983
Inter-BMC	Tractor Trailer	-0.0023	0.9977	0.979
Plant Load	Tractor Trailer	-0.0554	0.9447	0.898
Avg. For Van			0.662	0.631
Avg. For Tractor Trailer			0.952	0.962

Sources: Workpaper RWP-2 and Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, Docket No. R2000-1, USPS-T-18.

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Note that in all instances, the estimated coefficient on the number of runs is negative as predicted by economic theory. Also note the consistency across transportation types. These results are not as accurate or reliable as the established model and should not be used, but they do generally corroborate those results. They thus demonstrate that fundamental results of the established approach, higher variabilities for tractor trailer transportation and van variabilities well below one hold despite the distortions placed on the data by the "per run" specification and the "log/log" model.

14

1 As explained above, the cost-per-run model actually provides two ways to
2 estimate the variability of cost with respect to cubic foot-miles. In addition to
3 examining the coefficient on the number of runs, one can examine the
4 coefficients on the other variable, (cube times route length). Examination of
5 these estimated coefficients shows that they suggest substantially lower
6 variabilities than the coefficients on runs. (They are still well above Mr. Nelson's
7 recommended variabilities and continue to reflect the fundamental pattern of
8 results). This difference in results reflects the weaknesses of this econometric
9 approach.

10 One way to reconcile the two different sets of estimates is to estimate a
11 restricted model in which the coefficient on runs is set equal to the coefficient on
12 cube times route length minus one. In other words, the model is estimated under
13 the restriction that both variables yield the same estimated variability. In
14 technical terms, this means that the model is restricted to allow only one value for
15 β in the equation listed above.

16 Those results are presented below. In estimating the restricted model,
17 one can test whether or not the data reject the restriction. In all cases, the
18 restriction was rejected, indicating that the "cost per run - log/log" specification is
19 inappropriate. That is yet one more reason why these results must be viewed
20 with great caution and should not be adopted by the Commission. Note,
21 however, that all of these estimated variabilities are far from what witness Nelson
22 has presented.

23
24

Table 7			
Econometric Results from the Restricted Model			
		USPS-T-18 R2000-1	Restricted Variability
Intra-PDC	City	0.661	0.5297
	Van	0.646	0.5016
	Tractor Trailer	0.868	0.7652
Intra-CSD	City	0.734	0.5284
	Van	0.508	0.4088
	Tractor Trailer	1.096	0.7686
Inter-PDC	Van	0.645	0.4951
	Tractor Trailer	0.963	0.8713
Inter-Cluster	Van	0.685	0.5338
	Tractor Trailer	0.962	0.8704
Inter-Area	Van	0.671	0.5323
	Tractor Trailer	0.944	0.8464
Intra-BMC	Tractor Trailer	0.983	0.8768
Inter-BMC	Tractor Trailer	0.979	0.9620
Plant Load	Tractor Trailer	0.898	0.9183
Avg. Van		0.631	0.4943
Avg. Trailer		0.962	0.8599

Sources: Workpaper RWP-3 and Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, Docket No. R2000-1, USPS-T-18.

6. Overall Assessment

Given the foregoing investigation we can now assess Mr. Nelson's regression analysis relative to the standards of evaluation put forth in section 1. For convenience, I repeat each of the standards, followed by the relevant assessment.

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1. Is the specified model based upon or consistent with economic theory?

No, as explained above the model is not a cost function or any other recognizable economic relationship. Mr. Nelson provides no theoretical justifications for his choice of variables or functional forms.

2. Are the results consistent with a reasonable operational interpretation of Postal Service activities?

No, the results seem at odds with all previous interpretations of Postal Service activities. For example, high variabilities are consistent with long haul, tractor-trailer transportation like inter-BMC in which there are relatively few options for dealing with capacity changes. Mr. Nelson finds low variabilities for this type of transportation.

3. Does the model have a sound mathematical basis?

No, as demonstrated above the model is not correctly derived even in the restrictive "log/log" framework the Mr. Nelson chose. Mr. Nelson provides neither a mathematical nor a statistical basis for his model.

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2
3 **4. Does the econometric analysis apply well established, if not state of**
4 **the art, econometric practice?**
5

6 No, there are many violations of established econometric practice like
7 failing to control for heteroscedasticity and failure to test for the presence of
8 higher order terms.

9
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11 **5. Are the computer programs without error? Do they produce what**
12 **the analyst thinks that they do?**
13

14 No, the computer programs contain many programming errors, some
15 unexplained. The identifiable errors include things like miscalculating cubic foot-
16 miles and including van contracts in tractor-trailer regressions.

17
18
19 **6. Are the empirical results robust and consistent?**
20

21 No, the results are wildly inconsistent and can change significantly by the
22 elimination of a single observation. For example, Table 2 above shows the Mr.
23 Nelson estimates tractor-trailer variabilities ranging from 16 percent to over 500
24 percent.
25
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1 **II. MPA WITNESS NELSON'S CONJECTURES ABOUT THE "PREMIUM"**
2 **FOR RENEWAL CONTRACTS ARE SPECULATIVE, UNSUPPORTED**
3 **BY EVIDENCE, AND UNUSABLE BY THE COMMISSION.**
4

5 MPA witness Nelson proffers a speculative conjecture about the role of
6 contract renewals. Despite his familiarity with of the Postal contracting system
7 and the absence of empirical support for this speculation, Mr. Nelson suggests a
8 costing change of over \$100 million.⁴⁰ His entire analysis of this issue amounts
9 to 3 paragraphs of conjecture about what the Postal service "may pay" ⁴¹ or
10 "should be paying."⁴²

11 His story is simple but unsupported: Contracts that have been renewed at
12 some point in their history have a higher average cost per cubic foot -mile than
13 contracts that have not been ever renewed. Consequently, he asserts, the
14 Postal Service must be overpaying for contracts that were renewed because of
15 incompetence in its contracting procedure.

16 Mr. Nelson then goes further and asserts that he can calculate how much
17 the Postal Service is overpaying due to this alleged incompetence. His answer?
18 The entire cost per cubic foot-mile difference between renewed and non-renewed
19 contracts.

⁴⁰ Mr. Nelson provides no basis for his conjectures about the Postal Service contracting system. MPA did not ask any interrogatories on this subject and Mr. Nelson's testimony provides no citations to Postal Service documents to support his claims.

⁴¹ See Direct Testimony of Michael A. Nelson on Behalf of MPA, et al., at 12, line 24.

⁴² Id. Direct Testimony of Michael A. Nelson on Behalf of MPA, et al., at 13, lines 10-12.

1 According to Mr. Nelson, the Commission should not use the actual cost
2 that the Postal Service pays for purchased highway transportation when
3 determining the attributable cost of purchased highway transportation. Instead,
4 Mr. Nelson would have the Commission use a synthetic cost that he calculates
5 under the assumption that each renewal contract should have been contracted at
6 the average cost per cubic foot-mile from all non-renewal contracts.⁴³

7 Mr. Nelson is apparently unconcerned about the likely possibility that at
8 least some, if not all, of the difference in the average cost per cubic foot-mile
9 between renewal contracts and non-renewal contracts is due to factors other
10 than the fact that contracts in the former group had been renewed at some point
11 in their history. For example, the composition of the contracts in the former
12 group may be different than the composition in the latter group. One crude
13 approach at examining this issue is to look at the distribution of contracts across
14 the renewal and non-renewal contract categories. Mr. Nelson is recommending
15 the substitution of non-renewal contract costs for renewal cost costs. It would be
16 informative to see how much of a substitution this implies. Table 8 provides the
17 proportion of regular contracts that are renewals in each of the purchased
18 highway transportation accounts. That table shows that a very high percentage
19 of regular contracts are renewal contracts. This means that Mr. Nelson's
20 proposed adjustment takes the cost from a small percentage of contracts and

⁴³ Mr. Nelson undertakes this calculation for the each of the old account groups (inter and intra SCF and BMC) and for 3 mileage blocks within each account.

1 then applies it to a large percentage of contracts -- an outcome that increases
 2 the importance of ensuring the accuracy of the proposed adjustment.

3
4

Account Number	Account Name	% Renewal Contracts
53601	Intra-PDC	87.1%
53605	Intra-CSD	75.2%
53609	Inter-PDC	75.2%
53614	Inter-Cluster	85.1%
53618	Inter-Area	75.1%
53127	Intra-BMC	98.1%
53131	Inter-BMC	99.4%
53135	Plant Load	47.8%

Source: HCSS data.

18 Mr. Nelson's testimony does not contemplate the possibility that the
 19 contracts in the renewal group may well have had a higher cost per cubic foot-
 20 mile, even if they had not been renewed, simply because of different contract
 21 specifications or conditions. If one was speculating about this cost per cubic
 22 foot-mile difference, one could come up with a variety of reason why the cost per
 23 cubic foot-mile for renewed contracts was higher. Suppose, for instance, that the
 24 Postal Service found that it could obtain lower costs per cubic foot-mile by the
 25 renewal process and that it applied this procedure to its most expensive (in terms
 26 of cost per cubic foot-mile) contracts. It would thus be saving cost by applying

1 the renewal process to its most expensive contracts, yet an external observer
2 would notice that the cost per cubic foot-mile was higher on the renewed
3 contracts and could mistakenly assume that was the result of the renewal
4 process. This is not to say that this speculation is accurate but rather to point out
5 that, without investigation, many different and contradicting stories about the
6 difference in cost per cubic foot-mile are plausible.

7 It is therefore essential that before the Commission undertake this \$100
8 million cost change that it be presented with some analysis to help it evaluate Mr.
9 Nelson's speculation. Because Mr. Nelson failed to present any analysis in his
10 direct testimony, I will present some in my rebuttal testimony. For Mr. Nelson's
11 conjecture to be accurate, two conditions must hold:

12

13 **Condition 1:** One must not be able to explain the difference between the
14 cost per cubic foot-mile for renewed contracts and not
15 renewed contracts on the basis of observed variables that
16 describe the characteristics of the two sets of contracts. In
17 other words, there must be a statistically significant
18 difference between the costs per cubic foot-mile for the two
19 groups once observed differences in the contracts are
20 controlled for.
21

22 **Condition 2.** Any unexplained difference in the cost per cubic foot-mile
23 must be due to the renewal process and not any other
24 unobserved variables in the two sets of contracts. The
25 existence of unexplained differences in the cost per cubic
26 foot-mile does not establish that the cause of the difference
27 is due to the renewal process. Additional evidence must be
28 brought to bear to support this specific reason for the
29 unexplained difference.
30

31

1 I take two different approaches to analyzing Condition 1, a regression
2 approach and a matched pairs approach. Both of these approaches are
3 designed to first control for differences in observed variables like cubic foot-miles
4 or route length and then investigate whether there is a statistically significant
5 difference in cost between the two groups of contracts.

6 In the regression approach, I re-estimated the seventeen translog
7 equations that I used to estimate the purchased highway transportation
8 variabilities in my direct testimony in this docket.⁴⁴ To investigate the role of
9 renewals, I augment those equations by adding a categorical variable that takes
10 on the value of 1 if the contract is a renewal contract and a value of zero if it is
11 not. Recall that the econometric equations have cubic foot-miles and route-
12 length as right hand side variables. The categorical variable thus measures
13 whether there is a significant difference in the cost of renewal contracts and non
14 renewal contracts for a given amount of cubic foot-miles and a given route
15 length. Three relevant questions can be investigated with the regression
16 method:

17
18 1. Is there a statistically significant difference in the cost for renewal and non-
19 renewal contracts after differences in cubic foot-miles and route length are
20 accounted for?

21
22 This question is answered by evaluating the statistical significance of the
23 estimated coefficient. If the coefficient is statistically significant then the
24 answer is yes.
25

⁴⁴ See, Direct Testimony of Michael D. Bradley, USPS-T-18, Docket No. R2000-1 at 20-21.

1

2 2. Is the cost per cubic foot mile higher on renewal contracts?

3 This question is answered by observing the sign on the estimated
4 coefficient. If the estimated coefficient is positive then the answer is yes.

5

6 3. How much larger is the cost for a given cubic foot-miles on a renewal
7 contract?

8

9 This question is answered by observing the magnitude of the estimated
10 coefficient. In a translog equation, the coefficient on the categorical
11 variable is an estimate of the percentage difference between the cost of
12 renewal and non-renewal contract of equal cubic foot-miles and route
13 length.

14

15 The results of the regression analysis are presented in Table 9.⁴⁵

16

⁴⁵ The full set of results is presented in Workpaper RWP-4.

1

Table 9
Results of the Regression Approach To Investigating Renewals

Account	Type	Renewal Coefficient	Chi-Square	P-Value
Inter-Area	Vans	0.0599	1.0396	0.3079
Inter-Area	Tractor Trailer	0.0837	16.8444*	0.0000
Inter-BMC	Tractor Trailer	0.1800	7.6531*	0.0057
Inter-Cluster	Vans	0.1657	7.7495*	0.0054
Inter-Cluster	Tractor Trailer	0.1054	8.2741*	0.0040
Inter-PDC	Vans	0.0214	0.2230	0.6367
Inter-PDC	Tractor Trailer	0.0502	2.1217	0.1452
Intra-BMC	Tractor Trailer	0.1139	8.3304*	0.0039
Intra-CSD	Box Route	-0.0141	1.3066	0.2530
Intra-CSD	Intra-City	0.1145	1.2114	0.2711
Intra-CSD	Vans	0.1194	7.4149*	0.0065
Intra-CSD	Tractor Trailer	-0.5709	5.6208*	0.0177
Intra-PDC	Box Route	0.0435	6.7927*	0.0092
Intra-PDC	Intra-City	0.1233	5.529*	0.0187
Intra-PDC	Vans	0.0928	72.1439*	0.0000
Intra-PDC	Tractor Trailer	0.0208	0.4157	0.5191
Plant Load	Tractor Trailer	-0.0915	3.1085	0.0779

* -- the asterisk indicates a statistically significant difference.

Source: Workpaper RWP-4

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5 The table presents several sets of interesting results. In just over half of
6 the cases (10 of 17) is there a significant coefficient indicating a difference in cost
7 between renewal and non-renewal contracts once variation in cubic foot-miles
8 and route length are taken into account.⁴⁶ In one of those ten cases, the cost for

⁴⁶ Traditional t-tests of significance are not appropriate here because of the presence of heteroskedasticity. I thus used the Chi-Square test based upon the heteroskedasticity-corrected variance covariance matrix. The Chi-Square test works like a t-test. The calculated chi-square statistic can be compared to a critical value to test the null hypothesis at a particular level of significance. In

1 renewal contracts was significantly below, not above the cost for non-renewal
2 contracts. Consequently, the answer to the first question (is there a significant
3 difference in cost between renewal and non-renewal contracts) is a qualified
4 "maybe." There is mixed evidence in favor of the hypothesis that such a
5 difference exists. In many instances the observed differences in cost per cubic
6 foot-mile between renewal and non-renewal contracts are due to differences in
7 cubic foot-miles or route length, not differences in the contracting procedure.
8 Certainly there is not sufficient evidence to justify a wholesale substitution of non-
9 renewal costs per cubic foot mile for the actual renewal costs per cubic foot-mile
10 on the allegation of inefficient procurement.

11 The results do tend to support the assertion that where a statistically
12 significant difference in cost between the two groups of contracts exists, it is the
13 renewal contracts that tend to be more expensive. In 8 of the 9 cases in which
14 there was a significant coefficient, the sign of that coefficient was positive. This
15 brings us to the third question, how much larger is the cost for a given cubic foot-
16 miles on a renewal contract? The answer to this question is difficult to obtain
17 because there is so little evidence that cost per cubic foot-mile is significantly
18 greater for renewal contracts. One way to get an angle on the answer would be
19 to restrict the question. Suppose the question was narrowed to the following:
20 among those accounts that had a significant difference in cost, what was the
21 average amount of that difference? Because each of the estimated coefficients
22 is a measurement of the percentage difference due to renewal, one could

Table 9, a large chi-square value implies a low probability value and rejection of the null hypothesis of a zero coefficient (no difference).

1 average those coefficients that are statistically significant to get a measure of the
2 effect of the renewal status.⁴⁷ Averaging the statistically significant coefficients
3 yields an average cost difference of 3.3 percent higher for the renewal contract
4 group.⁴⁸

5 The second approach to investigating the source of difference between
6 renewal and non-renewal contracts is the matched pairs approach. In this
7 analysis, pairs of observations, one from the renewal contract group, and one
8 from the non-renewal contract group are identified. These matched pairs can
9 then be investigated to see if there is significantly higher cost per cubic foot-mile
10 for renewal contracts. The idea is to identify contracts that are similar for all
11 observed variables (account category, vehicle size, annual miles, number of trips
12 and number of trucks) and to test for differences in their cost per cubic foot
13 mile.⁴⁹

14 In order to identify matched pairs, all highway contracts within each
15 contract type (Inter-BMC, Intra-BMC, Inter-SCF, Intra-SCF, and Plant Load) were
16 separated into two groups: renewal and non-renewal. Next, each non-renewal

⁴⁷ Note that this exercise does not demonstrate that the renewal procedure causes the cost to be higher on renewal contracts. It only indicates that in those instances in which the coefficient is significant, any difference in cost is not caused by variations in cubic foot-miles or route length.

⁴⁸ Alternative methods of calculating this average include cost weighting the coefficients or setting the insignificant coefficients equal to zero ("accepting" the null hypothesis) and recalculating the average. This latter approach yields a difference of 2.2 percent.

⁴⁹ Mr. Nelson chose to make his comparison at the level of the old account groupings (intra and inter SCF, inter and intra BMC). For purposes of comparison, a similar grouping is used in the matched pairs analysis.

1 contract was compared to every renewal contracts across the following variables:
2 account, route type, area, contract type, vehicle group, number of trucks, annual
3 miles, vehicle size, and route length. In each instance where a non-renewal
4 contract matched a renewal contract across all of the variables listed above, the
5 two contracts were identified as a matched pair.

6 For the last three variables mentioned above (annual miles, vehicle size,
7 and route length) it was highly unlikely that any two observations would match
8 exactly due to the fact that these variables have decimal values. Therefore, a
9 threshold parameter was used to determine how close the values of these
10 variables must be in order to consider them a matched pair. Ideally, this
11 threshold parameter would be set relatively low in order to ensure that the
12 identified matched pairs have similar values across all variables. For example, in
13 the case of inter-SCF the threshold was set at 1 percent, which resulted in 265
14 matched pairs. In the other contract categories, small values of the threshold
15 parameter resulted in no or few matched pairs. In these instances, the threshold
16 was gradually increased up to 20 percent. At this level, 39 matched pairs were
17 identified for Inter-SCF, 11 for Plant Load, and none for Intra-BMC and Inter-
18 BMC. Beyond 20 percent, the differences in variable values become large
19 enough that their inclusion as matched pairs is questionable.⁵⁰

20 I pursued two matched pairs methods for testing the hypothesis that
21 renewal contracts have higher cost per cubic foot mile than non-renewal

⁵⁰ Even if these three variables (annual miles, vehicle size, and route length) were not required to be matched, there would still be no Inter-BMC matched pairs and only 6 Intra-BMC matched pairs.

1 contracts. The first makes use of the t-distribution and the second makes use of
2 the binomial distribution. The first method uses a tradition t-test of the difference
3 in cost per cubic foot-miles between the two types of contracts. Define μ as the
4 difference between the cost per cubic foot-mile on renewal contracts and non-
5 renewal contracts:

$$\mu = \frac{\text{Cost}}{\text{CFM}_R} - \frac{\text{Cost}}{\text{CFM}_{NR}}$$

6
7
8 The null hypothesis is that the cost per cubic foot mile is the same for both types
9 of contracts with the alternative hypothesis that cost per cubic foot-mile is more
10 expensive for renewals:
11

$$H_0: \mu = 0; \quad H_a: \mu > 0$$

12
13
14
15
16 One then calculates the mean difference and standard error of the mean
17 difference and then uses that information to calculate a t-statistic. The calculated
18 t-statistic is compared it with a critical value based upon a t-distribution with n-1
19 degrees of freedom, where n is the number of matched pairs.

20 The results of the tests using the t-distribution are included in Table 10.

1

Table 10
Matched Pairs Results (t-test Method)

Contract Type	Mean Difference In Cost/CFM	Std. Dev. Of The Mean Difference	t Statistic	P-Value
Inter-BMC	N/A	N/A	N/A	N/A
Intra-BMC	N/A	N/A	N/A	N/A
Inter-SCF	0.000776	0.003372	1.4183	8.21%
Intra-SCF	0.001533	0.018549	1.3425	9.03%
Plant Load	0.003300	0.013573	0.7687	22.99%

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Source: Workpaper RWP-5

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Table 10 shows that there are no instances in which the cost per cubic foot-mile is significantly greater for the renewal contracts. For the inter-BMC and intra-BMC categories, the renewal and non-renewal categories are so different that insufficient matched pairs exist for the test. This is evidence in itself that there are major differences in the characteristics of contracts in the two groups and that one cannot reliably ascribe that difference to the contract renewal process. For the remaining three accounts where sufficient matched pairs exist, the null hypothesis of no difference in cost per cubic foot-mile cannot be rejected.

The second method, called the sign test is, is a test of how often observed difference can be said to have a positive or negative sign. Essentially, this approach counts the number of positive differences and relates that to the probability of getting a positive difference under the binomial distribution. If there is no true difference, then the probability of finding that the renewal cost per CFM

1 is greater than the non-renewal cost per CFM equals one half. The null
 2 hypothesis that $\mu = 0$ thus follows a binomial distribution $B(n, \frac{1}{2})$ where n is the
 3 number of matched pairs in which some difference is observed.

4 To implement this test one counts the number of pairs in which some
 5 difference is observed (this may be all the pairs for us) and then counts the
 6 number of positive differences, θ . One then determines the probability of
 7 observing θ differences for a $B(n, \frac{1}{2})$ distribution and use this as the probability
 8 value for the null hypothesis.

9 The results of the sign tests using the binomial distribution are
 10 presented in Table 11.

11

Table 11
 Matched Pairs Results (Sign Test)

Contract Type	Total Pairs w/Observed Difference in Cost/CFM	Pairs with Renewal Cost/CFM > Non-Renewal	Binomial Probability
Inter-BMC	N/A	N/A	N/A
Intra-BMC	N/A	N/A	N/A
Inter-SCF	39	31	0.00%
Intra-SCF	262	139	14.68%
Plant Load	11	8	3.27%

12 Source: RWP-5

13 To interpret these results one should consider what the two different tests
 14 reveal. The sign test reveals whether or not there is a prevalence of positive or
 15 negative differences, when differences occur. The results show that in two of the

1 five categories there is evidence that cost per cubic foot-mile for renewal
2 contracts tends to be higher than cost per cubic foot-mile for non-renewal
3 contracts among the matched pairs. But the sign test does not indicate by how
4 much larger the cost per cubic foot-mile is in these instances. The size of the
5 difference is tested by the t-test. The t-test indicated that the differences in cost
6 per cubic foot-mile are so small that in no instances were the costs significantly
7 different.

8 The empirical evidence presented above thus shows mixed support, at
9 best, for the condition that the differences in cost per cubic foot-mile on renewal
10 contracts is determined by unobserved factors. In many cases, the differences
11 are explained by observed variables and once those factors are accounted for,
12 the remaining differences appear to be small. Nevertheless, I will consider the
13 second condition required for Mr. Nelson's proposed cost reallocation. To apply
14 his procedure it is not enough to identify some unexplained difference between
15 renewal and non-renewal contracts but it is also essential to provide some
16 positive evidence that this difference is due to the renewal process itself. Mr.
17 Nelson provides none. In addition, the empirical evidence provided above
18 conflicts with this condition.

19 If the unexplained cost difference were due to the renewal process, one
20 would expect to observe it for all accounts and transportation types. After all, the
21 cost difference is allegedly a function of the contracting procedure that covers all
22 accounts. The results are just the opposite. Consider, for example, the account
23 categories that make up the inter facility (non-BMC) segment of purchased

1 highway transportation. There are three account categories in this group, inter-
2 PD&C, inter-Cluster and inter-Area. Within each account category there are both
3 van and tractor trailer transportation modes. If the renewal process was
4 inefficient and was the cause of higher costs per cubic foot-mile, we would
5 expect to see evidence of this cause across account categories and
6 transportation types. Yet no such pattern exists. In the regression tests, there is
7 no evidence of higher cost per cubic foot mile in the inter-PDC categories and the
8 inter-Area account is split with van transportation showing no difference in cost
9 per cubic foot mile and tractor trailer transportation showing an unexplained
10 higher cost per cubic foot-mile for tractor trailer transportation. Given that both
11 van transportation and tractor trailer transportation could be provide by the same
12 contract within this account, this last result seems directly contradictory to the
13 hypothesis that the cost difference is due to the renewal process.

14 In sum, there is mixed evidence that there are significant
15 unexplained differences in cost per cubic foot-mile between renewal and non-
16 renewal contracts and there is no evidence that this difference is due to the
17 renewal process. Mr. Nelson's proposed adjustment is not justified by the
18 evidence.

1 **III. DR. NEELS' PROPOSAL FOR ALLOCATING EMPTY SPACE HAS A**
2 **SERIOUS DRAWBACK AND FALLS SHORT OF ITS GOAL.**
3

4 In this proceeding, the Commission has been presented with two methods
5 for allocating empty space on trucks; one by the Postal Service and one by UPS
6 witness Neels. In this section, I review and compare both of these methods,
7 highlight their weaknesses and propose a compromise that I believe to be more
8 accurate than either one. This compromise is consistent with the idea that empty
9 space is jointly caused by volumes and transportation requirements throughout
10 the Postal Service purchased highway transportation network. It is also
11 consistent, in part, with the Commissions stated desire to disengage the TRACS
12 calculation of utilized cubic foot-miles from the "expansion process."⁵¹

13 When TRACS was introduced in Docket No. R90-1, the Postal Service
14 proposed a method of allocating unused or empty space to classes and
15 subclasses that relied upon the identification of classes of mail utilizing space on
16 trucks being tested. The method was considered and accepted by the
17 Commission.⁵²

18 From time to time, proposals have been made that
19 the costs thought to be associated with this [empty]
20 space should be treated as institutional. The problem
21 is particularly difficult because the capacity not
22 holding mail can be expected to change, even on one
23 trip. On the many contracts that involve more than
24 one stop, mail is loaded and unloaded at various

⁵¹ See, PRC Op., R97-1, Vol1. at 217. There are two parts to the expansion process, the "filling" of partially full containers and the allocation of unused space on the truck to subclasses of mail. The former procedure is not at issue in this case and my analysis is limited to the latter issue.

⁵² See, PRC Op., R90-1, Vol1. at III-161.

1 facilities. Therefore, at some points the truck may
2 more full than at others. See Tr. 5/1538.

3
4 With TRACS, all unused capacity is accounted for
5 and distributed to the mail on a sampled vehicle. The
6 sampled mail is allocated its "fair share" of empty
7 space by multiplying a ratio of the percent unloaded
8 divided by the percent unloaded plus the percent
9 remaining items that percent empty. The mail that is
10 loaded on the truck further upstream is charged more.
11

12 However, in the most recent two cases this approach has been questioned.

13 Although the Commission used the Postal Service method in Docket No. R97-1,
14 it raised several some concerns about it:⁵³

15 If it was not apparent before, it is certainly apparent
16 now from the rebuttal testimony of Postal Service
17 witness Young that postal transportation is contracted
18 and scheduled in response to a very complex set of
19 requirements and constraints. Among the
20 considerations are "the requirements of downstream
21 mail processing and delivery facilities," "service
22 commitments to customers," "how many containers of
23 mail each downstream facility normally receives on
24 the busiest day or night of the week," "what plants can
25 handle which types and sizes of highway equipment,"
26 "downstream facilities operating plans," and meeting
27 "the last scheduled dispatch, called the dispatch of
28 value" to avoid delaying the mail. Tr. 35/18855-56.
29 These scheduling considerations are in addition to
30 matching truck capacities on individual legs of a route
31 to the volume of mail being carried. Or, to put it
32 somewhat differently, a schedule that meets witness
33 Young's considerations is bound to include truck
34 movements that are undertaken for reasons that go
35 beyond just transporting the mail found on the truck at
36 its destination.
37

38

⁵³ See PRC Op., R97-1, Vol. 1 at 216.

1

2

In addition, in this docket United Parcel Service witness Neels has raised

3

concerns about the method and has proposed an alternative method. To

4

understand how the two methods compare, I first lay out the analytical bases for

5

each and then discuss each one.

6

7

A. The Postal Service Method

8

9

The Postal Service method makes use of information on the trips sampled

10

to allocate empty space. Its working assumption is that the empty space on a

11

given trip is the responsibility of the classes of mail on the trip. The final

12

distribution key reflects this working assumption. Analytically, the final

13

distribution key for a given class (δ_j) can be described as:

14

$$\delta_j^P = \frac{TCFM_j^P}{TCFM},$$

15

16

where TCFM stands for total cubic foot-miles including empty space and is

17

defined for class j in the Postal Service method as:

18

19

$$TCFM_j^P = CFM_j + ECFM_j^P.$$

20

1 CFM_j is just the sampled cubic foot miles for class j and is the result of summing
 2 across all tests (T):⁵⁴

3

$$4 \quad CFM_j = \sum_{t=1}^T CFM_{jt}.$$

5

6 Similarly, the total cubic foot-miles across all classes is just the sum of the TCFM
 7 measures across all N classes:

8

$$9 \quad TCFM = \sum_{j=1}^N TCFM_j^P$$

10 Finally, ECFM stands for empty cubic foot-miles and is defined in the Postal
 11 Service method as:

12

$$13 \quad ECFM_j^P = \sum_{t=1}^T CFM_{jt} * \frac{\% Empty_t}{1 - \% Empty_t}$$

14

15 **B. The UPS Method**

16 United Parcel Service witness Neels criticizes the Postal Service method
 17 and proposes a different empty space adjustment. His main justification for
 18 recommending this different method is the assertion that empty space is jointly

⁵⁴ This measurement is not disputed and is the same in all methods. Thus, no superscript is required.

1 determined by all the legs of a route and his claim that the current Postal Service
2 method does not take this into account:⁵⁵

3

4 I propose an alternative method for calculating
5 distribution keys from the TRACS data that explicitly
6 recognizes the fact that unused capacity on a
7 particular route trip destination day is attributable to
8 mail flows and capacity need arising elsewhere in the
9 system.
10

11 Unfortunately, Dr. Neels' proposed adjustment does not quite get at this
12 issue and itself contains a serious drawback. This drawback arises because his
13 proposed method is based upon a false premise. This premise is succinctly
14 stated:⁵⁶

15 A more accurate distribution of purchased highway
16 transportation costs requires that, in assigning
17 responsibility for empty space, relatively more weight
18 be given to those mail classes and subclasses that
19 create the need for the total capacity purchased.
20

21
22 While this premise may seem plausible at first blush, upon reflection it becomes
23 clear that it misses an important part of causality. An accurate distribution of
24 purchased highway transportation costs requires that empty space be assigned
25 to those classes and subclasses that caused the empty space, not just those that
26 caused capacity. Dr. Neels is implicitly assuming that the classes that "caused
27 the capacity" are the same classes that caused the empty space. But this is not

⁵⁵ See, Direct Testimony of Kevin Neels on Behalf of United Parcel Service,
Docket No. R2000-1 at 13.

⁵⁶ See, Direct Testimony of Kevin Neels on Behalf of United Parcel Service,
Docket No. R2000-1 at 18.

1 always the case and misses an essential characteristic of Postal Service
2 transportation.

3 Trucks in the Postal transportation network must leave because of the
4 service standards and mail processing schedules for the classes of mail being
5 transported. If the transportation of those classes did not have to be expedited,
6 then the Postal Service could simply let the truck wait at the dock until it is full.
7 Thus, the observed empty space in the Postal Service transportation network is
8 at least partly caused by the fact that the truck must leave before it is full, due to
9 the service standards and mail processing schedules for classes and subclasses
10 of mail on that truck. It is in this sense that the mail on the truck being observed
11 bears some or all of the responsibility for the empty space observed on the truck.
12 Dr. Neels' method ignores this characteristic disregards and thus disregards this
13 important aspect of the causality of empty space.⁵⁷

14 The most obvious case of this phenomenon is Express Mail. To make its
15 service standard, Express Mail must often be transported on relatively empty
16 trucks. Under Dr. Neels' approach, this characteristic of Express Mail would be
17 ignored and it would bear a relatively small responsibility for empty space, as it is
18 rarely on full trucks. Despite the fact that Express Mail truly caused the empty
19 space because of its service requirements, the UPS method would relieve it of its
20 obligation to pay for that empty space.

⁵⁷ The Commission also indicated its belief that empty space is also caused by a network-wide "set of requirements and constraints." These include not only service commitments and mail processing schedules but things like "what plants can handle which types and sizes of equipment." See PRC Op., R97-1, Vol. 1 at 216-217.

1 Dr. Neels raises the legitimate issue that the current Postal Service
2 method of expanding empty space may be biased because it does not account
3 for the possibility that some of the responsibility for the empty space may not lie
4 with the mail on the truck when it is observed. Dr. Neels' proposed solution for
5 this problem, however, goes to the other extreme. It assumes that the mail
6 observed on the truck bears no responsibility for the empty space on that truck.
7 Dr. Neels' proposed method thus suffers from the same conceptual defect that
8 he claims for the existing Postal Service method -- it misses an important part of
9 empty space causality. The fact that mail on other legs may bear some
10 responsibility for the amount of empty space on an observe leg does not justify
11 Dr. Neels' assertion that "relatively more" weight should be given to those
12 volumes rather than the volumes actually observed on the transportation
13 movement. While it may be true that the capacity on a specific leg is jointly
14 determined by all trips on a route, Dr. Neel's method does not determine which
15 legs on a particular route are responsible for the capacity determination on that
16 route. His method instead uses information on "high volume" legs on other
17 contacts.

18 A real concern with this approach is that Dr. Neels, like the Postal Service,
19 does not know the space used by volumes on the leg or legs that actually caused
20 the capacity on any given contract cost segment. Unlike the current Postal
21 Service method, that can at least accurately determine the actual space required
22 for mail being transported on the observed leg, Dr. Neels uses a broad
23 generalization. He uses an average of "high volume" legs to determine the

1 volume mix that he hypothesizes to cause the capacity requirements on the
2 observed leg. Thus, his method not only misses the responsibility of the mail
3 observed on a leg causing empty space, but also misses measuring the mail
4 actually responsible for determining capacity on that leg.⁵⁸

5 Consequently, it is quite possible that Dr. Neels is assigning the
6 responsibility for empty space on a particular leg to classes that have nothing to
7 do with determining the capacity on that leg. Consider an example in which there
8 are two contract cost segments, each with three legs. Suppose that the first
9 contract cost segment has a relatively constant amount of volume per day and
10 per leg and carries only Class A. Suppose that the second contract cost
11 segment carries only Class B, and has a highly variable daily volume profile, and
12 has one leg that tends to have the largest volume flows. Finally, suppose that
13 TRACS does not sample this leg, so the TRACS test for the second contract cost
14 segment shows a relatively high amount of empty space.

15 Under Dr. Neels method, the "more fully loaded trucks" would occur on the
16 first contract as the relatively small variation in leg and daily volume would
17 generate a relatively high average capacity utilization. This means that, under
18 Dr. Neels' method, the empty space on the second contract cost segment would

⁵⁸ Dr. Neels' method also suffers from the flaw of assuming that a "fuller" truck on a given day is "more likely" to have caused the capacity on an observed leg. This is pure speculation and Dr. Neels presents no evidence to support it. It is quite possible that the peak volume occurs on the observed leg on a different day of the week from which the test was taken and that the volume on the relatively full leg he refers to bears no responsibility for the capacity determination. Given that the capacity is determined by a complex set of criteria over a long period of time, it is difficult to accept that the fullest leg on a single TRACS test is "likely" to be the leg that caused the capacity on the observed leg.

1 be assigned to Class A even though Class A did not cause the capacity and was
 2 never transported on that contract cost segment.

3 Using the notation derived above, the UPS method can be describe
 4 analytically:

5

$$6 \quad \delta_j^U = \frac{TCFM_j^U}{TCFM},$$

7

8 where TCFM stands for total cubic foot-miles and is defined for class j in the UPS
 9 method as:

10

$$11 \quad TCFM_j^U = CFM_j + ECFM_j^U.$$

12

13 The empty space assigned top class j under the UPS method is found
 14 using a distribution key (θ_j) based upon the "more fully loaded truck" segments.⁵⁹
 15 Analytically, this is expressed as:

16

$$17 \quad ECFM_j^U = \sum_{t=1}^T \theta_j ECFM_t = \theta_j \sum_{t=1}^T ECFM_t = \theta_j ECFM$$

⁵⁹ This calculation illustrates another drawback of Dr. Neels' approach. He assumes that a single segment cause the capacity on a truck and thus rule out the possibility that the capacity is jointly cause by several segments on a route. This is the very assumption (that capacity is caused on a single leg on a route) that the Postal Rate Commission criticized in discussing the Postal Service approach. Dr. Neels' method does not address this criticism.

1 The last expression shows that the empty space allocated to class j is just equal
2 to the product of all empty space (ECFM) and class j's distribution key from the
3 sample of "more fully loaded trucks."

4

5 **C. A Compromise Method**

6

7 Neither the Postal Service method on the UPS method completely
8 addresses the issue of empty space. The Postal Service method focuses solely
9 on the role of volume on the tested leg on causing the empty space and ignores
10 the role played by volumes on other legs. The UPS method focuses solely on
11 volume on "more fully loaded trucks" and ignores the volume on tested legs.
12 These differences in approach are what cause the differences in the final
13 distribution keys

14 As the Commission has indicated, empty space causality is complex and
15 a careful tracing of the causality of empty space for each contract within the
16 TRACS dataset is likely to be prohibitively expensive. More importantly, such
17 information is not currently available.

18 To remedy the potentially extreme positions of the Postal Service and
19 UPS positions, I recommend a compromise approach that makes use of the
20 information on both the tested leg and more fully loaded trucks. The compromise
21 approach has several advantages.

- 22 1. It allows for the joint determination of capacity and empty space across
23 the entire purchased highway transportation network.
- 24 2. It generates distribution keys that moderate the effects of the two extreme
25 assumptions embodied in the current Postal Service and UPS methods.
26
27

1 3. It provides results that are consistent with the actual volumes of mail found
2 on trucks.

3
4 The compromise method starts with the UPS method but replaces the "more fully
5 loaded trucks" distribution key with one based upon all of the segments, including
6 the one on which the empty space occurs. In the compromise method:

$$7 \quad \delta_j^C = \frac{TCFM_j^C}{TCFM},$$

8

9 where TCFM stands for total cubic foot-miles and is defined for class j in the
10 compromise method as:

11

$$12 \quad TCFM_j^C = CFM_j + ECFM_j^C.$$

13

14 The empty space assigned to class j under the compromise method is found
15 using a distribution key based upon the all segments. Analytically, this is
16 expressed as:

$$17 \quad ECFM_j^C = \sum_{t=1}^T \tilde{\theta}_j ECFM_t = \tilde{\theta}_j ECFM$$

18 where:

$$19 \quad \tilde{\theta}_j = \frac{\sum_{t=1}^T CFM_{jt}}{\sum_{j=1}^N \sum_{t=1}^T CFM_{jt}}$$

20

1 To see why this approach provides a compromise between the Postal
2 Service and UPS positions, we can consider Dr. Neels' example.⁶⁰ Dr. Neels
3 posits two trucks, each holding up to eight "units" of transportation capacity.⁶¹
4 The system thus has a total of 16 units of transportation capacity. The "empty"
5 truck has two units filled with class X and six empty units. The "full" truck has 8
6 units filled with class Y and 2 empty units. The issue is how to allocate the 8
7 empty units.

8 Under the Postal Service method, the volumes on each truck bear the
9 responsibility for the empty space on the truck, so the volume on the empty truck,
10 class X, receives 6 units of empty space and the volume on the full truck, class
11 Y, receives 2 units of empty space. Class X receives a total of 8 units (50
12 percent of cost) and class Y receives a total of 8 units (50 percent of cost). Dr.
13 Neels complains that this is unfair to class X as it did not cause the capacity to
14 arise. Dr. Neels speculates that the fuller truck with six units caused the excess
15 capacity of the trucks to arise.⁶²

16 Consequently, Dr. Neels would assign none of the empty space to the
17 volumes on the empty truck, absolving them of any responsibility for the empty
18 space in the system. All eight units of empty space are assigned to the volume

⁶⁰ See, Direct Testimony of Kevin Neels on Behalf of United Parcel Service,
Docket No. R2000-1 at 16 and 20.

⁶¹ This can also be thought of as two legs of the same route.

⁶² Dr. Neels' own example demonstrates one of the weaknesses of his
approach. In this example, neither of the trips required an eight-unit truck
because neither trip is full. Neither trip can be said to have caused the
specification of a truck of this size. Thus, the use of the "more full truck"
approach ~~does not~~ capture the actual causality between volume and capacity.

on the more full truck, class Y. Under this method, class X receives only 2 units of space (12.5 percent of the cost) and class Y receives 14 units (87.5 percent of the cost).

Under the compromise approach, each class would receive an allocation of empty space consistent with its overall usage of transportation capacity. Class X uses 25 percent of the utilized space, so it receives 25 percent of the empty space, or 2 units. A similar calculation is performed for class Y and it receives 6 units of empty space. Under the compromise approach, class X receives 4 units of capacity (25 percent of cost) and class Y receives 12 units of capacity (75 percent of cost). These results are summarized in Table X.

Table 12 Allocations of Empty Space Under Three Methods							
	Utilized Capacity	Allocated Capacity Under the Postal Service Method		Allocated Capacity Under the UPS Method		Allocated Capacity Under the Compromise Method	
		Units	Percent	Units	Percent	Units	Percent
Class X	2	8	50.0%	2	12.5%	4	25.0%
Class Y	6	8	50.0%	14	87.5%	12	75.0%
Empty Units	8						
Total Units	16	16	100.0%	16	100.0%	16	100.0%

The intermediate position of the compromise approach does not exist only in the example. It also exists in the actual cost allocations. Table 13 provides a comparison in the Base Year purchased highway transportation costs for the Intra-SCF, Inter-SCF, Intra-BMC and Inter-BMC categories under the Postal

1 Service, UPS and compromise methods. That table shows the compromise
 2 approach bridges the gap between the Postal Service and UPS approaches.

3

Table 13
 Attributable Cost for the Intra-SCF, Inter-SCF, Inter-BMC, and Intra-BMC Accounts
 Under Three Different Empty Space Allocation Approaches

	UPS APPROACH	COMPROMISE APPROACH	USPS APPROACH
FIRST-CLASS MAIL	\$347,810	\$345,434	\$342,195
PRIORITY MAIL	\$227,353	\$225,853	\$216,293
EXPRESS MAIL	\$17,630	\$21,071	\$34,730
PERIODICALS	\$185,269	\$187,691	\$190,080
STANDARD (A)	\$301,545	\$300,920	\$300,303
STANDARD B	\$339,370	\$337,704	\$335,566
PARCELS ZONE RATE	\$241,844	\$239,836	\$235,173
OTHER STANDARD (B)	\$97,525	\$97,868	\$100,393

4 Source: LR-I-452

5

6 A final characteristic of the compromise approach needs to be discussed.
 7 Because the compromise approach allocates empty space to classes based
 8 upon an overall distribution key, it introduces no distortions from the pre-empty-
 9 space distributions of costs. The allocation of empty space does not change the
 10 relative proportions of costs borne by any class. In this way, the empty space is
 11 allocated but the allocation method does not impart any distortion to the pre-
 12 expansion distribution key. This characteristic can be demonstrated analytically.
 13 The pre-empty-space distribution key is given by:

$$\delta_j = \frac{CFM_j}{CFM},$$

where CFM is the total utilized CFM. Now recall the compromise distribution key:

$$\delta_j^C = \frac{TCFM_j^C}{TCFM}.$$

Also, note that:

$$\begin{aligned} TCFM_j^C &= CFM_j + ECFM_j^C \\ &= CFM_j + \sum_{t=1}^T \tilde{\theta}_j ECFM_t = \tilde{\theta}_j ECFM \\ &= CFM_j + \frac{CFM_j}{CFM} ECFM \\ &= \left(1 + \frac{ECFM}{CFM}\right) CFM_j \end{aligned}$$

Substituting this expression into the distribution key definition yields:

$$\begin{aligned} \delta_j^C &= \frac{\left(1 + \frac{ECFM}{CFM}\right) CFM_j}{TCFM} \\ &= \frac{\frac{TCFM}{CFM} CFM_j}{TCFM} \\ &= \frac{CFM_j}{CFM}. \end{aligned}$$

The last equality shows the compromise distribution key maintains the relative proportions determined by the pre-empty-space distribution key.

1 COMMISSIONER OMAS: This brings us to oral cross
2 examination. One party has requested oral cross
3 examination, Magazine Publishers of America.

4 Mr. McBride?

5 MR. KOETTING: Commissioner Omas, if I could
6 interject at the moment, I neglected to ask Dr. Bradley if
7 there were any Category II Library References associated
8 with his rebuttal testimony, and perhaps I could handle that
9 now before the cross examination begins.

10 COMMISSIONER OMAS: Fine.

11 BY MR. KOETTING:

12 Q Dr. Bradley, are there any Category II Library
13 References associated with your testimony?

14 A Well, I have some Library References associated
15 with my testimony, but to tell you the truth, I don't know
16 what Category II is, but I'll be glad to tell you what
17 Library References I have.

18 Q That would suffice, I believe.

19 A I have Library Reference I-452, which is
20 electronic versions of the programs that are used in my
21 testimony and workpapers.

22 Q And you're prepared to sponsor that into evidence.

23 COMMISSIONER OMAS: Without objection.

24 [Library Reference I-452 was
25 received into evidence.]

1 MR. McBRIDE: I do have a preliminary matter on
2 that, Commissioner Omas. As counsel for the Postal Service
3 knows, and Professor Bradley knows, we had a discussion
4 before we began today that the hard copy of the workpapers
5 that we were provided from this witness, which may impact on
6 this Library Reference, for some reason that I don't think
7 is anything but an innocent mistake, includes some redundant
8 material, and, therefore, excludes some material where the
9 redundant material appears.

10 The Postal Service is willing to provide to us,
11 the missing material, and they tell me it was not missing
12 from the electronic version, only the hard copy. But I was
13 only working from the hard copy.

14 So in any event, we may need to revisit the issue
15 somewhat about this Library Reference and these workpapers
16 and the related materials.

17 COMMISSIONER OMAS: Fine. All right, Mr. McBride.

18 MR. McBRIDE: Thank you.

19 CROSS EXAMINATION

20 BY MR. McBRIDE:

21 Q Good morning again, Professor Bradley.

22 A Good morning.

23 Q I'm recalling from your appearance here three
24 years ago, your description of your own background and
25 expertise. And what I'd like to do here, in the interest of

1 expedition, since there are a lot of witnesses today, is try
2 to just deal with facts with you, if I can, and see if you
3 and I agree on them, if that's agreeable with you.

4 A Fair enough.

5 Q Is it a fact that you have never negotiated a
6 transportation contract in any commercial setting?

7 A That is a fact.

8 Q What is it, by the way, that you teach?

9 A Economics.

10 Q At?

11 A George Washington University.

12 Q And you don't teach transportation?

13 A No.

14 Q All right. And you're not a lawyer, correct?

15 A I am not a lawyer.

16 Q And you have never worked at the Postal Service in
17 the area of negotiating transportation contracts; is that
18 correct?

19 A That is correct.

20 Q Or bear any responsibility for shipping anything;
21 is that correct?

22 A I do not ship anything for the Postal Service;
23 that's correct.

24 Q I think I recall that you said that you did have
25 one bit of transportation experience.

1 A Yes.

2 Q You used to drive a truck; is that right?

3 A That is correct.

4 Q All right.

5 A A dump truck, to be specific.

6 Q I thought I remembered that.

7 CHAIRMAN GLEIMAN: Was it dumb or dump?

8 THE WITNESS: Dump.

9 [Laughter.]

10 BY MR. McBRIDE:

11 Q So, if I really wanted to find out sort of the
12 inner workings of transportation contracts of the Postal
13 Service, I take it that you'd probably refer me over to Mr.
14 Young or maybe Mr. Pickett; is that right?

15 A That is correct.

16 Q Okay.

17 Now, did MPA Witness Nelson ever say -- I'm
18 tempted to use the Latin because I'll bet you'd understand
19 it, but I'll try to put it in English, in so many words, in
20 hic verba, did Witness Nelson ever say that he was pursuing
21 the goal of calculating lower variabilities for purchased
22 highway transportation, quote/unquote?

23 A You would have to ask him if he's ever said that.

24 Q Well, I'm reading from your testimony on page 2,
25 (ii).

1 A Okay.

2 Q In which at lines 9 and 10 you say, presented by
3 MPA Witness Nelson with the goal of calculating lower
4 variabilities for purchased highway transportation, that's
5 not a quote from his testimony; is it?

6 A That's not a quote; that comes from the section of
7 his testimony here he argues that the variabilities that I
8 estimate were biased upward, and by suggestion, if mine are
9 too high, then his would be lower. That was my information.

10 Q But he never said that he had such a goal; did he?

11 A He didn't say that explicitly. It was -- I think
12 it was implied in his testimony.

13 Q Are you also aware that we pursued through
14 discovery earlier in this case, a request to see the Postal
15 Service contracts that Witness Nelson was going to testify
16 about, and the Postal Service objected to that?

17 A No, I'm not aware of that.

18 Q Okay, well, that's a fact. Is it also a fact that
19 renewal contracts for highway transportation at the Postal
20 Service, on average, have rates higher than non-renewal
21 contracts?

22 A Well, it's difficult to say yes or no to that
23 specific question, because it does vary by account. But I
24 would say that on average, for most accounts, that's true,
25 yes.

1 When you're saying the average cost, again, we
2 have to be a little careful here. I think what you mean is
3 the average cost per cubit foot mile, because if you're
4 referring to the overall average cost, I don't think that's
5 true.

6 Q I'll accept your characterization. But I would
7 like to ask you then if that is a fact, that on page 34 of
8 your testimony in heading II, when you refer to MPA witness
9 Nelson's conjectures about the premium, quote/unquote, for
10 renewal contracts as being speculative and unsupported by
11 the evidence, you're not disputing then that the renewal
12 contracts, on average, do have a higher cost per cubic foot.

13 A Mile, per cubic foot mile.

14 Q Cubit foot mile, excuse me, yes. Okay.

15 A What this heading is referring to is his
16 conjecture that they -- when I'm referring to the premium,
17 what I'm referring to is his conjecture that the renewal
18 contracts have a higher cost per cubic foot mile because of
19 the renewal process.

20 Q But I'm not interested in the reasons right now.
21 I simply want to establish as a fact, that there is no
22 dispute between the two of you that the cost of the renewal
23 contracts per cubit foot mile is higher, on average?

24 A Well, again, we have to be careful. For certain
25 accounts, that's true, not all.

1 Q But on average, I think you just told me a minute
2 ago --

3 A For the average within certain accounts, that's
4 true, yes; I agree.

5 Q Now, do you know anything about the methodology
6 that is used for adjusting rates paid for either highway
7 transportation or freight rate transportation in the typical
8 commercial contract?

9 A No.

10 Q Is it theoretically understandable to you that if
11 an adjustment mechanism overcompensates for inflation, if
12 there is any, that the rate paid under such a contract could
13 escalate beyond the level justified by cost? Do you
14 understand that concept?

15 A I am not sure.

16 Q Well, let's say that rates are X, and inflation is
17 2 percent.

18 A R.

19 Q All right. So that at the end of one year, one
20 would hope that if the contract is working in a commercially
21 sensible fashion, the rate would be 1.02 X, correct?

22 A Is there an adjustment for inflation in the
23 contract?

24 Q Well, I am representing to you that many such
25 contracts have those. We weren't allowed to see the Postal

1 Service contracts. I will take this up with Witness Young.

2 A Okay.

3 Q I am just asking you to assume that such a
4 provision appears in commercial transportation contracts.

5 A Okay. I have.

6 Q Okay. So you understand the concept that I am
7 driving at.

8 A I got it.

9 Q Okay. If the adjustment mechanism in the
10 contract, however, calculates the appropriate increase in
11 the rate as .3 -- or .03 or .04, that is 3 or 4 percent
12 under my example instead of the 2 percent that we have
13 assumed is equal to inflation. Then a rate will produce --
14 the contract will produce a rate of 1.03 or 1.04 X at the
15 end of one year instead of 1.02, correct?

16 A If the contract specifies an increase of 1.03, I
17 would assume the contract would provide an increase of 1.03.

18 Q And you being a bright fellow who teaches
19 economics, I am sure you can understand that that could be a
20 reason why a renewal contract has a higher rate at the end
21 of the contract period than a non-renewal contract would
22 have, is that correct?

23 A I am not sure of the reference. Are you talking
24 about Postal Service renewal contracts, or just general?

25 Q Any contracts, in general.

1 A No, I thought you were talking about a contract
2 which we had a clause within the contract which was
3 activated automatically with inflation like a COLA, in which
4 case there would be no issue whether it is renewed or not.

5 Q No, no, no. But there are lots of different
6 adjustment mechanisms. I am making that representation to
7 you, I write these kind of contracts, okay.

8 A Sorry?

9 Q I write these kind of contracts.

10 A Okay.

11 Q I am representing to you there are many different
12 adjustment mechanisms.

13 A Okay. Sure.

14 Q And they produce different results, you can
15 appreciate that, can you not, depending on what is looked at
16 in the contract for the adjuster?

17 A I guess as I understood your hypothetical, we had
18 a mechanism specified by lawyers in the contract which was
19 what I would call contingent. If X happens, then you get 2
20 percent more. If X plus Y happens, you get 3 percent more.

21 Q Exactly right.

22 A Okay. Okay. So under that circumstance, the
23 compensation at the end of the year I think would be
24 dependent on what contingency actually occurred.

25 Q Exactly. But it would also depend on how the

1 adjuster works, wouldn't it?

2 A How the mechanism works?

3 Q Yeah.

4 A Well, that would be specified at the time of
5 negotiation.

6 Q Right. But, for example, do you know the
7 difference between input price and output costs?

8 A Of?

9 Q Of anything, fuel, labor.

10 A Output prices, sure.

11 Q Okay. And the difference between the two is many
12 times shorthanded as productivity, is it not?

13 A No. Usually productivities measures output per
14 input, not a relationship of prices.

15 Q Okay. Output per input. So if the contract uses
16 input prices, it is going to produce a different adjustment
17 mechanism than if it uses output prices, isn't that correct?

18 A Well, I don't see how a contract could use output
19 prices, but yes.

20 Q Well, I will just represent --

21 A You can't adjust output prices for output prices.

22 Q Let me just represent to you, so I am not
23 testifying here, that the Interstate Commerce Commission
24 adopted an adjustment mechanism for freight railroad
25 contracts that uses output prices instead of input prices,

1 and that was established after several years of litigation,
2 and affirmed by the courts. Okay.

3 A It's okay with me.

4 Q All right. So, and the conclusion was the input
5 price mechanism was over-adjusting for inflation and the
6 output price mechanism was needed to more precisely tailor
7 the contract rates to inflation. Do you follow that?

8 A I understand it.

9 Q Does it now seem to you at least a possibility, I
10 am not asking you to testify it is true, just a logical
11 possibility that this is why a renewal contract may have a
12 higher rate at the end of the contract term than a
13 non-renewal contract? Does that make sense to you?

14 A No. Sorry, I don't see. I thought we were
15 talking about automatic adjustments within a contract, and I
16 don't see what it has to do with renewal at all.

17 Q All right. During the contract period and before
18 the end of it, if the mechanism is using output prices to
19 adjust the rate instead of input prices, does it seem
20 logical to you that you might have a different rate at the
21 end of the contract period using one mechanism than the
22 other?

23 A I do agree with that, yes.

24 Q Okay.

25 A Yes.

1 Q Can you think of any other possibilities of why a
2 renewal contract might have a higher rate than a non-renewal
3 contract?

4 A Sure. A renewal contract may be specified for a
5 different type of transportation, it may be from a different
6 area, it may have different security arrangements. It may
7 have a whole vector of differences.

8 Q Now, let's talk about your econometrics for a
9 while.

10 MR. McBRIDE: And Mr. Chairman, I want to tell
11 you that I am going to try to do this as quickly and as
12 succinctly as we can do it. But some of this may depend on
13 a little bit of understanding between the parties about some
14 things in the Professor's work papers, so I will do the best
15 I can.

16 BY MR. McBRIDE:

17 Q But I want to first establish, Professor Bradley,
18 that before we began this morning, your counsel and we
19 agreed with your participation in the discussion that there
20 was apparently some redundant material in your workpapers,
21 and as a result of the redundancy, some things missing in
22 the workpapers, is that correct?

23 A That's correct. Essentially, a printout of one
24 program was printed twice and the second was in place of the
25 other one.

1 Q Okay. And as a result, Professor, I wasn't able
2 to deduce every elasticity that you calculated, because some
3 of it would have required me to have the missing pages.

4 A Okay.

5 Q I am sure you can understand that.

6 A Sure.

7 Q But I was told that, by someone who ran more of
8 these numbers than I did, that we could get all but one of
9 them.

10 A Okay.

11 Q Out of what is your workpapers. And we would get
12 the other one from the missing pages.

13 A Okay.

14 Q All right. In any event, you did calculate, am I
15 right, after making changes in what Witness Nelson did,
16 whether you call them corrections or not, you did, I don't
17 want to use your terminology. It doesn't matter.

18 A Okay.

19 Q But you have made changes in Witness Nelson's
20 methodology, and you ran the equation that appears on the
21 bottom of page 28 of your testimony, is that correct?

22 A That is correct.

23 Q Yes. And that equation has in it a coefficient
24 for a term on the right side called frequency, right?

25 A It does.

1 Q It is beta minus 1, and it has a coefficient also
2 on a term referred to as cube asterisk route length, and I
3 am assured that the asterisk really means a multiplier, is
4 that correct?

5 A It does. It does.

6 Q All right. And that coefficient is beta, is that
7 correct?

8 A Correct.

9 Q All right. Now, you calculated those betas in
10 your workpapers, is that correct?

11 A That's correct. They are presented in the
12 workpapers.

13 MR. MCBRIDE: All right. Mr. Chairman, it would
14 probably save a lot of time and a lot of trouble if the
15 Postal Service were simply willing to provide to us and to
16 you, for inclusion in the record, at least we would so
17 advocate, we could argue later if it should be, but I don't
18 see why there would be an issue about it since they are his
19 calculations, the coefficient beta for the term we just
20 agreed on, cube times route length in that equation, out of
21 his workpapers for the cost categories that we are talking
22 about.

23 The workpapers, as I think you can see, I am
24 representing for those who are reading this record, are
25 voluminous, and I am trying to get this down to a single

1 page if we can do it. And I am wondering if you could ask
2 the Postal Service whether they would be willing to have
3 Professor Bradley do that.

4 CHAIRMAN GLEIMAN: Well, I saw the witness shake
5 his head in the affirmative, and I didn't see his counsel
6 coach him otherwise. So I suspect we can have that
7 material.

8 Now, we are quickly coming to the end of the rope
9 on the evidentiary record. So the question becomes how
10 quickly can we get that in? And if we can get it in by
11 close of business, Wednesday?

12 THE WITNESS: Sure.

13 CHAIRMAN GLEIMAN: Okay.

14 BY MR. McBRIDE:

15 Q And then I would like to button up if it is --

16 A I just want to make sure I understood the request.

17 Q Right.

18 A What you are asking for essentially would be the
19 corresponding beta coefficients that go with Table 6 or have
20 beta minus 1, you want the betas that go with that?

21 Q Well, and I don't want you just to add one to
22 them. I want to make sure we both understand --

23 A No, no. You want the estimated one, I understand.

24 Q I want the beta, the value for the beta.

25 A Right.

1 Q In the equation on the bottom of 28, for each of
2 the cost categories we are talking about that you calculate.

3 A I got it. Thanks.

4 MR. McBRIDE: Okay. And since we are all in such
5 an agreeable mood, Mr. Chairman, I wonder if the Postal
6 Service would state now that it would have no objection to
7 that listing of coefficients that Professor Bradley has
8 already calculated come into evidence.

9 CHAIRMAN GLEIMAN: Would the Postal Service have
10 a problem with that?

11 MR. KOETTING: No, Mr. Chairman.

12 CHAIRMAN GLEIMAN: That material will be included
13 in the record, when we receive it, as evidence.

14 MR. McBRIDE: Thank you, Mr. Chairman.

15 BY MR. McBRIDE:

16 Q Professor, let's just try to do some clarifying
17 lines here then quickly on some of the rest of this. If I
18 could get you to look at Table 6 on page 29.

19 A I have it.

20 Q It took me a while to figure this out, but you
21 will tell me if I have got it. But when I look at the
22 column entitled "Implied Variability," do you see it?

23 A I do.

24 Q The numbers in that column faithfully equal one
25 more than the numbers in the preceding column entitled

1 "Estimated Coefficient for Number of Runs," correct?

2 A It would equal estimated coefficient of number of
3 runs plus one.

4 Q Yes.

5 A Okay.

6 Q Okay. Now, that is not what is represented by the
7 coefficient beta that we were just talking about in your
8 equation on the preceding pages?

9 A Yes, it is.

10 Q Well, now we are going to have to get bogged down
11 here a little bit.

12 A Okay. Sorry.

13 Q I thought we were in agreement that in the
14 equation there is a term represented by beta minus 1 times
15 frequency, and then there is a term represented by beta
16 times the term cube times route length, right?

17 A There are those terms, and those betas are the
18 same.

19 Q Well, the betas, however, the coefficients that
20 you calculated in your workpaper for the term that is the
21 multiplier of the cube times route length portion of the
22 equation are not in all cases equal to one more than the
23 coefficient of the term times frequency.

24 A In this type of estimation, as I argue in my
25 testimony, you have two estimates of the same number. It is

1 a weakness of this approach, and why I don't recommend using
2 it. But if you estimate an equation this way, you
3 essentially have two ways of estimating beta, the
4 coefficient on frequency, and the coefficient on cube route
5 length.

6 Now, as it turns out in Mr. Nelson's methodology,
7 those really should only be one, which is why the next
8 section of my testimony actually estimates the model under
9 that restriction. But the beta in the beta minus 1 and the
10 beta on the cube route length are the same coefficient, it
11 is just statistically you have two ways of getting at that
12 beta.

13 Q Let's put into plain English what we are trying to
14 do here.

15 A Okay.

16 Q If I understand your equation and your analysis,
17 and Mr. Nelson's analysis, the purpose of his model, whether
18 you agree with it or not, forgetting all these data disputes
19 for the moment, was simply to calculate these elasticities
20 that he testified about and that you are now reviewing and
21 revising in the work that you have described in these many
22 pages of your testimony, isn't that right?

23 A Well, I would differ with you in agreeing that
24 they are just data disputes. I think he has got --

25 Q No, no, I didn't say that. I am just trying to --

1 A You did.

2 Q Okay. Then I will withdraw what I said because I
3 am confusing rather than clarifying. I am trying to state
4 this in very simple terms. You came in with some
5 variabilities in your testimony.

6 A My direct testimony.

7 Q Yes, right?

8 A Correct, that is correct.

9 Q Okay. And yours were something like 81.6 percent
10 on average.

11 A Could be.

12 Q Something like -- do you know if that is true? It
13 is right out of his workpaper, I am looking at that. Out of
14 Mike Nelson's testimony, MPA-T-3, pages 20 to 21. Do you
15 have that there?

16 A I do have his testimony. Hold on a second.
17 What page is it?

18 Q Page 20 to 21.

19 A Okay. I have 20 and 21.

20 Q Okay. And Nelson shows that your variability in
21 total was .816 or 81.6 percent. Do you see that?

22 A I see that number.

23 Q Yes. And you don't dispute that, do you?

24 A I don't know how he calculated it, so I don't
25 either dispute or disagree.

1 Q You didn't check that, see if that's so?

2 A No. I don't think it's a particularly meaningful
3 number.

4 Q All right. Well, in any event, you don't have any
5 testimony here that says that that was calculated
6 incorrectly, do you?

7 A No, I do not.

8 Q Okay. Now, his table then shows that he
9 calculated that same number to be .531 or 53.1 percent.

10 A That's what it shows.

11 Q And I recognize that in this testimony, you are
12 critical of that calculation.

13 A At least the pieces that go into it.

14 Q Yes. Right. Okay.

15 Do you know what that table of coefficients or
16 elasticities that I just asked you to prepare, that you
17 agreed to prepare and that's going to come into evidence
18 would show on a weighted-average basis for the numbers that
19 we're talking about?

20 A I had --

21 Q Roughly.

22 A Sorry, go ahead.

23 Q I'm sorry. I just said roughly.

24 A I haven't calculated that number, but I suspect it
25 would be pretty close to the 53 percent.

1 Q By the way, we first got acquainted in the last
2 case, I think, and you were the champion of the theory that
3 the variabilities produced in the costing model that we all
4 work on here for mail processing costs were too high, right?

5 A You used the word champion, not me, but I did
6 testify on mail processing in the last case.

7 Q It was a compliment.

8 A Oh. Thank you.

9 Q Now, if I go back to page 2 of your testimony,
10 you're critical of Mr. Nelson's effort at recalculating
11 variabilities of cost with respect to capacity, but at least
12 in concept, what he's doing with respect to those
13 variabilities is conceptually similar to what you were
14 championing -- again a compliment -- with respect to mail
15 processing costs; that is, coming in and trying to show that
16 the variabilities were too high, right?

17 A I think that's right.

18 I would like to actually not quite agree with
19 that. I wasn't coming in and trying to show that the
20 variabilities were too high or too low; I was just trying to
21 figure out what they were and estimate them.

22 Q Okay.

23 A It really wasn't my goal to say they were too high
24 or too low.

25 Q All right. That's fine.

1 A And I think historically, in estimating
2 variabilities, sometimes I found them to be lower than
3 people had in the past and sometimes higher.

4 Q Okay.

5 A So it was just trying to estimate --

6 Q I accept that.

7 A Okay.

8 Q You were after fact, right?

9 A Uh-huh.

10 Q And I asked you at the outset about what Mr.
11 Nelson was after because you agreed that he did not say in
12 so many words that he had the goal of lowering variability.
13 Is it somehow untoward for you to admit that Mr. Nelson was
14 after fact as well?

15 A Oh, I'm not criticizing Mr. Nelson's motives
16 whatsoever. I was just criticizing his method. He just
17 made errors along the way. I wasn't suggesting on his
18 motives, no.

19 Q All right.

20 Do you know, by the way, what the standard length
21 of a renewal contract for highway transportation at the
22 Postal Service is?

23 A Four years.

24 Q Okay. You don't know that, I take it, from your
25 own personal knowledge of having read them or negotiated

1 them or worked under them; you probably know that because of
2 the record in this case; is that right?

3 A Actually, I first became familiar with that in
4 Docket R87-1 when I learned about the nature of the
5 contracts for the original regression analysis that I did.

6 Q Okay. And on page 3 of your testimony, you did
7 note in at least a couple of places that there may be some
8 merit to some of what Mr. Nelson did; isn't that correct?

9 A I --

10 Q Line 4, for example: Well, there may be some
11 merit to Mr. Nelson's point. Line 11: Mr. Nelson may be
12 correct.

13 A I was referring to the specific point that he
14 makes in the terms called gross and net cubic foot miles or
15 other people have made in the term of volume and capacity,
16 and that is in the current established approach to
17 estimating highway costs, there is an assumption there, and
18 that assumption is that capacity grows or falls
19 proportionate with volume. He questions that assumption and
20 I agreed with that issue.

21 Q Okay. Now, you did, however, say at one point in
22 your testimony that he could only give one example of
23 something. Do you remember that?

24 A I think you're referring to -- we asked him to
25 give examples of good observations which he felt were

1 excluded from the analysis by the outlier analysis, and in
2 response to the interrogatory, he only gave one response.

3 Q Yes. But the way you just said it I think is
4 pretty accurate. I'm looking at his response to
5 USPS/MPA-T3-49, which appears at transcript 13510, and I'll
6 just read a few snippets of that to make the point that I
7 think you were just making to refresh your recollection.

8 He was asked about instances in which your methods
9 exclude good data and this sort of thing, and he said he
10 hadn't compiled a list, he said there were numerous
11 instances in the library reference I-86, and then he gave an
12 example.

13 Does that refresh your recollection, or would you
14 like to see this?

15 A If I could see it, that would be great.

16 Q Sure.

17 MR. McBRIDE: May I approach?

18 THE WITNESS: Thanks.

19 [Pause.]

20 THE WITNESS: I see it.

21 BY MR. McBRIDE:

22 Q Yes. Did Mr. Nelson say in that response that he
23 "could", quote/unquote, give only one example, or is it
24 simply the case that he did give an example?

25 A From just reviewing it, I think the question asked

1 for all such examples, and I think he provided one -- or all
2 such instances, and he provided one instance.

3 Q Well, it does also contain the statement, does it
4 not, library reference USPS-LR-I-86 contains numerous
5 instances where a contract was identified by Witness Bradley
6 as being, quote, "unusual," close quote, but the data for
7 that contract was validated as being accurate by field
8 personnel.

9 Did you see that when you --

10 A I did see that.

11 Q -- wrote this testimony?

12 A I think it's an interrogatory response, --

13 Q Yes.

14 A -- but I did see it.

15 Q Okay. Now, you also had something to say about
16 another one of his interrogatory responses, and I wanted to
17 ask you about that for a minute. This is on page 23 of your
18 testimony, Footnote 35.

19 A Yes.

20 Q I want to ask you about the second part of that
21 footnote, the response to 28. You say here that one could
22 consult that response for, quote, "unexplained programming
23 errors", close quote. That's what you say, isn't it?

24 A That's what it says.

25 Q Yes. Do you have the response in front of you?

1 A No, sorry, I don't.

2 Q All right.

3 A Thank you. Got it.

4 Q Did MPA Witness Nelson say in that response that
5 he made any errors?

6 A I don't understand the question.

7 Q Well, you say that the response contains
8 unexplained programming errors, and I was just asking you
9 after you had an opportunity to review the response whether
10 he said there were any errors that he committed.

11 A I think he -- well, I think we asked him to
12 explain what the programming error was and his answer was
13 unknown.

14 Q I'll read the question from the Postal Service:
15 Explain the meaning of the following comment statement:
16 Quote, "Note: SCL source line." Unquote. Response:
17 "Unknown."

18 Is there anything in that response that indicates
19 that he made an error?

20 A In the -- I think that quotation is a programming
21 error message from SAS. That's what indicates --

22 Q But he never admitted that that was an error, did
23 he?

24 A Well, the program tells you that it's an error
25 whether he admits it or not. It's stated as an error in the

1 program.

2 Q Let's go to your table 5 on page 27.

3 Well, first of all, I'm sorry, let me start on
4 page 26, the preceding page.

5 A I have it.

6 Q I'm not going to try to ask you to make too many
7 calculations here, but I'm going to perhaps ask you to do
8 one right now that I bet you can do in your head.

9 A Okay.

10 Q Down on the bottom of page 26, lines 12 and 14,
11 you use the numbers 575 per year for the number of runs for
12 contract cost segments, --

13 A Uh-huh.

14 Q -- and then Witness Nelson's computer code assumed
15 that there were 1,150 runs.

16 A Yes.

17 Q Can you do in your head what twice 575 is?

18 A I hope it's 1,150.

19 Q Yes.

20 A Okay.

21 Q Good. Well, do you know whether mail trucks carry
22 mail in both directions?

23 A I do know.

24 Q They do, don't they?

25 A Well, not necessarily. A lot of times the mail

1 will go out on one link, but different mail will come back
2 on another link. So I would say you have to be careful.

3 Q But they carry mail in both directions.

4 A It has nothing to do with this quote, however.

5 Q Well --

6 A This quote has to do with the fact that in the
7 database for a given contract cost segment -- that's one run
8 out and back -- when there's different size trucks on that
9 one run out and back, as a purely database matter, the
10 Postal Service enters that exact observation twice with the
11 exception that it has the different size trucks in row 1 and
12 row 2.

13 So it's really not two observations; it's only one
14 observation for one piece of real data with the two
15 different size trucks.

16 Q Let's go to your page 27, your table 5.

17 A Uh-huh.

18 Q Do you have Mr. Nelson's workpapers with you?

19 A No, I don't.

20 Q All right. I'm going to have to share with you
21 here a couple of pages.

22 First on the line referred to as city in that
23 table, and we're talking about intra-PDC regressions here,
24 correct?

25 A We are.

1 Q All right. Did you happen to review Mr. Nelson's
2 workpaper WP4 when you were preparing this testimony?

3 A I did.

4 Q Does it -- do you recall that he indicated on that
5 workpaper that the results that he was using were in
6 boldface and the ones that were shaded were considered
7 unusable? Do you remember that when you were reviewing
8 this?

9 A My recollection was there were some instances
10 where his model didn't give him what he thought was an
11 acceptable result, so he picked a proxy from another model.

12 Q Okay. But I'm just asking you very simply if on
13 the face of the workpapers you recall that there was some
14 data that he identified there but did not consider usable.

15 A I don't think it was so much data, but results
16 from his program.

17 Q Results. Okay.

18 A Okay.

19 Q Results that he considered unusable.

20 A That's right.

21 Q Now, is it a fact that the data that appears on
22 your line with respect to city in table 5 to the extent that
23 it refers to Witness Nelson's numbers was identified on his
24 workpaper as unusable data?

25 A First of all, I want to emphasize these aren't

1 data, these are results.

2 Q Results. Excuse me.

3 A Okay.

4 Q Results.

5 A Now, you're saying is the line, line city, .1356,
6 that result one that he discarded and did not use in his
7 final analysis? It could be.

8 Q Yes.

9 A I accept that subject to check.

10 Q Okay. So if he had not even relied on it, it
11 doesn't prove anything to correct something he didn't even
12 rely on, does it?

13 A Oh, yes it does. It proves that the programming
14 mistakes he made had a material effect on his results. He
15 may not have used that particular result because he didn't
16 like it, and maybe he didn't use it because of the
17 programming mistake. If it had been the .2601, he may have
18 used it. So I think it does show something.

19 MR. McBRIDE: I move to strike the remark about
20 the witness didn't like the data. I don't think there's any
21 evidentiary foundation for characterizing why the witness
22 used it.

23 CHAIRMAN GLEIMAN: As is our general practice,
24 we're loath to strike anything from the record. We will
25 give appropriate weight to comments that are made that are

1 without foundation, that we perceive to be without
2 foundation.

3 BY MR. McBRIDE:

4 Q In any event, Professor, I simply asked you
5 whether on the workpaper Witness Nelson indicated that the
6 city data for results you depict on table 5 was considered
7 by him to be unusable.

8 A No, he did not.

9 MR. McBRIDE: May I approach?

10 THE WITNESS: He did not say the data were
11 unusable; it was the results of the regression.

12 BY MR. McBRIDE:

13 Q All right. If I change the word data to results
14 in my question, would you agree with me?

15 A I would.

16 Q All right.

17 A I just -- I don't mean to quibble, but he uses the
18 same data later on. He did not reject the data.

19 Q If you look at the van data in your table, it's
20 almost identical under the heading, Corrected Results versus
21 your heading about Nelson; is it not?

22 A They're very close.

23 Q Yes.

24 And with respect to tractor trailer, his number
25 was .875, as you depict it there, and your number, do you

1 recall what it was?

2 I can -- I'm not trying to make you guess. I'll
3 refer you over two pages -- four pages, excuse me, to your
4 Table 7 where it looks the number .868; do you see that in
5 Table 7?

6 A For the sake of the record, I think I would just
7 like to clarify that the thing that you're calling my number
8 now is from my direct testimony as opposed to my rebuttal.

9 Q Yes, I'm sorry.

10 A That's correct.

11 Q So those are very close, too; is that not correct?

12 A The result of Witness Nelson, including the
13 programming errors of .8750 is, indeed, close to the result
14 from my direct testimony of .868.

15 Q Okay, and just to kind of button something up, on
16 Tables 6 and 7, the terminology you use about applied
17 variability and restricted variability, you don't testify
18 here, do you, that Witness Nelson ever used such terminology
19 or performed such calculations as you do here?

20 He didn't calculate any implied variability or
21 restricted variability; did he?

22 [Pause.]

23 A I would say that he did actually calculate an
24 implied variability. He calculated a variability of
25 cost-per-run, with respect to what he called cubit foot

1 miles.

2 But he applies that to total costs, so I think
3 that actually is an implied variability.

4 Q Are you telling me that the terminology, implied
5 variability or restricted variability appears anywhere in
6 his testimony?

7 A No, I'm not saying that.

8 Q And did he take any coefficient like this and add
9 one to it anywhere in his methodology?

10 A No, he did not do that.

11 Q He didn't do that, either.

12 [Pause.]

13 Now, Witness Nelson did do some data scrubs, did
14 he not, in performing his calculations?

15 A He did.

16 Q And he explained the parameters that he used for
17 deciding what data to scrub, correct?

18 A He listed those parameters.

19 Q And that was a reasonable thing to do, was it not,
20 scrub data and then explain what bases you used for which
21 data to scrub?

22 A I would use the word, listed. I would say that
23 scrubbing data can be a reasonable thing to do, but I don't
24 think he really explained it.

25 At most, there were two or three lines, simply

1 listing the cutoffs. I don't think he explained it.

2 Q That maybe. I'm simply asking you as a professor,
3 whether it's reasonable to scrub data and then explain the
4 basis for your scrub.

5 A I misunderstood your question.

6 Yes.

7 Q Okay.

8 And, in fact, on your page 20 of your testimony,
9 you explain what those parameters that he used were; is that
10 correct?

11 A That's correct.

12 Q But then you go on to say in the paragraph that
13 begins, "Mr. Nelson was forced to admit ..." on page 20,
14 that he didn't inspect the data that remained to determine
15 what to keep and what not to keep; is that right,
16 essentially, in plain English?

17 A That's correct.

18 Q And you did -- you do testify here now that some
19 of that data, you would not rely on, correct?

20 A Some of the data that he eliminated, I also would
21 not rely on?

22 Q No, some of the data that remained after his
23 scrub, you would eliminate?

24 A That's correct, yes.

25 Q And you explain your reasons for that. Some of

1 it's at the bottom of 20, correct?

2 A Correct.

3 Q But just as a conceptual matter, without arguing
4 about the parameters, without arguing whether he had the
5 parameters right or your judgment was right -- I don't want
6 to get into that.

7 I just want to ask whether it would be a
8 reasonable approach to scrub and to have parameters and then
9 to work with the data that remain?

10 A I don't think it goes in that order. I think what
11 you said was to scrub, have parameters, and work with the
12 data that remained.

13 Q Flip it around. Have parameters, scrub on the
14 basis of the parameters, and then work with the data that
15 remain.

16 A I think that it probably would be a good idea to
17 look at the data that were scrubbed to see what the problem
18 was, and see if your scrub was appropriate, and see what
19 those issues are.

20 So I think what you're implying by your statement
21 was that you would put this in place and never look at the
22 data that were excluded, and I think it's a pretty good idea
23 to look at it.

24 Q All right, but let's make sure the record is clear
25 on a few things here. Mr. Nelson got his data from the

1 Postal Service, correct?

2 A Correct.

3 Q So whatever data that remained after he scrubbed
4 was not his data; it was Postal Service data, correct?

5 A That is correct, right.

6 Q And you and he can argue about whether a
7 particular datapoint should have been eliminated even after
8 the scrub, but it's not like you're trying to imply that he
9 made up the data, correct?

10 A Oh, I never said that.

11 Q So, now, when you eliminated some data, it
12 generally in most categories increased variability; isn't
13 that correct?

14 A That's my recollection.

15 Q Yes.

16 So, I could say you had a goal of increasing
17 variability, rather than Witness Nelson having a goal of
18 lowering variability; isn't that correct?

19 A You could say it.

20 Q And it's factually correct, aside from the goal,
21 the result is what happened; you just agreed with that;
22 isn't that right?

23 A You're going to have to give me that one again.

24 Q Well, in other words, you just admitted that when
25 you took data out, it had a tendency to increase

1 variability?

2 A I would agree with that.

3 Q Now, you never said you had a goal of increasing
4 variability, but I think we agreed earlier that Witness
5 Nelson never said he had a goal of lowering variability?

6 A The difference I would draw is the following: In
7 his testimony, Witness Nelson did say he thought the
8 existing variabilities were biased upward or too high; he
9 made that statement.

10 That, to me, implies he believes they're too high,
11 and they should be lower. That would be the distinction
12 I'm drawing.

13 Q But when you say what he had a goal of, you imply
14 that you know what his motive was, when it could simply be
15 the result of his methodology, correct?

16 A No, no, I don't agree. I wasn't trying to go
17 after his motives. I was saying he mentioned that he made
18 the statement that the current ones were biased upward and
19 too high.

20 That would seem to suggest the goal of estimating
21 the correct, lower ones, in his view.

22 Q Then can we agree that we shouldn't be
23 characterizing his motives or your motives?

24 A I completely agree with that.

25 Q Okay, good.

1 And we have agreed earlier on what the result of
2 each of your methodologies would be; that when you scrub
3 data, it tended to increase -- that when you eliminated data
4 after his scrub, it tended to increase variability?

5 A I don't think that's quite right. I think when I
6 eliminated data after my scrub, it increased variability,
7 not after his scrub.

8 Q Right, as to your --

9 A I must have misspoken.

10 Q After you eliminated some data, that is, your
11 scribe with increased variability?

12 A Right, that's correct.

13 Q Okay, now --

14 [Pause.]

15 I want to turn to your page 42.

16 A Okay, I have it.

17 Q This is the portion of your testimony where we're
18 talking about renewal contracts, correct?

19 A Correct.

20 Q Do you know, by the way, what the total annual
21 dollars associated with inter-BMC contracts are for highway
22 transportation for the Postal Service?

23 A I don't have that number.

24 Q Do you have Mr. Nelson's testimony there?

25 A Yes I do. Can you give me the page?

1 Q Sure. It's Table 2. I apologize if I don't have
2 it immediately.

3 A It's page 21, Table 2, page 21. And we're doing
4 inter -- I-N-T-E-R, BMC, correct?

5 Q Right.

6 A All right.

7 Q Will you accept, subject to check, that the total
8 of the three numbers that appear under the heading, Cost,
9 for the item we just agreed on, inter-BMC, those numbers are
10 depicted as 12.3, 35.3 and 181.2; would you accept, subject
11 to check, that the total of those three is \$228.8 million?

12 A Sure.

13 Q Okay.

14 Now, all I've done, right, is add three numbers
15 that correspond to different mileage blocks to get a total.

16 A Sure, yes.

17 Q Now, I want to work with your Table 9.

18 A Okay.

19 Q And Nelson's Table 2, and we're going to try to do
20 this as simply as we can. But in your Table 9, just to put
21 things in plain English for everybody, you've got a column
22 that only statisticians could love entitled Chi-Square, but
23 it's got some asterisks in it.

24 That's C-H-I-Square, but it's got some asterisks
25 in it, and if you suffer through the asterisks and figure

1 out what's going on, you realize that the data that has got
2 an asterisk alongside it, have statistical significance,
3 correct?

4 A That's correct.

5 Q Good.

6 So, you and I will agree then that we should only
7 focus on the data in that table that has an asterisk
8 alongside it, right?

9 A I don't know quite your purpose.

10 Q Well, we'll work with the statistically
11 significant data in your table.

12 A Okay, fair enough.

13 Q Okay?

14 A Yes.

15 Q All right now, let's look at inter-BMC.

16 A I have it.

17 Q Renewal coefficient, the third line of that table.

18 A Got it.

19 Q Tractor trailer, 0.1800.

20 A Got it.

21 Q In other words, if I understand the data here,
22 renewal contracts in inter-BMC tractor trailer are 18
23 percent higher in cost per cubic foot mile than non-renewal
24 contracts; is that right?

25 A Not quite.

1 Q Tell me what it means.

2 A What it -- this is a coefficient regression that
3 means that the costs for a given amount of cubic foot miles
4 and route length, both variables.

5 Q Okay.

6 A As it turns out, in the inter-BMC area, there are
7 four non-renewal contracts and 175 renewal, so what it's
8 saying is that for those four non-renewal contracts, the
9 costs for both the cubic foot miles and the length that is
10 specified is 18 percent higher as compared to the 175.

11 Q Okay.

12 A Okay.

13 Q Thanks for the clarification.

14 A Yes.

15 Q Now, I just asked you to accept, subject to check,
16 that the total for the number for inter-BMC from Nelson's
17 Table 2 was \$228.8 million.

18 A Okay.

19 Q Okay?

20 A Yes.

21 Q Let's call it 229.

22 A Fair enough.

23 Q And then let's use your regression -- I'm sorry,
24 your renewal coefficient from your Table 9, and are you able
25 to do --

1 A Eighteen percent in my head?

2 Q Eighteen percent times \$229 million?

3 A Would there be any chance you've done it already?

4 Q Yes.

5 A Would you give it to me?

6 Q It's \$41 million.

7 A Okay.

8 Q Excluding some change, all right?

9 A I accept that.

10 Q All right, very good. Actually, it's a little
11 low, so you'll know that I'm erring on the --

12 A Conservative side.

13 Q -- conservative side here, okay?

14 A Yes.

15 Q Now, I'd like to do a similar calculation for
16 intra-BMC. If you were to look back at Nelson's Table 2,
17 and you total up those costs, you'd get a number.

18 And the three numbers that appear there, 85.1,
19 45.4 and 9.6, I will represent you, subject to check, total
20 \$140.1 million.

21 A Okay.

22 Q Okay?

23 A Yes.

24 Q And in the spirit of things, we're going to call
25 that \$140, okay?

1 A Okay.

2 Q And we're going to look back at your Table 9, and
3 we're going to look that that line item for intra-BMC, and
4 it's the eighth line down.

5 A Got it.

6 Q It's got an asterisk, statistically significant,
7 and it's .1139, right?

8 A Correct.

9 Q All right, would you accept, subject to check,
10 that 11.39 percent times \$140 million is about \$16 million?

11 A Sure.

12 Q Okay.

13 I did a similar calculation for intra-SCF renewal
14 from Nelson's Table 2, where the number of dollars
15 associated with those contracts is \$484.9 million.

16 Now, I had to look at your Table 2 at two line
17 items, and I want to see if I did this about right for that
18 one.

19 I see intra-PDC and -- I'm sorry, intra-PDC --
20 there's a tractor trailer and there's another intra-PDC.
21 What would the other one be that would be the correct one to
22 be looking at, vans?

23 A Vans, tractor trailer, and city intra-city.

24 Q Okay.

25 A Those three.

1 Q All right.

2 A Vans, tractor trailer, and city.

3 Q And those numbers are --

4 A And also, in addition, you would have to do
5 intra-CSD vans, tractor trailer, and intra-city; those two
6 combined make intra-SCF.

7 Q What was the last one?

8 A Sorry, intra-CSD, it's about halfway down.

9 Q Yes, which one, vans?

10 A City, vans, and tractor trailer.

11 Q I see, okay.

12 Now, tractor trailer, for intra-CSD, the one
13 that's got that negative .5709 on it, do you know, how many
14 dollars are associated with that category?

15 A It's small. I don't have it in front of me but
16 it's small.

17 Q I'm told that it's 6.7 million out of 1.5 billion.
18 Does that sound in the ball park?

19 A Well, I think the 1.5 billion is a little big for
20 intra-CSD, unless you're -- that's total?

21 Q Total.

22 A Yes, that would be good for total purchased
23 highway transportation.

24 Q So, I'd like you to just sort of park that one to
25 one side for the moment, on the theory that on a

1 dollar-weighted basis, it's not a big item. Okay?

2 A All right.

3 Q And look at the other ones that you identified.

4 Read the numbers, if you would, stated as percentages, into
5 the record.

6 A For intra-CSD vans?

7 Q Yes.

8 A 11.94 percent.

9 Q Okay.

10 A 12.33 percent, and 9.28 percent.

11 Q And the next one down, I think also should be
12 included; shouldn't it, 2.08?

13 A Although that one doesn't have a star on it, we
14 were going to star it.

15 Q Thank you, yes, you're right, okay. All right, so
16 we looked at 11.9 and, what, 12.33?

17 A Yes.

18 Q And 9.28?

19 A Yes, 11.9, 12.33, and 9.28, yes.

20 Q Okay, so those numbers are sort of round --
21 covering around 10 percent, give or take, right?

22 A Yes, about that.

23 Q Okay. Now, I'm carefully excluding, as I stated
24 with you, the tractor trailer one, the negative, but that
25 was a small dollar item.

1 A Yes.

2 Q We tried to, if you will forgive me for putting it
3 this way, back of the envelope, about how much we're talking
4 about in total premium here when you total up these
5 categories.

6 And I will be the first one to tell you you've got
7 to do some dollar-weighting, and you've got to work through
8 some numbers here, and you would certainly agree with that;
9 wouldn't you?

10 A Yes, I would.

11 Q And I'm not trying to imply any slipperiness here
12 by simply saying that this would take a fair amount of work
13 on the record, and I don't want to go through all that; I
14 simply want to give this a back-of-the-envelope, and
15 indicate to you that the variability, if it were even six,
16 instead of ten percent, the ten percent we just agreed those
17 other three numbers hovered around and then we'd have to
18 factor that tractor trailer negative in, which has a big
19 negative but a small dollar impact, if it were even six
20 percent, the premium you might calculate from that for the
21 \$484 million that I represented to you that this category
22 indicates, will be on the order of \$28 million.

23 Does that sound roughly right?

24 A I think it might be -- it's on the right track,
25 but I think it might be a little high, because I don't think

1 you calculated in the intra-CSD cost in intra-SCF.

2 I think all you did was take the intra-PDC and
3 apply it directly.

4 Q I'll tell you what, to save some time here, and
5 confusion on the record, would you be willing to calculate
6 that number?

7 A Not really, but if I have to, I will.

8 MR. McBRIDE: It would sure help this record, Mr.
9 Chairman, if the witness were willing to calculate that
10 number.

11 THE WITNESS: The reason I wouldn't want to
12 calculate it is, I'm not taking the same inferences from
13 these renewal coefficients that you are.

14 BY MR. McBRIDE:

15 Q I understand that.

16 A I mean, it's sort of making me calculate something
17 I don't agree with.

18 Q I understand that. I just want to be able to have
19 numbers in the record that we can argue from later, and your
20 counsel can argue with us if they want to. I'm just after
21 facts here.

22 CHAIRMAN GLEIMAN: Well, he said he didn't want
23 to.

24 MR. McBRIDE: I understand. Would you order him
25 to?

1 CHAIRMAN GLEIMAN: Counsel, are we going to be
2 able to work this one out, too?

3 Dr. Bradley, what are we talking about, time-wise?
4 I know that you don't want to spend the time here in the
5 hearing room today, but how much are we burdening you?

6 THE WITNESS: To do these calculations, I would
7 have to go back and find the appropriate dollar figures that
8 go with them, and figure out from my programs. I would
9 probably say it would take me, to do them right, it would
10 probably take me a day's work.

11 BY MR. McBRIDE:

12 Q The dollars are in Witness Nelson's Table 2; are
13 they not, or the source material from which he got those?

14 A Those are not necessarily the dollars that apply
15 to each one of these numbers. I'd have to find the cost
16 pool that goes with each one of the percents, multiply it by
17 that cost pool, add all those up, and calculate the overall,
18 and I'd have to go back and dig them out.

19 MR. McBRIDE: This is the core part, Mr. Chairman,
20 of the representation position we have with respect to the
21 alleged premium associated with this.

22 CHAIRMAN GLEIMAN: It will only take a day, let's
23 just do it here in the hearing room.

24 THE WITNESS: Okay.

25 [Laughter.]

1 BY MR. McBRIDE:

2 Q In an event, Professor Bradley, let's move on to
3 the next category and see whether we can --

4 CHAIRMAN GLEIMAN: I don't think we have closed
5 out how we are going to do this yet, or how it is going to
6 get done. Just let me say, I know that it gets to be a
7 little bit late when I have to say this, but it always helps
8 to have a cross-examination exhibit that somebody can work
9 off of, and it always helps to have provided that in
10 advance. So, you know, for the 2003 rate case, let's all
11 keep that in mind.

12 MR. McBRIDE: I was doing this at 10:00 last
13 night, Mr. Chairman.

14 CHAIRMAN GLEIMAN: I am not being critical of you.
15 There have been a lot of time pressures on everyone. It is
16 just that, you know, it has gotten a little difficult here
17 at times over the last week or so in the hearing room. If
18 it is possible to have Dr. Bradley calculate these numbers,
19 it would be helpful.

20 And Mr. McBride, if you are suggesting that you
21 are comfortable using the numbers that were in Witness
22 Nelson's testimony rather than having Dr. Bradley attempt to
23 ferret out numbers which he thinks are more correct, that is
24 going to make life easier, I guess.

25 MR. McBRIDE: Well, he has calculated, Witness

1 Nelson has calculated a premium, and I want to make sure the
2 Commission understands what is happening here. And he did
3 so on a basis that Professor Bradley has criticized. I am
4 now just trying to take the raw dollars and not use the
5 Nelson methodology at all, and apply the number that
6 Professor Bradley calculated for the renewal premium, if you
7 will, from Table 9, his own numbers, and just applying them
8 to Postal Service data. And that way -- we can argue about
9 the meaningfulness of those numbers later, but at least we
10 will have them out of their own work.

11 CHAIRMAN GLEIMAN: Well, that seems to cut down
12 somewhat your having to search around, if I understand
13 correctly.

14 THE WITNESS: He did a good job of describing it
15 as an easy calculation, but it would be a substantial amount
16 of work.

17 CHAIRMAN GLEIMAN: No, I didn't mean to suggest
18 that it wasn't a substantial amount of work, and I am not
19 going to volunteer to do it, because I probably couldn't,
20 even if I had all the numbers at hand.

21 What I was suggesting was that if he, if Mr.
22 McBride is saying that he is comfortable with using the
23 Nelson numbers, which you had raised a question about a
24 moment ago, and you then said, you know, I am going to have
25 to go back and go through and find all the right dollar

1 numbers, if he is willing to have it calculated on the basis
2 of the numbers that you don't have to search around for,
3 then it seems to me that perhaps it would be a less
4 time-consuming task, and that is all I was implying by what
5 I said.

6 MR. KOETTING: Mr. Chairman, my problem with that
7 is that Mr. McBride might be quite comfortable doing that,
8 but Dr. Bradley has already stated he is uncomfortable with
9 this entire mode of analysis, and for him to not only be
10 directed to participate in an exercise of which he questions
11 the validity, but then to be told -- further told how he
12 needs to do it, merely further underscores the futility of
13 this exercise.

14 CHAIRMAN GLEIMAN: Okay. Well, then we can go
15 back and have him -- we don't want to make him any more
16 uncomfortable than he is otherwise going to be. So he can
17 go back and find all those base numbers that he wants rather
18 than using the Nelson numbers, that is fine. And if we can
19 have it by close of business on Wednesday, that would be --

20 THE WITNESS: I can't. I can't do it by then, I
21 have got class tomorrow and Wednesday. So it is going to
22 take me a day's work and I honestly don't have a free day
23 until Friday. So the first I could have it done would be
24 Monday.

25 CHAIRMAN GLEIMAN: Well, then we will have it on

1 Tuesday of next week, I guess.

2 THE WITNESS: Or Tuesday, yes. Labor Day, sorry.

3 MR. McBRIDE: Thank you, Mr. Chairman.e

4 BY MR. McBRIDE:

5 Q And I would like to just close out this line,
6 Professor, by asking you now about what I think is the
7 remaining category. Again, we are comparing Nelson Table 2
8 and your Table 9, some of these things groups, some of these
9 line items. But the other calculation would be about
10 inter-SCF, is that right? That is the area we haven't
11 talked about.

12 A That's right.

13 Q Okay. And Nelson says that the dollars from
14 Postal Service data for those contracts, when you total them
15 up, it is the first three lines of Table 2, are 164.3, 55.9
16 and 27.6. And I will represent to you, subject to check,
17 that that total of those is about \$247 million, right?

18 A Okay. Sure.

19 Q And do me a favor then, again, and read your Table
20 9, the corresponding items. I think it is inter-area,
21 inter-cluster, or inter-cluster numbers that I am seeing,
22 the first one being the second line, 8.37 percent. Do you
23 see that?

24 A I see it, although it is not only inter-area and
25 inter-cluster, it also includes inter-PDC.

1 Q Yes, okay.

2 A Okay.

3 Q And just read those three variability -- I'm
4 sorry, those three renewal premium calculation --
5 coefficient calculations for me, please.

6 A For the inter-area tractor-trailer, it is, in
7 percentage terms, 8.37.

8 Q Right.

9 A For the inter-cluster van, it is 16.57. And for
10 the inter-cluster tractor-trailer, it is 10.54.

11 Q Fine. Thanks. Now, if you used even the lowest
12 one of those, 8.37 percent, and you would certainly agree
13 with me that on some weighted basis, it has to be -- the
14 weighted number would have to be higher than the low of the
15 three, right?

16 A Yes, I agree.

17 Q Okay. So just if we use 8.37 percent, to err on
18 that conservative side we were talking about earlier, times
19 247 million, you would get a premium that is about \$20
20 million, wouldn't you?

21 A I accept your arithmetic.

22 Q So --

23 A I am not suggesting that would be the right
24 calculation, but if you did that, that is the number you
25 would get.

1 Q Understood. Right. So, if you will just button
2 up that intra-SCF for us, Professor, we will have the
3 numbers here that we can -- counsel can argue about later.

4 And I want you to check this later, and the record
5 can check my representation that I am about to make when you
6 do the calculation on SCF, but we walked through these
7 numbers, which I just would like to summarize for clarity in
8 the record. We walked through inter-BMC at about \$41
9 million, intra-BMC at \$16 million. I am representing to you
10 that intra-SCF is probably going to be in the ballpark of 28
11 million, but it could be up or down from that, depending on
12 how you do your calculation, and that the inter-SCF, even
13 using the lowest of the three premium coefficients of 8.37
14 percent, would be on the order of \$20 million, probably
15 higher.

16 So, \$20 million, \$41 million and \$16 million, the
17 three numbers we have walked through would already be \$77
18 million, and then we are going to see what number you come
19 up with for the fourth category. Our belief is the total
20 will be over \$100 million, Mr. Chairman, and that is what
21 the purpose of this exercise was.

22 Do you understand what I just did, summarizing the
23 four calculations that we made? Whether you accept the
24 basis of them or not.

25 A I understand the calculation you did was just to

1 sort of say if non-renewal contracts had the renewal
2 contract cost, the difference would be about -- or a little
3 over 100 million, I believe, is that fair?

4 Q Yes.

5 A Okay.

6 Q If I wanted to talk to somebody who is appearing
7 today for the Postal Service about the total savings on
8 renewal contracts and dollars without doing all this
9 econometric sort of thing we have just been through, I take
10 it would be Witness Young who comes to a conclusion about
11 that at the top of page 5, if you have his testimony, am I
12 right?

13 A I don't have his testimony with me.

14 Q I just want to make sure that we are talking about
15 the same thing here.

16 A Sure. Got it. This first three lines? Okay.

17 Q Is what I just showed you at the top of page 5 of
18 Witness Young's testimony, his conclusion about the cost
19 savings the Postal Service may be able to achieve with
20 respect to renewal versus non-renewal highway transportation
21 contracts?

22 A I don't think so. I mean, obviously, you have a
23 chance to talk to him, but I think that -- it says
24 breakthrough --

25 Q Breakthrough productivity.

1 A Is a lot of things, it is other things. I don't
2 think it is renewal.

3 Q Okay.

4 A You are right, the numbers are both 100 million,
5 but I think it is a different environment.

6 MR. McBRIDE: That is all we have at the moment,
7 Mr. Chairman.

8 CHAIRMAN GLEIMAN: Is there any follow-up?

9 [No response.]

10 CHAIRMAN GLEIMAN: Are there questions from the
11 bench?

12 [No response.]

13 CHAIRMAN GLEIMAN: Would you like some time with
14 your witness to prepare for redirect? It is about time for
15 a mid-morning break anyway, so if you would like 10 minute,
16 you certainly may have it.

17 MR. KOETTING: I think that would be appropriate,
18 Mr. Chairman. Thank you.

19 CHAIRMAN GLEIMAN: We will come back on the hour.

20 [Recess.]

21 CHAIRMAN GLEIMAN: Mr. Koetting.

22 MR. KOETTING: We have no redirect, Mr. Chairman.

23 CHAIRMAN GLEIMAN: We thank you, Mr. Koetting.

24 Dr. Bradley, that completes your testimony here
25 today. We appreciate your appearance yet again and your

1 contributions to the record. We thank you and you're
2 excused.

3 [Witness excused.]

4 CHAIRMAN GLEIMAN: I guess we're going to
5 backtrack a little bit now and, Ms. Rush, see if we can gee
6 Witness Heath's testimony, rebuttal into the record.

7 MS. RUSH: Thank you, Mr. Chairman. Tonda Rush
8 for the National Newspaper Association.

9 I have here two copies of a document entitled
10 Rebuttal Testimony of Max Heath on behalf of the National
11 Newspaper Association, NNA-RT-1, accompanied by Mr. Heath's
12 signed declaration. There have been no requests to cross
13 examine him, and at this time, I would like to move this
14 document into evidence and have it transcribed into the
15 record.

16 CHAIRMAN GLEIMAN: Is there objection?

17 Hearing none, if you please provide the copies
18 that you have to the court reporter, I'll direct that the
19 material be transcribed into the record and received into
20 evidence.

21 We thank you.

22 [Rebuttal Testimony of Max Heath,
23 NNA-RT-1, was received in evidence
24 and transcribed into the record.]

25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes

)
)
)
Docket No. R2000-1

Rebuttal Testimony of Max Heath
On Behalf of the National Newspaper Association
(NNA RT-1)

Respectfully submitted,



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August 14, 2000

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1

2 ***I. Introduction***

3 My name is Max Heath. I am vice president/executive editor for Landmark
4 Community Newspapers, Inc. (LCNI), Shelbyville, KY, a division of Landmark
5 Communications, Norfolk, VA. I have previously appeared in this case through
6 my direct testimony for the National Newspaper Association. My biographical
7 description is available at NNA T1.

8 ***II. Purpose***

9 The purpose of this testimony is to rebut the accuracy of certain costs
10 claimed by the Postal Service in the filing of the Supplemental Testimony of
11 Richard Patelunas on behalf of the United States Postal Service in Response to
12 Order No. 1294. I want to urge the Commission to treat these costs with
13 skepticism and to consider adjustments before using them in developing rates for
14 within county mail.

15 ***III. FY 1999 costs should not be accepted without question***

16 Mr. Patelunas offers changes to the revenue requirement and test year
17 costs that result from utilizing FY '99 actual audited accounting data and costs by
18 class of mail as the base year. His filing resulted from the Commission's order for
19 the Postal Service to provide updated cost data, presumably to offer an
20 opportunity to adjust the 1998 base year used in the Postal Service's initial
21 request.

1 As chairman of the National Newspaper Association's Postal Committee, I
2 want to express our industry's fears about an unquestioned adoption of these
3 largely untested FY '99 cost data in developing recommended rates for within
4 county mail. In general principle, I commend the Commission for seeking the
5 most recent costing data and thereby taking some of the guesswork out of the
6 roll-forward estimates. But the timing of the '99 cost data filing inevitably means
7 information will be included in the record of this case that has not been fully
8 examined. Much of it has to be taken at face value, despite the fact that
9 increases of the magnitude we see in some of the within county cost segments
10 simply defy reason. Their adoption without adjustment could be extremely
11 harmful to community newspapers in the mailstream.

12 I address my testimony primarily to two cost segments, although much of
13 my concern could be applied to other segments as well.

14 ***IV. Cost Segment 3.1 most likely incorporates unreliable statistical***
15 ***anomalies***

16 Cost Segment 3.1 represents clerk and mail handler costs. NNA has had
17 occasion to question the accuracy of these costs in the past.

18 At NNA's request, the Commission dealt with corrections in misassigned
19 IOCS tallies in the 1994 rate case. In R97-1, because of resource limitations,
20 NNA chose to focus upon its questions about the volume measurement systems
21 and not upon IOCS, but it participated with other Periodicals intervenors in
22 raising questions about the thinness of IOCS direct tallies in mail processing

1 costs. Because within county is only about a half of one percent of total domestic
2 mail, it is reasonable to assume that thinness created severe problems in
3 accurately tracking mail processing costs in that case.

4 In R2000-1, once again, NNA has heretofore focused on issues other than
5 costs, but has joined with the Periodicals Coalition to raise concern about
6 Periodicals mail processing cost trends in general. The history of this
7 subsegment indicates that the size of our subclass causes accurate
8 measurement to elude the IOCS/MODS cost measurement systems.

9 In BY 1998, that segment for within county mail was reported at \$13,182
10 million. By FY 1999, that segment had leapt to \$17,229 million. The unit cost
11 between the '98 base year grew from 1.4 cents to 1.9 cents. For a small
12 subclass--particularly one whose accurate mail volumes are in question--this
13 increase is most sobering.

14 Because of the tight time schedule for this case, the due process that
15 would ordinarily test newly-reported costs is lacking. The Postal Service has told
16 us in response to NNA/USPS ST44-2 that it has not calculated the confidence
17 intervals for these data. We are unable to ask about operational changes that
18 may have created new costs. We cannot explore real world meanings of this
19 increase.

20 In this case, however, the real world may not shed much light upon the
21 increase. My experience on the Postal Committee and my historical review of the
22 data tell me that the most likely root cause is statistical anomaly.

1 For example, according to my understanding of USPS reports,¹ cost
2 segment 3.1 for within county was reported as 2.2 cents in FY 1993. That
3 number fell to 1.4 cents in 1996, the year just before (the allegedly cost-reducing)
4 reclassification would have taken hold. Inexplicably, it rose to 1.7 cents in the
5 R97-1 base year, before reclassification changes would have begun to take
6 effect, and to 2.2 cents again in FY 1997, right after reclassification changes
7 were implemented. In FY 1998, it was down to 1.1 cents, and now it catapults
8 back up again to 1.9 cents. The reported cost levels in this sub-segment are like
9 Tarzan swinging aimlessly through the trees.

10 Although the numbers leap around, there has been no accompanying
11 change in behavior within the community of newspaper mailers that would
12 explain any shifts or trends toward higher processing costs. To the contrary,
13 there is evidence that the need for use of the Postal Service's internal handling
14 processes would have decreased over the past several years.

15 I want to emphasize here that my familiarity is with newspaper usage of
16 within county subclass--particularly with weekly newspapers--and not with other
17 users of the subclass. But as my earlier testimony demonstrated, NNA has
18 reason to believe the use of within county by weekly newspapers largely drives
19 this subclass. The Postal Service has not refuted that belief, to my knowledge.

20

¹ The Postal Service has been asked to confirm these figures, but discovery response was not available by the time of my rebuttal testimony.

1 Here are some elements that I believe demonstrate that mail processing
2 needs by newspapers have not significantly changed in recent years.

3 1. Carrier route sorting of within county newspapers has always been
4 high and I see no reason for that high level sorting to have declined in recent
5 years. If anything, it should be increasing. Certainly I emphasize the need for
6 carrier route sorting in my nationwide seminars, and many publishers have asked
7 for my help in responding to my insistence that maximum sortation must occur.
8 In my informal survey of 1995, publishers were asked to tell us what percentage
9 of their total circulations were sorted to carrier routes. Our data showed
10 1,206,894 of 1,498,403 addresses were prepared to the carrier route. That's 81
11 percent of the mail represented in the survey. From surveying my own
12 company's newspapers, I see that far more than 81 percent of all within county
13 copies are presented at least at the carrier route level. I don't know the industry
14 averages, but I generally find our titles are fairly representative of the industry.
15 Indeed, there is no reason for dramatic differences between most community
16 newspapers and Landmark's titles.

17 2. The 1996 reclassification case required Coding Accuracy Sorting
18 System (CASS) certificates to accompany each mailing. List processing
19 necessary to earn the certification must be made every 90 days.

20 For many small within county newspapers, this certification is permitted
21 through use of Carrier Route Information System (CRIS) updates, or local-office
22 updates approved in 1997, which are often more accurate than CASS because

1 they are based upon local knowledge of route scheme changes, housing
2 additions or deletions and address re-assignments. The total effect of these
3 requirements would have been to improve newspaper addressing hygiene and
4 avoid unnecessary handlings.

5 3. In addition, because newspapers were required to produce the CASS
6 certificates, many upgraded or improved their software after reclassification. As a
7 consequence of these upgrades some publishers would have realized they had
8 sufficient concentrations in some carrier routes to claim sortation discounts.
9 Some would have made a concerted effort to increase their penetration in some
10 carrier routes to bridge a small gap between existing penetration and carrier
11 route threshold eligibility, so they could earn the discounts. Some would have
12 rerun their lists to make sure they had properly packaged their mail. It is
13 reasonable to assume that, prompted by the new knowledge that improved
14 software brings, newspapers overall improved their sorting schemes in a variety
15 of ways. It follows that more mail is being diverted from mail processing to far
16 downstream handlings, even to greater use of the so-called third bundle, where
17 the Postal Service has to do nothing but deliver the piece.

18 Ironically, the adoption of the post-reclassification addressing practices
19 would have occurred in Government Fiscal Year 1997, but for that period, the
20 Postal Service shows CS 3.1 rising. By FY 1998, most of the newspapers should
21 have completed the transition to new software and new list management. In that
22 year, the Postal Service shows CS 3.1 falling. The trends appear to have no
23 anchor in any sea of reality for newspaper mailers.

1 ***V. Cost Segment 6.1 is also unreliable.***

2 According to USPS Witness Meehan, the in-office direct labor segment
3 6.1 for within county was \$8,024 million in base year 1998. Witness Patelunas
4 tells us it rose to \$9,386 million in fiscal year 1999, almost a 17% increase.

5 Given the alarming increases in periodicals costs in other segments, this
6 increase may not be startling at first blush. But there is a good reason why
7 newspapers should be using less carrier in office time, not more.

8 In R97-1, the Commission granted within county mailers the right to claim
9 a high density per piece rate of 2.9 cents (a 1.4 cent discount off the basic carrier
10 route rate) if they could present mail for 25% of the addresses on a carrier route.

11 The threshold density requirement was reduced from a static 125 piece
12 requirement put into place in earlier cases.

13 This liberalization of density requirements was a major assistance to
14 community publishers. With the change, for example, a publisher serving 50
15 readers on a 200 route stop would be newly-eligible for the discount and would
16 then have an incentive to perform walk-sequencing, where no incentive existed in
17 the past.

18 As far as I know, the Postal Service has not presented any data in this
19 case to show how much mail was shifted by within county mailers into the high
20 density category since January 10, 1999, when the R97-1 rates went into effect.
21 But it is reasonable to assume there was some shift and that the shift would have

1 caused carriers to spend less time in the office sorting within county newspapers.
2 All other things being constant, that should have resulted in declining carrier
3 office time in Fiscal Year 1999. Yet, the cost segment has been reported with
4 alarming increases.

5 I recognize that there are influences in all of these costs outside the
6 control of mailers. My testimony is designed primarily to assure the Commission
7 that, to my knowledge, however, there are no significant shifts within this
8 subclass in mailer behavior, preparation, mail mix or other elements that would
9 cause the steep increases reported by the Postal Service in the FY 99 updates. I
10 believe that if time permitted adequate examination, a reasonable inference
11 would be raised that these increases derive largely from statistical anomalies.

12 ***VI. The Commission should adjust the costs before recommending rates***

13 It has been the practice of the Commission in handling statistical
14 anomalies for this subclass to make reasonable adjustments to protect mailers
15 from the unfair consequences of being in a small subclass--a position over which
16 they have no control whatever. Passing along the increases from FY '99 without
17 adjustment will have a devastating effect upon community newspapers.

18 I am not an economist. It is beyond my expertise to suggest how the
19 Commission might best adjust these highly volatile costs. I hope the Commission
20 will use its own expertise and judgment in making these adjustments.

21

1 **VII. Summary**

2 Wide and dramatic variations in mail handling and carrier office
3 costs are among the costing areas where statistical anomalies are likely to play a
4 harmful role in the total within county cost picture. Other areas may suffer from
5 the historical softness in IOCS tallies, the inherent volatility in small subclass
6 measurements and other problems within the cost segments. The use of new
7 FY' 99 cost data in this docket, without adjustment to recognize the volatility in
8 these measurements, will be harmful to community newspapers. I urge the
9 Commission to explore the use of weighted averages, hybrids and other
10 corrective adjustments before recommending rates based upon the costs
11 presently in the record.

Certificate of Service

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read 'Tonda F. Rush', is written over a horizontal line.

Tonda F. Rush

King & Ballow
PO Box 50301
Arlington, VA 22205
(703) 241-1480
August 14, 2000

Declaration

I, Max Heath, declare under penalty of perjury that the testimony filed under my name entitled Rebuttal Testimony of Max Heath on behalf of the National Newspaper Association, NNA RT-1, was prepared under my supervision and is true and correct to the best of my knowledge, information and belief.

Executed: 8-28-00

Max M. Heath
Max Heath

1 CHAIRMAN GLEIMAN: Mr. Koetting, you have our next
2 witness?

3 MR. KOETTING: Yes. Thank you, Mr. Chairman.

4 The Postal Service would call as its next witness
5 John T. Pickett, who I do believe is previously under oath.

6 CHAIRMAN GLEIMAN: Your scorecard and mine agree
7 on this one. Thank you for the help, though. As you know
8 from your time in the hearing room, I've needed it this time
9 around.

10 Whereupon,

11 JOHN T. PICKETT,
12 a witness, was called for examination by counsel on behalf
13 of the Postal Service and, having been previously duly
14 sworn, was further examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KOETTING:

17 Q Mr. Pickett, I'm handing you a copy of a document
18 entitled Rebuttal Testimony of John T. Pickett on behalf of
19 United States Postal Service which has been designated as
20 USPS-RT-9.

21 Are you familiar with this document?

22 A Yes, I am.

23 Q Was it prepared by you or under your supervision?

24 A Yes, it was.

25 Q Do you have any changes to make today?

1 A I do have three changes. I'll try to go slowly.
2 On page 3, line 6, delete the word "is"; page 3, line 13,
3 change "exclude" to "excludes."

4 CHAIRMAN GLEIMAN: I'm sorry. Could you repeat
5 that one?

6 THE WITNESS: Change the word "exclude" to
7 "excludes."

8 CHAIRMAN GLEIMAN: Thank you.

9 THE WITNESS: And on page 4, in footnote 2, at the
10 very end of the first line, add the word "of." So it should
11 read "The cost of highway estimates."

12 BY MR. KOETTING:

13 Q With those changes, if you were to testify orally
14 today, would this be your testimony?

15 A Yes, it would.

16 Q And have those changes been marked on the two
17 copies?

18 A Yes, they have.

19 Q Are there any library references associated with
20 your testimony?

21 A There are three, but only two of them are category
22 2, as I understand.

23 Q If you could restrict yourself to the category
24 2's, then you're prepared to sponsor?

25 A Yes, I am. It would be I-432 and I-433.

1 Q And you are prepared to sponsor those into
2 evidence?

3 A Yes, I am.

4 MR. KOETTING: Mr. Chairman, with that, the Postal
5 Service would move that the rebuttal testimony of John T.
6 Pickett on behalf of the United States Postal Service,
7 USPS-RT-9, be admitted into evidence along with the
8 associated category 2 library references, I-432 and I-433.

9 CHAIRMAN GLEIMAN: If you would please hand the
10 reporter two copies of the rebuttal testimony of Witness
11 Pickett, I'll direct that both the rebuttal testimony of the
12 witness and the library references be received into
13 evidence, but as is our practice, only the rebuttal
14 testimony will be transcribed into the record.

15 [Library References I-432 and I-433
16 were received in evidence and
17 USPS-RT-9]
18 [Rebuttal Testimony of Witness John
19 T. Pickett, was received in
20 evidence and transcribed into the
21 record.]

22
23
24
25

USPS-RT-9

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
JOHN T. PICKETT
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

1

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5	cannot be relied upon.....	3
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8	3. UPS witness Neels contends that the WNET and Eagle premiums should be	
9	distributed to Priority and Express Mail. His arguments are based on apparent	
10	misunderstandings of postal operations and should be rejected.	7

1 **Library References**

2
3 The following Category 2 Library References are associated with my
4 testimony:

5 USPS-LR-I-432: Amtrak Premium and Roadrailer Analyses (Available
6 only under protective conditions; see Presiding
7 Officer's Ruling No. R2000-1/114)
8
9 USPS-LR-I-433: Amtrak Roadrailer Special Study

Autobiographical Sketch

1

2

3

An autobiographical sketch was included in my direct testimony, USPS-T-19.

1 **Purpose and Scope**

2

3 The purpose of my testimony is to rebut arguments made by witnesses Nelson
4 (MPA-T-3) and Neels (UPS-T-3). My testimony demonstrates that :

5 1) The Amtrak premium calculated by witness Nelson fails to take into
6 account all costs that would be incurred if inter-SCF highway
7 transportation were used in place of Amtrak. When all costs are
8 included, the premium all but disappears.

9 2) The distribution of Amtrak Roadrailer costs suggested by witness
10 Nelson is incorrect. An alternative distribution, based on a special
11 study, is provided.

12 3) Both the WNET network premium and the Eagle network premium
13 should continue to be assigned to Express Mail alone, contrary to
14 the recommendation of witness Neels.

1 **1. MPA Witness Nelson's Amtrak Premium is, at best, grossly overstated**
2 **and cannot be relied upon.**
3

4 MPA witness Nelson (MPA-T-3) asserts that \$19.0 million would be saved
5 if Amtrak transportation were switched to highway. (Tr. 28/13418 to 13420.) Mr.
6 Nelson asserts that mailers pay this premium, as he refers to it, as "without
7 discernable benefits." (Tr. 28/13419.) Mr. Nelson's calculation of the Amtrak
8 premium is flawed and omits significant costs associated with the highway
9 transportation he promotes.

10 Using Amtrak footage summaries, Mr. Nelson calculates the alternative
11 cost for highway using the average cost per cubic foot mile from HCSS data file
12 by the Postal Service. Mr. Nelson's analysis excludes scheduled Amtrak
13 movements with 30 feet or less of contracted footage and also exclude^s any
14 Amtrak movements that cost less than comparable highway movements.

15 I have replicated Mr. Nelson's analysis and calculated a number of
16 revisions to Nelson's premium calculation. Mr. Nelson's calculation of highway
17 costs include only the cost of non-renewed contracts, which are significantly less
18 expensive on a cost per cubic foot-mile basis than renewed contracts. Absent a
19 complete overhaul of our contracting processes between now and the test year,
20 this assumption is erroneous and significantly inflates the premium estimate.
21 Removing this assumption¹ (and basing the highway costs estimate on the cost

¹ This is referred to as Revision 1 in my workpapers.

1 per cubic foot mile of all contracts) reduces the premium estimate from \$19
2 million to \$14.6 million.

3 Long haul highway capacity can only be purchased in truckloads. Mr.
4 Nelson implicitly assumes that highway capacity can be purchased in infinitely
5 small increments. I correct this shortcoming by converting Amtrak footages into
6 trailer loads². Assuming that trailer loads must be purchased adds significantly
7 to the estimated cost of highway transportation. By making this realistic
8 assumption, the premium estimate becomes \$16.7 million.

9 These two corrections, when made simultaneously, compound one
10 another. When both assumptions are made together, the Amtrak premium is
11 reduced to only \$11.9 million.

12 For the most part, Amtrak footage is purchased on a one-way basis,
13 whereas highway transportation is purchased on a round-trip basis. Thus,
14 Amtrak rates reflect the cost of returning surplus equipment to the originating
15 city. The highway rates used by Nelson generally do not include this feature. To
16 substitute highway for Amtrak in the manner suggested by Mr. Nelson's cost
17 estimates would result in the rapid accumulation of trailers at destinations such
18 as those in Florida and on the West Coast, unless the trailers were returned to
19 the origin.

² To give Mr. Nelson the benefit of a doubt, I allow for half trailer loads to be provided. The cost of highway estimates would be substantially increased, and the premium would be substantially reduced, if I assumed full trailer loads. This change is referred to as Revision 2 in my workpapers.

1 I have calculated the cost of returning the trailers to the origin cities. This
2 return cost, like the premium, varies depending on the assumptions made in the
3 analysis. I calculate this cost under all the scenarios described above including
4 (1) using Nelson's assumptions, (2) using my Revision 1, (3) using my Revision
5 2, and (4) using my Revisions 1 and 2 together. My estimates of the cost of
6 returns range from \$14.5 million using Mr. Nelson's assumptions to \$16.4 million
7 using both of my revisions together. Mr. Nelson erroneously ignores trailer
8 returns and assumes the cost of this operation to be \$0. Making all three
9 modifications to Mr. Nelson's analysis, results in an estimated premium of -\$4.5
10 million. This suggests that Amtrak provides transportation services to the Postal
11 Service at a discount³.

12 In addition to these shortcomings, Mr. Nelson's testimony appears to be
13 based on a misunderstanding of how the Postal Service and Amtrak operate.
14 Apparently, Mr. Nelson believes that the Postal Service is consolidating less-
15 than-truckload (LTL) shipments to truckload. (Tr. 28/13419.)

16 To better understand Amtrak mail operations, I recently traveled to
17 Chicago to observe Amtrak's terminal operations, which provide substantial
18 consolidation services. In Chicago, Amtrak crossdocks loads between arriving
19 and departing mail cars and Roadrailleurs⁴. This consolidation activity allows LTL
20 shipments to travel coast to coast without handlings by postal personnel. Amtrak

³ I am not suggesting that, in the absence of Amtrak, the Postal Service would operate in the manner described herein. My calculations merely follow logically from Mr. Nelson's presumed inter-SCF highway operations.

1 also consolidates LTL loads originating in the Chicago area for shipment to the
2 East and West. A staff of forklift operators and clerks works 24-hours a day in
3 the rail equivalent of a truck terminal⁵. I am told that a similar operation exists in
4 Philadelphia. Smaller terminal handling operations are also provided by Amtrak
5 elsewhere. Clearly, if the Postal Service were to provide the same service using
6 highway contractors, it would have to purchase substantial facility space and
7 equipment to support consolidation operations and hire additional personnel to
8 load and unload trailers. I have not estimated the costs of either the Amtrak
9 terminal operations or a comparable Postal crossdock operation. I suspect they
10 would amount to several million dollars.

11 To summarize, for a variety of reasons, Mr. Nelson's Amtrak premium is
12 dubious, at best. Accordingly, I recommend that the Commission dismiss
13 entirely this part of his testimony.

14 **2. Mr. Nelson's assessment of the use of Roadrillers is based on**
15 **speculation. A special study provides an appropriate distribution of**
16 **Roadrailer costs.**

17
18 Mr. Nelson argues that Roadrillers are more akin to inter-SCF highway
19 transportation than to conventional Amtrak service. Since Roadrillers are not
20 included in the TRACS Amtrak sample, he asserts that Roadrillers should be
21 distributed on the TRACS inter-SCF highway distribution key rather than the

⁴ In addition to this crossdocking operation, Amtrak also handles full Roadrillers in a rail yard located near the train station. These full loads move directly to the Chicago "2C Metro" facility.

⁵ It should also be noted that the Roadrillers I observed while in Chicago carried nothing but Periodicals.

1 TRACS Amtrak key. Thus, Nelson reduces Periodicals costs by \$3.1 million. (Tr.
2 28/13413 to 13414.)

3 Mr. Nelson is correct that Roadrailleurs are not currently sampled in
4 TRACS. However, as he readily admits, the composition of mail on Roadrailleurs
5 costs is unknown. Rather than adopt or oppose Mr. Nelson's creative
6 speculation, the Postal Service conducted a special study of mail on Roadrailleurs.
7 This study, contained in USPS-LR-I-433, found that Roadrailleurs carry a higher
8 percentage of Periodicals than inter-SCF highway, but a lower percentage than
9 conventional Amtrak. Based on the results I recommend reducing BY 1998
10 Periodicals Amtrak costs⁶ by \$2.3 million. The Postal Service is actively studying
11 how to include Roadrailleurs in the TRACS Amtrak sample during FY 2001.

12 **3. UPS witness Neels contends that the WNET and Eagle premiums should**
13 **be distributed to Priority and Express Mail. His arguments are based on**
14 **apparent misunderstandings of postal operations and should be rejected.**
15

16 Witness Neels asserts that, if Express Mail was all that mattered, the
17 overnight Western network (WNET) could be operated with much smaller
18 aircraft. The larger aircraft in use are indicative of a desire to provide service for
19 both Priority Mail and Express Mail. Thus, he claims that the premiums for the
20 WNET, and, in apparent guilt by association, the Eagle network should be
21 attributed to Priority Mail and Express Mail. (Tr. 32/15996 to 16004.) I believe
22 that the use of Boeing 727s on the WNET is a consequence of a conscious effort
23 to efficiently operate dedicated air networks in unusual conditions.

1 WNET virtually requires a larger, jet aircraft to operate smoothly. For
2 nearly every city on the overnight WNET, a jet aircraft is required to meet
3 operational linehaul and terminal handling requirements.

4 Jet aircraft fly considerably faster than turboprops. According to its
5 manufacturer, the Boeing 727, which is the primary aircraft used on both the
6 Eagle network and the WNET, has a cruising speed of nearly 600 miles per hour.
7 Both the Metro III and the Beechcraft 1900, two turboprops used by the Postal
8 Service, have cruising speeds of just over 300 miles per hour⁷. Therefore, a
9 Boeing 727 can fly between cities in approximately half the time it would take a
10 turboprop.

11 The speed differential between jet aircraft and turboprops is a critical
12 factor when operating hub and spoke networks. One delayed flight inbound to
13 the hub can delay all outbound departures. The faster cruising speed of jet
14 aircraft can compensate for unanticipated delays related to weather, air traffic
15 control problems, congestion at major airports, and mechanical problems. It is,
16 therefore, not surprising that Postal Network Operations finds jet aircraft far more
17 reliable in such a demanding operational environment.

18 Jet aircraft such as the Boeing 727 carry most of their load in containers.
19 Both the Metro III and the Beechcraft 1900 carry bedloaded, or non-
20 containerized, mail. The absence of containerization greatly increases the time it

⁶ The complete redistribution of Roadrailer costs for all classes of mail can be found in LR-I-432.

⁷ Dr. Neels conceded that there are some limitations to the use of these aircraft in the context of WNET and Eagle operations. (Tr. 32/16116 to 16117.)

1 takes to load mail at origin airports, transfer mail at the hub airport, and unload
2 mail at the destination airports⁸.

3 Based on cruising speed and lack of containerization, I conclude that
4 using turboprops would double the amount of time needed to operate the WNET
5 overnight network.

6 Mountains and certain atmospheric conditions further constrain the
7 usefulness of turboprops. A fully loaded turboprop would find clearing the Rocky
8 Mountains to be a dubious proposition, particularly on hot summer nights. Even
9 with the 727 jet aircraft, there are times when departing Denver that the aircraft's
10 maximum payload must be closely calculated with a careful balance of payload
11 to clear the mountains.

12 The 727s used in Postal network operations have sophisticated avionics,
13 such as heads up display (HUD) electronics. With this equipment, the 727s on
14 the networks can operate in adverse weather conditions. Turboprops lack this
15 capability. Because of these limitations, reliance on turboprops would cause
16 service to fall to unacceptable levels.

17 For these reasons, turboprops are simply inadequate for the WNET.
18 Because of the longer distances involved, the Eagle network is even more time

⁸ Dr. Neels also agrees that lack of containerization would create operational concerns. (Tr. 32/16114.)

1 constrained. Extensive use of turboprops on Eagle is simply not a realistic
2 proposition⁹.

3 The Boeing 727 became the primary aircraft used on WNET, largely
4 because of the desire to standardize air containers in postal operations. The
5 WNET solicitation does not specify aircraft, but it does specify (among many
6 other things) that A-2 containers must be used. The A-2 container has long
7 been the standard container used on the Eagle network. Since the overnight
8 WNET¹⁰ operates flights to many Eagle cities such as Los Angeles, San
9 Francisco, Phoenix, San Diego, Portland, Seattle, Salt Lake City and Denver, the
10 specification of a single container type is completely understandable. The A-2
11 container rules out the smaller DC-9-15 as a viable aircraft for the WNET since
12 the DC-9 is not compatible with the A-2. And, despite its larger size, the 727 is
13 comparable in cost to the DC9¹¹.

14 As Dr. Neels agreed (Tr. 32/16108), his suggestion that the 727 is the
15 only aircraft which can use an A-2 container (Tr. 32/16072) was incorrect.
16 According to Postal Network Operations personnel, the A-2 can also be used on
17 DC-8s, 737s, 747s, and 757s. While a contractor could have offered a mix of

⁹ Dr. Neels's suggestion that turboprops could be used on the Eagle network is not entirely without merit. Turboprops are used as for feeder air taxis service and on one flight connecting Las Vegas to the WNET hub.

¹⁰ An additional flight operates between the WNET hub and Indianapolis.

¹¹ According to Boeing (which merged with McDonnell-Douglas, the manufacturer of the DC-9), there were approximately 976 DC-9s produced from 1964 through 1982. Boeing produced 1,832 727s from 1964 to 1984. Cargo Facts (April 1999), a trade industry newsletter, counted 104 DC9 freighters, 224 727-100s and 259 727-200s in its "World Freighter Inventory as of December 31, 1998". This disparity suggests that the current supply of 727s is likely to greatly exceed the supply of DC9s, resulting in a lower cost for the 727. The relative costs is also affected by the relative availability of 727s configured with certain equipment. The WNET contract states a

1 aircraft, the use of a single aircraft greatly simplifies aviation operations. With a
2 single aircraft, the contractor can switch parts and crews among network aircraft.
3 The Boeing 727 thus seems to be the most widely available freight aircraft that
4 can economically provide the service requested by the Postal Service.

5 Dr. Neels also suggests that the Postal Service could use highway
6 transportation in some instances instead of aircraft. (Tr. 32/16078 to 16079 and
7 16113.) The Postal Service already does so. Prior to 1998, Cincinnati was
8 served by an Eagle flight. That flight was discontinued when highway service
9 was found to be equally reliable. Additional highway feeder service for cities
10 near Indianapolis and the WNET hub operate under separate highway contracts
11 such as Louisville and Dayton

12 Dr. Neels concludes that because of the relatively low Express Mail
13 pound-mile percentage on the overnight WNET, the Eagle premium should be
14 distributed to both Priority Mail and Express Mail. (Tr. 32/15998 to 16000.) The
15 Eagle overnight network is very similar to the network as it existed in 1990. For
16 all intents and purposes, it performs the same function with slightly different
17 equipment (e.g., aircraft have been fitted with hush kits to make them Stage III
18 compliant) and flies to nearly all the same cities¹². The share of Express Mail on
19 Eagle is substantially higher than Express Mail share on the overnight WNET.
20 The 1998 distribution factor for Express Mail on the overnight WNET is 9

preference for Category II avionics, which allow take off and landing under adverse weather conditions. Moreover, the contract also requires that jet aircraft meet Stage III noise regulations.

¹² An Eagle flight was added to and from Portland and Salt Lake City, recently. Like all Eagle planes, this aircraft is a Boeing 727.

1 percent. On Eagle, it is 24 percent. In FY 1999, the Eagle share is 30 percent
 2 while the overnight WNET share is 11 percent. I would also note that the 30
 3 percent Eagle Express Mail share is virtually the same as it was in Docket No.
 4 R90-1¹³. (See Docket No. R90-1, PRC Op., Appendix J, p. 43.)

5 These shares, of course, are annual averages. The daily share of
 6 Express Mail on Eagle and the overnight WNET can vary significantly. Capacity
 7 must be available to meet these volume swings, some of which are somewhat
 8 predictable (e.g., before Christmas, Valentine's Day, Mother's Day) and some of
 9 which are not. The size of the Boeing 727 all but eliminates this concern.

10 Another interesting aspect of Dr. Neels's desire to distribute part of the
 11 premium to Priority Mail is the increasing presence of First-Class Mail on
 12 overnight¹⁴ dedicated air. In Docket No. R90-1, UPS argued that the entire
 13 Eagle premium should be allocated to Express Mail¹⁵. The Commission
 14 summarized part of UPS's testimony on the subject as follows:.

15 "UPS premium costing. Witness Nelson argues that the presence of a
 16 substantial amount of First-Class on the Eagle Network means that the
 17 Postal Service cannot be using that transportation to provide premium
 18 service to Priority Mail. He argues that Express Mail alone is responsible
 19 for the premium." (PRC ORD, Docket No. R90-1, III-183, para. 3696.)
 20

¹³ In Docket No. R97-1, when the Commission first agreed to attribute the premiums to Express Mail, the percentage of Express Mail on WNET was 11 percent, for Eagle it was 27 percent.

¹⁴ The use of dedicated air during the daytime increased significantly in FY 1999 when First-Class Mail was found to account for 59 percent of the pound-miles on dedicated air. This is nearly double the percentage (30) of pound-miles from Priority Mail. See FY 1999 Cost Segment 14 B Workpaper WS 14.4. Unlike Eagle, all WNET planes are currently "turned", or used during the daytime, 52 weeks per year.

¹⁵ Dr. Neels was apparently unaware of this since he did not review documents from that proceeding. (Tr. 32/16119.)

1 In that case, the First-Class share of Eagle costs was 14 percent. In Base Year
2 1998, First-Class shares of Eagle and the overnight WNET were 18 and 26
3 percent, respectively. In Fiscal Year 1999, the respective shares were 23 and 21
4 percent. These increases may be partly explained by the implementation of the
5 Priority Mail Processing Centers. One would expect that if the Eagle network
6 were truly caused by Priority Mail, the implementation of the PMPCs would have
7 caused some downsizing or a significant re-configuration of Eagle flights in the
8 areas affected by the PMPCs. This did not happen.

9 The fact is that First-Class Mail no longer takes a back seat to Priority Mail
10 in terms of criticality. The criteria for Economic Value Added (EVA) incentive
11 payments place equal importance on meeting service objectives for both First-
12 Class and Priority Mail. Furthermore, the penalties on the overnight WNET for
13 service failures¹⁶ for Express Mail are \$5.00 per pound of Express Mail, and
14 \$1.60 per pound of all other mail. For Eagle, the respective penalties are \$5.00
15 and \$0.20 per pound. Moreover, the WNET contract solicitation (USPS-LR-I-
16 443) contains numerous references to special treatment for Express Mail, but
17 none for Priority Mail¹⁷.

18 Dr. Neels's testimony (Tr. 32/16000 to 16001) gives undue weight to a
19 couple of documents summarizing a Postal meeting in 1995 (Tr. 6/2548-2554).
20 This meeting occurred long before the current WNET contract was in place. It

¹⁶ Service failures include failure to load mail at the origin, delayed ground delivery, and mail delivered to wrong destination. See USPS-LR-I-443, p. 31.

¹⁷ In fact, the only reference I could find to Priority Mail was the following strangely ambiguous definition in the Definitions section:

1 reflects, in part, the understandable desire of the author to improve service for
 2 Priority Mail in Seattle and Denver. Service was lacking for the simple reason
 3 that, at that time, WNET aircraft picked up mail in Seattle before Portland and
 4 Salt Lake City before Denver. Portland and Salt Lake City are smaller volume
 5 cities, but are located closer to the WNET hub. The early departure time meant
 6 that Seattle and Denver had very little Priority Mail on the WNET flight. The
 7 reconfigured WNET gave Seattle what it wanted¹⁸, and simultaneously added
 8 Spokane, Billings, and Boise to the overnight WNET at virtually no additional
 9 cost to the Postal Service¹⁹. Since 1998, however, field managers have become
 10 increasingly motivated by the EVA program to improve service for First-Class
 11 Mail²⁰. In fact, in nearly every conversation I have had with Postal field
 12 personnel concerning dedicated air (and, for that matter, HASP transportation) in
 13 the past few years, they have referred repeatedly to "two- and three-day mail",
 14 not to Priority Mail or First-Class Mail. In light of the new incentives facing postal
 15 managers, Dr. Neels gives an old document undue weight in a forward-looking
 16 ratemaking environment.

17 The fact remains that overnight dedicated air networks are absolutely
 18 needed to support a guaranteed overnight product. Without that product, the
 19 overnight network, with its early mail acceptance times, would be superfluous.

"Priority Mail: First-Class Mail and First-Class zone rated (Priority) mail as defined in the U.S. Postal Service Domestic Mail Manual." (USPS-LR-I-443, p. 28.)

¹⁸ The "Executive Summary" memo refers to the pairing of Seattle with Anchorage. (Tr. 6/2553-2554). The WNET never did go to Anchorage.

¹⁹ The increase in overall cost to the Postal Service for the proposal in the 1995 document was \$576,384 on a base of \$45,382,011, or 1.3 percent (Tr. 6/2554).

²⁰ Priority Mail service performance was made an EVA criterion in FY 1999.

1 CHAIRMAN GLEIMAN: This brings us to oral cross
2 examination. Before I indicate which parties have requested
3 oral cross examination, I wanted to mention another item or
4 two before we start losing whoever might otherwise be paying
5 attention to the proceedings this morning.

6 The first is that I mentioned last week and wanted
7 to mention again and letters to the effect are going out
8 today to the service list that the PRC research database
9 which contains all the docket files back to 1971 is now
10 available on our Website. After some difficulty, we have
11 been able to overcome the technical problems and the archive
12 material is now available by and large in searchable form.
13 You click on the archive tab in the banner if you're
14 interested in that.

15 We have 50 licenses, so if you can't get on, it's
16 because lots of other folks are already on there using it.
17 Also, as is the case with many computer Internet systems, if
18 you are on for a 15-minute interval and you are inactive
19 during that 15-minute interval, you will be logged off
20 automatically.

21 But despite the fact that it's late in the case, I
22 hope that it will prove useful to have the archive database
23 available as you all attempt to prepare briefs and reply
24 briefs.

25 The other thing I wanted to mention is that we

1 have what appears to be potentially a very long day on
2 Thursday of this week, and my colleagues and I have
3 discussed it and we're prepared to start a bit early that
4 day, at 8:30 instead of 9:30; however, it depends on the
5 availability of witnesses and counsel who are going to be
6 involved that day.

7 So if you all could let me know whether this is
8 going to pose a problem, then we can make a final decision
9 on whether we can start early on Thursday. So if folks
10 could let us know by close of business tomorrow, then we
11 could put out a notice. It should only affect the first
12 couple of witnesses of the day, and after that, we'll just
13 take them as they come.

14 Having rambled around a little bit on those
15 issues, back to oral cross examination, there are two
16 parties that have requested oral cross examination: the
17 Magazine Publishers of America and United Parcel Service.
18 Is there anyone else who wishes to cross examine?

19 If not, I guess you're in the dock, Mr. McBride.

20 MR. McBRIDE: Thank you, Mr. Chairman.

21 CROSS EXAMINATION

22 BY MR. McBRIDE:

23 Q Good morning again, Mr. Pickett.

24 A Good morning, Mr. McBride.

25 Q I take it from your testimony that you were

1 recently in Chicago; is that right?

2 A Yes, I was recently in Chicago.

3 Q Okay. If one were to understand the rail network
4 of the United States, I take it that your trip there and
5 your experience would allow you to talk with me a little
6 about the fact that when you go from an eastern railroad to
7 a western railroad, aren't too many places that that
8 typically occurs, one of them, though, is Chicago; is that
9 right?

10 A Generally, that's my understanding, yes.

11 Q And in fact, that has -- according to the map that
12 I'm looking at, Chicago is the place where essentially all
13 the Amtrak east-west traffic interconnects; is that your
14 understanding?

15 A I don't know that's true, what percentage of
16 Amtrak goes through Chicago, but it is true that that's
17 where an awful lot of Amtrak loads get consolidated for the
18 Postal Service.

19 Q Okay. In any event, if one were to put mail on a
20 truck instead of on Amtrak, one would not have to have that
21 truck go through Chicago, would one?

22 A That's correct. Now, if the truck was carrying a
23 light load, you would want to consolidate that load if you
24 were going a long distance, and that would have to be done
25 someplace.

1 Q Someplace, but not necessarily Chicago.

2 A Right.

3 Q Right. Okay.

4 Now, I take it from your testimony that you do not
5 dispute the fact that while rates the Postal Service is
6 paying Amtrak to move mail are higher simply in comparison
7 to the rates at which the Postal Service might move the same
8 mail by truck excluding for the moment these other cost
9 issues that you've testified about --

10 A Well, define rates.

11 Q The amount that is paid to the carrier.

12 A I don't know if you can exclude these other
13 issues, but if you're talking about the cost of moving mail
14 from, say, Philadelphia to Florida, I mean, I haven't made a
15 specific analysis of -- a comparison of -- a rate-by-rate
16 comparison. If it turns out that in total the costs are
17 greater, I can live with that. I think that's what the
18 essence of Mr. Nelson's testimony is.

19 Q I'm just asking a simple question, whether what
20 the Postal Service is paying Amtrak would be more than what
21 it would pay the truck carrier if the mail moved instead by
22 truck.

23 A I don't know.

24 Q Okay. Now, if the mail came off of Amtrak and
25 went onto trucks, I take it, whether it's part of you

1 testimony or separately the position of the Postal Service
2 in this case, that there isn't a lot of unused capacity that
3 could absorb all that Amtrak -- the mail that's now going on
4 Amtrak without having to sign some new contracts and hire
5 some more capacity. Is that the position of the Postal
6 Service?

7 A I did not make any assumptions along that line,
8 no.

9 Q Do you know whether that is the position of the
10 Postal Service? In other words, if the mail came off of
11 Amtrak, could it all go via existing contractors?

12 A I haven't analyzed that. I couldn't tell you.

13 Q Well, did you testify to, inferentially, at least,
14 the converse -- that is, that if the mail came off Amtrak,
15 it would have to go by non-renewal?

16 A No.

17 Q You're not testifying to that?

18 A No, I'm not.

19 Q Okay. What are you testifying to, then, about
20 where the Amtrak mail would go -- renewal or non-renewal?

21 A What I'm testifying to is that if Amtrak -- if we
22 took the mail off Amtrak, Mr. Nelson suggested that it would
23 go on the equivalent of inter-SCF contracts, which are --
24 let me get this right -- non-renewals.

25 Q Okay. And I'm asking you whether you are now here

1 testifying that that is true or false.

2 A Well, with regard to the non-renewals or whether
3 it would go on inter-SCF highway?

4 Q Try both.

5 A To the latter, whether it would go on inter-SCF
6 highway, I have no idea. Whether it would go -- whether we
7 would have non-renewal contracts only in the test year, I
8 stated in my testimony that I think not.

9 Q Where did you state that in your testimony?

10 A On page 3, line 18, it says: Absent a complete
11 overhaul of our contracting process between now and the test
12 year, the assumption of using only non-renewal contracts is
13 erroneous and significantly inflates be premium estimate.

14 Q I'm sorry, give me the page again. I couldn't
15 follow where you were.

16 A Okay. Sorry. Page 3.

17 Q Page 3.

18 A That last paragraph basically discusses that
19 issue.

20 Q Well, are you testifying that the Postal Service
21 could put the Amtrak mail into existing contractors'
22 capacity?

23 A No.

24 Q You're not testifying to that.

25 A No.

1 Q Then would it not follow that if it came off of
2 Amtrak, would have to go into a new contractor's trucks?

3 A No.

4 Q Why does that not follow? Where is it going to
5 go?

6 A What I'm testifying to is that Mr. Nelson -- are
7 we talking about the renewal issue here or whether it's
8 going on highway at all?

9 Q Well, let's start with whether it's going on
10 highway at all.

11 A I'm just following from Mr. Nelson's analysis on
12 that score.

13 Q That's fine.

14 A Okay.

15 Q But there is mail moving on Amtrak, right?

16 A Right.

17 Q We agree on that.

18 A Right.

19 Q Now, if the mail didn't move on Amtrak, where
20 would it move?

21 A It could move on highway, definitely.

22 Q Okay. Would it all, or most, or some, or how
23 would you characterize it?

24 A Most.

25 Q Most. Okay.

1 A I mean, that's a reasonable assumption. What kind
2 of highway, that's --

3 Q Fine. Okay. Now we're in agreement on that.

4 Now, highway contracts, the lingo in this case is
5 that we refer to renewal contracts or non-renewal contracts,
6 correct?

7 A Right.

8 Q And renewal are existing contracts, right?

9 A Yes.

10 Q Okay. And non-renewal would be new contractors,
11 correct?

12 MR. KOETTING: I'm sorry, was the question new
13 contracts or new contractors?

14 MR. McBRIDE: New contractors. We can use
15 contracts or contractors, whichever he prefers.

16 THE WITNESS: Well, if it were a non-renewal, it
17 would be a new contract. It doesn't necessarily --

18 MR. McBRIDE: New contract. Okay. Fine.

19 BY MR. McBRIDE:

20 Q So we have now just agreed, I think, that if the
21 mail came off Amtrak, most of it would go on the highway,
22 and are you saying most of it would go in the non-renewal
23 category or are you saying most of it would go in the
24 renewal category?

25 A I'm saying it would fall in either. It wouldn't

1 necessarily fall all in the renewal category unless we
2 renewed all the contracts.

3 Q Okay.

4 A Okay. Which is the assumption that Mr. Nelson
5 makes.

6 Q But are we also in agreement that the mail that is
7 now being moved by Amtrak is not committed to either the
8 renewal or the non-renewal highway contracts?

9 A Currently?

10 Q Currently.

11 A Right.

12 Q Okay. So the Postal Service could take the mail
13 off Amtrak and put it in either category, could it not,
14 renewal or non-renewal?

15 A Yes.

16 Q Okay. And the previous witness and I agreed that
17 renewal contracts on average are at a higher rate than
18 non-renewal contracts, correct? You were here.

19 A Yes.

20 Q And you agree with that?

21 A Putting aside the reason, I agree that we
22 basically agree with that, yes.

23 Q So now what I'm going to ask you about is whether,
24 if the mail came off Amtrak and went onto the highway, and
25 if on average renewal contracts are at a higher rate than

1 non-renewal contracts, where would the Postal Service put it
2 and why?

3 A They could put it on either renewal or non-renewal
4 contracts. The non-renewals could be adjusted, could be
5 amended and trips could be added to them. So it could go
6 either way.

7 Q But the last thing about the amendment, what did
8 you say?

9 A You can amend a contract.

10 Q Sure.

11 A You can add trips and take them away.

12 Q Okay.

13 A That doesn't make it a renewal contract.

14 Q How long does it take you to amend a contract?

15 A I wouldn't know.

16 Q Days, weeks, months, years?

17 A I wouldn't know.

18 Q So, it is possible to revise the renewal contracts
19 then?

20 A I said it is possible to revise the non-renewal
21 contracts.

22 Q The non-renewal. Oh, I'm sorry, I thought you
23 said the renewal. You said you could amend the contract.

24 A Oh, no, no. You have got me all confused now.
25 Okay. It is possible to revise an existing contract, yes.

1 Q Okay. Let's use the terminology existing and
2 renewal, how is that, would that be better?

3 A That is better.

4 Q So it is possible to overhaul the existing highway
5 transportation contracts of the Postal Service?

6 A By the test year, all 15,000 route trips, I think
7 not.

8 Q I didn't ask about all. Is it possible that some
9 could be done by the test year?

10 A Sure. I imagine that is going to happen in the
11 test year. For this reason? No. For other reasons, yes.

12 Q Okay. And if the goal was to get the lowest cost
13 transportation, presumably, the going-in position would be
14 to try to get it into the lowest cost contracts, that would
15 be, we agreed, I think, on average, the new contracts,
16 right?

17 A You don't buy contracts on average. So I would
18 disagree with that.

19 Q All right.

20 A And I would disagree that the goal is to get the
21 lowest cost contract without qualification.

22 Q Okay. Are you familiar with the terms of Postal
23 Service highway transportation contracts?

24 A Some of them.

25 Q All right. Are you familiar with the term by

1 which the rate is adjusted over the life of the contract?

2 A No.

3 Q Do you know anything about that subject?

4 A All I know is what Witness Young told me 10
5 minutes ago, and that is that there isn't a single
6 adjustment, there are multiple adjustments.

7 Q Do you know why any renewal contracts are at a
8 higher transportation cost -- I'm sorry, I promised you I
9 would use existing and new. Do you know why any existing
10 Postal Service highway transportation contract is at a
11 higher rate than a new Postal Service highway transportation
12 contract would be?

13 A I haven't studied the issue. No, I haven't.

14 Q Okay. By the way, do you know whether Amtrak
15 carries mail in both directions for the Postal Service?

16 A Well, based on the footage summaries, it looks
17 like they tend to carry mail more in one direction than
18 another, but they do carry it in both directions, but the
19 directions aren't -- it is multi-dimensional. I don't know
20 how to explain that. We carry mail to Florida and carry
21 less back. We carry mail to the West Coast, we carry less
22 back, that kind of thing.

23 Q Okay. Now, I think you are starting to refer to
24 page 4, bottom, of your testimony, right?

25 A The returns?

1 Q Yes. Now, your hypothesis here was that if Amtrak
2 mail went via highway, there would be a pile-up of trailers
3 in Florida and the West Coast unless the trailers were
4 returned, is that what you say there?

5 A Basically, yes.

6 Q Yes. Now, do you know that highway contractors
7 use trailers to move one commodity in one direction and
8 another commodity in the other direction?

9 A With regard to mail, I am not entirely sure they
10 can. My understanding is of a mail contract -- well, I take
11 that back. You can't mix mail and other commodities.
12 Whether you can move other commodities back is another issue
13 altogether. You would have to have the loads and
14 everything.

15 We need the trailers back in time to schedule
16 regularly scheduled service on a fixed schedule. So our
17 needs are such that we need to have those trailers returned
18 in a timely fashion for a preferential network.

19 Q Okay. And you know enough about truckers to know
20 that they try to return their trailers to wherever they came
21 from, too, so they can carry more loads, so they have the
22 same interest you do?

23 A They do have the same interest, yes.

24 Q Okay. And are you aware of any law of the United
25 States or rule of the Postal Service that would prohibit a

1 highway contractor from carrying some non-mail back in the
2 trailer that carried mail in the other direction?

3 A I am not aware of any law, no. That doesn't mean
4 there aren't any, I just don't know of any.

5 Q Okay. Now, up on the top of page 4, you talk
6 about highway capacity and infinitely small increments.
7 Now, I take it, first of all, you are not saying that Mr.
8 Nelson said, in so many words, that truck capacity could be
9 purchased in infinitely small increments, you are not
10 testifying?

11 A No, no, I am not.

12 Q Okay. Now, is it, however, fair to say that
13 trucks are somewhat atomistic, that is you can buy trucks of
14 larger or smaller capacity and use the varying capacity,
15 depending on your needs?

16 A I think it is fair to say that trucks come in
17 standard sizes, and you can't send two-thirds of a physical
18 truck someplace, you have to send a whole truck, and that
19 truck might be, for example, 40 feet long. And that is the
20 essence of what incremental trailer analysis in my testimony
21 is, is that you sort of have to have a particular size
22 trailer to get the job done. And that means you have to
23 bring back a particular size trailer. You can't bring back
24 a third of a trailer.

25 Q Okay. But if you know in advance that your needs

1 are only going to be for half of a 40-footer, you can buy
2 something smaller than a 40-footer, or use -- hire a
3 contractor that uses something smaller than a 40-footer for
4 that need, can't you?

5 A You could do that, but the kind of distances we
6 are talking about here, you wouldn't. You would want to
7 consolidate that with some other load, which is what,
8 exactly what Amtrak does for us.

9 Q But I didn't ask you about Amtrak, I asked about
10 trucks.

11 A Right.

12 Q And if we are talking about using trucks, you can
13 use a smaller truck or a larger truck, you can use a van or
14 a tractor-trailer, or whatever, depending on your needs,
15 can't you?

16 A You can, but it is not advisable. I mean why
17 would you send a 24 foot truck -- well, first of all, to
18 some extent, you can't. You can't run straight trucks
19 long-haul -- that was testified to in the last rate case --
20 because the tractor-trailers are designed for long-haul and
21 straight trucks are not.

22 But staying in the world of tractor-trailers,
23 there is no reason you would want to run a smaller
24 tractor-trailer if you can consolidate a load and make a
25 bigger load, because you are going 1,000-2000 miles in some

1 of these instances.

2 Q Now, you hypothesized that if we replaced this
3 operation you personally observed in Chicago at Amtrak with
4 highway transportation, there would have to be a building of
5 facilities there, and you described the operation in Chicago
6 and all that. But we earlier agreed that if you were using
7 trucks, it wouldn't have to go through, the mail wouldn't
8 have to go through Chicago, right?

9 A Well, what I am saying is that if you are going to
10 consolidate less than truckloads into truckloads, which is
11 what Amtrak does for us, you would need to take them
12 somewhere to do that. That means you would need a facility
13 and people.

14 Q Yes. But it doesn't have to be Chicago?

15 A No.

16 Q Let's make sure the record is clear. You are
17 agreeing with me it doesn't have to be Chicago, right?

18 A No. It could be Oak Park.

19 Q You are not agreeing?

20 A It could be Oak Park.

21 Q You are agreeing with me, it could be someplace
22 other than Chicago? You said no, and I think you mean yes,
23 that it doesn't have to be Chicago.

24 A Oh, it doesn't have to be Chicago. Yeah, I agree
25 with you. I mean if a lot of the mail happens to go through

1 Chicago, it would be a nice place to do it.

2 Q Is it also possible for the Postal Service, when
3 it is buying highway transportation services, to
4 triangulate, as truckers do, for other commodities and, say,
5 go from Chicago to Denver and then Denver to somewhere else
6 and then back to Chicago?

7 A Yes. Whether they can do that in a timely enough
8 fashion to deliver periodicals and First Class mail is an
9 entirely separate issue I think.

10 Q You wove a little bit of something into that
11 answer I want to explore with you. Timely First Class mail.
12 You are not suggesting, are you, that the Postal Service is
13 the only shipper in America that has a need for timely
14 transportation service, are you?

15 A No.

16 Q In any event, Mr. Pickett, you calculate a number
17 of \$2.3 million in cost savings on page 7, just before you
18 turn to Witness Neels' testimony. And I just want to make
19 sure that we -- the record is clear on what it is that your
20 calculation estimates there.

21 A Okay. That is, just to make the record clear,
22 that is a separate issue. Mr. Nelson recommends in his
23 testimony that the cost of roadtrailers we distributed based
24 on the inter-SCF highway key, because (a) no one really
25 knows what the distribution of mail is on roadtrailers, and

1 (b) Nelson asserts that inter-SCF highway is the appropriate
2 substitute for the Amtrak key.

3 What that 2.3 million is is the difference between
4 Nelson's estimate and the estimate that we came up with
5 using a special study of roadrailleurs alone.

6 Q Right. Okay. And he calculated, or estimated 3.1
7 million and you calculated 2.3 million, right, that is what
8 we are talking about here?

9 A Let me just -- I will check the numbers in the
10 back of my Library References to make sure. That is about
11 right, yeah.

12 Q Now, on the bottom of page 4, you talk about
13 Amtrak rates as reflecting the cost of returning surplus
14 equipment to the originating city, do you see that?

15 A Right. Yeah.

16 Q When you hire a trucker who you earlier agreed
17 with me sometimes, oftentimes hauls another commodity on the
18 backhaul, as they refer to it, than what they hauled on the
19 front-haul, the trucker always has that as a goal, does he
20 not? All other things being equal, he would like to haul
21 things in both directions? I think we earlier agreed on
22 that, too?

23 A I think so, yeah.

24 Q Yeah. If that is the case, then the cost of the
25 backhaul can be attributed, in the scenario we just agreed

1 on, to the backhaul commodity, right?

2 A That is true. Now, there is one additional
3 qualification to that, and that is, to the extent that what
4 he is trucking for us in one direction is containerized, we
5 have got the same problem with our containers ending up in
6 the destination area, and we have got to get those back to
7 the origin.

8 The reason I set this thing up this way is because
9 I am assuming that we need to have this loop closed to
10 provide reliable transportation, along the lines of what Dr.
11 Bradley talked about when he referred to trips going out and
12 trips coming back. We want to close that circuit in a
13 reliable way.

14 Q And there are lots of shippers in America that
15 have those interests, are there not?

16 A Yes, there are. They may or may not work for us,
17 however.

18 MR. McBRIDE: That's all we have at the moment,
19 Mr. Chairman.

20 CHAIRMAN GLEIMAN: Mr. McKeever.

21 MR. McKEEVER: Thank you, Mr. Chairman.

22 CROSS EXAMINATION

23 BY MR. McKEEVER:

24 Q Mr. Pickett.

25 A Good morning, Mr. McKeever.

1 Q Could you turn to page 10 of your testimony,
2 please.

3 A I got it.

4 Q Now, you state there on line 3 that the Boeing-
5 727 became the primary aircraft used on WNET. When did that
6 happen, about?

7 A August 28th, I think, of last year.

8 Q Of 1999?

9 A Yes.

10 Q Before then, what planes were used?

11 A I have that in an interrogatory response, but it
12 was a mix of planes. There was -- depending on what time
13 frame you're talking about, there are different planes each
14 time, but we used DC-9s, Metro IIIs, Beechcraft 1900.

15 Q Okay. Now, you state also on line 6 on that same
16 page that the A-2 container has long been the standard
17 container used on the Eagle Network. Can you put a date on
18 that for me, about when the A-2 container became the
19 standard container?

20 A No, I can't. I really don't know.

21 Q But it was years ago? It was before August 24,
22 1999?

23 A I think so because I had seen them before then.
24 The reason I'm hesitating is that I got back into
25 transportation costing around '96, so I saw the Eagle

1 Network for the first time around '96, '97, so I really
2 can't tell you what happened before that specifically on
3 this issue. But it seems to me that, you know, there were
4 hundreds of the things at the hub, so it was pretty clear
5 that that's what they had been using. They're not new,
6 they're all -- you know, some of them are pretty old.

7 Q Okay. So am I correct that the A-2 container has
8 been the standard container used on the Eagle Network since
9 about '97 at least?

10 A Could be, yeah.

11 Q Okay. Could you turn to page 13 of your
12 testimony, please.

13 A Okay.

14 Q You indicate there on lines 10 to 12 that the
15 criteria for economic value added incentive payments place
16 equal importance on meeting service objectives for both
17 first class and priority mail; is that correct?

18 A That's right.

19 Q And on page 14 in footnote 20, I think you
20 indicate that priority mail service performance was made an
21 EVA criterion in FY 1999, correct?

22 A That's right.

23 Q When was meeting service objectives for first-
24 class mail made an EVA criterion, do you know?

25 A Overnight was I think '96 or '97, and two- and

1 three-day was in place in '98. The only mention of priority
2 mail that I know of as an EVA -- having to do with EVA at
3 all in '98 was to develop a measure of it so that it could
4 be incorporated sometime later. The actual numbers didn't
5 come into play until '99.

6 Q Okay. Could you turn to page 14 of your
7 testimony, please.

8 A Okay.

9 Q You indicate on lines 11 through 14 that in nearly
10 every conversation you have had with Postal field personnel
11 in the past few years on dedicated air, they have referred
12 repeatedly to two- and three-day mail; do you see that?

13 A That's right.

14 Q Now, that includes priority mail; is that correct?

15 A Yes, it does.

16 Q Am I correct that first-class has a two- to four-
17 day service standard depending on how far it's going?

18 A I thought it was two to three, but -- when I hear
19 two- to three-day and I see the mail that I see being
20 handled in these facilities, I make a natural connection
21 between priority mail and first-class mail because you see
22 an awful lot of both.

23 Q So as far as you know, the first-class mail
24 service standard is two to three days nationwide?

25 A As far as I know, yes.

1 Q Could you turn to page 11, please.

2 A Okay.

3 Q There you indicate on lines 14 and 15 that the
4 Eagle Overnight Network is very similar to the network as it
5 existed in 1990; is that correct?

6 A That's right.

7 Q And if you turn to page 12, pages 2 to 4, you also
8 -- excuse me -- page 12, lines 2 to 4, you also note that
9 the percentage of Eagle express mail share is virtually the
10 same now as it was in Docket R90-1; is that correct?

11 A That's correct.

12 Q Am I correct that in R90-1, the Commission
13 allocated the network premium to both express mail and
14 priority mail?

15 A That's correct, I believe.

16 MR. McKEEVER: That's all I have, Mr. Chairman.

17 CHAIRMAN GLEIMAN: Is there any follow up?

18 Questions from the bench?

19 Would you like some time to prepare for redirect?

20 MR. KOETTING: I think we can do it in 30 seconds,
21 maybe.

22 CHAIRMAN GLEIMAN: Okay.

23 [Pause.]

24 CHAIRMAN GLEIMAN: Mr. Koetting.

25 MR. KOETTING: Thank you, Mr. Chairman.

REDIRECT EXAMINATION

BY MR. KOETTING:

Q Mr. Pickett, I would like to go over one thing which you went over with Mr. McBride and I thought the record was pretty clear but others have suggested that there is potentially still some ambiguity, so I would like to go through it one more time, and I'm referring to page 7 of your testimony, and this involves the results that you are recommending for the Roadrailleurs distribution.

On lines 9 through 10, you say, based on the results, I recommend reducing BY 1998 periodicals Amtrak cost by 2.3 million dollars.

A Correct.

Q What is the baseline to which you would be applying that \$2.3 million?

A The baseline would be the test -- I'm sorry -- the base year '98 cost distribution that shows up in the B workpapers of Witness Meehan.

If you look on page 26 of library reference -- my library reference I-432, Part A, it lays all that out, and what it shows is a redistribution of the Roadrailer part of Amtrak cost based on the special study in I-433.

Based on that redistribution, the base year cost for periodicals for Amtrak in total, implying Roadrailer, would be \$2.3 million less. There is -- the confusion might

1 be that I'm comparing that to Mr. Nelson's numbers. I'm
2 not. That's a comparison to the base year numbers.

3 MR. KOETTING: Thank you for that clarification.
4 That's all we have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: Any recross?

6 If not, Mr. Pickett, that completes your testimony
7 here today. We appreciate your appearance, your
8 contributions to the record, and you are excused.

9 THE WITNESS: Thank you, Mr. Chairman.

10 [Witness excused.]

11 CHAIRMAN GLEIMAN: I believe you have the next
12 witness.

13 MR. KOETTING: Thank you, Mr. Chairman.

14 The Postal Service calls as its next witness James
15 D. Young.

16 CHAIRMAN GLEIMAN: Mr. Young, as best I can tell,
17 you have not been with us in this proceeding, so before you
18 settle in, if I could get you to raise your right hand.

19 Whereupon,

20 JAMES D. YOUNG,
21 a witness, was called for examination by counsel on behalf
22 of the United States Postal Service and, having been first
23 duly sworn, was examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. KOETTING:

1 Q Mr. Young, could you please state your full name
2 for the record.

3 A James Dwight Young is my name.

4 Q I am handing you a copy of a document entitled
5 Rebuttal Testimony of James D. Young on Behalf of the United
6 States Postal Service which has been designated as USPS-RT-
7 10. Are you familiar with that document?

8 A Yes, I am.

9 Q Was it prepared by you or under your supervision?

10 A By me and under my supervision as well.

11 Q If you were to testify orally today, would this be
12 your testimony?

13 A Yes, it would.

14 MR. KOETTING: Mr. Chairman, with that, the Postal
15 Service would move that the rebuttal testimony of James D.
16 Young on behalf of the United States Postal Service, USPS-
17 RT-10, be accepted into evidence.

18 CHAIRMAN GLEIMAN: Is there an objection?

19 Hearing none, if you would provide two copies of
20 the testimony to the court reporter, I'll direct that the
21 material be transcribed into the record and received into
22 evidence.

23 [Rebuttal Testimony of James D.
24 Young, USPS-RT-10, was received in
25 evidence and transcribed in the

1 record.]
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USPS-RT-10

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
JAMES D. YOUNG
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

USPS-RT-10

1

2

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6 service than that available in the private sector. 27 2. Mr. Nelson's characterizations regarding freight railroads and the Postal
8 Service are at odds with my experience and expectations. 5

Autobiographical Sketch

My name is James D. Young. My postal career began in the Chicago Main Post Office as a distribution clerk in November 1970. During the 30+ years since 1970, I have held various staff and management positions throughout Mail Processing, Transportation Operations, and Purchasing and Materials. Examples include the following:

Position Title	Facility
• Transportation Dock Clerk	Washington BMC
• Transportation Analyst	Washington BMC
• Transportation Specialist	Washington TMSC
• Senior, Transportation Specialist	Washington TMSC
• Transportation Specialist	Postal Headquarters
• Program Manager, Transportation Planning	Postal Headquarters
• Manager, Transportation Policies	Postal Headquarters
• Manager, National Mail Transportation Purchasing	Purchasing and Materials, Postal Headquarters

In my current position as Manager, National Mail Transportation Purchasing, my group has responsibility for the purchasing and contract management for approximately \$4 billion worth of transportation services annually. The modes of transportation include air, rail, highway (transport and delivery), boats, even mules and wheelbarrows that are used in specialized situations.

1 **Purpose and Scope**

2
3 The purpose of my testimony is to rebut certain representations regarding
4 transportation purchasing made by witness Nelson (MPA-T-3). Specifically, I will
5 address the following:

- 6 1) Nelson's comparisons of postal contract highway transportation to
7 private sector highway are overly simplistic and do not comport with
8 my experience.
- 9 2) Nelson's expectations regarding the use of freight rail service for
10 mail transportation are overly optimistic.

1 **1. The Postal Service's highway contractors provide a fundamentally**
2 **different service than that available in the private sector.**

3
4 Mr. Nelson (Tr. 28/13416 to 13417) finds that the Postal Service pays an
5 "unnecessary" premium for highway transportation. This conclusion is based on
6 his understanding that

7 "For the trucking industry, however, the security and processing
8 requirements of the Postal Service are not unlike those of many private
9 sector shippers of high-value, expedited and just-in-time shipments that
10 are handled successfully every day." (Tr. 28/13416-13417.)

11
12 As James Orlando (Docket No. R84-1, USPS-RT-6) and I (Docket No. R97-1,
13 USPS-RT-3) pointed out very clearly, such comparisons fail to take into account
14 significant differences between our operations and private sector carriers. The
15 Postal Service requires its highway transportation contractors to provide
16 consistent, reliable and secure service everywhere, every day.

17 Precise scheduling of postal transportation is required in order to make
18 efficient use of postal employees, who account for about 75 percent of postal
19 operating costs. Our highway contract routes operate at all hours of the day
20 and night, year-round. Our schedules include time-definite dispatch and arrival
21 times. As I discussed in Docket No. R97-1 and repeat in detail below, these
22 schedules are considerably more demanding than those generally used in the
23 motor freight industry.

24 Another characteristic of our contract transportation system that differs
25 from the private sector is our commitment to keep mail secure. Unlike many
26 products carried by motor freight providers, mail is not replaceable. And we

1 must have confidence that it is kept secure at all times. For this reason, the
2 Postal Service requires security clearances for its contractors and contract
3 drivers.

4 The Postal Service makes extraordinary demands on our highway
5 contractors. In return, the Postal Service includes certain provisions in its
6 highway contracts to ensure the viability of the carriers we use. Our contracts
7 provide competitive compensation with assurances to the contractor that a
8 secure income will be forthcoming for the life of the contract. Included in these
9 assurances is our standard indemnification in the event the contract is canceled.
10 We also provide some protection against fuel and wage inflation. The resulting
11 symbiotic relationship between the Postal Service and its highway carriers
12 assures that we maintain the most economical, reliable and secure highway
13 transportation available. In my opinion, eliminating contract renewals in the
14 manner suggested by witness Nelson would be foolhardy and would endanger
15 the stability and reliability of postal contract highway transportation.

16 Mr. Nelson's comparison of postal highway transportation to private sector
17 providers working in a just-in-time inventory environment (Tr. 28/13417) is
18 equally flawed. As I discussed with counsel for McGraw Hill in the last rate case
19 (Docket No. R97-1, Tr. 35/18922-18924), this is a simplistic comparison that fails
20 to take into account the more stringent scheduling requirements the Postal
21 Service places on its contractors:

22 "Now, some people think about just in time,...a concept that's
23 been talked about a lot in the last few years and been implemented in
24 the private sector, but even in a just-in-time environment, based on

1 my knowledge of it anyway, we're not talking about an environment
2 where, if a truck is late 15 minutes, there's an irregularity issued to the
3 truck driver, which is what's true in the Postal Service's transportation
4 network.

5 Just in time typically refers to the fact that..."I'll get it to you
6 on Friday afternoon not later than five o'clock and you have that
7 window of time, but with our transportation network, every truck that's
8 moving moves on a time-definite schedule with the minor exception of
9 a plant load movement that might have a bit more flexibility in it
10 because the mailer may want that kind of flexibility.

11 But all our normal transportation, scheduled transportation,
12 moves on a time-definite schedule down to the minute, and so, I see
13 that as being very, very different from what you will see in the
14 transportation of freight in the private sector."

15
16 What I said then still holds today.

17 Mr. Nelson claims that Postal Service purchased highway transportation
18 costs are growing at rates much faster than the private sector. (Tr. 28/13407). I
19 disagree. On a cost per mile basis, our highway transportation costs are
20 relatively low, particularly in light of the demands we place on our contractors.
21 Our overall expenditures on highway transportation are increasing faster than the
22 rate of inflation, because we are buying more transportation service to meet the
23 needs of our customers, including the Periodicals mailers. Furthermore, given
24 the inherent differences in what is being purchased, I find broad comparisons to
25 private sector highway operators invalid. If Mr. Nelson were correct, private
26 sector less-than-truckload and just-in-time carriers would be actively seeking
27 postal contracts. As a rule, they are not.

28 I am satisfied that on a cost-per-mile basis the Postal Service is getting
29 good value for the dollar. This does not mean however that the Postal Service is
30 not seeking to reduce highway contract costs in other ways. My office is leading

1 a systematic review of all high cost-per-mile highway contracts. It is my
2 understanding that this effort is already reflected in the case as \$100 million in
3 transportation cost reductions included in the Breakthrough Productivity effort.

4 **2. Mr. Nelson's characterizations regarding freight railroads and the Postal**
5 **Service are at odds with my experience and expectations.**
6

7 Mr. Nelson's descriptions of the market for freight rail transportation are
8 unrealistic and simply do not comport with my understanding. He asserts that
9 freight rail rates for the traffic formerly moved by Conrail will fall by 10 percent.
10 (Tr. 28/13421.) While I certainly wish this were true, I believe that this is, at best,
11 wishful thinking. Ongoing negotiations between the Postal Service and the
12 Conrail-successor railroads give no indication of an impending decline in freight
13 rail rates. In fact, rates generally, and as a result of fuel price increases, have
14 gone up.

15 I also disagree with Mr. Nelson (Tr. 28/13421) that other freight railroads
16 are likely to give the Postal Service volume discounts for mail transportation. I
17 believe the Postal Service would have to shift considerable volumes to the freight
18 railroads as a prerequisite for such volume discounts. Given the relatively poor
19 service received from many freight railroads, further dependence on rail freight
20 carriers would not be satisfactory to our customers, and accordingly is not
21 expected in the foreseeable future.

22 Mr. Nelson disagrees with the Postal Service's expectations, expressed in
23 response to MPA/USPS-31b, regarding freight rail transportation:

1 "The cost of transportation typically used to transport products
2 moving on rail is likely to increase...The ontime performance provided by
3 rail carriers has declined and this has necessitated a transfer of volumes
4 from rail to higher cost HCR contracts." (Tr. 21/8934)

5
6 Mr. Nelson expects these problems to "dissipate by the Test Year, removing any
7 need to convert freight rail traffic to highway. (Tr. 28/13422.) The recent
8 experience of the Postal Service with the freight railroads has been quite
9 disappointing. Service is slow and inconsistent in many areas of the country.
10 Whether this is caused by mergers and acquisitions, or other systemic problems
11 (such as equipment shortages or trackage problems), I see no reason to
12 disagree with the characterization made the Postal Service in response to
13 MPA/USPS-31b. I am not optimistic that the Postal Service can increase its
14 dependence on the freight railroads unless dramatic steps are taken to improve
15 the quality of service. Our customers would simply not tolerate the poor service
16 that would result.

1 CHAIRMAN GLEIMAN: One party has requested oral
2 cross examination of this witness, the Magazine Publishers
3 of America. Is there anyone else who wishes to cross
4 examine the witness?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, Mr. McBride.

7 MR. McBRIDE: Thank you, Mr. Chairman.

8 CROSS EXAMINATION

9 BY MR. McBRIDE:

10 Q Good morning, Mr. Young.

11 A How are you doing?

12 Q All right. And you, sir?

13 A Fine.

14 Q Good.

15 I want to begin by asking whether you got a chance
16 to review the cross examination exhibits that I sent to your
17 counsel on Friday.

18 A I want to be sure we're referring to the same
19 documents. The one you sent about UPS --

20 Q Yes.

21 A Yes.

22 Q Good. And have you had a chance to read those?

23 A Yes, I have had an opportunity to scan through
24 them.

25 Q Good. Now, let me make sure I first understand

1 your background and experience which is laid out at page (i)
2 of your testimony.

3 You've been with the Postal Service for over 30
4 years, I gather?

5 A Very close to it.

6 Q It says 30-plus. I thought that meant more than
7 30 years.

8 A 29.99 years.

9 Q Okay.

10 [Laughter.]

11 BY MR. McBRIDE:

12 Q You're not threatening to stop at 30, are you?

13 A Thirty-three.

14 Q Okay.

15 A That's the magic number.

16 Q All right.

17 And you've been in transportation of one sort of
18 another I take it the whole time?

19 A For the most part. I was a distribution clerk for
20 a short period of time, but most of my career has been spent
21 in transportation.

22 Q Okay. And were you here when the good Professor
23 Bradley testified earlier this morning?

24 A Yes, I was here, and a bit confused.

25 Q Oh, okay. Well, he said you're the guy who knows

1 all about transportation; he just drove a dump truck. Do
2 you remember that?

3 A I know something about it.

4 Q Okay.

5 A All right.

6 Q Now, you testify about time-sensitive mail.

7 A Uh-huh.

8 Q Right?

9 A Yes.

10 Q And --

11 A Is there a particular page that you're referring
12 to?

13 Q Sure. Let's start on your page 2.

14 A Okay.

15 Q Your heading talks about the highway contractors
16 of the Postal Service providing a fundamentally different
17 service than that available in the private sector. Do you
18 see that heading?

19 A Yes, I see it.

20 Q Are you trying to create the impression in that
21 section that the Postal Service is the only time-sensitive
22 customer of transportation carriers in America?

23 A I wouldn't say that they're the only time-
24 sensitive, but I would say that I don't know of any who are
25 any more time-sensitive or as time-sensitive as the Postal

1 Service is.

2 Q All right. Now, let me just ask you if you happen
3 to know that there are factories in America that run without
4 inventory essentially and have just-in-time requirements for
5 highway transportation with a 15-minute window?

6 A I'm not familiar with any that have a 15-minute
7 window other than maybe like General Motors, Ford, some of
8 those kind of companies who have operations where they have
9 lines running in production and they have deliveries that
10 may come for those things. And typically what they're using
11 in those cases are aircraft to transport parts or
12 replacement equipment for machinery that may break down on a
13 line. Those are the only ones that I'm familiar with that
14 have that kind of time-sensitiveness to it.

15 Q Okay. Now, in the UPS document that I sent you --
16 MR. McBRIDE: And for the benefit of the
17 Commission, I will inform the record that I gave to the
18 Postal Service counsel and Mr. Young has reviewed the UPS --
19 that is, United Parcel Service; let me make sure we're not
20 confusing acronyms -- UPS Form 10-K on file with the
21 Securities and Exchange Commission and which is retrievable
22 from the UPS Website.

23 That is correct, is it not, Mr. Young, from your
24 review of the document, the way I just described it is
25 right?

1 A It's an investor relations document from UPS.

2 Q Yes. Do you know what a Form 10-K is?

3 A No, I do not.

4 Q Okay. In any event, do you recall reading in this
5 document that time-definite transportation -- and I'm now
6 reading from page 4 of 8 -- time-definite transportation,
7 which is no longer limited to air express, has become a
8 critical part of inventory management and improving overall
9 distribution efficiency and has grown from 4 percent of the
10 U.S. parcel delivery market in 1977 to over 60 percent
11 today.

12 Do you see that?

13 A Yes, sir, at the top of page 4, I believe it is.

14 Q Right. And this document -- we won't read the
15 whole thing into the record, but this document discusses the
16 fact that UPS views the logistics market in the United
17 States as having become much more dependent on time-
18 definite transportation; isn't that correct?

19 A Based on what you're reading there, yes.

20 Q But I mean based on your review of the entire
21 document, isn't that the theme of the document?

22 A As I read this paragraph, I can explain to you
23 what I understand it to be saying.

24 Q All right. Go right ahead.

25 A As I understand it, this paragraph is indicating

1 that people in terms of products being brought to them are
2 much more concerned with the time-definiteness of it than
3 they were some years ago, as I understand the document.

4 Now, when I talk about time-definite
5 transportation in this document that I prepared, I'm talking
6 about trucks being scheduled to be at a place, whether
7 they're going 10 miles or 2,000 miles -- by a time-specific
8 moment in time, and if they're more than 15 minutes late, I
9 think is our current regulation, there is an irregularity
10 prepared for them.

11 I don't think, in my mind anyway, that these two
12 documents are saying exactly the same thing.

13 Q What is the difference that you then think you see
14 in the UPS document?

15 A Generally speaking, when we use -- generally
16 speaking, when I see language of this kind written, it's to
17 say if you promise to get something to them in two days,
18 that you do it in two days, or three days, whatever the
19 commitment is. That's the way I interpret it. But I'm
20 writing to a more specific level in the document that we
21 prepared here.

22 Q Now, you say at the bottom of page 2 of your
23 testimony, lines 24 and 25, another characteristic of our
24 contract transportation system that differs from the private
25 sector is our commitment to keep mail secure.

1 A Yes.

2 Q Now, I take it that you don't mean to imply that
3 the mail is the only commodity carried on the highway that
4 needs to be kept secure; do you?

5 A I don't mean to imply that that's the only
6 commodity that needs to be kept secure, but I think that
7 historically speaking, I mean, in the chartered mission of
8 the Postal Service, it is that you will deliver it with
9 certainty, security, and celerity.

10 Q Sure.

11 A And that's one of the key requirements that we
12 have of people who haul mail.

13 Q And I'm not disputing that that's a characteristic
14 of mail transportation.

15 I'm simply asking you whether that need for
16 security is also characteristics of such items that are
17 carried by highway in the United States -- guided missiles,
18 artillery, ammunition, military bombs, chemical warfare
19 gases, radioactive materials, explosives, flammable liquids,
20 tear gas, those sorts of things that DOT regards as
21 hazardous and which highway carriers carry every day?

22 A Yes, I would agree with that. I might add to it,
23 though.

24 Q Sure.

25 A One something that might be comparable to what

1 you're saying is, we transport stamps. The Postal Service
2 transports stamps.

3 When I'm transporting stamps, the level of
4 security for those are much higher than it is for regular
5 mail, and it costs me about two or three dollars a mile to
6 transport stamps, whereas it's about \$1.20 for regular mail.

7 Q Okay.

8 A Different security levels.

9 Q And if I'm Brinks or I'm Wells Fargo and I'm
10 transporting money, there's a different security level, too,
11 right?

12 A I would think so, yes.

13 Q Now, in terms of supply chain efficiency, which is
14 what you talk about at page 4 of your testimony -- and I
15 want to tie it back to this time-sensitive nature that we
16 were talking about earlier.

17 Do you know whether fresh fish moves by truckload
18 in the United States?

19 A It's my understanding that it does in some
20 instances.

21 Q And I'm sure you would agree with me that that's a
22 time-sensitive type of transportation; isn't that right?

23 A Yes, I would agree.

24 Q All right. Now, looking at page 3 of your
25 testimony, I take it that you're familiar with the terms of

1 at least some transportation contracts of the Postal
2 Service, highway or rail; is that correct?

3 A Yes, I'm familiar with some of them.

4 Q Do you draft them or do you negotiate them, or
5 just what is your role with respect to them?

6 A I typically manage people who do those things.

7 Q I see, so you have to make the judgments about
8 whether what they've done is something the Postal Service
9 ought to commit to; is that right?

10 A Not in all cases. In some cases, I make those
11 kinds of judgments, yes.

12 Q All right now, I don't want to ask you what the
13 rates are in any of these contracts, necessarily. If we can
14 stay away from dollars and cents, call it X or whatever you
15 want to call a rate.

16 But I do want to ask you how the rates are
17 adjusted in a typical contract, highway or rail. Let's
18 start with highway that you're familiar with in the Postal
19 Service; do you know how that's done?

20 A Yes, I do.

21 Q How is that done?

22 A A contractor will bid a contract, and it's
23 awarded. And within the contract it will have 20 elements
24 of cost that we look at.

25 Line Items 1(b), 5, and 7.17, which are three

1 elements of cost, refer to general overhead, contractors'
2 wages, and operating costs, are adjusted based on CPI
3 changes, based on the change in CPI.

4 And that typically represents somewhere in the
5 neighborhood of about 20 percent of the cost of the
6 contract.

7 The contract employee wages and fringe benefits in
8 the contract, they normally represent somewhere in the
9 neighborhood of 56 to 60 percent of the cost of a contract.

10 And those wages and fringe benefits are mandated
11 by the Department of Labor, which typically run to 20, 25,
12 30 percent higher than what a truck driver gets in the
13 private sector.

14 And the other part of the contract is the
15 equipment, which is a fixed cost because once you buy the
16 piece of equipment, it is a fixed number for the term of the
17 contract.

18 So essentially what happens is, fuel, it can be
19 adjusted under the term of the contract, and the contractor
20 had to document the cost of the fuel.

21 The same is true with insurance; it can be
22 adjusted. It has to be documented and he has to provide the
23 insurance policy to the Postal Service.

24 I mean, there are reasons that we do those things.

25 Q That's fine. I just want to ask you about the

1 Consumer Price Index since that was the first thing you
2 mentioned. Do you know whether that's an input price index
3 or an output cost index?

4 A You'd have to explain to me a little bit what you
5 mean when you say input index.

6 Q Sure.

7 A I can tell you what we do.

8 Q Okay, input price index is something that looks at
9 the unit cost of a commodity, say, in this case, diesel
10 fuel. An output cost index is something that looks at the
11 cost per gallon of the diesel fuel, and also looks at the
12 total gallons of the diesel fuel being used to turn it into
13 an output.

14 A We do the latter.

15 Q You do the latter?

16 A Yes.

17 Q Right.

18 A Fuel, we look at the total gallons, and we have
19 certain standards that we expect a trucker to achieve in
20 terms of the miles per gallon.

21 And we also look at the price per gallon, and a
22 trucker has to document the cost of fuel, a certification
23 under Title XVIII for whatever we pay him for fuel within a
24 contract.

25 Q You mean in total, multiplying the unit cost by

1 the number of gallons?

2 A The unit cost by the number of gallons, if they
3 meet our standards in terms of the miles per gallon.

4 Q Is the same done with the other inputs, say,
5 labor? Do you look at just the wage rate, or do you also
6 look at the total hours?

7 A Total hours as well.

8 Q Is that universally true in Postal Service highway
9 contracts?

10 A That's the standard.

11 Q Okay.

12 Now, I take it that your testimony on page 3 is by
13 implication, an agreement with Witness Nelson that it is a
14 fact that renewal contracts for highway transportation are
15 at a higher rate than non-renewal contracts; that is,
16 existing contracts are higher than new?

17 A That existing contracts are higher than new
18 contracts?

19 Q Yes.

20 A Before -- I really couldn't answer that question
21 in the sense of you have to look at them on a contract-by-
22 contract basis, and let me just explain what I mean by that?

23 You may look at a contract and unit cause with a
24 rate-per-mile on it and it may be two or three dollars a
25 mile.

1 What happens sometimes -- many times, really -- in
2 shorter haul contracts, is that you may have an individual
3 operating a truck and he's going ten miles with the back and
4 forth and back and forth.

5 And the rate for that would be four or five
6 dollars a mile in some instances, and the reason is that
7 you're paying that person the same wages, the same fringe
8 benefits, fuel, all those elements of cost don't change,
9 just because you're running them for short distances.

10 And under the Department of Labor's regulations,
11 which we have to follow, you have to pay them for all hours
12 worked, which is not true in the private sector, as a matter
13 of fact.

14 So, you can look at unit costs and you can make
15 some assumptions, but you can't get to the point of saying
16 what I think you're trying to say, is that new contracts or
17 renewed contracts are higher than existing contracts.

18 I couldn't draw that conclusion from what you're
19 saying.

20 Q Well, you combined new and renewed in there, and I
21 want to keep this straight.

22 A Okay.

23 Q I'm asking you whether, on average, existing
24 Postal Service highway transportation contracts have a
25 higher cost per unit of capacity mile than do new contracts?

1 A And the problem that I have with it is that it's
2 misleading to say on average; that's what I'm saying to you.

3 Q It may be, but I'm just asking to get the answer
4 first, and then we can talk later about whether it's
5 misleading. I'm just wondering if it's a fact.

6 A State it to me one more time.

7 Q Is the average cost per unit mile -- per capacity
8 mile, I should say, per cubic foot mile -- in existing
9 highway transportation contracts, higher than in new
10 contracts?

11 A And you mean -- when you say new, you mean ones
12 that we bid off of the street; is that what you mean?

13 Q Yes.

14 A They probably would be, yes, with the
15 qualification that I just explained to you.

16 Q Now, on page 4, by the way, you quoted back some
17 testimony you gave in R97-1. Let's come back to that for a
18 minute.

19 You said then, apparently -- and I take your word
20 for it that this is an accurate quote the record will
21 reflect -- and I'm looking at lines 11 to 14.

22 That all of our normal transportation, scheduled
23 transportation, moves on a time-definite scheduled down to
24 the minute, and so I see that as being very, very different
25 from what you will see in the transportation of freight in

1 the private sector.

2 Do you see that?

3 A Yes, I see it.

4 Q And I take it that at least in the instance of
5 Ford and General Motors and that we were talking about a
6 little earlier, you do understand that they use
7 transportation with 15-minute windows?

8 A Yes. When I use the term -- you talked about Ford
9 and General Motors -- let me explain.

10 I know, let's say, as an example, there's a
11 company, Kitty Hawk Airlines, they have an agreement with
12 Ford and one with General Motors as well, whereas they have
13 a line, a production line that goes down, they guarantee to
14 have them a part there within a certain specific amount of
15 time.

16 And in the absence of them doing that, there's a
17 penalty associated with it to offset the cost of that
18 production line being down.

19 Now, in the case of general freight, freight
20 typically moves on a not to a minute schedule. That's the
21 reality of the freight sector by trucks.

22 Q Well, wait a minute. I thought you said earlier
23 that you really weren't familiar with all facets of the
24 private sector transportation.

25 A I'm not familiar with all facets of it, but I

1 study companies, UPS, FedEx, their numbers. I know their
2 numbers -- Covenant, J.B. Hunt, I study those people's --
3 their numbers, and how they operate, yes.

4 Q But I'm asking you if you know that General Motors
5 and Ford, for example, have parts delivered, not just for
6 the equipment that may break down and the kind of example
7 that you gave earlier, but parts for the cars that they're
8 making and the trucks, delivered on a just-in-time basis
9 with 15-minute windows.

10 A I do not know that to be a fact, no.

11 Q Do you know whether it's not a fact?

12 A I don't know that it's not a fact.

13 Q Okay. And would your answers be the same about
14 other industries that I might cite to you?

15 A There's a whole world out there that I don't know
16 about, but there is a great deal that I do know about
17 freight.

18 And freight typically does not move on a to-a-
19 minute schedule as mail moves; that's what I do know.

20 Q Did you know, for example, that Eli Lilly in
21 Indianapolis makes drugs using just-in-time delivery with
22 15-minute windows on the components?

23 A No, I was not aware of that.

24 Q Now, in any event, you do testify in the section
25 of your testimony that ends on the top of page 5 in this

1 part we were just discussing, that what you call
2 breakthrough productivity is going to achieve, in your
3 estimate, \$100 million in transportation cost reductions;
4 isn't that correct?

5 A Yes, that's what I'm testifying to at the top of
6 page 5; that's the plan that will achieve that.

7 Q Tell me when you learned when -- or when the
8 Postal Service knew that Conrail was going to be replaced by
9 two railroads?

10 A About the same time that other -- the general
11 industry knew that it was going to be replaced. I don't
12 remember the exact date that we became aware of that
13 knowledge.

14 Q Well, the reason I asked is because there was an
15 answer from the Postal Service as an institution -- I don't
16 know who wrote it -- that seemed to imply that Conrail would
17 be operating during the base year and the test year.

18 Did you know that, there was such a response?

19 A No, I'm not aware of that response.

20 Q In any event, I sent your counsel on Friday a
21 Department of Energy study of the situation. The study was
22 entitled Energy Policy Act Transportation Rate Study:
23 Interim Report on Coal Transportation. It is numbered
24 DOE/EIA-0597, dated October 1995. Did you get a chance to
25 review that?

1 A Yes, I did.

2 Q Was that report about what happened to rates in
3 coal transportation in Wyoming and Montana when a second
4 railroad was allowed in to have access to that coal?

5 A I didn't see anything about a second railroad, but
6 I did -- I see what happened here as far as this study is
7 concerned, as it relates to coal.

8 Q Well, were you familiar with the fact that
9 Burlington Northern Railroad used to have a monopoly into
10 the Powder River Basin in Wyoming, and then the Interstate
11 Commerce Commission let a second railroad, an affiliate of
12 the Chicago & Northwestern into that basin?

13 A No, I was not familiar with that.

14 Q Well, that is what this is about. And when that
15 happened, this study says rates fell by 36 percent on
16 average per ton. Do you see that? I even marked it in the
17 margin on the copy I faxed to your counsel.

18 A Yes, I see that.

19 Q Now, are you familiar with any more recent
20 examples of one railroad that has a monopoly in a certain
21 area, having a second railroad introduced to its area prior
22 to the split of Conrail into two railroads?

23 A They had a split out west, as I think you are
24 referring to. That was some years back. The most recent
25 one that I am familiar with is when Conrail was absorbed by

1 the Norfolk Southern and the CSX.

2 Q What was the split out west you were referring to?

3 A Let me see, was it -- the BN/Santa Fe were
4 combined and the -- what were the other two? I don't
5 remember.

6 Q The Union Pacific and Southern Pacific merged.

7 A Right. Yes.

8 Q After Union Pacific merged with Chicago and
9 Northwestern.

10 A Yes, some years ago.

11 Q Those were all mergers, right?

12 A Yes.

13 Q Were any of them instances in which one railroad
14 was split into two?

15 A Not to my knowledge, no. They were mergers.

16 Q So you misspoke when you referred to a split out
17 west?

18 A Yes, I did.

19 Q Yes. But Conrail was split in two, wasn't it?

20 A Yes, they were.

21 Q And so in regions of Conrail that used to have
22 only one railroad, now there are two railroads serving those
23 areas, isn't that correct?

24 A That's correct.

25 Q What I was asking about, whether there was any

1 such instance in the recent past prior to the split of
2 Conrail that came to your attention, that you are familiar
3 with?

4 A No, none other than the Conrail split.

5 Q Are you familiar with the fact that certain
6 captive customers of the railroads build their own tracks
7 out to a second railroad to achieve competition?

8 A I am not familiar with it, no.

9 Q You weren't familiar with the fact that the
10 Surface Transportation Board which replaced the ICC approves
11 those regularly?

12 A I know that -- if you are saying some companies
13 build what they what they call "spurs," is that what you are
14 talking about?

15 Q Yes.

16 A Yeah, I know that some companies build spurs in
17 order to tap into a railroad.

18 Q And they do that to get access to a second
19 railroad, correct?

20 A I am not sure what their reasons for doing that
21 are, but that would seem like a pretty reasonable one, I
22 guess.

23 Q And presumably, therefore, they spend that money
24 on that spur, as you referred to it, to try to achieve a
25 rate reduction to pay for the buildout, isn't that right?

1 A I mean that is your assumption.

2 Q No, I am asking if you know that what I just said
3 is true?

4 A Oh, no, I don't know. I don't know that to be
5 true, no, I do not.

6 Q I was recalling a Postal Service institutional
7 response to one of the MPA interrogatories that referred to
8 Conrail in the test year. Do you recall that response?

9 A No.

10 Q Do you have any reason to disagree with me that
11 Conrail essentially went out of business on June 1, 1999?

12 A That sounds about right.

13 Q And that was the so-called split date, right?

14 A Yes.

15 Q And that, therefore, in FY 2001, wherever Conrail
16 existed before, there are now two railroads operating parts
17 of Conrail, CSX and NS, as you testified earlier?

18 A Correct.

19 Q That is Norfolk Southern.

20 A Yes.

21 Q So is it your testimony that the substitution of
22 CSX and NS for Conrail will have no downward impact on
23 rates?

24 A I can tell you what I have experienced since they
25 went out, I can tell you that.

1 Q I think you testified that some of your rates have
2 gone up, right?

3 A That's correct.

4 Q Are you testifying that none of your rates have
5 been subject to the competition that those two railroads
6 said would occur when they acquired Conrail and split it in
7 two?

8 A I can say to you two things. One if that overall
9 my rates with those folks have gone up about 3.5 percent,
10 and I can say to you that the service is so poor that I am
11 substituting trucks for it to get the mail to the people
12 that need it. That is what I can say to you.

13 Q But I am asking you a different question which is,
14 have you achieved any rate reductions from the replacement
15 of Conrail by two railroads?

16 A When I look at the system, no, I have not. I
17 don't know that there may be one contract or one segment
18 that may have gone down a little bit, but when I look at the
19 system, which is the way we ultimately look at it, the rates
20 have gone up. And I mean that is naturally to be expected.

21 Q Well, are you aware of the fact that labor costs
22 in the overall economy recently went down because the
23 private sector achieved so much productivity?

24 A My labor costs went up 6.5 percent because they
25 are set by the Department of Labor.

1 Q The wage rates are set by the Department of Labor,
2 but Labor doesn't tell a trucker how many hours he has to
3 work, does it?

4 A If I want them to run, the way truckers' hours are
5 set, you want to achieve a certain running rate with the
6 truck. You don't want it to run too fast or too slow. You
7 want to get the efficiency out of it. And you want it to be
8 safe, because what typically happens is if you run him too
9 fast as the Postal Service, when he runs over someone, you
10 are going to be sued, and they are going to sue the Postal
11 Service. So we run them at a reasonable rate per mile, and
12 that is going to generate a certain number of hours.

13 Department of Labor requires that we pay him 15
14 minutes to inspect his truck, 30 minutes to load it, and
15 whatever that amounts to, that is the hours that we pay for
16 in the contract. And they also set the wage as well as the
17 fringe benefits that are to be associated with those hours.
18 And it is just a matter of doing the math for the most,
19 really, to tell you the truth.

20 Q Well, let me ask you about the base year, which,
21 as I understand it, runs through September 30, 1999, Fiscal
22 Year 1999, is that your understanding?

23 A I would have to get him to answer that part. But
24 the base year --

25 MR. McBRIDE: Maybe your counsel can help you out

1 here. The base year runs through September 30, 1999?

2 MR. KOETTING: I guess. The Postal Service filed
3 its case with a base year of '98, which ran through
4 September 30th of 1998.

5 MR. McBRIDE: Ninety-eight.

6 MR. KOETTING: If it is a '98 base year, it runs
7 through September 30th of 1998. Now, there has been an
8 update, which gives information for Fiscal Year 1999.

9 MR. McBRIDE: Thank you. Thank you very much.

10 BY MR. McBRIDE:

11 Q So we are also arguing about Fiscal Year 1999 data
12 around here, Mr. Young, and I apologize that your counsel
13 clarified what I had not.

14 CHAIRMAN GLEIMAN: We are not arguing. We are
15 just discussing.

16 [Laughter.]

17 MR. McBRIDE: Discussing. I will take that
18 correction, too.

19 BY MR. McBRIDE:

20 Q We are discussing Fiscal Year 1999 data around
21 here, Mr. Young, and in Fiscal Year 1999, which would end
22 September 30, 1999. I think your counsel would agree with
23 that. That would include a period from June 1, 1999, when
24 you have testified that Conrail was split in two, until the
25 end of September, correct?

1 A Yes.

2 Q Did you have worse service from CSX and NS during
3 that period of time?

4 A Yes. Because they were not prepared for the
5 split, they let a lot of people go who knew how to run the
6 railroad. The same thing they did out west when they
7 consolidated. And we have had to put trucks in, it is as
8 simple as that.

9 Q Understood. And they say they are going to get
10 better, don't they?

11 A No longer than a month ago, they were sitting down
12 in my office promising me that. And we keep waiting.

13 Q And the rate reduction that Mr. Nelson forecast
14 from the substitution of CSX and Norfolk Southern for
15 Conrail was 10 percent, correct?

16 A I remember reading that somewhere.

17 Q And the number that resulted in the west when two
18 railroads were substituted where there used to be one was 36
19 percent in the DOE study, correct?

20 A Yes, that is correct. That was for coal, right?

21 Q Now, I want to ask you about an answer that the
22 Postal Service gave us, an institutional response to another
23 interrogatory, and it had to do with volume rate reductions,
24 volume discounts and contracts. Do you remember that? Mr.
25 Nelson quoted that in his prepared testimony which is at

1 transcript 13420. Did you review that before you came here
2 today?

3 A Where is it now?

4 Q It is Mr. Nelson's testimony, it is his page 16.
5 For the record, it is transcript 13420.

6 A I probably don't have it. No, I don't have it.
7 If you read it to me, that probably would be okay.

8 Q Well, the answer was this, MPA requested
9 documentation of any and all volume incentive rate discount
10 or credit terms in effect for -- and I am substituting and
11 inserting the words "freight rail" -- transportation
12 provided to the Postal Service in base year 1998.

13 The Postal Service stated, "There are no such
14 rates, discounts or terms. There is no even language in
15 Postal contracts with the freight railroads that provides
16 for the credit volume discounts and incentive rates and the
17 like. The Postal Service simply does not have the volume of
18 business with the freight railroads required to obtain these
19 terms."

20 Do you remember that response?

21 A I have read that response somewhere.

22 Q Is that response correct?

23 A It is basically correct for a number of reasons.
24 One is the Postal Service's volume of mail moved with the
25 railroads has been on the decline for a number of years, and

1 one of the reasons it is is because we did the direct entry
2 with the mailers, and they started to transport their own
3 product to destinations and enter it in the system other
4 than at the origin point, which is where to used to come
5 through the BMC. It significantly cut into the amount of
6 traffic that we shipped with railroads.

7 Now, one of the discount opportunities that we
8 have pursued with railroads, which is kind of really
9 transparent to the average eye, is that we have trailers
10 that need to be repositioned. You are familiar, I think,
11 with the private sector freight, you know you get trailers
12 in New York. They brought from the West and you get them in
13 New York and they are dead, and you can use them and get
14 some measure of a discount from the railroad in doing that.

15 But as far as volume with the railroad, what has
16 happened over the years is our volume has been going, total
17 trailers shipped has been going down.

18 Q Just before we get to the total trailers going
19 down part, you were just describing in different words what
20 I was asking an earlier witness about, the backhaul that
21 both railroads and truckers can achieve, hauling one
22 commodity in direction and a different commodity in the
23 other direction, isn't that correct?

24 A It is correct in part, let me just explain. When
25 we use a truck, a highway truck, we hire that truck in both

1 directions. We hire it in both directions. And I think, as
2 John Pickett was telling you earlier, basically, mail moves
3 from east to west and north to south, which is true of other
4 things as well, and you get an empty truck on the other end.
5 But what happens is that we provide service everywhere,
6 everyday to everybody and maybe you get 20 percent coming
7 back, but the truck has got to come back. It has got to
8 bring that mail back.

9 And so one of the burdens that we carry here is
10 this necessity of serving everybody, and that is one of the
11 burdens that we carry. And so whether it is 100 percent
12 loaded, and very often on long-hauls going west, they are
13 pretty much loaded, but the problem you run into is on your
14 backhaul. But we have to bring, whatever mail has got to
15 come back from the west to the east, we have to bring that
16 back. And so we bring the truck roundtrip.

17 Q You don't mean to imply by that response, though,
18 do you, that there is only 20 percent as much mail moving
19 from California east as there is into California?

20 A No, I don't mean that. That was an illustrative
21 shipment. But a whole lot less mail moves from west to east
22 than does from east to west and from north to south. There
23 is a volume imbalance.

24 Q Okay.

25 A And also, as he mentioned to you earlier, you get

1 equipment out west or down south, you have got to reposition
2 it to be able to move mail the next day and the day after
3 that. So those are things that you have to carry as part of
4 the cost infrastructure of doing business if you are going
5 to provide service to people everywhere, everyday.

6 Q Is there any law of the United States or rule of
7 the Postal Service that would prohibit a highway contractor
8 from hauling something other than mail in the backhaul
9 direction in the situation you just described?

10 A As I mentioned to you a minute ago, what we do is
11 we haul mail and we don't allow them to mix other stuff with
12 it. As an example, we had a contractor one time that wanted
13 to bring a burro back from California. He put mail in front
14 of him, mail behind him, and brought him -- a burro, a mule,
15 back from California. And I mean we would we penalized him
16 for doing that. Because once you start to allow people to
17 do that, I mean there is no end in sight.

18 We had a trailer out here on the BW Parkway one
19 day, it was supposed to have had mail in it, right. The guy
20 had a load of beer in it, and he turned it over. And we
21 never hear any of those kinds of things.

22 So you don't allow them to do that with the mail.
23 I mean that has been the standard for many, many years, and
24 that continues to be the standard to this day.

25 Q I am not arguing about whether you can mix

1 non-mail with mail.

2 A Right.

3 Q I am asking about in the backhaul direction, mail
4 has gone out in one direction. Coming back, you say there
5 isn't enough mail to equal the flow going out.

6 A Right.

7 Q Coming back, no mail in the truck, can you put
8 something else in, can a trucker do that?

9 A We do from time to time hire one-way moves of
10 trucks, we do that. But as a rule, we are running mail from
11 a facility to a facility, it is moving on a time-definite
12 schedule, and you have got people waiting at both places to
13 work it and process it and get it to the customer. That is
14 the way the system is set up, that you move mail in both
15 directions. You don't always get a full load in both
16 directions, as I said earlier, that is the reality of going
17 everywhere, everyday, serving the American public.

18 And so you are not going to always get a load
19 coming west to east, or south to north, but have got to come
20 back and bring whatever mail is available, you have got to
21 bring it back.

22 Q You may not have a load of mail coming back, but
23 if you hired that trucker for one-way highway
24 transportation, it is up to him to find a load coming back,
25 isn't it?

1 A When we hire them for -- when we know we are not
2 going to have return loads, an example would be if we are
3 hauling something for a -- hauling mail for a mailer, many
4 times in those cases we will hire what we call a one-way
5 move. Now, what is going to happen is, and I know you know
6 trucks, you will know that this is true, that if it is a
7 buck-twenty going roundtrip, it is going to be a
8 buck-eighty, because he is going to cushion himself some
9 against the backhaul, the risk that he may not get a
10 backhaul.

11 So what you will end up doing is paying about 100
12 percent of a one-way and probably half to two-thirds of him
13 coming back. He will cushion himself that way. But to the
14 extent that we have opportunities to do that, where we know
15 we have a one-way movement of a product, yes, we do that.

16 Where we know, also, we have our regular scheduled
17 transportation, which is the vast majority of what we do,
18 the truck is scheduled in both directions with the same
19 time-sensitiveness that we mentioned in this testimony about
20 the 15 minutes.

21 Q I just want to ask you about one-way highway
22 transportation, and I want to ask it again, is there any
23 prohibition on the backhaul, when you hire it out one-way,
24 carrying a different commodity than mail?

25 A If we are going to hire him out, we will either

1 hire him one-way, and it is his decision, or her decision,
2 what they do with that truck after that point. If it is a
3 part of our core transportation network, they are hired in
4 both directions, and we pay them both directions, and they
5 are expected to haul mail, whether it is 100 percent or
6 something less than that, they are hauling mail and we don't
7 want them to mix other products with it.

8 Q But just to button it down, if they are hauling
9 mail into California or into Florida, as you and Witness
10 Pickett have testified, there is more mail going into than
11 out of. You could hire one-way highway transportation and
12 leave it to the highway carrier to haul something else on
13 the return, correct?

14 A No, that is not correct.

15 Q Why not?

16 A It is not correct because we have them running to
17 bring mail back from Florida or California. It is going to
18 be less than 100 percent load, yes, but we want them to get
19 the mail and bring it back. That is the way the system is
20 set up. Because, in the absence of doing that, you are
21 going to hire somebody down there to bring the mail out.

22 Q You answered with a different scenario than I
23 asked you about. I am asking only about the one-way highway
24 transportation that you testify you sometimes hire. And you
25 answered me about return with mail.

1 A Right.

2 Q I only want to talk about one-way highway
3 transportation. Okay.

4 A Okay. If I hire somebody to run a one-way
5 movement, I am done with it when they get to where I asked
6 them to go.

7 Q Right.

8 A When I hire them for a one-way movement.

9 Q Right. And then he --

10 A Which is not what we typically do.

11 Q He or she is then free to bring back whatever they
12 want to bring back if they can find it, right?

13 A Absolutely. Absolutely.

14 Q Are you familiar with the fact that railroads
15 provide volume discounts even to small shippers in order to
16 try to get as much of the percentage, up to 100 percent, of
17 that shipper's business as possible?

18 A Somewhat familiar with it, yes.

19 Q Okay.

20 A Somewhat.

21 Q So there are reasons why freight railroads offer
22 volume discounts that have nothing to do with the size of
23 the shipper, correct?

24 A I don't know what you have in mind.

25 Q In other words, it might be a relatively small

1 shipper, but the railroad wants to get all that shipper's
2 business rather than have it go to highway or another
3 railroad or barge, so he'll say, I'll give you a volume
4 discount if you'll give me all your business, or something
5 close to it.

6 A Uh-huh.

7 Q You're familiar with that?

8 A I'm familiar with the concept of volume discounts,
9 yes.

10 Q And are you also familiar with the fact that they
11 are widespread in the economy even for relatively small
12 shippers?

13 A I'm not familiar with the fact that they are
14 widespread in the economy. No, I'm not familiar with that.
15 But I do know that that conceptually does exist.

16 Q Okay. And are you familiar with the fact that
17 most transportation contracts, highway and rail, are
18 confidential?

19 A Yes, for the most part, yes. I guess they would
20 be.

21 Q And are you familiar with the reason why -- one of
22 the reasons why they're confidential -- that is that people
23 are often given rate discounts off of published rates?

24 A Yes, I know that people are given discounts off of
25 published rates. In fact, I think we get them.

1 Q Good.

2 So it isn't strictly necessarily that someone be
3 large to get a volume discount; isn't that correct?

4 A I mean, that's probably true. I don't know that
5 to be a fact. I can only tell you about what I think the
6 Postal Service gets. I think we get some very good rates
7 from the railroads.

8 Q Well, I want to go, then, back to that
9 institutional response that I asked you about. It was
10 response to MPA-USPS-40-B, which appeared at page 16 of Mr.
11 Nelson's testimony, transcript 13420.

12 The last sentence of the answer was the Postal
13 Service simply does not have the volume of business with the
14 freight railroads required to obtain these terms, these
15 terms including such things as volume discounts.

16 I'm asking you whether that response wasn't
17 somewhat incorrect in that it doesn't require one to be a
18 large customer in order to get a volume discount.

19 A I think you may word it differently, but I'm
20 positive that the rates that I get for railroads are very,
21 very good rates. You may word it differently. The rates
22 that I get from railroads are very good rates. And I can
23 talk to you about rates if you want to go into it.

24 Q I do want to ask you one thing about that --

25 A Sure.

1 Q -- just as a general framework since you're
2 familiar with them and you say they're good. Are there
3 freight railroads the contracts the Postal Service has that
4 include volume discounts; that is to say if you give them up
5 to 100 percent of your volume between two points, you get a
6 lower rate than if it's only say 50 percent?

7 A First off, I'm not going to give them 100 percent
8 of the mail. That's the first issue. No one company is
9 going to get 100 percent of it. There are reasons for that,
10 business reasons for it, one. And then secondly, when I
11 look at my rates, and I do have the ability to get other
12 people's rates, my rates are very, very good.

13 Q Okay. Let's forget the 100 percent, then.
14 Whatever the percentage is, there are any freight rail
15 contracts the Postal Service has with the freight railroads
16 that have declining rates with increasing percentage share
17 of the volume?

18 A Not called out in the way that you explain it.

19 Q Well --

20 A The way we approach it is we go to get a very good
21 rate for the entire piece of traffic that's being
22 transported by any railroad or any highway carrier. If you
23 want to talk about the specific rates, you know, we can do
24 that, and that's the way we approach it. I want the best
25 rate I can get for the entire business, not some rate that

1 I'll get for part of it and then something else for another
2 part.

3 Q Were you familiar with the fact that your counsel
4 objected to giving us those rates when we asked for them
5 earlier in discovery?

6 A No, I'm not. I would think you probably already
7 have the information.

8 Q No. Sure don't. That's why we asked for it.

9 In any event, sir, I just want to see if we're in
10 agreement or disagreement here. Are there any freight rail
11 contracts the Postal Service has that offer declining rates
12 with increasing percentage of volume?

13 A Not worded in the way in which you put it.

14 Q Worded any other way you want, are there two tier
15 rate contracts with the freight railroads?

16 A When I provide a trailer, you do have two tier
17 rates. When we provide a trailer, yes, as I mentioned to
18 you earlier.

19 Q Okay.

20 A And once again, I'm very comfortable with the
21 rates that I get and they are very good.

22 Q But I'm not -- so what you're describing to me is
23 a situation in which if you provide the equipment, you get a
24 lower rate than if the railroad provides the equipment.

25 A That's one set of circumstances.

1 Q Okay.

2 A That's right.

3 Q That's not what I'm asking you about. I'm asking
4 you whether there is any contract in which you get a lower
5 rate by providing more volume.

6 A No.

7 Q Oh, let me ask you one last thing. Are you
8 familiar with how the Interstate Commerce Commission
9 calculated productivity and required that it be incorporated
10 into freight rail contracts so that the adjustment mechanism
11 trail -- or tracked, I should say, output costs instead of
12 input prices?

13 A No, I'm not familiar with that.

14 Q Do you use the rail cost adjustment factor which
15 is published quarterly by the Surface Transportation Board
16 in any of your freight rail contracts?

17 A We allow -- most recently, really, rail contracts
18 are flat rate.

19 Q Flat rate.

20 A Flat. They bid them and they hold them.

21 Q Did you know that under the rail cost adjustment
22 factor adjusted published quarterly by the Surface
23 Transportation Board, that factor has been causing freight
24 rail rates to decline significantly since 1989 when it was
25 first published?

1 A What I need to do is look -- we go after rail
2 contracts in a competitive environment just like we do
3 highway contracts, and generally speaking, the tariffs and
4 the rate structure that are developed by the Government was
5 significantly higher than that based on our experience.
6 Postal Service's position is to go after these contracts in
7 a competitive way, and that's the way we approach them. And
8 we don't set them at some level and depend on an indice to
9 bring them down. We usually run freight rail contracts, as
10 a matter of fact, for two-year increments at a flat rate and
11 then we recompetete them.

12 Q But once you set that rate, whatever it is --
13 let's call it X -- I'm just asking you if you're familiar
14 with the fact that the adjustment mechanism ordered by the
15 Interstate Commerce Commission, approved by the courts, and
16 followed now by the Surface Transportation Board, has caused
17 freight rail rates to decline because of productivity?

18 A We don't use that index to set rail rates. We
19 don't use any index. We compete them. An example probably
20 -- that index probably went up quite considerably here in
21 the past year due to the increases in the price of fuel,
22 right?

23 Q You don't know that, do you?

24 A I'm asking you.

25 Q No, it did not, actually, because that's about a

1 10 percent weight and the other 90 percent didn't go up.

2 A Okay. We avoided that entire cost for the past
3 year based on the way we approach them, and once again, once
4 I compare them across the board, the rates are very, very
5 competitive.

6 Q But you just don't include that factor, that -- an
7 adjustment mechanism --

8 A No, we don't.

9 Q -- in your freight rail?

10 A No, we do not.

11 Q Thank you.

12 MR. McBRIDE: I have nothing further at this time,
13 Mr. Chairman.

14 CHAIRMAN GLEIMAN: Is there any follow-up?

15 MR. FELDMAN: Mr. Chairman, I have some brief
16 follow-up.

17 CROSS EXAMINATION

18 BY MR. FELDMAN:

19 Q Mr. Young, I'm Stephen Feldman, counsel for the
20 Coalition of Religious Press Associations.

21 Mr. McBride asked you a little bit about your
22 background. In your autobiographical sketch, it states that
23 you were -- at Postal headquarters, you were transportation
24 specialist, then program manager of transportation planning,
25 then manager of transportation policies, and now you are the

1 manager of national mail transportation purchasing.

2 As manager of transportation policies, is that an
3 equivalent position but just with different
4 responsibilities?

5 A It's not an equivalent position, no.

6 Q Is it considered a higher position in terms of
7 responsibility or lower position or about the same?

8 A Lower position.

9 Q Okay. And does that involve dealing with some of
10 these issues of what should be in a postal contract? In
11 terms of when you say policies, policies about contracts?

12 A Yes, about transportation contracts, yes.

13 Q Okay. So you in effect are involved in -- or were
14 involved in making decisions about the qualifications of
15 contractors and what types of transportation USPS should or
16 shouldn't use?

17 A I was involved in writing policy that's a general
18 guideline for selecting contractors, from that perspective,
19 not in necessarily doing the exact evaluation itself and
20 setting the policy.

21 Q I understand. And those policies would be
22 implemented by --

23 A Exactly.

24 Q -- the field offices.

25 A Exactly.

1 Q Thank you very much. That was just a little
2 confusion on my part.

3 A Okay.

4 Q I appreciate your clarification.

5 Mr. McBride asked you a little bit about the needs
6 of the private sector, or rather the motor freight industry
7 to meet the time-sensitive needs of industry as compared
8 with the Postal Service.

9 Are you aware of any studies or summary results of
10 service achievement of the private motor freight industry as
11 compared with USPS service?

12 A As compared, you mean in terms of --

13 Q With the on-time service that USPS provides to its
14 customers.

15 A You mean the service we provide to the end
16 customer or the transportation portion of it?

17 Q The transportation part of it, yes, not the kind
18 of things like OTIS measures. I'm not asking about that,
19 no.

20 A If I understand your question correctly, Postal
21 transportation, as I mentioned earlier, is very
22 time-definite, you know, it's to the minute. Generally
23 speaking, freight transportation is not as exact as what we
24 require. That's my understanding of it. And typically,
25 it's a day-certain type of service or part of a day-certain

1 type of service that is provided in the freight industry as
2 a general rule, and probably obviously there would be
3 exceptions to that, obviously.

4 But our entire system is run on a very
5 time-definite, you know, to-the-moment kind of network, and
6 that's the way it operates, and I don't know of a freight
7 network that operates in that manner, with that level of
8 time-sensitiveness to it.

9 Q I believe you mentioned, and if you didn't, please
10 say so, but I think it was you and not Mr. McBride mentioned
11 that some of USPS' customers are or have moved their mail
12 out of USPS purchased transportation to motor freight
13 transportation.

14 Do you think that these customers would do so if
15 they thought that their service was going to decline or
16 deteriorate as a result of changing from one vendor to
17 another?

18 A I don't know if they would consider it as a
19 decline, but I know one of the things -- once upon a time, I
20 used to work with mailers. One of the things that was
21 always important was control of a product, or their
22 advertisement is an example. Until it got right to the
23 delivery point, they wanted to control that. They might
24 take it to a delivery area and hold it for a few days, that
25 does occur, or they may have a trucker to hold it somewhere

1 close to a delivery point so they can have television
2 advertising and that piece that shows up in your mailbox. I
3 know that is a common occurrence.

4 Now, one of the things -- that's one of the
5 reasons that I know that they began to use private truckers
6 to get it to what they call a destination delivery point. I
7 know that was one of the reasons that was done.

8 Now, as far as them buying one-way moves, based on
9 what I know of private sector trucking costs, as I mentioned
10 a minute ago, when I go out and buy a one-way move and I've
11 got 15,000 contractors out there, it's going to cost me more
12 per mile. So I don't see where they're saving money doing
13 that.

14 I think it's a matter of wanting to control the
15 product until it gets to a delivery area is what I
16 understand to have been the rationale, because part of what
17 can happen within the whole postal system is that you put a
18 product in there and maybe you put a truckload in at one end
19 and it all doesn't get to the place that you want it to be
20 at the exact time way and it to be. We call it the tail of
21 the mail.

22 And so what many of them or some of them have done
23 over the past years is that they have wanted to control the
24 entire load of mail, and they have elected to do what we
25 call a destination entry, and it's not about being cheaper

1 or a lack of quality of service from a trucker standpoint;
2 it's a matter of product control to make the product get
3 there the same time as the television or radio advertising
4 has then one of the issues that I know some of the mailers
5 have been working towards.

6 So that's my experience of it.

7 Q That's not based on any report or comparative
8 study between postal or non-postal transportation that
9 studied all kind of mailers, is it?

10 A Not all kinds of mailers, no.

11 Q So you're just talking about some anecdotal
12 evidence about a particular type of mailer?

13 A No, it's not anecdotal because back when this --
14 when the destination entry program was originally
15 introduced, we did study the issue, and I was back in
16 policies at the time and had a part in that, and that was
17 part of the reasons that mailers were very much in favor of
18 that program.

19 Also, they -- it was basically product control
20 really, and that's --

21 Q Which mailers are you talking about? What class
22 of mail?

23 A It's been a few -- it's been several years ago and
24 I don't remember specifically.

25 Q So you --

1 A I don't know whether it was a religious mailer,
2 I'll tell you that much.

3 Q Well --

4 A It's more along the lines of advertisers.

5 Q Advertisers.

6 A Yes.

7 Q Okay.

8 A Which is some of the -- you know, Donnelly does
9 stuff for a lot of different companies.

10 Q Isn't it a fact that the Postal Service in the
11 last several rate cases has offered increasing discounts to
12 give incentives to mailers to avoid postal transportation
13 and enter mail at either sectional center facilities or
14 destination delivery units closest to the mail recipient?

15 A I don't know that it was to avoid transportation,
16 and that's really not my area of expertise, but I do know
17 that that has been offered, and the rationale behind it in
18 its entirety, I don't know.

19 Q Would it be that the reason the Postal Service
20 does this is so that it's cheaper for the customer to have
21 the end product delivered at a lower rate overall?

22 A I don't know that that would be the case. As I
23 mentioned before, one of the primary reasons behind it
24 initially, as I remember it, was this idea of product
25 control, and that was from the mailers' perspective.

1 They wanted to have product control and not have
2 the product get into the system, the total system, not just
3 transportation, but into the processing system.

4 That was one of the issues back -- and that's been
5 a lot of years ago now.

6 Q Yes, but more recently, the Postal Service has
7 proposed discounts, and, in fact, in this case, they have
8 proposed to expand the discount based on current costs for
9 drop shipping.

10 And doesn't that suggest to you that it's cheaper
11 to transport the mail to a local destination point using
12 private sector transportation for some mailers, at least,
13 than to use the Postal Service's highway or rail
14 transportation network?

15 A It doesn't suggest it to me, and the reason I say
16 that is that I know the private sector numbers and I know my
17 numbers. And my numbers are very, very good.

18 Q Well, that's interesting. The rate people or the
19 people that put these rate case together, have they spoken
20 to you or any of your colleagues with equivalent
21 responsibilities in transportation prior to rate cases,
22 about what you're buying transportation for, again, without
23 getting int actual numbers, versus what private sector
24 shippers may be offering?

25 A I think that within the Postal Service, they have

1 access to the numbers in putting cases together, and I would
2 think that that would be to the total numbers, including
3 employees handling the mail.

4 Q Sure.

5 A And all parts of the system.

6 Q Sure, but you personally -- I mean, no one
7 personally asked you, other than your appearance here -- and
8 I'm sure you worked with your counsel on your presentation
9 here as all witnesses work with their counsel.

10 But you weren't asked to do any kind of -- prior
11 to this case -- any comparison of what, you know, parcels,
12 magazines, advertising matter, would pay under using just
13 Postal transportation versus dropping to the destination
14 units or to the SCF units?

15 A No, my responsibility is to buy and manage the
16 transportation --

17 Q Sure.

18 A -- at the best rates possible, and the best
19 service possible, number one, and there are other people who
20 would do the rate analysis and so forth.

21 Q That's fine. I'm going to ask you to define a
22 word. I don't hold you to the fact that this word appears
23 in your testimony. If you can explain that somebody else
24 put it in, there's no criticism intended.

25 On page 3, line 11, what does symbiotic mean in

1 this context?

2 A It's an ongoing, close working relationship with
3 the suppliers.

4 Q Okay.

5 A As an example, like when this system was put
6 together back in some years ago, the idea was to, number
7 one, have a stable transportation network that every day
8 moved the mail pretty much on time.

9 And that's been achieved. And also to manage the
10 cost of it, and in my view, based on the numbers, that's
11 been achieved as well.

12 Q One last -- a couple of questions, but really
13 probably no more than two.

14 You mentioned the Department of Labor regulations
15 as applying to, I guess, the vendors or contractors that you
16 all do business with.

17 Certainly, accepting that as a fact, are you
18 saying that private industry employees are not subject to
19 Department of Labor wage and labor standards regulations?

20 A They're subject to the Minimum Wage Act. We're
21 subject to the Service Contract Act as it applies to the
22 Postal Service, and there's a significant dollar difference
23 between the two.

24 Q That doesn't prevent, obviously, employees of
25 trucking industries, for example, the Teamsters' Master

1 Freight Agreement from governing how much truck industry
2 employees are paid or how many hours they can be on the road
3 or what safety measures have to be taken?

4 Things like that have to be taken into account
5 also?

6 A It doesn't prevent it, but the reality of life is
7 that the vast majority of the trucking companies in the
8 United States of America are small businesses, and they're
9 not unionized, and their direct employee-employer
10 relationship, three, four five trucks, the vast majority are
11 small that way.

12 The vast majority of them -- I mean, you see the
13 names like the Hunts and the Snyders, those are really the
14 exception to the rule. I mean, the top 20 trucking
15 companies in this country represent less than 25 percent of
16 the capacity that's out there, because the vast majority of
17 them are small companies, moms and pops, and they make all
18 kinds of deals with each other.

19 Whereas, as far as the Postal Service is
20 concerned, those who haul mail, they are subject to the
21 Service Contract Act, and based on the most recent
22 information I have available to me, there's a significant
23 variation between the wage requirements that I have to meet
24 under these contracts than what Joe the Trucker pays someone
25 who hauls something for him on a spot basis.

1 And also I might add to that, typically in the
2 private sector, truck drivers are not paid for waiting time,
3 unload time. Postal Service has to pay for all that time.

4 Any time, as the Department of Labor will tell
5 you, that I have an individual so that he or she can't use
6 that time as their own, we have to compensate them for it at
7 the hourly wages that are set by the Department of Labor.

8 And in my view, that's a significant issue,
9 really, from a financial standpoint.

10 Q But nevertheless, you think that you're running an
11 economical system under those circumstances?

12 A My unit cost per mile is as good as anyone.

13 Q And finally, on page -- if you want to refer,
14 please, to page 4 of your testimony, lines 21 through 23,
15 you state that your overall expenditures on highway
16 transportation are increasing faster than the rate of
17 inflation because we are buying more transportation service
18 to meet the needs of our customers, including the
19 periodicals mailers.

20 A couple of questions: Firstly, there's nothing
21 about the Department of Labor that compels you to spend
22 faster than the rate of inflation; is there?

23 A No. I think you're misreading what I'm saying
24 here. Could I explain what I'm saying?

25 Q No. I'd really would appreciate it if you'd just

1 -- if you don't agree with that, all you have to say is no;
2 that the Department regs don't --

3 A That's fine. I can't agree with what you're
4 saying.

5 Q Okay.

6 A Given the way you're saying it.

7 Q That's fine.

8 And, secondly, are you aware that periodical
9 volumes essentially have been stagnant for the last several
10 years, so that other than periodicals which leave USPS to go
11 to private transportation, the overall capacity needed to
12 transport periodicals is either the same or less than it was
13 several years ago?

14 A No, I'm not aware of that.

15 MR. FELDMAN: Thank you, that's all I've got.

16 CHAIRMAN GLEIMAN: Is there any more followup?
17 Mr. McBride?

18 MR. McBRIDE: Just one, Mr. Chairman, thank you.

19 FURTHER CROSS EXAMINATION

20 BY MR. McBRIDE:

21 Q Mr. Young, you referred to the Service Contract
22 Act, I think you said, as compared to the Minimum Wage that
23 other people might pay, that you say the Postal Service is
24 required to pay under, in response to Mr. Feldman's
25 question.

1 And I just wanted to ask you whether the Service
2 Contract Act, if I have the right name of that statute, has
3 been on the books for at least several years, including well
4 before 1998?

5 A Yes, it has been on the books for several years.

6 MR. McBRIDE: Thank you.

7 CHAIRMAN GLEIMAN: Is there any further followup?

8 [No response.]

9 CHAIRMAN GLEIMAN: There are some questions from
10 the bench. Commissioner Covington?

11 COMMISSIONER COVINGTON: Good afternoon, Mr.
12 Young.

13 I had a few general questions I wanted to pose to
14 you. On line 1 of your testimony, you stated different
15 modes of transportation, the different transportation
16 methods employed by the Postal Service.

17 And I wanted to know specifically when would you
18 have to use a mule or a wheelbarrow to, in essence, get the
19 mail to where it's supposed to be going?

20 THE WITNESS: Okay, going down to the Grand Canyon
21 and the bottom of the Grand Canyon, the guy who ran that
22 route died a few months ago, as a matter of fact.

23 His wife took it over, but they have a mule train
24 that goes down to the bottom of the Grand Canyon to carry
25 mail to the Indians that live in that area.

1 Down in Chinguoteague, Maryland, there's a route
2 -- not a route, really, but we had a contract with a woman
3 there who moved mail from the boat that brings it in, up to
4 the Post Office and back from the Post Office back to the
5 boat. That's like a morning and an evening activity that
6 they would do.

7 And some places out west, they still have some
8 routes that are run by horseback, but most specifically, I
9 always think of that route that goes down into the Grand
10 Canyon.

11 COMMISSIONER COVINGTON: I would imagine that out
12 around Indian reservations and so forth, that's where you
13 would probably see the need to not use motorized methods.

14 I had a question as it related to the security
15 issue that comes, you know, with your area.

16 Are you familiar with several incidents that's
17 occurred recently around the Atlanta region and the Chicago
18 suburbs with the delivery of Supplemental Security Income,
19 Social Security, Tax checks?

20 THE WITNESS: No, I'm not familiar. You mean like
21 in an operating environment, somebody too something?

22 COMMISSIONER COVINGTON: No, the transportation of
23 them. As a matter of fact, I have information that was
24 supplied to me, roughly about two months ago, whereby you
25 had a carrier, allegedly had a carrier -- I don't know

1 whether he was a contractor or what role he was fulfilling
2 for you all, but he was in the process of delivering, you
3 know, the Title III SSI checks, somewhere between
4 Spartansburg and the Atlanta region, had allegedly had
5 trouble, you know, with his equipment, and it was somewhere
6 like anywhere roughly between 24 to 48 hours before anybody
7 figured out that those checks were on that truck.

8 And there was a great furor created as a result of
9 some Congressional inquiries, so when you state, you know,
10 your concern and the relevancy that you put on security
11 issues, what would be the liability of a contractor, or how
12 would you deal with a carrier that that happened with?

13 And mind you, Mr. Young, we're not talking about
14 200 or 300 checks; we were talking about thousands and maybe
15 10-50,000 at a time.

16 THE WITNESS: Yes. Let me just explain what we do
17 as far as security is concerned:

18 First off, we try to prevent people who have -- we
19 prevent people who have criminal records from being a
20 contractor or a driver hauling mail. If they have a fraud
21 conviction, they are not going to be hauling mail.

22 So, we go through a fingerprint and a screening
23 process with the FBI in order to screen those people out.

24 The second thing we do: Another big issue with us
25 is safety of trucks while they're on the road.

1 And what we do there is, people who have bad
2 driving records or drunk driving or any other kind of
3 driving offense, we have criteria by which those people are
4 not allowed to drive trucks hauling mail.

5 Now, what we do in this case is, once we get them
6 into the system, sometimes we do have problems with them, to
7 be perfectly honest with you; we do have problems with them
8 from time to time.

9 But we have the Inspection Service, as well as the
10 IG's Office, both having Criminal Divisions. They go in and
11 investigate an occurrence such as what you're saying, and
12 they give us a report back. If we find that the contractor
13 or the driver was negligent --

14 Let's say it was the contractor that was negligent
15 or there was theft involved, we remove them from hauling
16 mail.

17 If there was some minor negligence involved, we
18 will take some administrative action against that
19 contractor, or if it was a driver, because even a
20 contractor, even though he or she may do the best they can
21 to screen drivers, they get a bad one sometimes, too.

22 And what we will do there is that we tell the
23 contractor that this person can no longer be authorized to
24 drive a truck hauling mail. They can use them for something
25 else if they want to, if they want to keep them as an

1 employee, but we don't allow them to haul mail anymore.

2 So that's typically how we handle issues as far as
3 security is concerned. We have problems, but we do the best
4 we can to screen them out.

5 COMMISSIONER COVINGTON: I would imagine that that
6 would be the case in just about any industry, be it the
7 public or private sector.

8 Thankfully, most of these checks were recovered
9 and gotten, you know, to the beneficiaries, and I didn't
10 know whether you were aware of that firsthand or not, but it
11 did create quite a situation.

12 And I'm thinking possibly that Mr. McBride touched
13 on this in his line of questioning, but in your testimony,
14 you stated that you all do take provisions or you do take
15 measures to protect against fuel and wage inflation.

16 Could you briefly explain to me, or clarify to me,
17 what that would entail?

18 THE WITNESS: Yes, this \$100 million that's
19 mentioned here on page 4, I believe, the top of page 4 --

20 [Pause.]

21 The part that's mentioned there on the top of page
22 5 about breakthrough productivity --

23 COMMISSIONER COVINGTON: That's right, I see it.

24 THE WITNESS: Okay, as I mentioned, I think we
25 have the best rates, unit rates as anybody. But what we're

1 doing is three things in this particular activity.

2 We have targeted -- we buy about 650 million
3 gallons of fuel a year, either directly or indirectly pay
4 for it as a pass-through cost.

5 What we have done is to consolidate that
6 requirement into what's typically called a fuel pad. And
7 we've gone out and reverse auctioned that to companies like
8 Mobil and Texaco, and they have offered us a bid.

9 So we have taken all those contractors -- we're
10 still in the process of doing it -- but we've taken that
11 fuel requirement and put it before the big oil companies and
12 let them bid on it, which is going to, in our view, save us
13 about \$25 million of that \$100 million that's mentioned
14 there.

15 We also have a lot of trailers that we lease in
16 order to support operations around the country. As a matter
17 of fact, we've got about 12,000 of them. That's leased
18 trailers and in addition to the ones that we own.

19 So what we've done there, we've taken the national
20 trailer requirement, two-thirds of it, and put it out to bid
21 in a reverse auction that was conducted back on June 8th, I
22 believe it was.

23 And what we're going to save there is an
24 additional \$3 to \$3.5 million of that \$100 million. And in
25 addition to that, we have set as a target to do, is to go

1 out and look at our individual contract operations, with the
2 view to being sure that we're making use of the capacity
3 that we have out there, and at every opportunity where we
4 can find to take the capacity out of the system, that's not
5 properly utilized, we're going to take it out.

6 And we've set as a goal for ourselves for this
7 particular activity, about \$72 million in capacity that
8 we're going to take out of the system, where we define it as
9 not being utilized.

10 And I think that goes back to part of what Mr.
11 McBride was asking about back hauls. We're going to find
12 some instances where we're not doing as well as we'd like,
13 and we're going to take that out.

14 That's what we were referring to. That's a \$72
15 million part of that \$100 million savings.

16 COMMISSIONER COVINGTON: Toward the end of page 4,
17 the last paragraph, going over to page 5, you state, Mr.
18 Young, you say, I am satisfied that on a cost per mile
19 basis, the Postal Service is getting good value for the
20 dollar.

21 THE WITNESS: Right.

22 COMMISSIONER COVINGTON: Further reading, it says,
23 this does not mean, however, that the Postal Service is not
24 seeking to reduce highway contract costs in other ways. And
25 you specifically state, Mr. Young, that your office is

1 leading a systematic review of all high cost per mile
2 highway contracts.

3 THE WITNESS: Right.

4 COMMISSIONER COVINGTON: Now, what constitutes a
5 high cost per mile contract?

6 THE WITNESS: Yes. We have a range, let's say
7 like the whole Postal system for trucks, it is about
8 \$1.20-\$1.25. That compares very favorably within anyone
9 else's costs that you might go out and take a look at.
10 FedEx, UPS, they are higher than that.

11 And so what we are doing here is that within a
12 system that big, you are going to have situations that come
13 up that force you to put a contract in in a short window of
14 time. As an example, if I were to say to anyone in this
15 room, I need you to go out and get me 10 trucks and have
16 them running by 6:00 this evening, it is going to be very
17 expensive to do that.

18 Okay. We are doing is going back and doing a
19 systematic review of all those instances where we have
20 emergencies or temporary contracts, as we call them, put in
21 place with a view toward getting them out of the system and
22 replacing them, either eliminating them or replacing them
23 with regular contracts, which will bring them back down
24 within the range of what we consider to be an acceptable
25 unit cost per mile.

1 COMMISSIONER COVINGTON: Okay. This systematic
2 review, is it going to be something are going to share own
3 internally or will be it be available for distribution? Or
4 is this just something that you are saying that you want to
5 do to provide for more cost effective, efficient measures as
6 far as your transportation costs are concerned?

7 THE WITNESS: Yes, that is what -- that \$100
8 million ties back into, like you said, down at the bottom
9 page 4, it carries on over to the top of page 5, and what we
10 are saying here is that as we go in and do this process,
11 three activities, the fuel, the trailers, and the looking at
12 the contracts themselves, that we plan to manage out of that
13 system \$100 million. That is what we are saying, and we are
14 already in the process of doing it, as a matter of fact.

15 COMMISSIONER COVINGTON: Okay. What is the
16 duration of this systematic review? When do you expect to
17 have it completed?

18 THE WITNESS: We complete it about halfway this
19 coming fiscal year, we will be about halfway done. Because
20 what happens is you have got to cycle some contracts out.
21 As an example, the trailer program. We will cycle out about
22 half of the trailers that are in the system now that are
23 there at \$12.50 a day, and we will swap them out for
24 trailers at \$10.18 a day. We will get half of those done in
25 FY 2001, and we will get the remaining portion of them in FY

1 2002. And what you do is you have contracts in place now
2 and you cycle those out, and that is what we are doing as
3 far as trailers are concerned.

4 COMMISSIONER COVINGTON: Okay. All right. Mr.
5 Young, I read with great interest your opinion about the
6 freight railroad system, and what I would like to know, are
7 you the person that sends out the RFPs as far as, you know,
8 people that want to do freight railroad type business for
9 USPS? Does that come through your division?

10 THE WITNESS: All transportation purchasing in
11 some way or another comes through our group. We have our
12 headquarters group that does direct transportation
13 contracting for freight rail, and we have 13 field sites
14 that do direct contracting for most of the highway
15 transportation and some of the smaller air transportation
16 contracts.

17 COMMISSIONER COVINGTON: Okay. Would you say that
18 there is an overwhelming interest in freight railroad
19 activity as far as your office division is concerned? And
20 then further, how many, on the average, how many people
21 would you say even bid on it, on a contract, as far as
22 providing freight for you all?

23 THE WITNESS: Well, on a highway contract, it is
24 nothing unusual to get 8, 10, 15 bids on a highway
25 transportation contract. Now, as far as freight rail is

1 concerned, it is a little bit of a different story because,
2 as was mentioned by Mr. McBride, you have a continuing
3 decline in the number of railroads that are out there, and
4 it has gone from, well, 20 sometime ago, down to something
5 less than 10 viable railroads that are out there now. But
6 we don't have any problem in getting people that are
7 interested in truck contracts.

8 Now, one of the issues that we have is sometimes
9 you get small companies who feel that they can do a job for
10 a whole lot less than what you know it can be done for, and
11 you have to be careful that you don't award contracts at
12 prices that you know, based on your experience and analysis,
13 that they can't be performed for, because it is a false
14 economy.

15 And that is really what got the whole system that
16 we have today started, because back many, many years ago,
17 basically, most of the truck contracts for the Post Office
18 defaulted, and mail wasn't moving. And so they decided to
19 put in a system first that gave you quality service, and you
20 managed the cost in addition to that.

21 So the only concern we have is sometimes we do
22 have to turn some bidders down because we know that the
23 price at which they are proposing to do the job, that it
24 can't be done at that price, even though they may not
25 realize it.

1 Q Well, would you say they would be lowballing
2 themselves? Because I would imagine you are not going to
3 let them walk in and rob you?

4 A Right. And I don't want them to waste their time
5 and energy and make me have to get rid of them in six months
6 when they realize that they can't make money at the price
7 that they have bid it. And sometimes it gets to be a little
8 contentious with them because sometimes people feel that
9 they can do a job for a certain price, and you know, you sit
10 down and talk to them, let them explain to you what they
11 plan to do and how they plan to do it, and it is fairly easy
12 to add up the numbers and to know what it should cost. And
13 we do "should cost" modeling on all this stuff.

14 And once we do that, it becomes, you know, readily
15 apparent whether they can or cannot perform at the price
16 that they propose. And sometimes, like I said, after a
17 discussion, we do have to turn some of them down.

18 Q Okay. I guess in reading your testimony, I think
19 you state -- now, I want to make sure that I have got this
20 straight. Are you disappointed in the freight railroad
21 situation or is it an overall USPS disappointment, so to
22 speak?

23 A Usually, in contracting, I mean I basically
24 represent the Post Office as far as transportation
25 contracting is concerned. And you look at the freight rail

1 history right now, and this is not something that just
2 affects the Post Office, as a general rule, freight rail
3 performance has not been up to par. It just -- that has
4 been problem.

5 They have been consolidating and they let a lot of
6 people go. There are a lot of reasons for it, and all the
7 literature says basically the same thing. But what we are
8 going to do is that we keep our foot in the door with them,
9 even though we have had to take some stuff off of rail and
10 put it on highway, which in the long-term is a more
11 expensive option, we have had to do it for service reasons.

12 But in the long-term, in our view, they are going
13 to get, for lack of a better term, they are going to get
14 their act together. They will settle in and they will do
15 just fine as far as a railroad will do. They are never
16 going to be as good as a truck, typically speaking.

17 But we are going to continue to work with them,
18 and they will haul some mail for us, and I think probably at
19 some point in time, they will haul more. But I am not -- I
20 can't tell you now when that will be. It depends on how
21 quickly they get their performance back up to par.

22 COMMISSIONER COVINGTON: Okay. Well, let me ask
23 you this then, Mr. Young, if we weren't using freight, what
24 would be the alternative? Would it be all just surface and
25 air?

1 THE WITNESS: It would all be trucks and air. If
2 we weren't using freight railroads, is that what you are --

3 COMMISSIONER COVINGTON: Yes.

4 THE WITNESS: Yes, it would all be trucks and air.

5 COMMISSIONER COVINGTON: Well, if the performance
6 level, or if the standards under which you regulate them as
7 far as them fulfilling the contract, if it hits such a low,
8 would you be hesitant to just say, well, we have just got to
9 pick up our marbles over here in freight and just go with
10 road? Or would you even suggest -- even though I know you
11 have got 30 years in, and you could say something like that
12 and probably get away with it, would you do it if you know
13 physically and feasibly it was the best thing to do?

14 THE WITNESS: See, the problem with it is that it
15 is a cycle we are going through, in my opinion. I mean that
16 is what the literature says, too. We are going through a
17 cycle where railroads are consolidating and they are having
18 performance problems in getting their new systems up, their
19 infrastructure up.

20 See, what happens though, let's say like if you go
21 back to 1979 when you had the big fuel crisis and everybody
22 was lined up to get fuel, railroads were the thing to have.
23 The last three, four years ago when we had that massive
24 snowstorm and the whole East Coast was locked down, wasn't
25 nothing running but Amtrak.

1 So, for the sake of service to the people, which
2 is what we are obligated to do, you keep some portion of
3 these various systems running.

4 Now, if there was a complete collapse of rail,
5 yeah, we would have to obviously move away from them. But
6 as it stands today, our position is that we have had to move
7 some time-sensitive stuff away from railroads, but we think
8 that they are going to get better, which is what, you know,
9 UPS thinks anyway, too, because they are starting to move
10 back toward them a bit more than they were before. And so
11 that is what our vision is.

12 As an example, you need railroads, let's say like,
13 you know, you hit a big fuel crisis, or hit you a big driver
14 crisis, all those things are strategic business issues that
15 you have got to think about ahead of time because you can
16 look up and have, as that old expression goes, all your eggs
17 in one basket one day, and you can have a real serious
18 problem in moving the mail.

19 So we do try to use all these various modes to
20 some degree, and we kind of go back and forth based on the
21 service and the cost and other issues that are related to
22 the particular industry. So that is the way we approach it.

23 COMMISSIONER COVINGTON: Okay. Well, in
24 summation, wouldn't it be safe to say -- I mean how would
25 you equate this, if I were to say, well, Mr. Young, you

1 know, yeah, freight has its problem with equipment, and, you
2 know, with road -- I mean with the tracks and so forth, but
3 that could be equally true of surface transportation. You
4 know, they have their equipment problems with those
5 18-wheelers. You know, like you just stated previously, it
6 ain't that simple to get all that snow off I-95 or I-81. I
7 am saying, how do you balance that out? It is almost like
8 freight has its share of problems, but then when you look on
9 the other spectrum, how do you deal with those headaches
10 with surface transportation?

11 THE WITNESS: As you say, I mean I agree with you
12 100 percent, all industries have their problems both from a
13 service and cost standpoint. I mean the price of fuel just
14 about killed a lot of truckers here lately, right. I mean
15 it has been a really, really challenging thing for the
16 truckers.

17 So we had railroads, which, as I mentioned
18 earlier, we had a clause in there that we wouldn't pass fuel
19 on to the Post Office, so we had them at their existing
20 rate, even though fuel went up significantly. That was to
21 our financial advantage at this moment in time.

22 So what we always try and do is we make tradeoffs
23 for service and financial reasons, and you go back and
24 forth. It may be a year or two from now we will have more
25 stuff on railroads than we do today. It may be less. I

1 don't know. We have certain criteria that we always look
2 at, service, cost -- service, cost. And we make tradeoffs
3 and we go back and forth in terms of how much volume is on
4 one industry versus another. That is just the way we --
5 that is the way we work it basically.

6 COMMISSIONER COVINGTON: Okay. Well, I want to
7 commend you for having enough initiative to do what you say
8 you are doing as far as the systematic review. I think that
9 that is not only practical, I think that it is good from a
10 cost standpoint of view. And I thank you for your
11 responses.

12 And that is all I have for Mr. Young, Mr.
13 Chairman.

14 CHAIRMAN GLEIMAN: Follow-up questions from the
15 bench?

16 [No response.]

17 CHAIRMAN GLEIMAN: Mr. McBride.

18 MR. McBRIDE: Just one, I hope, Mr. Chairman.

19 FURTHER CROSS-EXAMINATION

20 BY MR. McBRIDE:

21 Q Mr. Young, when you were answering Commission
22 Covington's questions, you told him there was a period at
23 which you had truckers at relatively low rates, I think, who
24 went out of business and left you with mail that didn't get
25 delivered. How long ago was that?

1 A I think what I said to him was that we have times
2 when we have a trucker that will bid on a route to
3 performance a service. And what we do, we do a "should
4 cost" model on all of the transportation that we award
5 contracts for. And we realize, and maybe we will have to go
6 three or four bidders deep before we get one that we are
7 comfortable with that can provide the service that they
8 promise at the prices that they are proposing.

9 So we don't -- it is not a situation where I have,
10 you know, massive failure of truckers, I am not saying that.
11 But what I am saying, and I think what I responded to his
12 question by saying, is that we do "should cost" on all
13 contracts before they are awarded, and as we do that, we
14 make the award decision when we are comfortable that the
15 bidder can do what he or she has promised at the price that
16 they propose.

17 Q Okay. But didn't you tell him there was a time
18 some several years ago when there were truckers who couldn't
19 deliver the mail?

20 A Oh, right. Yeah.

21 Q I am simply asking how long ago was that?

22 A Oh, that was in 1948 as a matter of fact.

23 Q 1948.

24 A Yeah, the year I was born. And let me just
25 explain to you what happened. They did what some would

1 suggest we do today, to always go for the cheapest truck --
2 to always go for the cheapest truck. And as a result of
3 that, I think about 48 percent of the transportation
4 contracts serving the Post Office Department at that time,
5 they just defaulted, because bids were public knowledge, and
6 you would see what your neighbor bid, you would bid a little
7 bit less, and a little bit less, and a little bit less, and
8 pretty soon you would be in a position where you couldn't
9 make any money.

10 So they passed Public Law 669, which permits the
11 Postal Service to develop this symbiotic relationship with
12 these truckers. And what you have to do in that
13 relationship, in order to have the service, you have got to
14 manage the cost, and that is what we are trying to do.

15 Q In that relationship, you don't disclose the rates
16 any longer, I take it, from one trucker to the other?

17 A Oh, sure.

18 Q You do?

19 A Yeah.

20 Q You mean trucker B knows what trucker A is
21 charging you?

22 A Yeah, he knows.

23 Q Okay. But in any event, all this process of not
24 just going to the low cost guy happened a long time ago?

25 A No, that started the system a long time ago, and

1 we refined it along the way. Yeah, the system started a
2 long time ago, as a result of a catastrophic failure.

3 MR. McBRIDE: Thank you.

4 THE WITNESS: Oh, you're welcome.

5 CHAIRMAN GLEIMAN: Anybody else?

6 [No response.]

7 CHAIRMAN GLEIMAN: That brings us to redirect.
8 Would you like some time with your witness? If you want
9 time for redirect, you are going to get 50 minutes.

10 MR. KOETTING: Can we have about a minute to check
11 and see whether we want that 50 or not?

12 CHAIRMAN GLEIMAN: You can have a minute to see
13 whether you want that 50 or not. Well, we will see. I
14 don't think we are going to push ahead with the next witness
15 one way or the other.

16 [Pause.]

17 CHAIRMAN GLEIMAN: Mr. Koetting, what is the
18 verdict here?

19 MR. KOETTING: We have one question, Mr. Chairman.

20 CHAIRMAN GLEIMAN: All right. Well, let's proceed
21 then.

22 REDIRECT EXAMINATION

23 BY MR. KOETTING:

24 Q Mr. Young, in your discussion with Mr. McBride
25 about the Department of Energy coal transportation document,

1 he made reference to a 36 percent decline in average
2 transportation rates per ton. Do you recall whether that 36
3 percent decline was over a short period of time or over a
4 long period of time?

5 A As I am looking at Mr. McBride's document here, it
6 is from the period of time 1979 to 1993, so I would
7 characterize it as a fairly long period of time.

8 MR. KOETTING: That is all we have, Mr. Chairman.

9 CHAIRMAN GLEIMAN: Is there any recross?

10 MR. McBRIDE: No.

11 CHAIRMAN GLEIMAN: If not, Mr. Young, that
12 completes your testimony here. We appreciate your
13 appearance, your contributions to the record. I especially
14 appreciated your magic number at the front end there,
15 because I am at 32-1/2 and counting. So I am wondering if
16 that is magic for everybody.

17 Thank you, sir, you are excused.

18 [Witness excused.]

19 CHAIRMAN GLEIMAN: Our next witness is MPA Witness
20 Elliot, and we had an indication coming into today that one
21 party, United Parcel Service, wished to cross-examine. I
22 don't know whether there is anybody from United Parcel
23 Service here who can tell us whether indeed they want to
24 cross-examine this witness or not?

25 [No response.]

1 CHAIRMAN GLEIMAN: No cross-examination for
2 Witness Elliot.

3 Okay. In that case, let's dispense with another
4 witness real fast. Now, I could get in trouble here because
5 there may be someone else out there laying in wait, but we
6 will see.

7 MR. MYERS: Good afternoon. Pearce Myers on
8 behalf of the Magazine Publishers of America, and I call Dr.
9 Stuart Elliot.

10 CHAIRMAN GLEIMAN: Dr. Elliot, to the best of my
11 ability to determine, you have not yet been up there and
12 been sworn in.

13 Whereupon,

14 STUART W. ELLIOT,
15 a witness, having been recalled for examination and, having
16 been previously duly sworn, was examined and testified
17 further as follows:

18 THE WITNESS: No, I have been.

19 CHAIRMAN GLEIMAN: You have been?

20 THE WITNESS: Yes.

21 CHAIRMAN GLEIMAN: Okay.

22 MR. MYERS: He has been.

23 CHAIRMAN GLEIMAN: I see people in the hearing
24 room, it gets to the point where I can't remember who has
25 been sworn in and who hasn't.

1 Well, in that case, let's proceed.

2 DIRECT EXAMINATION

3 BY MR. MYERS:

4 Q Dr. Elliot, I have just handed you two copies of a
5 document designated MPA-ST-2, Supplemental Testimony of
6 Stuart W. Elliot on Behalf of Magazine Publishers of
7 America, Inc., and other members of the Periodicals Mailers
8 Coalition, and I ask you was this document prepared by you
9 or under your supervision?

10 A Yes, it was.

11 Q And do you adopt it as your testimony in this
12 proceeding today?

13 A Yes, I do.

14 Q Dr. Elliot, I have also handed you a copy of a
15 Category 2 Library Reference designated MPA-LR-15. I ask
16 you the same question, was that document prepared by you or
17 under your supervision?

18 A Yes, it was.

19 Q And do you sponsor that as your testimony here
20 today?

21 A Yes, I do.

22 MR. MYERS: With that, Mr. Chairman, I would ask
23 that the testimony of Dr. Elliot be transcribed into the
24 record and admitted into evidence, and that the Library
25 Reference designated MPA-LR-15 be entered into evidence.

1 CHAIRMAN GLEIMAN: Is there an objection?

2 [No response.]

3 CHAIRMAN GLEIMAN: If you would please provide
4 copies of the testimony to the court reporter, I will direct
5 that that material be transcribed into the record and
6 entered into evidence.

7 [MPA-ST-2, Supplemental Testimony
8 of Stuart W. Elliot on Behalf of
9 Magazine Publishers of America,
10 Inc. and other members of the
11 Periodicals Mailers Coalition was
12 received in evidence and
13 transcribed in the record.]

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POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001**

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**SUPPLEMENTAL TESTIMONY
OF
STUART W. ELLIOTT
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA, INC.
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AUTOBIOGRAPHICAL SKETCH

1
2 My name is Stuart W. Elliott. I am a Senior Analyst at Project
3 Performance Corporation (PPC), a consulting firm based in McLean, VA. PPC
4 provides management, information technology, and environmental consulting
5 services to private and public sector clients.

6 I attended Columbia University, where I received a B.A. in Economics,
7 summa cum laude, in 1985. I also attended the Massachusetts Institute of
8 Technology, where I received a Ph.D. in Economics in 1992. In graduate school,
9 my major fields were labor economics and industrial organization. I received
10 postdoctoral training in experimental psychology at Carnegie Mellon University
11 from 1991 until 1994.

12 Following my formal education, I was a Research Fellow at Carnegie
13 Mellon University from 1994 until 1999, where I studied the impact of computers
14 on jobs and productivity. During the 1997-98 academic year, I was also a visiting
15 scholar at the Russell Sage Foundation. I joined PPC in 1999, where I have
16 worked primarily on analysis related to postal economics.

1. Purpose and Scope of Testimony

17 The purpose of this testimony is to respond to the Fourth Notice of Inquiry
18 (August 2, 2000) (NOI 4), which asks for investigation of a set of variability
19 models that are similar to those presented by witness Bozzo but that differ by
20 including time-specific fixed effects rather than site-specific fixed effects. In my
21 response, I present a more general model that includes both time-specific and
22 site-specific fixed effects. My analysis of this model shows that the time-specific
23

1 fixed effects add little explanatory power and that their omission from witness
2 Bozzo's analysis is of no practical significance.

3 **2. It is straightforward to test a model that includes both site-specific and**
4 **time-specific fixed effects. Models A and B from NOI 4 are both nested**
5 **within this more general model.**

6
7 NOI 4 requests the investigation of mail processing variability models that
8 are generally similar to witness Bozzo's preferred model except that they have
9 time-specific fixed effects rather than site-specific fixed effects. Furthermore,
10 NOI 4 seems to express an interest in the investigation of more general models,
11 both in its questions about nesting relationships between different models and in
12 its reference to a chart from Docket No. R97-1 (Tr. 28/15776) that shows some of
13 those relationships.

14 In response, I have chosen to investigate the time-specific fixed effects
15 that are the focus of NOI 4 within the context of a more general model that also
16 includes site-specific fixed effects. This avoids the problem of investigating
17 multiple models that are not nested within each other and therefore avoids the
18 resulting confusion suggested in parts (c)-(e) of NOI 4.

19 Using the notation of NOI 4, the more general model that includes both
20 types of fixed effects takes the following form:

21
$$y_k = \alpha_i + \alpha_t + x_k \beta + \varepsilon_k$$

22 where y_k represents the logarithm of hours, α_i represents the site-specific fixed
23 effects, α_t represents the time-specific fixed effects, and x_k represents all other
24 explanatory variables including the logarithm of volume. This model generalizes

1 from Models A and B of NOI 4 by including both α_i and α_i . In contrast, Model A
2 includes α_i but not α_i , whereas Model B includes α_i but not α_i .

3 The addition of time-specific fixed effects to witness Bozzo's model is
4 straightforward. However, it is not possible to estimate panel data models with
5 two sets of fixed effects with the Time Series Processor (TSP) program used by
6 witness Bozzo, so I estimate the more general model by adding a set of quarter
7 dummy variables. If the model did not already include variables to control for the
8 effects of time, I would have done this by adding a total of 18 quarter dummy
9 variables, reflecting the maximum of 19 quarters of complete data in witness
10 Bozzo's dataset. However, witness Bozzo's model already includes 3 seasonal
11 dummy variables to capture seasonal fluctuations and 2 time-trend variables to
12 capture steady changes over time. As a result, the effect of a full set of 18
13 quarter dummy variables is achieved by the explicit addition of only 13 quarter
14 dummy variables. The remaining 5 quarter dummies are included implicitly as
15 combinations of the 13 included quarter dummies and the 5 time-related
16 variables already included in witness Bozzo's model.

17 No changes to witness Bozzo's model are required to produce this more
18 general model beyond the addition of the 13 quarter dummy variables. Part (a)
19 of NOI 4 suggests that "[a]ny terms used by witness Bozzo that are not needed
20 because of the presence of α_i , such as lagged dependent variables and
21 regressors may be omitted." This statement seems to reflect a belief that the
22 inclusion of time-specific fixed effects will turn the model into a cross-section
23 model, a type of model that often does not include lagged variables. Such a

1 conclusion would be in error. First, the model is not equivalent to a cross-section
2 model, because the coefficients on the other variables (the β) do not vary by
3 time. Second, and more importantly, the omission of lagged variables from
4 cross-section models is usually a necessity, not a virtue: it is done because the
5 necessary lagged data are unavailable. In contrast, in cases when the
6 necessary lagged data are readily available, it does not make sense to ignore
7 them if we believe that people and institutions take time to adjust to changed
8 circumstances.

9 **3. Estimating the more general model on witness Bozzo's data shows that**
10 **the additional time-specific fixed effects of Model B add little explanatory**
11 **power and do not significantly change the volume-variability estimates.**
12

13 To demonstrate the explanatory power of the time-specific fixed effects, I
14 contrast the general model that includes both site-specific and time-specific fixed
15 effects with three nested models: Model A, which includes only site-specific fixed
16 effects; Model B, which includes only time-specific fixed effects; and witness
17 Bozzo's pooled model, which includes neither site-specific nor time-specific fixed
18 effects.

19 I use witness Bozzo's TSP programs directly to obtain the results for
20 Model A and for the pooled model.¹ To estimate the two models that include
21 time-specific fixed effects (the general model and Model B), I make five minor
22 changes to witness Bozzo's TSP programs. The resulting programs and output
23 are included in library reference MPA-LR-15, with the changes numbered NOI4-1
24 through NOI4-5.

¹ I use the revised versions of witness Bozzo's TSP programs that were provided in USPS-LR-I-239.

1 Because of time constraints, I focus on the versions of the models that do
 2 not include the autocorrelation correction. Without this correction, the models are
 3 less efficient than the models estimated by witness Bozzo, but they are still
 4 unbiased and consistent. Because of the loss of efficiency, I do not advocate
 5 that my variability estimates be used in place of those provided by witness
 6 Bozzo. Instead, the aim of my analysis is to show the impact of the time-specific
 7 fixed effects discussed in NOI 4.

8 Table 1 provides the Adjusted R-squared measures for the four models for
 9 the five largest cost pools estimated by witness Bozzo. It is clear from the table
 10 that time-specific fixed effects add only a small amount of explanatory power.
 11 Whether the time-specific fixed effects are added to the pooled model to produce
 12 Model B or are added to Model A to produce the general model, the table shows
 13 that the resulting change in Adjusted R-squared is small and sometimes
 14 negative. In contrast, it is clear that site-specific fixed effects add a much larger
 15 amount of explanatory power, whether they are added to the pooled model to
 16 produce Model A or are added to Model B to produce the general model.

17
 18

Table 1: Adjusted R-Squared for Four Variability Models

Model	BCS	FSM	Manual Flats	Manual Letters	SPBS
General Model	0.9832	0.9872	0.9770	0.9803	0.9359
Model A – Site Effects	0.9830	0.9871	0.9770	0.9800	0.9347
Model B – Time Effects	0.9506	0.9556	0.9258	0.9329	0.7240
Pooled Model	0.9505	0.9557	0.9260	0.9328	0.7248

19

20 It is not surprising that the time-specific fixed effects add little explanatory
 21 power, since witness Bozzo's model already includes the impact of regular

1 seasonal fluctuations and the impact of a smooth trend over time. These are the
2 primary time-related effects that one would expect to see. The addition of the
3 quarter dummy variables merely allows the model to explain single-quarter
4 shocks to mail processing productivity and deviations from a quadratic time
5 trend.

6 Although the time-specific fixed effects add little explanatory power, they
7 add enough so that Model A is usually rejected in favor of the general model.
8 Using an F test of the restrictions, Model A is rejected in favor of the general
9 model at a significance level of less than 1 percent for all cost pools except
10 Manual Flats. In the case of Manual Flats, the F test has a significance level of
11 19 percent, indicating that Model A cannot be rejected in favor of the general
12 model. The calculations are shown in Attachment 1.

13 All the models without site-specific fixed effects are rejected in favor of the
14 general model. Using an F test, both Model B and the pooled model are rejected
15 in favor of the general model at a significance level of less than 0.01 percent for
16 all five cost pools. This is not surprising, since it merely restates the conclusion
17 shown by the tests performed by witness Bozzo on the model with the
18 autocorrelation correction.

19 Table 2 shows the volume-variability factors that are calculated in USPS-
20 LR-I-239 and MPA-LR-15 for the four models.² This table underlines the
21 conclusion from Table 1 that the time-specific fixed effects add little explanatory
22 power. There is very little change in the estimated variabilities when time-

² The variabilities shown for Model A and the pooled model differ from witness Bozzo's estimates in Tables 6 and 7 and Appendix F of USPS-T-15 because they do not include the correction for autocorrelation.

1 specific fixed effects are added, whether they are added to the pooled model to
 2 produce Model B or are added to Model A to produce the general model.
 3 Although Model A is usually rejected in favor of the general model, the difference
 4 between the variability estimates from these two models is very small. Thus the
 5 impact of witness Bozzo's omission of time-specific fixed effects is of no practical
 6 significance.

7

8

Table 2: Volume-Variability Factors for Four Models

Model	BCS	FSM	Manual Flats	Manual Letters	SPBS
General Model	0.827	0.645	0.505	0.579	0.683
Model A – Site Effects	0.847	0.643	0.518	0.586	0.670
Model B – Time Effects	1.030	1.036	0.944	0.911	0.873
Pooled Model	1.033	1.036	0.945	0.910	0.872

9

Attachment 1: F Tests of Restrictions to General Model

	Ref	BCS	FSM	Manual Flats	Manual Letters	SPBS
Number of Observations	[1]	5,408	4,373	4,891	5,512	1,584
Number of Restrictions for Model A	[2]	13	13	13	13	13
Number of Restrictions for Model B	[3]	297	235	277	299	94
Number of Restrictions for Pooled Model	[4]	310	248	290	312	107
Degrees of Freedom for General Model	[5]	5,057	4,086	4,582	5,161	1,445
Sum of Squared Residuals for General Model	[6]	118.39	37.66	94.49	102.07	31.66
Sum of Squared Residuals for Model A	[7]	120.30	37.93	94.84	103.89	32.56
Sum of Squared Residuals for Model B	[8]	368.10	137.52	322.92	367.95	145.25
Sum of Squared Residuals for Pooled Model	[9]	370.11	137.84	323.32	369.20	146.09
F Statistic for Restriction to Model A	[10]	6.28	2.25	1.33	7.08	3.17
F Statistic for Restriction to Model B	[11]	35.91	46.10	39.82	44.97	55.16
F Statistic for Restriction to Pooled Model	[12]	34.68	43.82	38.10	43.29	48.81
Significance Level for Restriction to Model A	[13]	0.0000	0.0061	0.1869	0.0000	0.0001
Significance Level for Restriction to Model B	[14]	0.0000	0.0000	0.0000	0.0000	0.0000
Significance Level for Restriction to Pooled Model	[15]	0.0000	0.0000	0.0000	0.0000	0.0000

[1] USPS-LR-I-239 and MPA-LR-15, provided on all runs.

[2] Number of quarter time dummies.

[3] = Number of sites - 1. Number of sites provided on all runs of USPS-LR-I-239 and MPA-LR-15.

[4] = [2] + [3]

[5] = [1] - ([4] + Number of other variables). Number of other variables is 32 for SPBS and 39 for all other cost pools.

[6] MPA-LR-15, "Within" runs without autocorrelation correction.

[7] USPS-LR-I-239, "Within" runs without autocorrelation correction.

[8] MPA-LR-15, "Total" runs without autocorrelation correction.

[9] USPS-LR-I-239, "Total" runs without autocorrelation correction.

[10] = $(([7] - [6]) / [6]) * ([5] / [2])$

[11] = $(([8] - [6]) / [6]) * ([5] / [3])$

[12] = $(([9] - [6]) / [6]) * ([5] / [4])$

[13] F probability distribution of [10] with [2] and [5] degrees of freedom.

[14] F probability distribution of [11] with [3] and [5] degrees of freedom.

[15] F probability distribution of [12] with [4] with [5] degrees of freedom.

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.


James Pierce Myers

Washington DC
August 21, 2000

1 CHAIRMAN GLEIMAN: The library reference will be
2 entered into evidence but not transcribed into the record.

3 [Library Reference MPA-LR-15 was
4 received in evidence.]

5 MR. MYERS: Thank you, Mr. Chairman.

6 CHAIRMAN GLEIMAN: As I indicated a moment ago,
7 United Parcel Service was the only party who indicated
8 before today that they had intended to cross examine. They
9 do not have any cross examination for this witness today.
10 Is there anyone else who wishes to cross examine the
11 witness?

12 [No response.]

13 CHAIRMAN GLEIMAN: Questions from the bench?

14 [No response.]

15 CHAIRMAN GLEIMAN: If not, Dr. Elliott, I want to
16 thank you. That completes your testimony here today. We
17 appreciate your appearance and contribution to the record.

18 You are excused.

19 [Witness excused.]

20 CHAIRMAN GLEIMAN: We're going to take a short
21 lunch today. We'll be back in 45 minutes at two o'clock.

22 [Whereupon, at 1:16 p.m., the hearing recessed for
23 lunch, to reconvene this same day at 2:00 p.m.]

24

25

1 AFTERNOON SESSION

2 [2:00 p.m.]

3 CHAIRMAN GLEIMAN: Mr. Cooper, I believe that you
4 have the next witness.

5 MR. COOPER: Yes. Thank you, Mr. Chairman.

6 The Postal Service calls Doing Baron to the
7 witness stand.

8 CHAIRMAN GLEIMAN: Mr. Baron is already under oath
9 in this proceeding.

10 Whereupon,

11 DONALD M. BARON,
12 a witness, was called for examination by counsel on behalf
13 of the United States Postal Service and, having been
14 previously duly sworn, was further examined and testified as
15 follows:

16 DIRECT EXAMINATION

17 BY MR. COOPER:

18 Q Mr. Baron, I'm handing you two copies of a
19 document entitled Rebuttal Testimony of Donald M. Baron on
20 Behalf of the United States Postal Service marked for
21 identification as USPS-RT-12.

22 Are you familiar with this document?

23 A Yes, I am.

24 Q Was it prepared by you or under your direct
25 supervision?

1 A It was.

2 Q I understand you had three typographical
3 corrections that you wanted to make at this time.

4 A That's correct. The first one is at page 23,
5 footnote 7, LR-I-383 is a mistake, it should be LR-I-337.
6 The same correction should be made to Footnote 12 on page
7 29, change 383 to 337. And again, the same correction
8 should be made to Footnote 16 on page 49.

9 Q In each case, library reference LR-I-383 is
10 changed to LR-I-337; is that correct?

11 A That is correct.

12 Q Okay. And with that change, is the written
13 testimony you have before you the testimony that you would
14 give if you were to be giving testimony orally today?

15 A It is.

16 MR. COOPER: Mr. Chairman, I will hand these two
17 copies to the court reporter. I ask that they be
18 transcribed and that they be admitted into evidence.

19 CHAIRMAN GLEIMAN: Is there an objection?

20 Hearing none, if counsel would please provide
21 those copies to the court reporter, I'll direct that the
22 material be transcribed into the record and entered into
23 evidence.

24 [USPS-RT-12, Rebuttal Testimony of
25 Donald M. Baron on Behalf of the

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United States Postal Service, was
received in evidence and
transcribed into the record.]

USPS -RT-12

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY OF
DONALD M. BARON
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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LIBRARY REFERENCES ASSOCIATED WITH THIS TESTIMONY

- LR-I-453 Adjustment of Street-Time Percentages to Account for Differences in
Distribution of Deliveries by Delivery Type Between the ES Sample and
the Population of all City Carrier Letter Routes
- LR-I-454 Changes in Street-Time Percentages Resulting from the Exclusion of
Contested Load-Time Tallies

1 **Autobiographical Sketch**

2

3 My name is Donald M. Baron. I am currently a Vice President with Foster
4 Associates, Inc., an economics consulting firm in Bethesda, MD. My education and
5 experience are described in detail in my direct testimony, USPS-T-12.

1 **Purpose and Scope of the Testimony**

2
3 This testimony is divided into five parts. Part 1 reviews the methodologies that
4 three witnesses - myself, Mark Ewen (OCA-T-5), and Antoinette Crowder (MPA-T-5) -
5 have proposed for defining and measuring coverage-related load time on city carrier
6 letter routes. In Mr. Ewen's Docket No. R2000-1 analysis, coverage-related load time
7 includes stop time that is fixed with respect to the volume and mix of volume loaded at
8 the stop. (Tr. 25/12063-64)). Ms. Crowder's Docket No. R2000-1 analysis presents a
9 useful extension of this view by correctly defining stop-level load time as a nonlinear
10 function of volume, and by deriving from that function a formula that defines coverage-
11 load as strictly fixed stop time plus a very small, unmeasurable non-fixed component.
12 (Tr. 32/16236--38).

13 Recognizing that coverage-related load time is therefore effectively defined as
14 strictly fixed time at a stop, part 2 of this testimony determines how to measure fixed
15 stop time. It examines two proposed measures - the residual of total load time over
16 elemental load time, and my Docket No. R97-1 fixed-time estimate, defined as the
17 average of the lowest load times recorded during the 1985 LTV Study at one-letter
18 stops. This evaluation rejects the residual measure for several reasons. The residual
19 isn't fixed with respect to volume; it is valid only if the stop-level load time model is
20 linear, whereas the true load time model is highly nonlinear; and it produces measures
21 of coverage-related load time that are much higher than operationally feasible.

22 Part 2 then examines my R97-1 methodology. This examination results in a
23 proposed revised methodology for using 1985 LTV load times to directly estimate fixed
24 stop time. Part 2 concludes by showing how this new measure effectively addresses

1 the concerns raised by Mr. Ewen's review and my own evaluation of the previous fixed
2 time measure.

3 Part 3 considers the alternative route-level load time analysis. It begins with a
4 rejection of witness Crowder's argument that the ES-based route-level regression
5 analysis presented in USPS-LR-I-310, I-386, and I-402 and my responses to
6 UPS/USPS-T12-16 (a)-(b) and 20 (a)-(c) produces additional proof that the ES-based
7 street-time percentages for load time are much too high. It also refutes Ms. Crowder's
8 claim that the intercept terms derived from the route-level regression analyses imply
9 fixed stop times that are nonsensical at the route level. Part 3 shows that Ms. Crowder
10 misinterprets the route-level load time analysis and erroneously applies that analysis to
11 the calculation of route-level fixed stop time. It shows further that Ms. Crowder is, in any
12 event, incorrect in regarding estimates of positive route-level fixed stop time as
13 constituting nonsensical predictions that carriers spend large amounts of time doing
14 nothing.

15 Part 3 concludes with a review of the ES-based route-level regressions. It
16 summarizes the favorable properties of the ES-based regression analysis, and the
17 reasons this analysis should replace the stop-level analysis for calculation of volume-
18 variable load time costs. Part 3 concludes that the regression presented in USPS-LR-I-
19 402 and my response to UPS/USPS-T12-20 (a) - (c) is the best choice among the ES-
20 based regressions I have evaluated.

21 Part 4 evaluates several issues relating to witness Crowder's critique of the new
22 street-time percentages that I estimated in my Docket No. R2000-1 testimony based on
23 data from the ES tally database produced by witness Lloyd Raymond. Part 4 rejects

1 Ms. Crowder's claim that the increase in load time between FY 1986 and FY 1998
2 implied by the new street-time percentages is operationally implausible. It
3 demonstrates that when properly evaluated, the changes in load time per stop that
4 occurred from 1986 to 1998 are realistic and consistent with significant changes in the
5 carrier operating environment over this period. Part 4 also evaluates Ms. Crowder's
6 allegation that certain tallies witness Raymond assigned to load time have location or
7 activity codes that are inconsistent with the loading activity. I show that even if one
8 accepts the validity of this allegation, it is immaterial, since the load time percentages
9 fall very little when all such contested tallies are eliminated from the tally data set.

10 Part 4 does, however, agree with Ms. Crowder's judgment that the distribution of
11 possible deliveries in the ES tally database across delivery-type categories is not
12 representative of the corresponding distribution in the population of all city carrier letter
13 routes. Part 4 therefore proposes an adjustment to the methodology for using the ES
14 tally data to compute the street-time percentages. This new methodology explicitly
15 accounts for the excessive percentage of residential curblane and centralized delivery
16 points in the ES sample relative to the percentage in the population, and the relative
17 deficiency of the ES sample's percentage of "residential other" delivery points.

18 Part 5 responds to witness Nelson's proposed new approach for calculating
19 volume-variable loop/dismount driving time costs. I reject Mr. Nelson's proposal, and I
20 recommend as an alternative that the volume variability of loop/dismount driving time be
21 set equal to zero.

22

23

1 Part 1. Coverage-Related Load Time and Fixed Stop Time

2 The issue of how to define and measure coverage-related load time on city
3 carrier letter routes generated considerable controversy in Docket No. R97-1. However,
4 the Docket No. R2000-1 analyses presented by myself, witness Ewen, and witness
5 Crowder have eliminated much of this conflict.

6 My R2000-1 testimony affirmed the view I expressed in Docket No. R97-1 that
7 coverage-related load time is strictly fixed stop time, whereas elemental load time
8 encompasses all time that varies in response to changes in volume at a stop. (USPS-T-
9 12 at 7-9, 15-19). Thus, volume-variable coverage-related load time, in my view,
10 captures the increase in fixed stop time that results when, due to volume growth, the
11 carrier delivers mail to a new, previously uncovered stop.

12 In his responses to USPS/OCA-T5-12 (a) (1) and USPS/OCA-T5-2 (c), Mr. Ewen
13 likewise acknowledges that coverage-related load time includes all stop time that is
14 "fixed with respect to volume and volume mix at a stop, but [that] may vary across stops
15 due to factors other than volume." (Tr. 25/12063-64). He agrees that elemental load is
16 the portion of stop time that is dependent on mail volume at the stop (Tr. 25/12063-64)).
17 Thus, Mr. Ewen agrees that the separate and distinct coverage-related activity – the
18 activity that is not elemental load time – includes the activity that is fixed in length with
19 respect to volume and volume mix.

20 Ms. Crowder also endorses this view. In response to USPS/MPA-T5-2(c), she
21 states that fixed stop time is part of coverage-related load time. (Tr. 32/16239). She
22 also defines fixed stop time as "the portion of time at [a] covered stop which does not
23 vary with stop volume." (Tr. 32/16232).

1 This consensus reduces the remaining contentious issues to just two. The first is
2 what, if anything, coverage-related load time encompasses beyond fixed stop time. The
3 second is whether the residual or some version of my R97-1 fixed-time at stop estimate
4 is the best measure of whatever final definition of coverage-related load time is correct.

5 In my view, Mr. Ewen has failed to enunciate what he believes coverage-related
6 load time might include beyond fixed stop time, and that is not already captured by
7 elemental load time. He also offers no analytical or empirical support to his
8 endorsement of the residual measure, which calculates coverage-related load as the
9 excess of total load time over elemental load time.

10 Ms. Crowder's Docket No. R2000-1 analysis is much more promising in this
11 regard. Ms. Crowder shows through a new mathematical derivation that coverage-
12 related load time equals fixed stop time plus a non-fixed component that accounts for
13 variable load-time scale economies. However, my rebuttal demonstrates that this non-
14 fixed component is necessarily a very small amount. Given this result, plus Ms.
15 Crowder's failure to propose any methodology for applying available data and
16 regression equations to quantify the non-fixed stop-time component, I conclude that,
17 effectively, coverage-related load time equals just fixed stop time.

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1 1.1 The Crowder Analysis Proves that Coverage-Related Load Time Equals Fixed Stop
 2 Time Plus a Non-Fixed Component

3
 4 Ms. Crowder's R2000-1 analysis presents a new mathematical derivation of
 5 coverage-related load time that extends her Docket No. R97-1 analysis.¹ Thus, her
 6 new derivation builds onto a mathematical framework that the R97-1 PRC Decision
 7 accepted.²

8 Ms. Crowder first defines the following expression for total route-level load time:

9
$$L = u * V + f * AS(V,PS) \quad (1),$$

10 where u is a constant marginal load time with respect to route-level mail volume, V , f is
 11 fixed stop time, and AS is total route-level actual stops. Thus, $u = \partial L / \partial V$, and
 12 $f = \partial L / \partial AS$, and they are both constants. In particular, they are constant coefficients of
 13 the variables V and AS , respectively, which establishes the equation as linear in V and
 14 AS .

15 Acknowledging that variable load-time scale economies render this linearity
 16 assumption invalid, Ms. Crowder modifies equation (1) by redefining u as a function of
 17 volume (V) and actual stops (AS). The resulting new equation is:

18
$$L(V,PS) = V * u [V, AS(V,PS)] + f * AS (V,PS) \quad (2),$$

19 which now defines route-level load time as a nonlinear function of volume, as indicated
 20 by the fact that u now changes in response to changes in V and AS .

21 Attachment A shows that according to equation (1), coverage-related load equals
 22 the increase in load time that occurs when a mail piece goes to a new stop minus the
 23 increase in load time that occurs when that piece goes to an existing stop. The linearity

¹ R97-1, JP-NOI-1, Attachment B. The new approach is presented in Ms. Crowder's response to USPS/MPA-T5-2 (b). (Tr. 32/16236-38).

² Docket No. R97-1, Opinion and Recommended Decision, Volume 1 at 177-180.

1 of equation (1) implies that this excess load time at the new, previously uncovered stop
2 is strictly fixed with respect to the volume and volume mix delivered at new stop.
3 Furthermore, the residual measure, equal to total load time minus elemental load time,
4 correctly measures this fixed time.

5 Because it accounts for the nonlinearity of the load time-volume relationship,
6 equation (2) defines coverage-related load time differently than does equation (1).
7 Equation (2), like equation (1) defines coverage-related load per stop as the additional
8 stop time uniquely associated with delivering mail to a new, previously uncovered stop.
9 However, unlike equation (1), equation (2) defines this additional stop time as fixed stop
10 time **plus** a non-fixed component. Attachment A shows, specifically, that accrued route-
11 level coverage-related load time in this case is $f * AS + (V * AS * \partial u / \partial AS)$, and volume-
12 variable coverage-related load time is $[f * V + (V * \partial u / \partial AS) * V] * \partial AS / \partial V$. Accrued
13 coverage-related load time per stop is thus, $f + (V * \partial u / \partial AS)$. Furthermore,
14 $f * AS + (V * AS * \partial u / \partial AS)$ differs greatly from and thus invalidates the corresponding
15 residual measure of coverage-related load time, $f * AS - (V * \partial u / \partial V) * V$, derived from
16 equation (2).

17 Thus, Ms. Crowder's new mathematical derivation provides a critical validation of
18 my Docket No. R2000-1 analysis showing that the residual measure of coverage-related
19 load time is valid if and only if the load-time equation is linear. (USPS-T-12 at 12-16).
20 Since my analysis also shows that the SDR, MDR, and BAM regressions are **highly**
21 nonlinear equations, thus invalidating the residual as applied to these equations (USPS-
22 T-12 at 16-18), my analysis also establishes that the nonlinear equation (2) is the more
23 appropriate load time model.

1 A further evaluation of Ms. Crowder's new coverage-related load time per stop
 2 expression, $f + (V \cdot \partial u / \partial AS)$, derived from equation (2) is therefore required to
 3 determine the operational significance of the non-fixed part of coverage-load. Since f is
 4 the fixed time portion, this non-fixed component is clearly $V \cdot \partial u / \partial AS$. In this
 5 expression, $\partial u / \partial AS$ is the increase in total variable load time per piece that occurs
 6 when a new mail piece goes to a new, previously uncovered stop instead of to an
 7 existing stop. The reason this increase occurs is that, because of variable load-time
 8 scale economies, the additional variable load time generated at the new stop exceeds
 9 the additional variable load time generated at the existing stop. Non-fixed coverage-
 10 related load time per stop is this additional load time per piece, $\partial u / \partial AS$, multiplied by
 11 total route-level volume V . Thus, non-fixed coverage-related load time per stop equals
 12 the increase in total variable load time that occurs when a mail piece goes to a new stop
 13 instead of to an existing stop. Route-level non-fixed coverage-related load time equals
 14 this increase times total actual stops on the route

15 1.2 The Non-Fixed Component of Coverage-Related Load Time is Extremely Small
 16 Because it Accounts for the Increase in Total Variable Load Time Per Piece of
 17 Delivering Mail to Just One New Stop

18
 19 However, a closer examination of $V \cdot \partial u / \partial AS$ also establishes that this non-
 20 fixed coverage-related load time per stop is an extremely small time increment. The
 21 reason is that $\partial u / \partial AS$, the increase in total variable load time per piece that occurs
 22 when mail goes to a new stop instead of an existing stop, is very small. A simple but
 23 realistic example shows why. Suppose that, prior to the one-piece volume increase,
 24 2,460 mail pieces are delivered across 490 actual stops on the route, producing a total
 25 route-level variable load time of 4,466.13 seconds, and a unit variable load time of

1 1.815500 seconds per piece. Suppose further that the loading of the additional mail
2 piece at the new, previously uncovered stop adds 2 seconds of variable load time. This
3 amount is higher than the 1.815500 seconds per piece at the original 490 stops due to
4 the loss of scale economies resulting from delivery of the piece to a previously
5 uncovered stop. This variable load time of 2 seconds will increase total variable load
6 time to 4,468.13 seconds and variable load time per piece to $(4,468.13/2,461)$, or
7 1.815575 seconds. Thus, it will increase variable load time per piece by only 1.815575
8 minus 1.815500, or 0.000075 seconds. The corresponding increase in total variable
9 load time will be only 0.000075 seconds * 2,461 pieces, or about 0.1844 seconds.
10 Moreover, this 0.1844-second increase is the non-fixed portion of total coverage-related
11 load time per stop.

12 The reason this amount is so small is obvious. Total variable load time at the
13 original 490 stops and corresponding total variable load time remain absolutely constant
14 when the one new mail piece goes to the one additional actual stop. This constancy of
15 variable load time per piece at all but one of the new total of 491 actual stops virtually
16 nullifies the positive effect on variable load time per piece of the additional variable load
17 time generated at just the one new stop.

18 This extremely small magnitude of the non-fixed coverage-related load time
19 measure derived from equation (2) is one reason coverage-related load should be
20 regarded as strictly fixed stop time. Another reason is that the functional form of
21 equation (2) unrealistically defines load time as a function of only one volume term. It
22 does not, therefore, accurately represent the real world definition of load time,
23 presented in the SDR, MDR, and BAM regressions, as being a function of five separate

1 volume terms. For this reason, Ms. Crowder is unable to show how she would use
2 these three regressions to derive corresponding real world estimates of the $V \cdot \partial u / \partial AS$
3 non-fixed coverage load formula.

4 Thus, although this non-fixed coverage load formula is an interesting theoretical
5 concept, and although it presents a challenging measurement problem, Ms. Crowder
6 offers no approach to compute such a measurement. On the other hand, her failure
7 does not present a serious impediment, given that the magnitude of non-fixed coverage-
8 related load time must be inconsequential. The best practice, therefore, is to assume,
9 for computational purposes, that it is not significantly different from zero, and that
10 therefore coverage-related load time is, indeed, fixed stop time only.

11 Part 2. A Revised Direct Estimation of Fixed Stop Time is Superior to the Residual
12 Measure

13
14 This decision leaves as the remaining issue that of which methodology should be
15 used to estimate the fixed time component of coverage load. As observed earlier, two
16 alternatives are available. One is my Docket No. R97-1 methodology, which estimates
17 fixed stop time as the average of the bottom quintile of load times measured in the 1985
18 study at stops receiving one letter piece. (USPS-T-17 at 9-12). The second is the
19 residual measure, endorsed by witness Ewen (Tr. 25/12027-28, 12043). It equals the
20 excess of accrued load time over elemental load time, where elemental load time
21 equals accrued time multiplied by the aggregate of the stop level load time elasticities
22 with respect to volumes (as derived from the SDR, MDR, and BAM regressions).

23 2.1 The Residual Measure Fails for Several Reasons

24 The residual measure is unacceptable for several reasons. First, as I showed in
25 my Docket No. R97-1 analysis, the residual violates the premise of the fixed-time at

1 stop definition. (USPS-T-17 at 34-36, UPS/USPS-T17-14 (b)-(d)). It is **not** fixed with
2 respect to mail volume or volume mix delivered at a stop.

3 Second, as both Ms. Crowder's Docket No. R2000-1 interrogatory responses and
4 my Docket No. R97-1 rebuttal testimony have demonstrated, the residual is the correct
5 measure of coverage-related load time only if the load time equation defines load time
6 as a strictly linear function of volume.³ (Tr. 33/16236-38, Docket No. R97-1, USPS-RT-
7 1 at 17-22). Specifically, when the load time equation is linear, coverage-related load
8 time is strictly fixed stop time and is correctly measured by the residual. My R2000-1
9 Testimony further shows that the available stop-level load time regressions – the SDR,
10 MDR, and BAM regressions – are highly nonlinear, thus invalidating the residual
11 formula. (USPS-T-12 at 16-18). This finding is confirmed by Ms. Crowder's derivation
12 from the nonlinear route-level equation of a correct formula for coverage-related load
13 that is much different than the route-level residual measure.

14 Given this mathematical proof that the residual is invalid when the load time
15 equation is nonlinear, and the strong evidence that the existing stop-level regressions
16 are highly nonlinear, it is not surprising that BY 1998 estimates of the residual provide
17 grossly unrealistic predications of fixed stop time. These poor predictions constitute
18 probably the most compelling reason to reject the residual. According to the residual
19 formula, BY 1998 coverage-related load time per stop equaled 6.65 seconds per SDR
20 stop, 17.35 seconds per BAM stop, and 39.90 seconds per MDR stop.⁴ These
21 estimates are much too high to qualify as realistic predictions of fixed stop time. The
22 BAM and MDR results are particularly nonsensical. Clearly, no plausible operational

³ See also Attachment A to this testimony.

⁴ Derived from USPS-LR-I-80, Cs06&7.xls, Worksheet 7.0.4.2.

1 theory exists that can justify a view that a carrier spends an average of nearly 40
2 seconds at each MDR stop conducting activities that are fixed in length with respect to
3 the volume delivered. Moreover, the very wide discrepancies among these three
4 residual-based estimates of fixed stop time are equally far-fetched. Again there is no
5 rational operational basis for such large differences. Thus, it is not surprising that,
6 despite his endorsement of the residual measure, Mr. Ewen was unable to provide any
7 operational explanation as to why, for example, the BY 1998 BAM residual time per stop
8 is 2.61 times larger than the corresponding SDR value. Mr. Ewen could only guess,
9 without substantiation, that this 161% excess of the BAM measure over the SDR
10 measure might not be statistically significant.⁵ (Tr. 25/12080).

11 2.2 The Best Measure of Fixed Stop Time is a Revised Direct Estimate that Accounts
12 for Variations in Fixed Stop Time in Response to Non-Volume Stop Characteristics
13

14 With the residual discredited as a measure of fixed stop time, the remaining
15 measure to evaluate is my own formula based on 1985 load times recorded at one-letter
16 stops. The rationale for this formula is straightforward. Fixed time at a stop should be
17 no more than the minimum total load time expended in the delivery of one letter piece to
18 that stop. Thus, a common sense estimate of fixed stop time would equal the minimum
19 of the observed load times over all one-letter stops.

⁵ Mr. Ewen did state that accrued load time per stop is higher and elemental load time elasticity lower for BAM stops than for SDR stops. However, this statement describes only the mechanics of the residual formula that produce the higher coverage-related load time for BAM stops. It does not explain, operationally, why the excess of residual coverage-related load time per BAM stop over corresponding residual load time per SDR stop is so large, especially given Mr. Ewen's own concept of coverage-related load time. Mr. Ewen regards coverage-related load time as fixed time per stop plus some undefined additional component or components. (See Mr. Ewen's responses to USPS/OCA-T5-12 (a) (1), 15 (a)-(c)). Certainly, the 10.7 seconds by which residual coverage-related load time per BAM stop exceeds residual coverage-related load time per SDR stop cannot realistically be regarded as fixed stop time only. This fact, plus Mr. Ewen's failure to identify what the non-fixed component might be, or to describe in what operational sense it differs from the other load time components leaves Mr. Ewen with no explanation at all as to what is taking place during this additional 10.7 seconds.

1 Consider, for example, one-letter SDR stops. 1,373 tests in the 1985 LTV Study
2 (out of a grand total of 16,037 SDR tests) recorded load time for carriers delivering to
3 these stops. Of these 1,373 tests, the lowest recorded load time was 0.4 seconds. It is
4 logical to conclude that if the **total** load time required for a carrier to deliver a letter is
5 0.4 seconds, the *fixed stop time, which is only part of the total load time, can be no*
6 greater than 0.4 seconds. (Docket No. R97-1, USPS-T-17 at 9-11).⁶

7 However, load times observed in the 1985 Study at all one-letter stops across all
8 three stop types varied substantially. For example, load times at one-letter SDR stops
9 varied from a low of 0.4 seconds up to a high of 6.34 seconds. This wide variation
10 impugns the accuracy of just the lowest observed value as an estimate of fixed time at
11 all stops of the given stop type throughout the entire system of routes. The SDR results
12 again provide a good illustration of this concern. The 0.4 seconds minimum observed
13 SDR load time was observed at only 5 out of the 1,373 SDR tests conducted at one-
14 letter stops. The wide variation among all 1,373 load times suggests that an estimate
15 based on just 5 observations is highly suspect. This problem is even worse at MDR
16 and BAM stops. The minimum observed BAM and MDR load time of 0.5 seconds was
17 observed at only 2 out of the 80 LTV tests conducted at one-letter BAM stops, and at
18 only 1 out of the 49 tests conducted at one-letter MDR stops.

19 To ensure greater accuracy, I therefore decided that instead of choosing just the
20 lowest observed load times among those measured at one-letter stops, I would derive
21 my estimate of fixed stop time for each stop type from the bottom quintile of observed
22 one-letter load times for that stop type. I calculated each such estimate as the simple

⁶ See Docket No. R87-1, Exhibit USPS-8-C, USPS LR-E-38, and USPS LR-G-140 for descriptions and analyses of the 1985 field survey and survey data set.

1 average of all observed load times in this bottom quintile. The results are estimated
2 average fixed times per stop of 1.052, 1.110, and 0.919 seconds, respectively, for the
3 SDR, MDR, and BAM stops.

4 A remaining problem with this approach is the arbitrariness of choosing the
5 bottom quintile of one-letter load times observed in the 1985 Study as the source of the
6 data that I averaged to compute these fixed stop times. There is no statistical basis for
7 choosing this quintile threshold instead of some other threshold, such as the bottom
8 decile, or bottom quartile of tests. Moreover, in securing enough observations of one-
9 letter load times to compute average times per stop that I believed were sufficiently
10 reliable, the values I obtained included numerous load times that were actually higher
11 than load times recorded at stops that received two or more mail pieces.

12 A second problem with my Docket No. R97-1 approach is that the method of
13 averaging the bottom quintile of load times measured at one-letter stops does not
14 explicitly account for the variation in fixed stop time that occurs across stops in
15 response to variations in non-volume stop characteristics. As Mr. Ewen has argued -
16 and I find this argument persuasive - fixed stop time, by definition, is fixed only with
17 respect to volume and volume mix. (Tr. 25/12063-64). Thus, fixed stop times at two
18 stops having the exact same volume and volume mix can still vary as a result of
19 differences in the types of container used by the carrier and the types of receptacles he
20 puts mail into.

21 However, Ms. Ewen incorrectly contends that because the R97-1 fixed stop time
22 estimates do not incorporate these non-volume stop effects, the appropriate response is
23 to simply abandon the direct estimation approach entirely and adopt the residual

1 measure. (Tr. 25/12042-43). He thereby ignores the serious deficiencies of that
2 measure, as described earlier. He also ignores the obvious, more common sense
3 response of simply modifying the direct estimation procedure so that it will incorporate
4 the non-volume effects.

5 I therefore propose such a modification myself. To directly account for the
6 variation in fixed stop time caused by variations in receptacle and container type, I have
7 changed the averaging procedure applied in the direct estimation. For each stop type,
8 my new approach first identifies each combination of a receptacle type and a container
9 type that had at least one 1985 LTV stop where only one letter was loaded. For each
10 such combination, I then select the single lowest load time measured across all one-
11 letter stops. Each such minimum observed load time is then multiplied by a weight
12 equal to the percentage of all one-letter load time tests that fall within the given
13 receptacle-container type category. The estimated fixed time per stop is then defined
14 as the sum of all such weighted minimum observed load times.

15 Consider the application of this methodology to MDR stops. Of the 49 load times
16 recorded in the 1985 Study at one-letter MDR stops, 24 or 49.0% were recorded at
17 stops having mail box receptacles with a container type of "loose mail." Thus, the
18 lowest recorded load time at these stops, 0.5 seconds, is multiplied by a weight of 0.49.
19 Similarly, only 1 test, or 2.0% of the total, was conducted at a stop having a mail box
20 with a container type of "sack or pouch." The load time at this stop, 3.5 seconds, is
21 therefore multiplied by a weight of 0.02. Table 1 below shows corresponding weights,
22 minimum recorded load times, and products of weights times minimum load times for
23 these categories plus all the other receptacle-container type categories that had at least

- 1 one single letter MDR stop. The sum of all such products – that is, the sum of all the
 2 weighted minimum observed load times – equals an estimated weighted average fixed
 3 time per MDR stop of 1.568 seconds.

Table 1. Fixed Stop Time at MDR Stops Estimated as the Weighted Average of Minimum Observed Load Times Recorded During the 1985 LTV Study at One-Letter MDR Stops				
Receptacle-Container Type	Minimum Observed Load Time At One-Letter Stops	Total Number of Tests at One-Letter Stops in this Category	Number of One-Letter Tests as a Percentage of Total One-Letter Tests	Weighted Minimum Observed Load Time
Mail Box – Loose Mail	0.5	24	49.0%	0.245
Mail Box – Sack or Pouch	3.5	1	2.0%	0.071
Curblin Box-Loose Mail	7.3	2	4.1%	0.298
Multi-Apartment Boxes-Loose Mail	4.8	6	12.2%	0.588
Rural-Type Box-Loose Mail	1.0	4	8.2%	0.082
Handed to Customer-Loose Mail	1.8	1	2.1%	0.037
Other-Loose Mail	1.1	11	22.4%	0.247
Total – All Types			100.0%	1.568

- 4
 5 Tables 2 and 3 present corresponding weighted average estimates of fixed time
 6 per stop for SDR and BAM stops. Again, each weight is equal to the percentage of total
 7 one-letter load time tests conducted in the 1985 LTV Study at stops located within the
 8 given receptacle-container type category.

Table 2. Fixed Stop Time at SDR Stops Estimated as the Weighted Average of Minimum Observed Load Times Recorded During the 1985 LTV Study at One-Letter SDR Stops

Receptacle-Container Type	Minimum Observed Load Time At One-Letter Stops	Total Number of Tests at One-Letter Stops in this Category	Number of One-Letter Tests as a Percentage of Total One-Letter Tests	Weighted Minimum Observed Load Time
Door Slot – Loose Mail	0.6	131	9.5%	0.057
Door Slot – Bundled Mail	0.7	10	0.7%	0.005
Door Slot – Tray	2.8	3	0.2%	0.006
Door Slot – Sack or Pouch	2.4	13	0.9%	0.023
Mail Box – Loose Mail	0.4	606	44.1%	0.176
Mail Box – Bundled Mail	0.4	6	0.4%	0.002
Mail Box – Sack or Pouch	1.2	36	2.6%	0.031
Curblin Box-Loose Mail	0.4	199	14.5%	0.058
Curblin Box – Tray	1.3	28	2.0%	0.026
Desk Drop – Loose Mail	1.1	5	0.3%	0.004
NDCBU – Loose Mail	20.7	2	0.1%	0.030
Rural-Type Box-Loose Mail	0.4	48	3.5%	0.014
Handed to Customer-Loose Mail	0.7	15	1.1%	0.008
Handed to Customer – Bundled Mail	20.8	1	0.1%	0.015
Placed Under Door – Loose Mail	5.8	1	0.1%	0.004

Receptacle-Container Type	Minimum Observed Load Time At One-Letter Stops	Total Number of Tests at One-Letter Stops in this Category	Number of One-Letter Tests as a Percentage of Total One-Letter Tests	Weighted Minimum Observed Load Time
Placed Under Door – Bundled Mail	2.7	1	0.1%	0.002
Other – Loose Mail	0.9	245	17.8%	0.160
Other – Bundled Mail	0.6	25	1.8%	0.011
Total – All Types			100.0%	0.633

1

Receptacle-Container Type	Minimum Observed Load Time At One-Letter Stops	Total Number of Tests at One-Letter Stops in this Category	Number of One-Letter Tests as a Percentage of Total One-Letter Tests	Weighted Minimum Observed Load Time
Door Slot – Loose Mail	1.5	2	2.5%	0.038
Mail Box – Loose Mail	1.0	6	7.5%	0.075
Mail Box – Bundled Mail	4.4	1	1.25%	0.055
Curblin Box-Loose Mail	2.1	8	10.0%	0.210
Curblin Box – Tray	1.9	1	1.25%	0.024
Desk Drop – Loose Mail	0.5	28	35.0%	0.175
Desk Drop – Sack or Pouch	6.8	2	2.5%	0.170

Table 3. Fixed Stop Time at BAM Stops Estimated as the Weighted Average of Minimum Observed Load Times Recorded During the 1985 LTV Study at One-Letter BAM Stops				
Receptacle-Container Type	Minimum Observed Load Time At One-Letter Stops	Total Number of Tests at One-Letter Stops in this Category	Number of One-Letter Tests as a Percentage of Total One-Letter Tests	Weighted Minimum Observed Load Time
Rural-Type Box-Loose Mail	11.1	1	1.25%	0.139
Handed to Customer-Loose Mail	0.5	10	12.5%	0.0625
Handed to Customer -- Sack or Pouch	1.8	1	1.25%	0.0225
Placed Under Door -- Loose Mail	5.7	1	1.25%	0.071
Other -- Loose Mail	0.7	19	23.75%	0.166
Total -- All Types			100.0%	1.2075

1
 2 The new approach just described is more reliable than my R97-1 methodology
 3 for estimating fixed stop times for two reasons. First, it does not require the statistically
 4 unsupportable, arbitrary selection of the bottom quintile of load times observed at one-
 5 letter stops as a means of obtaining multiple observations of such load times on which
 6 to base a fixed time estimate. Instead, it obtains the single minimum observed load
 7 time recorded for each of several different receptacle - container type categories.
 8 Second, this new approach not only, in this manner, creates a sample of at least 7
 9 observations for computing an average fixed stop time. It also allows for the
 10 construction of an average time that explicitly accounts for the way in which fixed stop
 11 times vary with changes in non-volume stop characteristics. Thus, for example, the new

1 measure of 1.57 seconds for fixed MDR stop time is improved relative to the old
2 measure (1.11 seconds) because it accounts for the relatively higher minimum load
3 times observed at MDR stops containing multiple-apartment box receptacles or curblane
4 box receptacles and the fact that over 14% of all one-letter MDR load time tests were
5 conducted at such stops.

6 I therefore propose that this 1.57 seconds for MDR stops, along with
7 corresponding estimates of 0.63 seconds for SDR stops and 1.21 seconds for BAM
8 stops should be regarded as the best currently available measures of coverage-related
9 load time per stop that can be derived from existing stop level data. Furthermore, I
10 propose to substitute these new weighted average fixed stop times for the previous
11 measures (1.052 seconds for SDR, 1.110 seconds for MDR, and 0.919 for BAM) that
12 the Postal Service has applied in its BY 1998 load time cost analysis. In doing so, I
13 acknowledge that these new fixed stop time estimates are still not entirely satisfactory.
14 They are still based on a relatively few observations from the 1985 LTV test. Moreover,
15 the receptacle/container type weights used to compute the weighted fixed time
16 averages are based on 1985 percentages of stops across receptacle and container
17 categories. The likelihood that these percentages are not as accurate as we would
18 prefer as estimates of percentage allocations relevant to the BY 1998 analysis suggests
19 that the use of 1985 percentages as weights may further reduce the accuracy of the
20 fixed stop time estimates.

21 Nevertheless, these new fixed stop times are unquestionably superior to the
22 residual-based estimates supported by Mr. Ewen. Given that coverage-related load
23 time is fixed stop time – except for an inconsequential, unmeasurable non-fixed

1 component - the BY 1998 residual-based estimates of coverage-related load time per
2 stop are meaningless. Ranging from 6.65 seconds per stop for SDR stops to 17.35
3 seconds per stop for BAM and 39.90 seconds per stop for MDR stops, these residual-
4 based estimates are much too high to qualify as plausible measures of fixed stop time.
5 The inexplicable, extremely large discrepancies among these three measures constitute
6 further proof of their detachment from operational reality.

7 In contrast, the new weighted-average estimates of fixed stop time derived from
8 the 1985 LTV load times are operationally plausible. They are within the range of
9 expected stop times generated by carriers conducting the types of activities – such as
10 pre-loading functions and opening and closing receptacles – that require time that is
11 fixed with respect to the amount of volume delivered, but that may vary with respect to
12 non-volume stop characteristics. Finally, the analyst who believes the fixed stop time
13 activity is too poorly defined to justify concluding that fixed stop time does exist has no
14 choice but to conclude that coverage-related load time also does not exist, for
15 coverage-related load time is fixed stop time. My view is that coverage-related load
16 time does exist, and the new weighted-average of the minimum observed 1985 LTV
17 load times is its best possible measure.

18 2.3 Summary of the Stop-Level Load-Time Analysis

19 This recommendation to use the weighted-average estimates of fixed stop time
20 to measure coverage-related load time per stop completes my proposed stop-level load
21 time analysis. Aside from the substitution of these new estimates for my previous fixed-
22 stop time estimates, this proposed approach is the same as the approach I presented in
23 my Docket No. R97-1 testimonies, and reaffirmed in my Docket No. R2000-1 direct

1 testimony. Specifically, I recommend that the Postal Service continue to use the (now
2 revised) fixed stop time estimates to derive corresponding aggregate annual fixed-time
3 at stop costs for the three stop types, as it does in worksheet 7.0.4.2 of USPS-LR-I-80,
4 workbook Cs06&7.xls. These costs should be deducted from the initial aggregate
5 annual accrued load time costs derived from the street time percentages for carrier
6 loading. Furthermore, Cs06&7.xls should continue to split these fixed-time costs into
7 volume-variable and institutional costs, and to distribute the volume-variable costs
8 across mail subclasses, in the exact same manner that it allocates accrued access
9 costs to products. Cs06&7.xls should also continue to multiply the elasticities of load
10 time derived from the SDR, MDR, and BAM regressions with respect to letters, flats,
11 parcels, accountables, and collections by the remaining non-fixed time loading costs to
12 derive elemental load time costs for each volume term.

13 Part 3. The Route-Level Load-Time Variabilities

14
15 This proposed stop-level cost analysis presupposes of course a decision to
16 continue to apply the stop-level SDR, MDR, and BAM regression equations to compute
17 volume-variable load time costs. This supposition is critical, because I have, in fact,
18 *strongly recommended against* such a decision. As I argue in response to Docket No.
19 R2000-1, UPS/USPS-T12-16, I believe that the new ES-based route-level load time
20 regression analysis quantifies the current load time-volume relationship much more
21 accurately, and produces much more reliable volume variabilities than do the SDR,
22 MDR, and BAM regressions.

23 In the remainder of this section of my testimony, I therefore respond to
24 arguments by witness Crowder that relate to whether this new ES-based regression

1 should be substituted for the stop-level regressions, as I strongly recommend, and to
2 using this new regression to derive volume-variable load time costs. First, I challenge
3 Ms. Crowder's claim that the ES-based regression analysis produces additional
4 evidence proving that the street time percentages derived for the loading activity are
5 much too high.⁷ Second, I show that even if one endorses, arguendo, this erroneous
6 allegation, the ES-based regression analysis still provides the correct basis for deriving
7 volume-variable costs. I next analyze comments made by Ms. Crowder that support the
8 application of the ES-based regression analysis in the event the new street-time
9 percentages derived from the ES tally dataset are used to allocate accrued letter-route
10 street time costs across activity categories. My analysis also rejects Ms. Crowder's
11 interpretation of the deliveries variable in the ES-based regressions. Finally, I review
12 my responses to Docket No. R2000-1, UPS/USPS-T12-20. This review demonstrates
13 why the latest ES-based regression produced in these responses, and presented in
14 USPS-LR-I-402, is superior to the previously recommended version presented in USPS-
15 LR-I-386, and that this latest version should be used to derive BY 1998 volume-variable
16 load time costs.

17 3.1 Ms. Crowder's Argument that the ES-based Regression Analysis Proves that Street
18 Time Percentages for Loading are too High Should be Rejected

19
20 Ms. Crowder's allegation that the ES-based route-level regression analysis
21 reveals how the estimated percentages of total street time devoted to carrier loading are
22 too high is derived from her evaluation of the weighted average intercept in this
23 regression. (Tr. 32/16189-91, 16203-06). Ms. Crowder's evaluation applies specifically

⁷ USPS-LR-I-159 derived these percentages from the ES tally data set prepared by witness Raymond in USPS-LR-I-163. Mr. Raymond subsequently submitted USPS-LR-I-337, which contains a slightly revised version of this data set.

1 to the regression presented in USPS-LR-I-310, but, if valid, it would apply equally to
 2 what I believe is the more accurate ES-based regression. This regression, summarized
 3 in tables 3D and 4D of my response to UPS/USPS-T12-20 (c), defines small parcels
 4 and rolls (SPRs) as a separate right-hand side variable, instead of combining it with flats
 5 or with parcels, as had been done in the USPS-LR-I-310 and USPS-LR-I-386
 6 regressions. Therefore, I will present Ms. Crowder's analysis as applied to the Table 3D
 7 - 4D regression.

8 Ms. Crowder's argument relates to the combination of right-hand side variable
 9 coefficients that she regards as the weighted-average intercept term. The relevant
 10 coefficients are the intercept itself plus the coefficients for the seven fractions of total
 11 possible deliveries located within the corresponding seven delivery-type categories.
 12 These coefficients are reproduced below from Table 3D of my UPS/USPS-T12-20(c)
 13 response.

<u>Independent Variable</u>	<u>Coefficient Estimate</u>
Intercept	-4,885.84
% of Deliveries That Are Residential Other	5,768.49 (25.33%)
% of Deliveries That Are Residential Curb	8,657.60 (40.49%)
% of Deliveries That Are Residential Central	7,518.82 (12.20%)
% of Deliveries That Are Residential NDCBU	7,140.73 (12.42%)
% of Deliveries That Are Business Other	4,260.11 (5.6%)
% of Deliveries That Are Business Curb	2,091.71 (1.2%)
% of Deliveries That Are Business Central	10,101.00 (1.3%)

14
 15 Ms. Crowder argues that for any normal load time route-day, the weighted-
 16 average intercept equals the negative intercept value plus the weighted average of the
 17 seven percent of possible delivery coefficients. The weight for each delivery type
 18 equals its average percentage of total possible deliveries over all 750 route-days in the

1 ES regression data set.⁸ (Tr. 32/16203-06). For example, the weight for the
2 Residential Other category, 25.33%, is the average of the 750 residential other
3 percentages of total possible deliveries. In the above table, all seven of these delivery
4 type percentages are listed in parentheses next to the corresponding regression
5 coefficients. To calculate the weighted average, Ms. Crowder's methodology multiplies
6 each of these seven percentages by its corresponding regression coefficient, and then
7 adds the resulting seven products. The sum of this weighted average plus the intercept
8 coefficient of -4,885.84 equals an overall weighted average intercept of 2,278.92
9 seconds.

10 Ms. Crowder's analysis interprets this result as establishing that for a normal
11 (non-high load time) route day, the ES-based load time regression summarized in Table
12 3D of my response to UPS/USPS-T12-20(c) predicts a load time of 2,278.92 seconds at
13 zero volumes loaded. Furthermore, this ES-based load time regression is actually
14 predicting, according to the Crowder interpretation, that 2,278.92 seconds of total daily
15 load time will be generated on a zero-volume day. Since it is obviously absurd that any
16 such large positive load time should occur when nothing is delivered, the Crowder
17 interpretation views this prediction of 2,278.92 seconds as proof that there is a serious
18 flaw in the regression analysis. This alleged flaw is the presence of large amounts of
19 time recorded for the load time variable that is really access times, not load time. In
20 other words, the prediction of 2,278.92 seconds at zero volumes proves, according to
21 the Crowder argument, that the load times per route day in the ES regression data set
22 are much too high. These excessive load times also establish, according to this

⁸ See USPS-LR-I-402.

1 argument, that the load time percentages of total street time that produced these
2 estimated load times are also much too high. (Tr. 32/16203-06).

3 I reject this interpretation of the route-level regression analysis for two reasons.
4 First, Ms. Crowder is incorrect in concluding that the sum of the negative intercept term
5 and the weighted average of the estimated coefficients of the delivery-type percentage
6 variables predicts total daily route-level load time at zero volumes. In deriving this
7 inference, Ms. Crowder forgets that the regression coefficients for right-hand side
8 variables in a regression are accurately applied only to variable values falling within the
9 range of data used to estimate those coefficients.⁹ Ms. Crowder's analysis commits the
10 error of applying regression coefficients to variable values well outside this range
11 because, even at the low end of the route-level volumes, the sum of the right-hand side
12 volumes – letters, flats, SPRs, parcels, and accountables – is much higher than zero
13 (equaling 202 letter pieces per day). The estimated weighted intercept value derived by
14 Ms. Crowder at a total volume of zero pieces per route day is thus a highly unreliable
15 prediction derived at values to which the regression coefficients do not realistically
16 apply.¹⁰

17 Second, even if, for the sake of argument, this weighted intercept, 2,278.92
18 seconds, is regarded as a reasonably accurate measure of total fixed stop time over the
19 entire route, Ms. Crowder's interpretation of this predicted time is erroneous. This
20 interpretation views the 2,278.92 seconds as a forecast that the carrier will spend

⁹ See Douglas C. Montgomery and Elizabeth A. Peck, Introduction to Linear Regression Analysis, John Wiley & Sons, 1982, at 39-41, 142-143.

¹⁰ Ms. Crowder repeats this error in evaluating her own regression of route-level load time on delivery mode and deliveries by delivery type. (Tr. 32/16196-202). She again erroneously views the weighted-intercept derived from this regression as a reliable prediction of significant fixed route-level stop time.

1 2,278.92 seconds of total stop time despite accessing zero delivery points - that is,
2 despite doing nothing. If, indeed, the laws of econometrics compelled agreement with
3 this view, then common sense would likewise compel agreement with Ms. Crowder that
4 there must be something seriously wrong with the ES regression data set that it should
5 produce an equation that implies such a nonsensical prediction of zero-volume stop
6 time. Mr. Crowder's interpretation is, however, flatly contradicted by the correct analysis
7 of the intercept term. In standard econometric analysis, the intercept in an equation
8 defining time as a function of workload is correctly regarded as measuring the portion of
9 that time that is fixed with respect to the workload amount (e.g. mail volume). Based
10 on this accepted interpretation, the 2,278.92 seconds is an estimate of the portion of
11 predicted total route-level stop time at given volumes that is fixed with respect to that
12 volume and volume mix. Specially, the 2,278.92 seconds should not be perceived as a
13 prediction that the carrier will spend 2,278.92 seconds doing nothing. Instead, it is a
14 prediction that when the carrier does load at least 200 letter pieces on a route, 2,278.92
15 seconds out of the aggregate stop time this activity will generate will equal the fixed-
16 time component of that aggregate time.¹¹

17 This correct view of the weighted intercept value applies equally to the value Ms.
18 Crowder estimates based on her own regression, which defines route-level load time as
19 a function of the delivery mode of the route plus total possible deliveries by type. (Tr.
20 32/16196-202). In both the ES-based regression and the Crowder regression, the
21 weighted intercept does not predict an amount of time spent doing nothing; it predicts

¹¹ Ms. Crowder also improperly interprets the fixed time predicted by the weighted intercept derived from her own regression as a nonsensical prediction of positive stop time generated when no delivery points are accessed. (Tr. 32/16204).

1 the fixed portion of time that is generated only when positive volumes are loaded. Thus,
2 these large weighted intercepts do not prove that the regression data set contains
3 excessively high load time values.

4 3.2 Using the ES-Based Load-Time Regression Analysis to Compute Variabilities
5 Negates the Issue of Whether Certain Disputed Tallies are Load Time or Access Tallies

6
7 Despite her conclusion that the ES-based regression analysis has the alleged
8 defect of predicting the existence of substantial stop time when no deliveries are
9 accessed, Ms. Crowder nevertheless proffers a qualified endorsement of this analysis.
10 Ms. Crowder recommends, specifically, that if the new ES-based street-time
11 percentages for load time are used, over her strong objection, to estimate total accrued
12 load time cost, the ES-based regression should replace the stop-level regressions as
13 the source of the load-time volume variabilities. (Tr. 32/16150). Ms. Crowder justifies
14 this qualified recommendation by arguing that that the ES-based regression analysis "is
15 developed from the same dataset used to calculate city carrier street time proportions."
16 She states further that the ES-based analysis is therefore "not subject to the distortions
17 in volume-variable cost measurement that result when different data bases are used to
18 measure accrued costs and volume variabilities." (Tr. 32/16214). In other words, the
19 route-level load times in the ES-regression dataset are derived from the same tally
20 percentages that produced the Postal Service's aggregate accrued load time cost
21 estimate. The volume variabilities derived from the route-level regression of these load
22 times on corresponding volumes and deliveries are clearly consistent with this accrued
23 cost. These route-level variabilities, and not the SDR, MDR, and BAM variabilities
24 derived from a 1985 dataset that is totally inconsistent with the new accrued cost

1 measurement, should therefore be applied to this accrued cost to compute the
2 appropriate volume-variable costs.

3 The Crowder rationale for applying the ES-based volume variabilities to the ES-
4 based total accrued load time cost is especially significant because it implies a decisive
5 result beyond Ms. Crowder's own qualified endorsement of those variabilities. This
6 result can be demonstrated through a further evaluation of the accrued load-time cost
7 derived from the load time tallies. Recall that these tallies, in conjunction with tallies
8 derived from the ES tally dataset for the other street time activities, are used to estimate
9 the Postal Service's proposed new measures of street-time proportions by route
10 category for all the street activities.¹² The Postal Service's BY 1998 total accrued load
11 time cost equals the sum of the products of the proportions estimated for load time
12 multiplied by total accrued letter route street time costs in the six route-type
13 categories.¹³ Ms. Crowder contends that because these load time proportions are too
14 high, the Postal Service's accrued load time cost derived in this manner is also too high.

15 However, the specific reason Ms. Crowder believes the load time proportions are
16 too high is her claim that many load time tallies are really route/access FAT tallies.
17 Thus, Ms. Crowder believes that the alleged excess of the BY 1998 accrued load time
18 cost over true load time cost equals route/access FAT accrued cost. (Tr. 32/16186-88,
19 and MPA-LR-7).

¹² Docket No. R2000-1, USPS-LR-I-159 uses the tallies in the USPS-LR-I-163 dataset to compute the street-time percentages that I presented in my R2000-1 direct testimony (USPS-T-12). USPS-LR-I-453 uses the slightly revised tally data set presented in USPS-LR-I-337 to compute correspondingly, slightly revised street-time percentages. These new street-time percentages are shown in Table 12, below.

¹³ See USPS-LR-I-80, Cs06&7.xls, sheet 7.0.4.1.

1 I agree with Ms. Crowder that because the load times in the ES-based regression
2 are derived from the same tallies that produce the Postal Service estimate of accrued
3 load time cost, the variabilities derived from that regression are appropriately applied to
4 that cost. Now, suppose I agree, *arguendo*, that Ms. Crowder also correctly defines this
5 cost as equaling true load time cost plus some substantial accrued access cost. Then
6 the clear implication is that the variabilities derived from the ES-regression are
7 appropriately applied to a cost equal to true load time plus access cost. In other words,
8 whatever the Postal Service measure of accrued load time cost might be, the ES-based
9 regression variabilities are the correct variabilities to apply to that cost. The volume-
10 variable costs that this application produces are valid and reliable measures of the
11 volume-variable portions of the accrued cost. They are, specifically, valid measures of
12 volume-variable costs whether the corresponding accrued cost is pure load time cost or
13 load time cost plus a portion of access cost.

14 The significant conclusion to infer from this result is that it doesn't matter whether
15 Ms. Crowder is correct in alleging that the Postal Service's total accrued load time cost
16 includes access cost. Ms. Crowder herself recognizes that the variabilities derived from
17 the ES-based regression that is consistent with that accrued cost are the correct
18 variabilities to be used to derive the volume-variable portions of that cost. (Tr.
19 32/16211-14). Thus, the Postal Service's volume-variable load-time costs are correct in
20 any event. They are the correct measures of the attributable portion of whatever one
21 chooses to call the accrued cost – pure load time or load time plus access.

22 This result adds another reason to the list of justifications presented in my
23 response to UPS/USPS-T12-16 (a)-(b) for substituting the new ES-based regression

1 analysis for the SDR, MDR, and BAM stop level analysis to derive the load-time
2 variabilities. In addition to its consistency with the accrued cost to which those
3 variabilities are applied, the ES-based regression analysis presents numerous
4 advantages relative to the stop-level regressions. The ES-based analysis produces
5 operationally sensible marginal load times with respect to volumes, and a highly robust
6 measure of coverage-related load time. The latter equals a marginal load time with
7 respect to deliveries that is consistently within the 4 to 5 second range across the
8 several versions of the ES-regression have estimated. Further, the ES-based analysis
9 is derived from and thus incorporates into the variability estimation recent ES volume
10 and deliveries data that account for the existing load time-volume relationship far more
11 effectively than do the 1985 data that produce the stop-level regressions. Finally,
12 because the ES-based analysis is tied so closely to the Postal Service's accrued load
13 time cost, its prediction of total cost at mean mail volumes is far closer to this accrued
14 cost than is the predicted cost derived from the stop-level regressions.

15 3.3 Choosing the Appropriate Route-Level Regression for Computing Final Load-Time
16 Volume Variabilities

17
18 Two issues, however, remain to be resolved in order to apply the ES-based
19 regression analysis to the computation of volume-variable costs. Which ES-based
20 regression should be applied, and how show the deliveries variable in this regression be
21 interpreted in order to compute the variabilities?

22 a. The USPS-LR-I-402 Table 3D – 4D Regression Produces the Most Accurate
23 Variabilities

24
25 In my response to UPS/USPS-T12-16 (a) -(b), I recommend applying the
26 regression summarized in tables 3B and 4B of that response. This regression adds the

1 small parcels and rolls (SPR) variable to the parcels variable to create a single parcels
2 term. This term is then included as an explanatory variable along with total letters, total
3 flats, total accountables, dummy terms representing high load time per piece route
4 days, and variables defining percentages of possible deliveries falling within the various
5 delivery type categories. As I observe in the interrogatory response:

6 The Table 3B and Table 4B regression results are...the most statistically reliable
7 and operationally representative results ...computed to date. They preserve all
8 of the positive features of the original Table 3 and Table 4 results presented in
9 [USPS] LR-I-310. Furthermore, they include a high R-square, and an overall F
10 value of 36.81, which is over 6 points higher than the comparable F value
11 produced by the original Table 3 regression. The most critical improvement
12 obtained by the new model, however, is the estimation of coefficients that imply a
13 marginal load time for parcels at mean daily volumes equal to 26.13 seconds.
14 This estimate is clearly more reasonable than the previous estimates of 126
15 seconds or higher produced by the Table 3 and Table 3A regressions.

16
17 However, in my response to UPS/USPS-T12-20(a) - (c), I estimate a new
18 equation that is the same as the Table 3B equation except that it splits the single
19 aggregate parcels variable into two separate variables, one for SPRs and the other for
20 regular parcels. My interrogatory response summarizes this new regression in tables
21 3D and 4D, which are reproduced below.

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TABLE 3D. New Quadratic Load-Time Equation Based On The 1996-1998 Engineered Standards Data Base (t-Statistics Are In Parentheses)	
Independent Variable	Coefficient Estimated
Intercept	-4,885.84 (2.39)
Load Time/Letters Dummy	2,872.58 (8.94)
Load Time/Flats Dummy	1,904.85 (6.00)
Load Time/Accountables Dummy	2,238.04 (8.99)
Load Time/SPR Dummy	220.88 (0.86)
Load Time/Parcel Dummy	1,113.69 (3.84)
Letters Delivered	1.40 (2.45)
Letters Delivered Squared	-0.0004 (3.80)
Flats Delivered	0.47 (0.33)
Flats Delivered Squared	-0.001 (2.06)
Accountables Delivered	292.48 (3.87)
Accountables Delivered Squared	-7.17 (3.57)
SPRs Delivered	42.25 (2.02)
SPRs Delivered Squared	-0.21 (1.61)
Parcels Delivered	82.80 (2.43)
Parcels Delivered Squared	-0.72 (1.21)
Deliveries	-0.75 (0.25)
Deliveries Squared	0.0002 (0.065)
Letters*Deliveries	0.002 (2.74)
Flats*Deliveries	0.005 (2.89)
Accountables*Deliveries	-0.11 (1.12)
SPRs*Deliveries	-0.03 (0.80)
Parcels*Deliveries	-0.06 (1.15)
% of Deliveries That Are Residential Other	5,768.49 (3.16)
% of Deliveries That Are Residential Curb	8,657.60 (4.72)
% of Deliveries That Are Residential Central	7,518.82 (3.95))
% of Deliveries That Are Residential NDCBU	7,140.73 (3.74)
% of Deliveries That Are Business Other	4,260.11 (2.11)
% of Deliveries That Are Business Curb	2,091.71 (0.80)
% of Deliveries That Are Business Central	10,101.00 (3.37)
R-Square	56.64%
F Statistic	32.43
Number of Observations	750

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TABLE 4D. New Total Load Time Per Route-Day, Marginal Load Times, And Load-Time Elasticities Derived From The New Load-Time Regression Dataset	
Predicted Daily Load Time	9,136.21 Seconds
Marginal Load Times (in seconds)	
Letters	1.08
Flats	1.40
Accountables	181.76
SPRs	22.48
Parcels	36.50
Deliveries	4.32
Estimated Elasticities	
Letters	22.43%
Flats	8.28%
Accountables	7.79%
SPRs	4.17%
Parcels	4.15%
Deliveries	23.34%

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The new regression includes all of the positive features of the Table 3B - 4B regression results.¹⁴ In addition, it produces two separate but plausible marginal load times and load time elasticities for SPRs and regular parcels, respectively. The marginal load times and elasticities equal 22.48 seconds and 4.17% for SPRs, and 36.5 seconds and 4.15% for regular parcels. These results are clearly sensible. SPRs can typically be loaded directly into mail receptacles, thereby requiring relatively little stop time, whereas many regular parcels are too large for direct loading, and therefore require delivery of the piece directly to the customer.

In addition to this plausible new outcome, the Table 3D and 4D results predict estimated total accrued load time cost at mean volumes equal to \$3,288,673,000. This amount is even closer to the BY 1998 accrued load time cost estimate of \$2,856,175,000 than is the cost predicted by the Table 3B and 4B regressions. These added positive features of the new regression, combined with the advantages of the

¹⁴ USPS-LR-I-402 documents the data file and SAS program used to estimate the Table 3D regression.

1 earlier regression that the new regression preserves argue strongly in favor of using the
2 new regression for deriving load time variabilities. These final variabilities, listed in
3 Table 4D, should therefore be substituted for the current BY 1998 load-time variabilities
4 to produce BY 1998 volume-variable load time costs.

5 b. The Deliveries Variable Accounts for the Effects of Changes in Actual Deliveries on
6 Load Time

7
8 Ms. Crowder also agrees that the ES-based regression analysis provides the
9 best tool for computing the load time volume variabilities, assuming that is, that the ES-
10 based street time proportions are used to measure accrued load-time cost. However,
11 her method of applying the ES regression to compute volume variabilities differs from
12 my own approach in one important respect. Ms. Crowder and I agree that the cost
13 computation should multiply total accrued cost by the Table 4D elasticities with respect
14 to letters, flats, SPRs, regular parcels, and accountables to produce corresponding
15 pools of volume-variable costs. However, Ms. Crowder rejects my view that the Table
16 4D elasticity of load time with respect to deliveries times the deliveries elasticity should
17 be viewed as the appropriate route-level coverage-related load time elasticity. Ms.
18 Crowder therefore rejects my view that this elasticity should also be multiplied by total
19 accrued load time cost to produce volume variable coverage-related load time cost, and
20 that this latter cost should be distributed in the same way that volume-variable access
21 cost is distributed to mail subclasses. (Tr. 32/16191-93).

22 This dispute has arisen even though Ms. Crowder and I agree that in order to
23 accurately quantify the impact of volume growth on the loading activity, the variability
24 analysis must explicitly account for two distinct effects of volume growth on route-level
25 load time. The first, or elemental load time effect, is the increase in load time at existing

1 actual stops that occurs because the volume increase causes more pieces to be loaded
2 at those stops. The second, or coverage-related effect, is the load time generated at
3 new, previously uncovered stops that this volume increase converts into covered stops.
4 Our dispute relates to how the regression should be applied in order to quantify this
5 coverage-related effect. I view the sum of the elasticities of load time with respect to
6 the five volume variables as quantifying only the elemental load time effect. This sum
7 defines the elemental effect as the aggregate elasticity of load time at existing stops
8 with respect to volume growth. A different measure is required to define the coverage-
9 effect. By interpreting the deliveries variable as actual deliveries, I define this measure
10 as the elasticity of route-level load time with respect to the deliveries variable times the
11 elasticity of deliveries with respect to volume.

12 Ms. Crowder rejects my view that the sum of the elasticities of load time with
13 respect to the five volume terms quantifies only the elemental effect, arguing instead
14 that this sum, by itself, captures both elemental and coverage-related effects. Ms.
15 Crowder adopts this position because she also denies that the deliveries variable can
16 be regarded as actual deliveries. She argues that the deliveries variable can only be
17 interpreted as a control term. According to this view, the only reason the deliveries
18 variable is in the regression is to prevent the effects of variations in possible deliveries
19 across routes from being erroneously attributed to the five volume terms. (Tr.
20 32/16191-93, 206).

21 In my view, the correct choice among these opposing views is the one most
22 consistent with the ES-based load-time regressions. Specifically, the correct choice
23 presents the most realistic explanation of why all of these regressions produce a

1 marginal load time with respect to deliveries of between 4 and 5 seconds. Ms.
2 Crowder's interpretation of the deliveries variable as a control variable implies a
3 specific, but unreasonable interpretation of these marginal load times. According to this
4 interpretation, "[t]he number of possible deliveries affects stop-level load time by
5 affecting the number of actual deliveries, independently of volume." Thus, Ms. Crowder
6 argues that "[l]eaving volume constant, an increase in possible deliveries increases the
7 number of actual deliveries. This is because the volume-coverage function will
8 distribute the constant level of volume among more actual deliveries when there are
9 more possible deliveries." (Tr. 32/16192, fn. 45). Moreover, it is this increase in actual
10 deliveries that causes the additional 4 to 5 seconds of load time, according to the
11 Crowder approach.

12 To better illustrate what Ms. Crowder is saying here, consider two hypothetical
13 routes, A and B. Suppose these routes have the exact same mail volumes, and that
14 they differ only in that route A has 290 possible deliveries and route B has 293 possible
15 deliveries. Ms. Crowder's position is that even though volume and volume mix are the
16 same on both routes, route-level load time is higher on B because the greater number
17 of possible deliveries on B translates into more actual deliveries, lower pieces per actual
18 delivery, and hence higher load times per piece, due to the loss of variable scale
19 economies. She further claims that the possible deliveries variables is needed to
20 prevent this increase in load time from route A to route B, caused solely by the greater
21 possible deliveries on route B, from being erroneously measured as a volume effect.

22 The problem with this operational analysis is that it cannot possibly justify the
23 observed 4 to 5 second increase in load time generated by a new delivery. Specifically,

1 it cannot explain how a one-delivery point increase can cause such a significant
2 increase in load time. To see why, observe that Ms. Crowder identifies the increase in
3 load time from route A to route B as an increase due solely to the spreading of volume
4 over 293 possible deliveries on B as opposed to 290 possible deliveries on route A.
5 Thus, average pieces per delivery and load time per piece over the first 290 of these
6 route B possible deliveries are exactly the same as they are over the same 290
7 deliveries on route A. Only the three new deliveries on route B out of its 293 total - an
8 extra amount accounting for only 1% of this total - cause total route level pieces per
9 delivery to be lower on B than on A. The clear implication is that total route-B pieces
10 per delivery can only fall below route-A pieces per delivery by a correspondingly small
11 amount. Route B load time per piece must therefore exceed route A load time per
12 piece by a comparably small amount. This excess is, in particular, much too small to
13 cause an increase of 4 to 5 seconds per additional delivery on B, and an increase of 12
14 to 15 seconds over all three additional deliveries.

15 This operational implausibility of Ms. Crowder's analysis is further revealed
16 through examination of another type of change that a valid interpretation of the route-
17 level regression must be able to explain. Consider the case in which deliveries on just
18 one route increase by one delivery point over a given time period. Note, again, that the
19 ES-based route-level regressions predict that this increase will cause a 4 to 5 second
20 increase in load time. According to Ms. Crowder's position, within the framework of the
21 ES-based route-level regression, this additional delivery point must be regarded strictly
22 as an additional possible delivery point. According to this position, the additional
23 delivery cannot be regarded as an additional actual delivery. Thus, Ms. Crowder is

1 forced by her methodology to conclude that the additional delivery causes 4 to 5
2 seconds of additional load time even though this delivery isn't even accessed! Such a
3 nonsensical result is clearly the fatal flaw in the entire Crowder approach. It is ludicrous
4 to propose, as Ms. Crowder's interpretation proposes, that the addition of a delivery
5 point that the carrier does not delivery any mail to will nevertheless cause an increase of
6 4 to 5 seconds in loading time.

7 Obviously, the only sensible interpretation of the deliveries variable consistent
8 with the estimated 4 to 5 seconds of marginal load time is that the additional delivery is
9 accessed by the carrier. This logical imperative explains why I regard the delivery
10 variable as a proxy for actual deliveries. Obviously, within the framework of the
11 regression equation, this variable – although measured in terms of possible deliveries –
12 functions as a proxy for the effect of changes in actual deliveries on load time.

13 Moreover, there is no reason this interpretation of the deliveries variable as a
14 proxy for actual deliveries should be disconcerting to Ms. Crowder. In this role as a
15 proxy, the deliveries variable still effectively performs the control function that Ms.
16 Crowder justifiably regards as critical. Operating as a proxy, its presence in the
17 regression does ensure that the effect on load time of an increase in deliveries will not
18 be erroneously attributed to the volume terms. Furthermore, Ms. Crowder herself has
19 specified and estimated a route-level regression that defines possible deliveries as a
20 proxy for **both** actual deliveries and volumes. (Tr. 32/16189, fn. 43, and 16196, fn. 1)
21 Given Ms. Crowder's willingness to interpret possible deliveries as a proxy for actual
22 deliveries and volumes combined, she can hardly object to my decision to interpret
23 possible deliveries as a proxy for just actual deliveries by itself.

1 Moreover, given the appropriateness of interpreting the deliveries variable as
 2 quantifying the effects of actual deliveries on load time, my application of the route-level
 3 regression to the calculation of volume-variable coverage-related load time is likewise
 4 correct. Specifically, I appropriately regard the marginal load time with respect to
 5 deliveries, and the corresponding elasticity of load time with respect to deliveries, as
 6 measurements of the additional load time caused by additional delivery coverage. I am
 7 further justified in regarding the product of this elasticity and the elasticity of actual
 8 deliveries with respect to volume as the correct, route-level variability of coverage-
 9 related load time with respect to volume.

10 Part 4. The Critique of the New Street-Time Percentages

11
 12 4.1 Ms. Crowder Misinterprets Changes in Load Time Per Stop

13 As observed earlier, Ms. Crowder argues that the ES-based load time
 14 proportions of total street activity are much too high. One argument she presents to
 15 support this contention is that these load time proportions imply implausibly large
 16 increases in total load times over the past 12 years. (Tr. 32/16179-85). Ms. Crowder
 17 supports this argument by comparing total 1986 and 1998 load times per stop. This
 18 comparison is presented in the following table obtained from page 34 of her Docket No.
 19 R2000-1 Testimony. (Tr. 32/16179).

Table 5. Changes in Load Time Per Stop, FY 1986 – FY 1998			
	1986 Load Time Per Actual Stop	1998 Load Time Per Actual Stop	Change
SDR	11.79 sec.	17.04 sec.	44.6%
MDR	75.56	114.35	51.3%
BAM	21.67	36.21	67.1%
Wtd. Avg.	17.37	26.01	49.7%

1 Ms. Crowder contends that the 1998 load times per stop, computed as the ratios
2 of BY 1998 ES-tally based load times to actual stops are much too high relative to
3 corresponding 1986 values, which equal the ratios of BY 1986 STS-based load times to
4 actual stops. The increase from the 1986 to the 1998 load times per stop implies,
5 according to Ms. Crowder, "that the proportion of route time (excluding street support)
6 spent by carriers loading mail has increased from 30% to 50%." (Tr. 32/16180). Ms.
7 Crowder then rejects witness Kingsley's explanations of why accrued load time has
8 increased substantially over the past several years as being totally insufficient to justify
9 increases of that magnitude, or to justify the corresponding decreases in CAT and FAT
10 run time. Ms. Crowder concludes that "while there have been operational changes"
11 over the past several years, the Postal Service's explanations cannot "account for the
12 enormity of the increased load time implied by [witness] Raymond's [tally] data and
13 analysis." (Tr. 32/16185).

14 I must reject these conclusions. Ms. Crowder's analysis incorrectly judges the
15 magnitude of the increase in load times from 1986 to 1998 by evaluating changes in
16 accrued time, instead of changes in volume-variable load time. For rate case cost
17 analysis, volume-variable load times, not accrued times are the key street-time
18 components that must be explained to ensure correct attribution of costs to products.
19 The table below therefore restructures the Crowder table (Table 5) by substituting
20 volume-variable load times per actual stop for Ms. Crowder's accrued times per stop.
21 Moreover, the volume-variable load times that are the numerators of these volume-
22 variable load times per stop ratios are calculated based on the unique volume
23 variabilities applicable to each of the two time periods.

Table 6. Changes in Volume-Variable Load Time Per Stop, FY 1986 – FY 1998			
	1986 Volume- Variable Load Time Per Actual Stop	1998 Volume- Variable Load Time Per Actual Stop	Change
SDR	5.85 sec.	NA	NA
MDR	53.79	NA	NA
BAM	10.91	NA	NA
Wtd. Avg.	9.82	13.26	35.0%

For 1986, the applicable volume variabilities are derived from the SDR, MDR, and BAM regressions, since those regressions are derived from the 1985 LTV data set that accurately represents the 1986 operating environment. For 1998, the 1985 LTV data set is no longer appropriate. The database consisting of the ES tallies and mail volumes recorded in the 1996-1998 Delivery Redesign study is clearly the correct source for the variability analysis. Therefore, the ES-based Table 3D regression presented in USPS-LR-I-402 and my response to UPS/USPS-T12-20 (a)- (c), and estimated through application of this ES database is the correct source of variabilities for the calculation of 1998 volume-variable load times per stop.

Observe also that the LR-I-402 regression applies to all stops combined. Therefore, the variabilities derived from this regression cannot be separated into distinct variabilities for the SDR, MDR, and BAM stop types; nor can they be used to define separate volume-variable load times per stop by stop type. Therefore, these new variabilities are used to compute a single aggregate route-level variability that implies a corresponding single BY 1998 total annual volume-variable load time and load time per actual stop, as shown in Table 6.

This volume-variable load time per actual stop is only 35.0% higher than the corresponding 1986 ratio. This increase is much less than the 49.7% increase in

1 accrued load time per stop that Ms. Crowder calculates in order to judge the
2 reasonableness of the new ES-based load time proportions. This 35.0% increase also
3 results from absolute increase of only about 3.4 seconds per stop between 1986 and
4 1998. In my view, the explanations summarized by Ms. Crowder for why load time has
5 increased substantially since the late 1980s are more than sufficient to justify this 3.4-
6 second per stop increase. The changes in load time per stop between 1986 and 1998
7 are therefore not so large as to be operationally implausible. They indicate increases in
8 load time that are within the bounds of expectation given the significant operational
9 changes that have occurred between 1986 and 1998, such as the introduction of DPS
10 mail, the substitution of relatively higher load-time-per-stop motorized routes for foot
11 routes, and increases in total volumes per stop.

12 4.2 Ms. Crowder's Claim that Location or Activity Codes for Certain Load Time Tallies
13 are Inconsistent with the Loading Activity has a Minimal Impact on the Final Street-Time
14 Percentages

15
16 In response to Docket No. R2000-1, NAA/MPA-T5-1, Ms. Crowder also
17 challenges witness Raymond's assignments of certain tallies to the load-time category,
18 arguing that the location or activity codes of these tallies are inconsistent with the
19 loading activity. (Tr. 32/16211-13). I demonstrate, however, that the allocation of these
20 contested tallies to the load time category does not significantly affect the final load-time
21 percentages. I do so by first removing from the tally data set all the load-time tallies,
22 summarized in Table 7, whose assignments are alleged by Ms. Crowder to be
23 inconsistent with carrier loading.

24

Table 7. Tallies Assigned to Load Time that have Location or Activity Codes that Are Alleged to be Inconsistent with the Carrier Loading Activity		
Location Code	Activity Code	Activity Detail
Point of Delivery	Travel b/t Delivery	Any
Point of Delivery	Parcel of Parcels	Walk Flat or Walking
Point of Delivery	Accountable	Walk Flat or Walking
Point of Delivery	Walking	Any
Point of Delivery	No Access to Box	Any
Point of Delivery	Hardship	LLV
Point of Delivery	Finger @ Delivery	LLV (if delivery type is dismount)
Point of Delivery	Delivery/Collect	LLV (if delivery type is dismount)
Point of Delivery	Delivery/Collect	Walk Flat or Walking
On Route	Delivery/Collect	Walk Flat or Walking
On Route	Accountable	Walk Flat or Walking
On Route	Finger @ Delivery	Walk Flat or Walking
On Route	Parcel of Parcels	Walk Flat or Walking
On Route	Walking	Walk Flat or Walking
Vehicle	Finger @ Delivery	LLV (if delivery type is central)
Vehicle	Delivery/Collect	Any (if delivery type is Dismount or Park & Loop)

1
2 Next, I use the remaining tallies to recalculate the street-time percentages.
3 USPS-LR-I-454 documents the SAS program that performs this computation. Table 8
4 presents these new street time percentages, and Table 9 shows the differences
5 between these new percentages and the street time percentages calculated with the
6 contested tallies included. Table 9 shows that the load time percentages remain
7 constant or decrease by very small amounts within all six route-type categories. Thus,
8 even if Ms. Crowder's allegation that these tallies are inappropriately assigned to load
9 time is accepted, her point is still irrelevant. The removal of these tallies has no
10 significant impact on the final calculations of the street time percentages.

Table 8. Street Time Percentages After Tallies Removed						
Street Activity	Residential Loop	Residential Curb	Mixed Loop	Mixed Curb	Business Motorized	Foot
Load Time	34.59%	47.33%	33.84%	35.31%	29.88%	48.86%
Street Support	18.05%	18.80%	13.23%	17.91%	17.38%	17.00%
Travel Time	4.92%	7.01%	3.98%	6.04%	3.05%	7.36%
Driving Time	11.29%	8.71%	18.97%	19.83%	27.13%	2.21%
Route/Access FAT	33.54%	9.51%	31.38%	20.76%	20.73%	31.11%
Route/Access CAT	2.24%	15.58%	2.34%	5.45%	4.88%	0.50%
Collection Box	0.29%	0.08%	0.23%	0.73%	0.00%	0.31%
Total	100%	100%	100%	100%	100%	100%

1

Table 9. Difference Between These Percentages and Percentages With Tallies Included						
Street Activity	Residential Loop	Residential Curb	Mixed Loop	Mixed Curb	Business Motorized	Foot
Load Time	-0.54%	-0.23%	0.000%	-0.08%	0.000%	-0.39%
Street Support	0.15%	0.08%	0.000%	0.02%	0.000%	0.13%
Travel Time	0.04%	0.03%	0.000%	0.01%	0.000%	0.06%
Driving Time	0.09%	0.04%	0.000%	0.02%	0.000%	0.02%
Route/Access FAT	0.28%	0.05%	0.000%	0.03%	0.000%	0.24%
Route/Access CAT	0.02%	0.04%	0.000%	0.01%	0.000%	0.00%
Collection Box	0.00%	0.00%	0.000%	0.00%	0.000%	0.00%

2

3 4.3 The Street-Time Percentages Should be Adjusted for Discrepancies Between the
4 ES Sample and the Population in their Distributions of Delivery Points Across Delivery
5 Types

6

7 Mr. Crowder also criticizes the USPS-LR-I-159 methodology that used the
8 LR-I-163 ES tally dataset to estimate the new street time percentages. Ms. Crowder
9 alleges that this methodology failed to account for key differences between the ES
10 sample and the population of city carrier letter routes.

11 I believe Ms. Crowder's argument here is persuasive. Specifically, Ms. Crowder
12 is correct in judging that the distribution of possible deliveries in the ES tally database
13 across delivery-type categories is significantly different than the corresponding
14 distribution in the population of all city carrier letter routes. (Tr. 32/16176-77). The
15 specific differences also bias the new street-time percentages. One important
16 difference is that the percentage of deliveries that are residential curb and residential
17 centralized deliveries is significantly higher in the ES sample than in the population. In
18 addition, the percentage of deliveries that are "residential other" is significantly lower in
19 the sample than in the population. These discrepancies distort the street-time
20 percentage estimates because load times per stop on route segments containing
21 predominantly curb and centralized delivery points are generally higher than they are on

1 route segments containing predominantly "residential other" delivery points, which are
2 generally foot-accessed park & loop deliveries. Therefore, the failure of the LR-I-159
3 methodology to explicitly account for these discrepancies in its calculation of street-time
4 proportions causes the load-time proportions, in particular, to be upwardly biased.

5 However, this problem does not, as Ms. Crowder contends, discredit witness
6 Raymond's analysis. It does not establish that Mr. Raymond overallocated ES tallies to
7 load time. Instead, it establishes only that the methodology employed to compute the
8 new street-time proportions failed to calibrate those proportions for the differences
9 between the sample and population distributions of delivery points by delivery type.

10 I therefore propose to adjust that methodology for the excessive percentage of
11 residential curblane and residential centralized delivery points in the ES sample relative
12 to the population, and the relative deficiency in the ES sample's percentage of
13 "residential other" delivery points.¹⁵ This new methodology first assigns deliveries to
14 four groups: residential curb, residential centralized (the sum of residential central and
15 residential NDCBU), residential other, and all business deliveries. The percentage of
16 deliveries by group is then calculated for each of the six route types: foot, residential
17 park & loop, residential curb, mixed loop, mixed curb, and business motorized. This
18 calculation is made separately for population routes, and again for ES sample routes.
19 The results are presented in Table 10.

20

21

22

¹⁵ The term "residential centralized" in this analysis refers to the sum of residential central and residential NDCBU possible deliveries.

Table 10. Percentage Distribution of Deliveries in the Population and in the ES Sample				
Route Type	Residential Curb Deliveries	Residential Centralized Deliveries	Residential Other Deliveries	Total Business Deliveries
Residential Loop Population	7.85%	24.17%	61.74%	6.23%
Residential Loop ES Database	6.25%	33.28%	54.81%	5.66%
Residential Curb Population	48.87%	31.82%	13.80%	5.50%
Residential Curb ES Database	57.49%	22.46%	16.07%	3.99%
Mixed Loop Population	6.41%	19.28%	33.05%	41.25%
Mixed Loop ES Database	6.00%	12.03%	44.68%	37.30%
Mixed Curb Population	22.39%	22.23%	12.97%	42.41%
Mixed Curb ES Database	17.92%	27.20%	14.97%	39.91%
Business Motorized Population	2.63%	3.27%	4.13%	89.97%
Business Motorized ES Database	7.56%	5.54%	0.14%	86.77%
Foot Population	3.65%	40.73%	44.74%	10.88%
Foot ES Database	1.05%	55.64%	29.47%	13.84%

In order to correct the ES street-time proportions for the discrepancies between the sample and population distributions of deliveries shown in Table 10, the ES sample is first used to compute a separate set of street time percentages for each of the four delivery groups. These four sets of street-time percentages are presented in Table 11. USPS-LR-I-453 documents the SAS program that computes these percentages.

Table 11. Street-Time Percentages for Each of Four Delivery Groups				
Street Activity	Residential Curb Deliveries	Residential Centralized Deliveries	Residential Other Deliveries	Total Business Deliveries
Load Time	59.450%	66.507%	31.308%	32.915%
Street Support	4.996%	09.037%	10.998%	11.877%
Travel Time	3.925%	04.388%	02.953%	5.632%
Driving Time	0.00%	13.920	13.395%	21.163%
Route/Access FAT	0.00%	5.596%	39.849	24.204%
Route/Access CAT	29.795%	0.00%	0.00%	0.7053%
Collection Box	0.0607%	0.219%	0.1347%	0.6935%

1 The distributions of deliveries presented in Table 10, along with the street time
 2 percentages in Table 11, are then used to compute two sets of weighted-average street
 3 time percentages. The first set is based upon the distribution of deliveries in the
 4 population, and the second is based upon the distribution of deliveries in the ES
 5 sample. These two sets of street-time percentages are then compared to determine
 6 how much street time percentages in the ES sample should be adjusted to reflect the
 7 distribution of deliveries in the population.

8 USPS-LR-I-453 documents this computation of weighted-average street time
 9 percentages for each of the six route types. However, to illustrate the methodology, the
 10 computation performed just for the residential park & loop route type is presented here.

11 To calculate weighted-average street time percentages based upon the
 12 distribution of deliveries in the population, the Table 11 street-time percentages for each
 13 of the four delivery groups were multiplied by the respective residential park & loop
 14 percentages of deliveries, presented in Table 10. For example, to compute the
 15 weighted-average residential park & loop load-time percentage based upon the
 16 distribution of deliveries in the population, the following calculation was done:

17 $59.450\% \cdot 7.85\% + 66.507\% \cdot 24.17\% + 31.308\% \cdot 61.74\% + 32.915\% \cdot 6.23\% = 42.13\%.$

18 Similarly, to compute the weighted-average residential park & loop load-time
 19 percentage based upon the distribution of deliveries in the ES sample, the following
 20 calculation was performed:

21 $59.450\% \cdot 6.25\% + 66.507\% \cdot 33.28\% + 31.308\% \cdot 54.81\% + 32.915\% \cdot 5.66\% = 44.87\%.$

22 The load-time percentage based upon the population distribution of deliveries
 23 (0.4213) is equal to 93.88 percent of the load-time percentage based upon the ES

1 distribution of deliveries (0.4487). This 93.88 percent is therefore used as an
 2 adjustment factor to correct the ES-based load-time percentage calculated for the
 3 residential park & loop route category to reflect the true distribution of deliveries in the
 4 population. Similar calculations were carried out for each street-time activity for each of
 5 the six route types, producing six sets of adjustment factors. USPS-LR-I-453 documents
 6 the calculation of all of these adjustment factors, as well as the application of these
 7 factors to the derivation of corrected ES-based street-time percentages for all
 8 combinations of route-type category and street-time activity category.

9 Table 12 below presents the set of ES-based street time percentages prior to any
 10 adjustment, while Table 13 presents the results of multiplying each of the ES street time
 11 percentages by its associated adjustment factor and then normalizing so that the street
 12 time percentages sum to 100%.¹⁶ The Table 13 street-time percentages are superior to
 13 the original street-time percentages because they are adjusted to reflect the true
 14 distribution of deliveries in the population across the delivery types.

Table 12. Street Time Percentages Prior to Adjustment						
Street Activity	Residential Loop	Residential Curb	Mixed Loop	Mixed Curb	Business Motorized	Foot
Load Time	35.14%	47.56%	33.84%	35.39%	29.88%	49.25%
Street Support	17.90%	18.71%	13.23%	17.89%	17.38%	16.87%
Travel Time	4.88%	6.98%	3.98%	6.03%	3.05%	7.30%
Driving Time	11.20%	8.66%	18.97%	19.81%	27.13%	2.20%
Route/Access FAT	33.26%	9.47%	31.38%	20.74%	20.73%	30.88%
Route/Access CAT	2.22%	15.54%	2.34%	5.44%	4.88%	0.50%
Collection Box	0.29%	0.08%	0.23%	0.73%	0.00%	0.31%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

15

¹⁶ The pre-adjustment street-time percentages presented in Table 12 are slightly different than the USPS-LR-I-159 percentages presented in my direct testimony (USPS-T-12). The reason is that the Table 12 percentages are derived from the slightly revised ES tally data set documented in USPS-LR-I-337. USPS-LR-I-453 computes these Table 12 pre-adjustment percentages, as well as the adjustment factors, and it uses these factors to produce the adjusted percentages shown in Table 13.

Table 13. Street-Time Percentages after Adjustment to Reflect the Distribution of Deliveries in the Population

Street Activity	Residential Loop	Residential Curb	Mixed Loop	Mixed Curb	Business Motorized	Foot
Load Time	32.50%	47.93%	36.54%	35.12%	28.25%	43.13%
Street Support	17.75%	19.05%	13.38%	17.92%	17.83%	16.17%
Travel Time	4.67%	7.09%	4.21%	6.09%	3.06%	6.56%
Driving Time	10.85%	10.45%	19.46%	19.25%	28.51%	2.02%
Route/Access FAT	35.90%	9.37%	27.84%	20.21%	22.99%	37.06%
Route/Access CAT	2.74%	13.11%	2.53%	6.76%	2.42%	1.35%
Collection Box	0.27%	0.09%	0.25%	0.74%	0.00%	0.26%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Part 5. The Volume Variability of Loop/Dismount Costs Should be Set Equal to Zero

This part of my testimony analyses the portion of driving time cost that is caused by carriers driving their vehicles to stopping points in order to access park & loop and dismount delivery points on foot. I evaluate witness Mike Nelson's proposed new method for measuring the volume-variable portion of this cost. I reject the Nelson proposal, but I also recommend my own new methodology to replace the established approach.

Witness Michael Nelson's Docket No. R97-1 analysis (USPS-T-19) derived a volume variability of 40.99% that is applied in the BY 1998 cost analysis to accrued loop/dismount vehicle access cost. Mr. Nelson summarizes the methodology he applied to derive this variability in the following excerpt from his Docket No. R2000-1 testimony.

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

1 cause new discounts to be made because of volume/weight. In the absence of
 2 any other information, this group of discounts was ascribed the cumulative
 3 variability of the other 3, leading to the overall estimated variability of 0.4099.

4
 5 (Tr. 28/13415).

6 The following table shows how this assignment of the 0.4099 variability that Mr.
 7 Nelson derived for the first three loop/discount cost components to the cost of
 8 discounts due to volume/weight produces 0.4099 as the total loop/discount variability.

Table 14. Calculation of the Volume Variability of Loop/Discount Driving Time Costs			
Stop Type	Total Stops	% of Stops	Volume Variability
Loops Due to Volume/ Weight	242,294,460	0.3215	1.0000
Loops Due to Other Factors	85,273,149	0.1131	0
Discounts Due to Other Factors	263,516,968	0.3496	0
Discounts Due to Volume/ Weight	162,610,282	0.2158	0.4099 ¹⁷
Total	753,694,859	1.0000	0.4099

9
 10 However, Mr. Nelson's Docket No. R2000-1 testimony also recommends a
 11 modification to this calculation. Mr. Nelson now argues that "there is an interaction
 12 between volume-driven looping points and volume-driven discounts that was not
 13 accounted for in the R97-1 analysis." (Tr. 28/13415). He claims first that "stops that

¹⁷ Calculated as $(242,294,460 / (242,294,460 + 85,273,149 + 263,516,968))$.

1 would become new volume-driven discounts in the presence of a volume increase are
 2 currently served on loops." (Tr. 28/13415-16). He also notes the previous analysis'
 3 assumption "that a volume increase on volume-driven loops is accommodated entirely
 4 by an equal percentage increase in the number of loop parking points." He concludes,
 5 therefore, that this increase in loop stopping points caused by volume growth is
 6 sufficient to ensure that no new discount stopping points are created in response to
 7 that volume growth. Finally, the 100% variability assumed for volume-driven loops
 8 indicates, in Mr. Nelson's view, that "volume-driven discounts" should be viewed "as
 9 fixed (i.e., 0% variable)" with respect to volume. (Tr. 28/13416).

10 Mr. Nelson presents the following table to show how this new 0% variability for
 11 volume-driven as well as non-volume driven discount stops produces a new overall
 12 variability of 0.3215. (Tr. 28/13416).

Table 15. Witness Nelson's Proposed Revised Calculation of the Volume Variability of Loop/Discount Driving Time Costs			
Stop Type	Total Stops	% of Stops	Volume Variability
Loops Due to Volume/ Weight	242,294,460	0.3215	1.0000
Loops Due to Other Factors	85,273,149	0.1131	0
Discounts Due to Other Factors	263,516,968	0.3496	0
Discounts Due to Volume/ Weight	162,610,282	0.2158	0
Total	753,694,859	1.0000	0.3215

13
 14 My proposed approach to analyzing loop/discount costs begins with a rejection
 15 of this Nelson analysis. First, Mr. Nelson provides no basis for his conclusion that
 16 "stops that would become new volume-driven discounts in the presence of a volume
 17 increase are currently served on loops." Indeed, there is no reason to believe that these
 18 new discount stops would not be found on non-loop route segments as well as on loop

1 segments. Further, there is no basis for his conclusion that all new stopping points that
2 are created due to volume growth must be loop stopping points instead of dismount
3 stopping points. Finally, Mr. Nelson's conclusion that the volume variability of "volume-
4 driven dismounts" should be regarded as 0% is blatantly contradictory. If "volume-
5 driven" dismounts are, indeed, volume driven, then the variability of these dismounts
6 must be greater than 0%.

7 One useful contribution Mr. Nelson does make, however, in reviewing the
8 loop/dismount variability is his recognition that that the 35-lb. weight limit on carrier
9 satchel loads is a key factor in the variability measurement. The reason is that a
10 volume increase on a loop route segment will require the addition of a new vehicle
11 stopping point if it causes the weight of the carrier's satchel to exceed 35 lb. The
12 implication is that the variability of loop stopping points with respect to volume is clearly
13 a function of the probability that a marginal increase in mail volume on a route will
14 increase the satchel weight from some amount below this threshold to an amount
15 exceeding the threshold.

16 This result is critical because a new dataset can now be used to directly calculate
17 this probability of exceeding the 35-lb. threshold. This new dataset, presented and
18 documented in USPS-LR-I-329, consists of 1,270 records reporting measurements of
19 satchel weights taken during the ES Study. Each record lists the weight of one mail
20 satchel that a data collector weighed at a given loop parking point prior to the time when
21 the carrier began walking the loop to deliver mail. These 1,270 records consist of 1,270
22 separate weights measured at loop stops located on 76 separate routes. The
23 measurements were also taken over a period of 139 route-days.

1 The key statistics derived from these data are that the average satchel weight
2 equaled only 11.33 pounds, well under the 35-lb. threshold. Moreover, only 2 of the
3 1,270 measurements exceeded 30 lb. One was 34 lb., and the other 42 lb.

4 These numbers establish that, for all practical purposes, there is a zero
5 probability that a marginal (say one percent) increase in volume delivered across all the
6 loops on the 76 routes where these measurements were taken would increase the
7 weight of mail to an extent that a new loop parking point would be required. The clear
8 implication is that the variability of loop stopping points with respect to mail volume is
9 likewise zero.

10 The LR-I-329 dataset does not, however, provide any corresponding data
11 regarding the variability of dismount stopping points. Satchels are only carried on
12 walking loops, not on dismount deliveries. Thus, the finding that because existing
13 satchel weights are so low, marginal volume increases will not push these weights over
14 the 35-lb. threshold, implying a zero percent variability, is not directly relevant to
15 dismount stops.

16 However, given the absence of any data to the contrary, it would appear logical
17 that the volume variability of dismount stops is also zero. I have been informed by
18 Postal Service operations analysts that routes are generally planned so that virtually all
19 dismount stops have excess capacity. At some dismount stops, the carrier delivers the
20 mail by hand, using no containers. At other dismount stops, the carrier carries the mail
21 in tubs or other containers. In those relatively rare instances in which an increase in
22 mail volume and weight will require a change in operations, the carrier's response will
23 be to start using a satchel to carry the greater amount of mail, or, in some cases, to start

1 using a dolly to carry a container or to even add additional containers that are stacked
2 onto the dolly. The carrier almost never responds to a volume and weight increase at a
3 dismount stop by adding a new vehicle stopping point.

4 Therefore, the inference drawn from the USPS-LR-I-329 data set that there is
5 virtually no chance a marginal volume increase will require the creation of a new loop
6 stop would apply equally to dismount stops. Indeed, the most likely response to a
7 marginal increase in volume and weight at a dismount stop would be that the carrier
8 would begin using a satchel to carry the mail. In other words, to the extent the carrier
9 does anything at all differently due to the volume and weight increase, he is most likely
10 to convert the stop into a loop stop. The total number of stopping points will, in this
11 case, remain constant, confirming that the true variability for all stopping points,
12 dismount as well as loop, is effectively zero.

Attachment A

The Mathematical Derivation of Coverage-Related Load Time

Ms. Crowder's initial new mathematical representation of route-level load time is the following linear equation:

$$L = u * V + f * AS(V,PS) \quad (1)$$

where u is a constant marginal load time with respect to route-level mail volume, V , f is fixed stop time at one stop, and AS is total route-level actual stops. Thus, $u = \partial L / \partial V$, and $f = \partial L / \partial AS$, and they are both constants. In particular, they are constant coefficients of the variables V and AS , respectively, and their constancy establishes the equation as being linear in V and AS .

Ms. Crowder modifies this linear equation in her response to USPS/MPA-T5-2(b) part (3). She changes u in equation (1) from a constant marginal load time per piece to a variable marginal load time that changes, specifically, in response to changes in both V and AS . This new equation is:

$$L(V,PS) = V * u [V, AS(V,PS)] + f * AS (V,PS) \quad (2),$$

which now defines route-level load time as a nonlinear function of volume, as indicated by the fact that u now changes in response to changes in V and AS .

The critical implication of Ms Crowder's equation (1), and of the modification of that equation to produce equation (2) is that they establish that volume-variable coverage-related load time will equal the product of the stops elasticity, $(\partial AS / \partial V) * (V / AS)$, and the residual of accrued load time, L , over elemental load time, $L * (\partial L / \partial V) * (V / L)$, if, but only if load time is a linear function of volume. Thus, the

1 equations also show that the residual measure of coverage-related load time is incorrect
2 if the load time equation is nonlinear.

3 To see why this is the case, observe that Ms. Crowder's equation (1) establishes
4 that a linear load time function does produce the residual of accrued over elemental
5 load time as the correct measure of coverage-related load time. This can be shown
6 through substitution of $u = \partial L / \partial V$ into equation (1), to produce

$$7 \quad L = (\partial L / \partial V) * V + f * AS(V, PS) \quad (1a),$$

8 and through differentiation of (1a) to produce the following definition of the elasticity of
9 load time with respect to volume $(\partial L / \partial V * (V / L))$:

$$10 \quad (\partial L / \partial V) * (V / L) = (\partial L / \partial V) * (V / L) + f * (\partial AS / \partial V) * (V / L) \quad (1b)$$

11 Multiplication of the second term on the right-hand side of (1b) by AS/AS produces

$$12 \quad (\partial L / \partial V) * (V / L) = (\partial L / \partial V) * (V / L) + f * (\partial AS / \partial V) * (V / AS) * (AS / L)$$

13 or

$$14 \quad (\partial L / \partial V) * (V / L) = E_e + f * (AS / L) * E_s \quad (1c),$$

15 where $E_e = (\partial L / \partial V) * (V / L)$ is the elemental load time elasticity and

16 $E_s = (\partial AS / \partial V) * (V / AS)$ is the stops elasticity, which is the elasticity of actual stops

17 with respect to volume.

18 Finally, substitution of $f * AS = L - u * V = L - (\partial L / \partial V) * V$ (from

19 equation 1) into 1c, and multiplication of both sides of equation 1c by L produces:

$$20 \quad (\partial L / \partial V) * (V / L) * L = E_e * L + [1 - (\partial L / \partial V) * (V / L)] * E_s * L$$

21 or

$$22 \quad (\partial L / \partial V) * (V / L) * L = E_e * L + (L - E_e * L) * E_s \quad (1d)$$

1 Observe that $(\partial L / \partial V) * (V / L) * L$, the left-hand side of equation (1d), is total
 2 volume-variable load time. On the right-hand side, $E_e * L$ is elemental load time,
 3 $(L - E_e * L)$ is the residual measure of accrued coverage-related load time, and
 4 $(L - E_e * L) * E_s$ is the residual measure of volume-variable coverage-related load time.
 5 Thus, equation 1d defines total volume-variable load time as elemental load time plus
 6 the product of the residual measure of accrued coverage-related load time and the
 7 stops elasticity, E_s . Moreover, equation 1d is derived from the linear load time
 8 equation 1. Thus, it verifies that the linear load time equation does produce the residual
 9 of accrued load time over elemental load time multiplied by the stops elasticity as the
 10 correct volume-variable coverage-related load time.

11 Ms. Crowder's analysis of equation (2) shows what happens when route-level
 12 load time is a nonlinear function of volume. Equation (2), repeated below, is nonlinear
 13 because u now changes in response to changes in V and AS .

$$14 \quad L(V, PS) = V * u [V, AS(V, PS)] + f * AS (V, PS) \quad (2),$$

15 To derive expressions for elemental and coverage-related load time from equation (2),
 16 Ms. Crowder also defines u in equation (2) as total variable route-level load time per
 17 piece.

18 Differentiation of the nonlinear equation (2) with respect to actual stops (AS)
 19 produces the following expression for accrued coverage-related load time per stop.

$$20 \quad \partial L / \partial AS = f + V * (\partial u / \partial AS) \quad (2a)$$

21 Multiplication of both sides of (2a) by AS produces the corresponding accrued route-
 22 level coverage-related load time:

$$1 \quad (\partial L / \partial AS) * AS = f * AS + [V * AS * (\partial u / \partial AS)] \quad (2b)$$

2 Multiplication of this accrued coverage-related load time by the stops elasticity produces
3 the following expression for volume-variable route-level coverage-related load time:

$$4 \quad (\partial L / \partial AS) * AS * (\partial AS / \partial V) * (V / AS) = (f * AS + [V * AS * (\partial u / \partial AS)]) * (\partial AS / \partial V) * (V / AS),$$

5
6 or

$$7 \quad (\partial L / \partial AS) * AS * E_s = (f * V + [V * (\partial u / \partial AS) * V]) * (\partial AS / \partial V) \quad (2c).$$

8
9
10 Equation (2a) defines accrued coverage-related load time per stop as fixed stop
11 time, f , plus the product of the marginal increase in unit variable load time, u , with
12 respect to actual stops, AS , and total route-level volume, V . Thus, equation (2a) defines
13 accrued coverage-related load time per stop as f plus the increase in total variable
14 route-level load time that occurs because variable load time scale economies are lost
15 when a mail piece goes to a new stop, instead of to an existing stop, causing u to
16 increase. Equation (2b) defines total accrued route-level coverage-related load time as
17 the sum of fixed stop time over all stops on the route, $f * AS$, and the product of the
18 marginal increase in total variable load time with respect to actual stops, $V * (\partial u / \partial AS)$,
19 and total actual stops, AS .

20 This equation (2b) definition of accrued route-level coverage-related load time
21 derived from the more appropriate nonlinear load time equation (2) also differs from and
22 thus invalidates the corresponding residual measure. The residual measure of route-
23 level accrued coverage related load time, as derived from equation (2) is, by definition:

$$24 \quad L - E_s L = f * AS + V * u - [(u + V * \partial u / \partial V) * V / L] * L = f * AS - V^2 * (\partial u / \partial V) \quad (2d),$$

1 where $E_e * L = [(u + V * \partial u / \partial V) * V / L] * L$ is route-level elemental load time.¹⁸ This
 2 residual measure, $f * AS - V^2 * (\partial u / \partial V)$, is clearly different than the correct definition of
 3 accrued route-level coverage-related load time, $f * AS + [V * AS * (\partial u / \partial AS)]$. The
 4 specific difference between the two measures is Residual – Correct Measure =
 5 $V^2 * (\partial u / \partial V) - V * AS * (\partial u / \partial AS)$. Further, it can be expected that this difference really
 6 equates to a large excess of the residual over the correct measure, since on virtually all
 7 city routes, V^2 substantially exceeds $V * AS$, given that average pieces per stop are
 8 well in excess of one piece. Thus, not only does the residual deviate from the correct
 9 measure of accrued route-level coverage-related load time, but the magnitude of the
 10 deviation can be expected to be large, establishing the residual as a clearly
 11 inappropriate measure of coverage-related load time.

12

13

14

15

¹⁸ Note that variable load time scale economies causes $\partial u / \partial V$ to be negative, and hence
 $- V^2 * (\partial u / \partial V)$ to be positive.

1 CHAIRMAN GLEIMAN: That brings us to oral cross
2 examination. Three parties have requested oral cross
3 examination: ADVO, Newspaper Association of America, and
4 the Office of the Consumer Advocate. Is there anyone else
5 who wishes to cross examine this witness?

6 If not, then Mr. McLaughlin, you may begin when
7 you're ready.

8 MR. COOPER: Excuse me, Mr. Chairman. Before we
9 proceed, I have two library references I wanted to get
10 sponsored at this time.

11 CHAIRMAN GLEIMAN: Sounds reasonable.

12 BY MR. COOPER:

13 Q Mr. Baron, are you familiar with library
14 references I-453 and I-454?

15 A Yes.

16 Q Were these prepared by you?

17 A Yes.

18 Q Are you willing to sponsor them as your testimony
19 in this proceeding?

20 A I am.

21 MR. COOPER: With that, Mr. Chairman, I ask that
22 these library references be admitted into evidence.

23 CHAIRMAN GLEIMAN: The library references will be
24 admitted into evidence but not transcribed into the record.

25 [Library references I-453 and I-454

1 were received in evidence.]

2 CHAIRMAN GLEIMAN: Now, Mr. McLaughlin.

3 MR. McLAUGHLIN: Mr. Chairman, as in previous
4 instances involving my appearance on carrier cost issues,
5 I'm appearing on behalf of not just ADVO, but also MPA and
6 the other parties listed on Ms. Crowder's direct testimony.

7 CROSS EXAMINATION

8 BY MR. McLAUGHLIN:

9 Q Good afternoon, Mr. Baron.

10 I would first like to have you turn to page 6 of
11 your testimony, and this deals with the load equations.

12 A Okay.

13 Q You have an equation, number 2, down about
14 two-thirds the way down the page, that's an equation that
15 Ms. Crowder used; is that correct?

16 A Yes.

17 Q And I take it that you agree with that form of the
18 equation?

19 A I agree in that it is non-linear and therefore
20 more accurately represents the load time volume relationship
21 than does the linear equation.

22 Q And this is the same equation that also appears, I
23 think, on page 56 in your attachment A where you go through
24 some further analysis; is that correct?

25 It's the same equation 2?

1 A Yes.

2 Q Okay. Basically, this equation says that load
3 time is a function of volume and possible stops; is that
4 correct?

5 A That's what this -- yes, that's correct.

6 Q And if you look at that equation, the term "u",
7 small letter "u", that is that unit volume variable cost, is
8 that correct, per piece?

9 A Yes, it's -- I think it would be correct to call
10 it total variable cost per piece.

11 Q Okay. And --

12 A What you described is also an accurate --

13 Q Okay. And volume affects that factor; is that
14 correct?

15 A That's correct.

16 Q And likewise, volume affects the term AS, which is
17 actual covered stops?

18 A Yes.

19 Q Now, I have a question for you, and that is that
20 this equation uses the term PS, which stands for possible
21 stops, and also the term AS for actual stops. If, in place
22 of those terms, actual deliveries, AD, and possible
23 deliveries, PD, were put into that equation, would you still
24 have -- would that be acceptable with you? In other words,
25 just changing them from -- changing possible stops to

1 possible deliveries and changing actual stops to actual
2 deliveries?

3 A Yes.

4 Q Now I would like to refer you -- jumping ahead a
5 bit -- to your discussion about the interpretation of the
6 intercept in this equation for fixed route time. Ms.
7 Crowder in her testimony had cited the high fixed load time
8 in the regression equation as being evidence of the
9 possibility of ES tallies perhaps overstating true load. Do
10 you recall that?

11 A Yes.

12 Q Now, you then have your interpretation of the
13 intercept value, and is it correct that -- let's go to page
14 27 of your testimony.

15 Under the equation, the value of that fixed time
16 -- this is on a route level basis; is that correct?

17 A Uh-huh.

18 Q -- is 2,278 seconds per route; is that correct?

19 A Rounded up, it would be 2,279.

20 Q Okay. Okay.

21 And that time is not related to volume, is it?
22 That fixed time is not related to volume?

23 A I would regard it as an estimate, and not
24 necessarily a good estimate, but an estimate of the fixed
25 time portion, the total load time that is generated when

1 there is positive volume on the route. I do not regard it
2 as an estimate that 2,279 seconds would be generated on a
3 route with no volume and no deliveries.

4 Q I understand that portion of your testimony. I'm
5 just trying to confirm what that 2,000 seconds -- 2,279
6 seconds represents. It is not something that varies with
7 volume.

8 A That's correct.

9 Q Nor does it vary with possible deliveries.

10 A That's correct, too, yes.

11 Q Because the effects of volumes and possible
12 deliveries are picked up in the coefficients in the
13 equation; is that correct?

14 A That's right, yes.

15 Q Now, if you're looking at a route that let's say
16 has 500 possible deliveries on it, is that a fairly typical
17 size route? I'm not sure if it's exactly the average, but
18 --

19 A It may be a little on the high side.

20 Q Little on the high side. But let's just use 500.
21 That's not far off from the average, is it?

22 A No.

23 Q Okay. So on a route that had 500 possible stops,
24 if you're looking at 2,279 seconds of fixed time, doesn't
25 that equate to about roughly 4.4 seconds of fixed time per

1 possible stop, if you wanted to look at on a
2 per-possible-stop basis?

3 A You just divided 2,279 by 500?

4 Q By 500.

5 A And you get 4 --

6 Q 4.4.

7 A Uh-huh.

8 Q Roughly. It would be 4.5.

9 A Right. Okay. Subject to check, I would agree
10 with that.

11 Q Okay. And that figure is based on possible
12 deliveries. We're talking about -- maybe I should clarify
13 -- possible deliveries.

14 A In your hypothetical?

15 Q Yes.

16 A Yes.

17 Q Possible deliveries.

18 A Okay.

19 Q Now, in terms of possible stops, it would be an
20 even higher figure than 4.4 seconds per possible stop,
21 wouldn't it?

22 A Yes, assuming that this hypothetical route has
23 multiple --

24 Q Okay.

25 A -- MDR stops.

1 Q If it were purely an SDR stop with only
2 single-delivery residential stops, it would be the 4.4
3 seconds?

4 A That's correct.

5 Q And if it had some multiple delivery stops, it
6 would be higher than 4.4 seconds per stop -- per delivery.

7 A Well, let's see. You're saying you've got 500
8 possible stops?

9 Q 500 possible deliveries.

10 A Oh, 500 possible deliveries? Yes, then the time
11 per piece -- I mean time per delivery would be higher if it
12 has the MDR stops, correct.

13 Q Right. And in addition, if you were going to look
14 at it on an actual stop basis, wouldn't it be even that much
15 higher than 4.4 seconds of fixed time per actual stop?

16 A Yes.

17 Q Do those figures seem high to you for fixed time
18 at stop?

19 A In the route level regression that I've estimated
20 -- and then I'm proposing as a replacement for the SDR, MDR,
21 and BAM equations, I'm getting an estimate of between four
22 and five seconds as the marginal load time for an additional
23 delivery point.

24 So, your -- the numbers that come from your
25 hypothetical are a bit on the high side, but I should add

1 that I don't regard the 2,279 as a good estimate.

2 Q Well, let me just ask you this, and let's do this
3 as a hypothetical: Let's -- and I'm not asking you to
4 accept the hypothetical; that's the whole purpose of a
5 hypothetical.

6 Let's assume, hypothetically, that the ES database
7 tallies overstate the proportion of true load time because
8 some of those load time tallies, some of those tallies that
9 were assigned to load actually represent non-load activities
10 such as walking.

11 Now, if that were the case, isn't it correct that
12 the ES regression approach would capture those effects of
13 load tallies that represent in some cases, non-load
14 activities; is that correct?

15 A Well, I'm not sure what you mean by capture. They
16 would capture what? The excess?

17 Q If -- let me restate it, perhaps.

18 Is it possible that under the regression, those
19 would show up, those excess costs, load time costs, which
20 show up as part of the fixed time stop costs, instead of
21 showing up in the variable portion; isn't that, in fact, one
22 of the advantages that you cite of using the ES route level
23 variability, to the extent there is an overstatement?

24 A Sure.

25 Q That it would offset that effect?

1 A Yes, it's possible.

2 Q And, in fact, isn't it correct that compared to
3 the FY 86 fixed time, which was, I think, about 7.5 seconds,
4 the FY 98 fixed time, using the ES regression approach,
5 variability approach, is about 12.75 seconds?

6 A The fixed time?

7 Q Yes, based on your Tables 5 and 6.

8 A What page are those?

9 Q I've got to find them here.

10 [Pause.]

11 MR. COOPER: Table 5 is on page 40.

12 THE WITNESS: Okay, thank you. Okay, so, Table 5
13 is from Witness Crowder's testimony. And Table 6 is my
14 variation of Ms. Crowder's Table 5, so could you repeat
15 those numbers, please?

16 BY MR. McLAUGHLIN:

17 Q Well, let's see here, the numbers I've got here,
18 fixed time in '86 was 7.55 seconds; 17.3 seconds minus 9.82
19 seconds.

20 MR. COOPER: Is this fixed time per actual stop,
21 or what are the units here?

22 MR. McLAUGHLIN: This is load time per stop.

23 THE WITNESS: Okay, what you're doing is, you're
24 taking the total load time per stop, 17.37, and you're
25 subtracting from that, the estimated volume variable load

1 time per stop.

2 BY MR. McLAUGHLIN:

3 Q That's right.

4 A And you're calling the difference fixed. I do not
5 regard that difference as fixed. I simply regard it as
6 non-volume-variable load time, or institutional load time.

7 Q Okay. But isn't it true that applying the -- if
8 you go to the 1998 ES database, using the ES variability
9 approach that you advocate, and that, I might add, that MPA
10 and the other parties agree with, that produces a larger
11 amount of fixed time, substantially larger than the 86
12 analysis?

13 A Well, I'll answer based on my --

14 Q Excuse me, rather than calling it fixed, I will
15 use it your terminology, non-volume-variable.

16 A Right. That's correct.

17 Q Okay.

18 There, again, using that hypothetical I gave you
19 earlier about the possibility that there may have been a
20 mismatch in the load tallies, is it conceivable that that
21 increase in fixed load time that we see between '86 and '98
22 could, in part, be reflected in something like that, if that
23 hypothetical were true?

24 A Again, I think you mean the increase in
25 non-volume-variable.

1 Q Right.

2 A Okay. It's possible, but I think that the real
3 explanation is operational changes, the operational changes
4 that took place between 1986 and the 1996 through 1998 time
5 period.

6 I don't think that overstatement of load time
7 tallies is the explanation, although it's possible.

8 Q You wouldn't reject that as a possibility?

9 A In a technical sense, it's a possibility, but in
10 my view, that is not what happened.

11 What happened was that the operational changes
12 that took place between 1986 and the 1996 through 1998 time
13 period explain why the load times per stop went up,
14 including the non-volume-variable load time per stop.

15 That's my view of the --

16 Q Let's turn to your -- actually I guess it's page
17 40 and 41. There, you criticize -- I shouldn't say that --
18 you disagree with Witness Crowder that the proportion of
19 route time spent by carriers loading mail has increased from
20 30 to 50 percent.

21 Actually, her statement was correct, but she was
22 talking about accrued costs under the ES time proportions;
23 is that correct?

24 A You're referring to lines 4-6?

25 Q Actually I have an un-line-numbered page, but I

1 guess that's correct, that it is lines 4-6.

2 A I think that all I'm doing is citing to her, to
3 Ms. Crowder's --

4 Q Right, and then further on down, you say that the
5 problem with what she said is that she's referring to
6 accrued costs; is that correct?

7 A That's correct.

8 Q And you think that the appropriate comparison is
9 to volume-variable costs?

10 A That's correct.

11 Q Okay. Now, on the top of page 42, you have a
12 Table 6 that shows what you believe to be the proper
13 comparison of the increase since 1986.

14 And there you show that instead of the up to 50
15 percent increase in accrued costs that Witness Crowder
16 talked about, that there is a 35 percent increase in
17 volume-variable costs; is that correct?

18 A Yes.

19 Q Now, this 35 percent, this is based on the ES
20 database volume variability analysis that you are now
21 advocating; is that correct; is that where the 35 percent
22 came from?

23 A The 13.26 comes from the variabilities derived
24 from the ES dataset.

25 Q Okay. So, the 35 percent is the increase,

1 comparing the 1986 figures against the 1998 figures using
2 the ES database variability approach?

3 A For 1998.

4 Q Right.

5 Now, do you recall what the increase was if,
6 instead of using what you now advocate, you used instead the
7 LTV variabilities?

8 A I did not perform that calculation.

9 Q Wouldn't that be substantially higher than 35
10 percent in that case?

11 A It would be higher, yes.

12 Q Substantially higher; wouldn't it?

13 A I would prefer not to characterize it that way
14 until I have done the calculations. It definitely would be
15 higher, because the volume variabilities from the SDR, MDR,
16 and BAM equations are generally higher.

17 Q Okay. So, in fact, when Ms. Crowder was talking
18 about your original -- the Postal Service's filed testimony
19 in her testimony, talking about a 50-percent increase in
20 accrued costs, the increase in volume variable costs, using
21 the old LTV variabilities, might not have been much
22 different than that figure that she was citing; is that
23 correct?

24 A They would be between the 35 and the 50.

25 Q Okay. Mind you, I'm not criticizing your

1 variability approach.

2 MR. McLAUGHLIN: I want to go home early, so
3 that's it, Mr. Chairman. Thank you very much.

4 CHAIRMAN GLEIMAN: What about the rest of us?

5 [Laughter.]

6 CHAIRMAN GLEIMAN: The Newspaper Association of
7 America?

8 MR. COOPER: I was informed that they have no
9 cross.

10 CHAIRMAN GLEIMAN: Thank you, Mr. Cooper. That
11 brings us to the Office of The Consumer Advocate.

12 MR. COSTICH: Thank you, Mr. Chairman.

13 CROSS EXAMINATION

14 BY MR. COSTICH:

15 Q Good afternoon, Mr. Baron.

16 A How do you do?

17 Q Could you look at page 16 of your testimony?

18 [Pause.]

19 A Okay.

20 Q And specifically at the table, Table 1? In this
21 table, are you developing a new estimate of fixed time at
22 stop for multiple delivery stops?

23 A Yes.

24 Q Could you summarize what is going on in this
25 table?

1 A For each combination of a receptacle type and a
2 container type for which we have at least one observation
3 from the 1985 dataset at a one-letter stop, I'm writing --
4 I'm putting down the minimum observed time within that set.

5 So, for example, you see .5 in the first cell, and
6 what that means is that for the combination of receptacle
7 type mailbox and container type loose mail, I found at least
8 one observation in the 1985 dataset, and of all the
9 observations I found, the minimum observed load time at the
10 one-letter stops was a half a second.

11 And all the other numbers you see in that same
12 column where the .5 appears, were calculated in the same
13 manner.

14 So I'm getting the minimum observed load time for
15 each of these different combinations and thereby I am
16 attempting to account for the effects of these non-volume
17 factors such as receptacle and container type on fixed stop
18 time.

19 Okay, so then in the next column, I'm developing a
20 weight -- actually, in the next two columns, I'm developing
21 a weighting factor.

22 For example, in the first row, you see that there
23 were 24 total tests conducted in the 1985 study at
24 one-letter stops where the receptacle type was mailbox and
25 the container type was loose mail.

1 And those 24 account for 49 percent of the total
2 of such tests. So the weight in this case is .49, and the
3 final column shows the resulting weighted minimum observed
4 load time, which is the .49 times the .5.

5 And, again, I followed the same procedure for each
6 of the combinations of receptacle and container types.

7 Q Now, this procedure is different from what was in
8 your original direct testimony?

9 A That's correct. This was done response to Mr.
10 Ewen's testimony, and in particular, the part where he
11 emphasized how he agreed that fixed time at stop is fixed in
12 the sense that it is fixed with respect to volume and volume
13 mix, but that it can and, indeed, does vary with respect to
14 container and receptacle type.

15 And he criticized my original methodology for
16 failing to account for the effects of receptacle and
17 container type on fixed stop time.

18 Now, his proposed response to that was to just
19 throw out the whole analysis and adopt the residual
20 approach. And my approach was simply to fix it, to
21 recognize that I could make this improvement by doing
22 exactly what Mr. Ewen said should be done, which is to
23 explicitly account for the effects for these non-volume
24 factors such as receptacle and container type on fixed stop
25 time, so that's what I've done here.

1 I think that's the more appropriate response to
2 what I regard as a legitimate point.

3 Q In the last cell in that table, 1.568; do you see
4 that?

5 A Yes.

6 Q Now, what does that represent?

7 A Well, that's the weighted average of all these
8 different minimum observed load times. And I should point
9 out that it's different than my original estimate because it
10 accounts for this 4.8 seconds that you find at the multiple
11 apartment box loose mail combination of receptacle and
12 container type.

13 The previous estimate which was much lower, was
14 around one second, and was based on data -- was based on
15 observations at stops, none of which were multiple apartment
16 box loose mail stops.

17 So now I'm explicitly accounting for the effect of
18 this particular combination, and thereby have improved the
19 final estimate of average.

20 And this still is an estimate of average fixed
21 time at a stop.

22 Q So if I understood you correctly, for multiple
23 delivery residential stops, you now have an estimate of
24 fixed time at stop that is larger than you had before?

25 A Right, because now we are accounting for

1 combinations of receptacle and container type that the
2 initial estimate did not account for because it used data
3 from tests that did not include these important combinations
4 such as the multiple apartment box loose mail combination.

5 Q Look over on page 18, in that last half of Table
6 2, the number 0.633; do you see that?

7 A Yes.

8 Q Now, that similarly is a weighted average estimate
9 for fixed time at stop for single delivery residential
10 routes?

11 A That's correct. It was calculated for SDR stops
12 in the same manner that the 1.568 was calculated for MDR
13 stops.

14 Q Now, do you recall whether the .633 is larger or
15 smaller than what you had before?

16 A It's smaller.

17 Q And then if you could look over to page 19, the
18 last entry in Table 3, the 1.2075; do you recall whether
19 that number is larger or smaller than what you had
20 previously?

21 A This one is larger.

22 Q Okay.

23 Now, could you look back at page 14?

24 [Pause.]

25 Specifically lines 8 through 11.

1 [Pause.]

2 A Okay.

3 Q Now, here you are discussing your original
4 approach; is that correct?

5 A That's right.

6 Q And if I understand what you're saying, you're
7 indicating that there was a problem because the values that
8 you had obtained for an estimate of fixed time at stop for
9 single piece stops were larger than some of the values that
10 you can find for multiple-piece stops; is that correct?

11 A That's right; that's what happened because I chose
12 the bottom quintile of observed values at one-letter stops
13 in order to get enough observations to produce what I
14 thought would be a sufficiently reliable estimate of average
15 fixed time.

16 But that problem has been eliminated, now that I'm
17 in the new approach, only choosing the absolute minimum
18 observed times at one-letter stops for each of these
19 receptacle/container type categories.

20 Q Well, for two of the route types, I believe you
21 said you came up with larger estimates for the fixed time at
22 stop?

23 A Right. And the reason that happened was because
24 in my original approach, those -- certain receptacle types
25 such as the multiple-apartment box receptacle type, were not

1 represented at all in the subset of data used to calculate
2 the average.

3 And those tend to have -- those previously
4 unrepresented receptacle container type categories, in the
5 case of MDR and BAM, tend to have the higher values for
6 their absolute minimum observed load times at one-letter
7 stops.

8 So when we in the new method represent them the
9 way they should be represented, the result of thereby
10 bringing in their data, increases the average, because now
11 we are representing them the way we should.

12 Q If under your original method, you were getting
13 estimates for the fixed time at stop that were greater than
14 the time required for some multiple-letter stops, and now
15 you have an even higher estimate, don't you have a more
16 serious problem than you had before in the sense that now
17 your estimate is greater than even more multiple-piece
18 stops?

19 A No, because the problem of getting certain load
20 times at one-letter stops that were higher than load times
21 at, say, two-letter stops, is a problem that exists
22 separately for each combination of receptacle and container
23 type categories.

24 And we don't have that problem anymore. Now, for
25 each of the relevant receptacle, container type categories,

1 we are only using the absolute minimum observed values.

2 So there are no categories at all now where we are
3 using data for one-letter stops that include values that are
4 higher than what you see at any stop getting two or more
5 pieces.

6 It is now the case that for every single relevant
7 receptacle and container type category, we are using
8 strictly the absolute minimum observed load time at the
9 one-letter stop.

10 Q Okay, let's look back at Table 1 on page 16. And
11 then let's just look at the first row again, and the column
12 entitled Minimum Observed Load Time at One-Letter Stops.

13 You're saying you've got the absolute minimum time
14 for that particular receptacle/container type combination;
15 is that correct?

16 A Yes, among all the values observed at the
17 one-letter stops.

18 Q Do you know whether there are any multiple-piece
19 stops that would have times less than .5 seconds?

20 A No, I actually didn't check that.

21 Q Now, if I understand what you said on page 14
22 about the problem with the original approach, had you
23 checked to see what times there -- what the minimum time was
24 at multiple-piece stops?

25 A No, what I did was, I looked at the bottom

1 quintile and I just determined if there were examples of
2 times recorded for stops within that bottom quintile of
3 one-letter stops that were higher than anything that I could
4 find for stops getting two or more letters.

5 And once I started finding such examples, I
6 realized that this was a problem that should be corrected.
7 That's the way I found them.

8 Q But for your new approach, you haven't made the
9 equivalent check on a receptacle/container type basis?

10 A Well, the new approach sticks with the idea that
11 we want to limit our attention to just the stops getting one
12 letter; that's step one.

13 Then step two says that among all the stops within
14 a given container and receptacle type category that are
15 one-letter stops, let's get the absolute minimum observed
16 load time, and those are the load times that you see in each
17 row of the tables that we looked at earlier.

18 Q Right, but you're still restricting yourself to
19 the single-piece stops or deliveries?

20 A Right. And I did not look at stops that, say, got
21 two letters, to see if the minimum observed load time at
22 those was less than the minimum observed load time at the
23 one-letter stop. I didn't do that.

24 Q What would be involved in doing that?

25 A Simply for each of these categories, it would be

1 to look at the array of values recorded in the 1985 study at
2 the stops that got two letters instead of one letter.

3 Q Are there hard copy printouts of those arrays?

4 A I'm not sure if I've ever produced exactly what
5 you would need for that.

6 Like I say, my intention was to stick with the
7 notion of limiting the observations to those recorded at the
8 1-letter stops. And then to minimize this problem of
9 getting stop times that were higher than what you observed
10 at some of the 2-letter stops, my approach is to choose just
11 the absolute minimum values in each such category.

12 So I don't know if we would have the printouts
13 that would be needed for this alternative test or not.

14 Q Well, isn't that the equivalent of the test that
15 you performed on your original approach?

16 A No. The one common feature between the original
17 approach and the new approach is this limitation of the
18 analysis to values obtained at 1-letter stops. That part of
19 the approach has remained intact. It is just now instead of
20 getting the lower 20 percent, the bottom quintile of values
21 for the 1-letter stops, I am looking at each separate
22 category, each separate receptacle container type category
23 and only getting the very absolute minimum to try to
24 minimize this problem of getting load times at 1-letter
25 stops that exceed some that are some of the load times at

1 2-second stops -- I mean at 2-letter stops.

2 Q Well, that is still a possibility, isn't it?

3 A Yes, actually it is.

4 Q So that is why I am asking what would be involved
5 in actually making the check to see.

6 A It wouldn't be difficult. It is something I
7 didn't do, but it is something that would, in my view, be
8 worth checking.

9 MR. COSTICH: Mr. Chairman, could I ask that the
10 witness or the Postal Service perform this check?

11 CHAIRMAN GLEIMAN: You certainly may.

12 Mr. Cooper, what do you think?

13 MR. COOPER: Did I hear the witness say that this
14 would or would not be difficult to do?

15 THE WITNESS: It would not be difficult at all.

16 MR. COOPER: Then we will do it.

17 CHAIRMAN GLEIMAN: And you will let us know by
18 Wednesday, close of business, Wednesday?

19 THE WITNESS: Sure.

20 BY MR. COSTICH:

21 Q Could you go back to page 42 and look again at
22 Table 6 that you were looking at with Mr. McLaughlin?

23 A Okay.

24 Q Do the ES-based street time proportions produce an
25 overall increase in load time per stop?

1 A In accrued load time per stop?

2 Q Yes.

3 A Yes, they do.

4 Q Is that increase related to an increase in volume
5 variable load time per stop?

6 A I believe one reason that load time per stop has
7 gone up is that the load time volume variabilities are
8 significantly higher than the variabilities that we find in
9 other street time operations.

10 Q And when you say the load time variabilities, are
11 you referring to the LTV variabilities or the ES-based
12 variabilities?

13 A Actually, both. Whichever set of variabilities
14 you look at, they are higher than the variabilities that
15 have been estimated for route and access time. And these
16 somewhat higher, significantly higher actually, volume
17 variabilities for load time constitute one factor that
18 explains why, with volume growth over the past 15 years, we
19 find total load time per stop going up. It is not the only
20 factor, it is one of the factors that explains the increase
21 in load time per stop.

22 Q In your Table 6, where you have the 35 percent
23 change, is that based on using the ES load time proportions
24 and the ES variabilities?

25 A Right. The 13.26 calculated for 1998 is based on

1 a measurement of accrued cost derived from the ES street
2 time percentages, and it is also based on the variabilities
3 derived from by ES-based route level load time regression,
4 which I am proposing to substitute for all of the MDR, SDR
5 and BAM analyses, including the fixed time analysis that we
6 have been discussing earlier, the entire analysis from 1985.

7 So that is where I get the 13.26. However, the
8 9.82 is based on the old 1986 STS and the corresponding,
9 what I would regard as the matching LTV regression, or set
10 of regressions, which, in this case, consists of the SDR,
11 MDR and BAM regressions, which I think would be appropriate
12 for the 1986 calculation.

13 Q Somewhere in there I think I heard reference to
14 including the fixed time at stop analysis, is that right?

15 A Right. I want to emphasize that I am proposing
16 that the new ES-based route level regression analysis, in
17 particular the one that I presented in response to UPS
18 Interrogatory 20, I believe it was 20, in any event, it
19 was --

20 Q I think there is a reference to it on that same
21 page.

22 A Yeah, LR-402 -- LRI-402. The regression that I
23 presented in LRI-402 should replace the entire SDR, MDR and
24 BAM set of regressions, and the associated fixed time at
25 stop measures that we have been discussing. I presented

1 those only in the event that it is decided not to accept my
2 recommendation to substitute the new ES-based regressions.

3 So that is why I am using the ES-based regressions
4 to produce that 13.26 volume variable load time for actual
5 stop in 1998, because I think those, that regression is
6 clearly the appropriate model to apply to the 1998
7 environment.

8 Q Just to make sure I understand, under the new
9 approach that you are recommending, there would be no
10 analysis of fixed time at stops?

11 A No, what I meant was the fixed time analysis that
12 we were discussing a few minutes ago, and that is
13 encompassed in those tables that we were looking at.

14 Q Back at page 16?

15 A Right. Tables 1 through 3. We would not be using
16 that fixed stop time analysis, that is -- I propose that
17 only in the event that my recommendation to substitute the
18 ES-based regression is not accepted. If that recommendation
19 is accepted, then, as I say elsewhere in my testimony, the
20 associated recommended measure of fixed time at stop would
21 be the marginal load time derived from the ES regression
22 with respect to deliveries, which is between 4 and 5
23 seconds.

24 A I've said all that in this testimony. I present
25 the SDR, MDR and BAM analysis and the associated fixed time

1 at stop analysis from tables 1 through 3 only in the event
2 that my recommendation to substitute the new regression is
3 not accepted.

4 Q So you are still proposing the fixed time at stops
5 analysis and you're getting a result in the range of four to
6 five seconds?

7 A What I'm proposing is the new ES-based route-level
8 regression. I'm proposing that as a replacement for the
9 entire set of analyses associated with the old SDR, MDR and
10 BAM regressions.

11 So included in my recommendation is that we use
12 the ES-based route-level regression to derive our measure of
13 a fixed stop time, and that measure equals the partial
14 derivative of load time from the ES regression with respect
15 to deliveries, and that, as I indicated, is between four and
16 five seconds, depending on which version you choose. In the
17 latest version, it's -- I don't remember exactly what it is,
18 but it's between four and five seconds.

19 So that's my -- clearly my preferred approach, and
20 that's the approach that I -- following suit, that's the
21 approach I applied in table 6 to derive the 13.26.

22 Q In Docket Number R97-1, you also proposed a fixed
23 time at stops analysis; is that correct?

24 A Yes. That as the earlier version of the analysis
25 that we looked at in tables 1 through 3.

1 Q And was that proposal adopted by the Commission in
2 R97?

3 A No. The Commission recommended an alternative
4 approach based on the residual, the so-called residual
5 approach.

6 Q If you don't mind, could we call that
7 non-elemental load time?

8 A Call what in particular? The residual?

9 Q What you're referring to as the residual, would
10 that be the same as everything that's not elemental load
11 time?

12 A Okay. That's fine. Sure.

13 Q With respect to that portion of load time, the
14 non-elemental, what did the Commission do in terms of
15 attributing any portion of that cost in R97?

16 A The Commission attributed this pool of
17 non-elemental load time cost, what I call the residual, to
18 sub-classes based on single subclass stop ratios.

19 Q The entire residual?

20 A Yes.

21 Q Do you recall what the basis of that attribution
22 was?

23 A Frankly, I don't know what the rationale for that
24 would be other than that all parties to these proceedings
25 back through R97 have agreed at least on one point, and that

1 is to evaluate the non-elemental load time portion, whether
2 it's called the residual or coverage load or whatever,
3 exactly the same way as they evaluate access time.

4 So in the case of the Commission's analysis, the
5 single subclass stop approach is applied, and that is --
6 again, it's exactly the same analysis that the Commission's
7 approach applies to access time.

8 Q Does the Commission attribute all of access time?

9 A It uses the single subclass stop approach, so that
10 -- that only attributes the portion of access time that's
11 made up of these single subclass stop ratios. So, for
12 example, if a particular subclass -- if the single subclass
13 stop ratio is X percent for subclass I, then only that X
14 percent would be attributed to subclass I under that
15 particular approach.

16 Q Okay.

17 A So, you know, the percentage of stops that are
18 multiple subclass stops would be the percentage that's not
19 attributed at all, if I understand that approach correctly.

20 Q Okay. I wanted to make sure we agreed on that.

21 There are some access costs and some non-elemental
22 load costs that the Commission does not attribute.

23 A That's right. It only attributes the single
24 subclass stop percentages.

25 Q And when the Commission uses that approach, it

1 doesn't need to identify the fixed time at stop?

2 A Well, from the standpoint of a purely mechanical
3 exercise, I would agree.

4 Q Can we agree that the single subclass stops for a
5 particular subclass would not be incurred if that subclass
6 did not exist?

7 A Yes.

8 MR. COSTICH: No further questions, Mr. Chairman.

9 CHAIRMAN GLEIMAN: Is there any follow up?

10 Any questions from the bench?

11 Would you like some time, Mr. Cooper, with your
12 witness for five minutes? You've got it.

13 [Pause.]

14 CHAIRMAN GLEIMAN: Mr. Cooper.

15 MR. COOPER: I have one.

16 REDIRECT EXAMINATION

17 BY MR. COOPER:

18 Q Mr. Baron, during questioning by counsel for ADVO,
19 you were asked about the equivalent of actual stops and
20 actual deliveries in a particular regression; do you
21 remember that?

22 A Yes.

23 Q Are there any instances in -- in Postal Service
24 operations, are there any instances in which an actual stop
25 might not involve a delivery?

1 A Yes. If the only purpose of the stop is to
2 collect mail.

3 Q Okay.

4 MR. COOPER: That's all I have.

5 CHAIRMAN GLEIMAN: Is there any recross?

6 If not, then, Mr. Baron, that completes your
7 testimony here today. We appreciate your appearance, your
8 contributions to the record. We thank you and you're
9 excused.

10 [Witness excused.]

11 CHAIRMAN GLEIMAN: Mr. Rubin, whenever you're
12 ready to call the next witness.

13 MR. RUBIN: The Postal Service calls Altaf
14 Taufique as its next witness.

15 CHAIRMAN GLEIMAN: Mr. Taufique, you're already
16 under oath in this proceeding, as I recall, so I don't need
17 to swear you in today.

18 Counsel, you may begin whenever you're ready.

19 MR. STRAUS: Thank you, Mr. Gleiman.

20 CHAIRMAN GLEIMAN: I think we better let him
21 introduce his witness' testimony first.

22 MR. STRAUS: Oh. When you said counsel, I thought
23 you meant me.

24 CHAIRMAN GLEIMAN: Well, it could have meant you.
25 I'm sure that Witness Taufique would rather have you

1 introduce his testimony and be done with it than have you
2 cross examine, but I'll let you decide which one you want to
3 do.

4 Mr. Rubin.

5 MR. RUBIN: Thank you.

6 Whereupon,

7 ALTAF H. TAUFIQUE,

8 a witness, was called for examination by counsel on behalf
9 of United States Postal Service and, having been previously
10 duly sworn, was further examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. RUBIN:

13 Q Mr. Taufique, do you have before you two copies of
14 a document designated as USPS-RT-25 entitled Rebuttal
15 Testimony of Altaf H. Taufique on Behalf of the United
16 States Postal Service?

17 A Yes, I do.

18 Q And was this testimony prepared by you or under
19 your supervision?

20 A Yes, it was.

21 Q And if you were to testify orally today, would
22 this be your testimony?

23 A Yes, it would.

24 MR. RUBIN: In that case, I would move that this
25 testimony be entered into the record in this proceeding.

1 CHAIRMAN GLEIMAN: Counsel, if I could get you to
2 provide two copies of the rebuttal testimony of Witness
3 Taufique to the court reporter, I'll direct that the
4 material be received into evidence and transcribed in the
5 record.

6 [USPS-RT-25, Rebuttal Testimony of
7 Altaf H. Taufique on Behalf of the
8 United States Postal Service, was
9 received in evidence and
10 transcribed in the record.]
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USPS-RT-25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
ALTAF H. TAUFIQUE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

- 1 The autobiographical sketch was provided in my direct testimony (USPS-
- 2 T-38) filed in the current docket.

1 **I. PURPOSE OF TESTIMONY**

2 The purpose of my testimony is to present the Postal Service's position on
3 witness Heath's (NNA-T-1) proposal to extend the DDU discount to exceptional
4 dispatch mail, with appropriate limitations. Tr. 24/10909. The Postal Service is in
5 general agreement with the goals of witness Heath's proposal, but would place
6 an additional restriction on the authorization of exceptional dispatch. This
7 testimony discusses the additional restriction and appropriate changes to the
8 Domestic Mail Manual (DMM) that would allow NNA members and other
9 Periodicals mailers to use this discount, while meeting the Postal Service's
10 operational needs. This testimony does not request specific action by the
11 Commission because DMM changes would enable the Postal Service to
12 authorize and assess postage, including relevant discounts for exceptional
13 dispatch mailers, in a manner that would meet the needs of the Postal Service.

14 **II. REVIEW OF WITNESS HEATH'S PROPOSAL**

15 Witness Heath proposes the DDU discount for exceptional dispatch mail
16 when the following conditions are met:

- 17 a) Exceptional dispatch is authorized by the postmaster to meet time-sensitivity
18 needs.
- 19 b) The distance of the haul from entry office to destination office is no greater
20 than 100 miles.
- 21 c) The piece volumes from issue to issue do not vary more than 2 percent
22 unless a new application is filed and granted. Tr. 24/10910.

1 In a subsequent interrogatory response (USPS/NNA-T1-4) witness Heath
2 proposed that mail destined to Zones 1 & 2 would be a better restriction than the
3 100 miles proposed in his testimony. Tr. 24/10939.

4 As discussed by witness Heath in his testimony, exceptional dispatch is
5 authorized by the postmaster of a periodical's entry office (See DMM D210.3).
6 The authorization is based on the time-sensitive nature of the publication, which
7 would make plant verified dropshipment (PVDS) or additional entry
8 arrangements unsatisfactory from the mailer's perspective. The mailer deposits
9 the mailing statements and marked copies at the original or additional entry post
10 office, and takes a portion of the mail to its destinating office for service reasons.

11 According to witness Heath, the volume of mail that is deposited through
12 exceptional dispatch is usually small and the piece volume of the overall mailing
13 remains fairly uniform. He is consistent with the requirement in DMM 210.3.5
14 when he proposes that if the piece volume varies by more than 2 percent then a
15 new application for exceptional dispatch would need to be granted before
16 exceptional dispatch could be resumed. Tr. 24/10910.

17 His testimony also asserts that historically the practice of exceptional
18 dispatch has been used for short hauls. He proposes a limit of Zones 1 & 2
19 distance from entry to destination office. Tr. 24/10939.

20 According to witness Heath, exceptional dispatch has led to better service,
21 but more importantly, mailers have performed a worksharing function at their
22 own expense. Therefore, the mailers using exceptional dispatch should be

1 eligible to use the DDU pound rate and receive the piece discount offered to
2 mailers that perform either PVDS or additional entry. Tr. 24/10911.

3 **III. POSTAL SERVICE'S POSITION**

4 The Postal Service has historically disagreed with applying the DDU discount
5 to exceptional dispatch mail and has taken the position that use of additional
6 entry offices and PVDS should be used instead, to avoid adding any work for the
7 Postal Service in the area of mail verification. Another major concern has been
8 the potential shift of existing customers who may choose to bypass additional
9 entry or PVDS requirements and use exceptional dispatch while still receiving the
10 destination entry discount.

11 With the willingness of NNA in this docket to accept certain additional
12 restrictions for the authorization of exceptional dispatch, the Postal Service now
13 agrees, in principle, with witness Heath's proposal. The Destination Delivery Unit
14 discount will be available for destination entry exceptional dispatch mail and
15 would be available to both Within County and Outside County mailers. The
16 financial impact of this change on Periodicals would be minimal, given the
17 proposed restrictions.

18 The Postal Service is concerned that providing exceptional dispatch at the
19 same rate as PVDS and additional entry may attract requests for exceptional
20 dispatch for larger publications that should be sent using PVDS or additional
21 entry. Therefore, in considering requests for exceptional dispatch, publication
22 circulation above 25,000 would disqualify a Periodicals mailer from getting
23 approval for exceptional dispatch, which would bring with it eligibility for the

1 destination delivery unit entry discount. However, because exceptional dispatch
2 may, nonetheless, be appropriate for some large circulation mailers, waivers of
3 the 25,000 limit would be considered on a case-by-case basis. All existing
4 restrictions on receiving the DDU discount such as mail being sorted to Carrier
5 Route or finer level would also have to be met. The Postal Service feels that
6 applying the restrictions proposed by witness Heath and considering higher-
7 circulation as a factor in exceptional dispatch authorization decisions would
8 reduce the risk of existing PVDS customers increasing operational difficulties by
9 bypassing routine verification and shifting to exceptional dispatch.

10 **IV. SUMMARY AND CONCLUSION**

11 As discussed above, the Postal Service is willing to apply the DDU rate to
12 exceptional dispatch mail. It is my understanding that the DDU rate can be made
13 available through DMM changes without the need for a formal classification
14 change.

1 CHAIRMAN GLEIMAN: Any category 2 library
2 references this time? None. Okay.

3 One party asked to cross examine, the Magazine
4 Publishers of America, et al.

5 MR. STRAUS: Yes. Thank you.

6 CROSS EXAMINATION

7 BY MR. STRAUS:

8 Q I represent American Business Media, one of the et
9 al., but I'll be asking you a few questions on behalf of the
10 group.

11 You're the only periodicals witness we have in
12 this round. I've got a couple of clarifying questions for
13 you.

14 Are you aware that Witness Degan's rebuttal
15 testimony identifies the potential for a \$203 million
16 downward adjustment to periodicals cost?

17 A Yes, I'm aware of that.

18 Q If the Commission incorporated this \$203 million
19 adjustment to periodicals cost, would that provide a basis
20 for the Commission to recommend a smaller increase in
21 periodicals cost than the Postal Service proposed, in fact
22 an increase potentially less than 10 percent?

23 A I've not done a complete analysis looking at the
24 new cost numbers, but I think, looking at the numbers, it is
25 possible for the Commission -- there is an opportunity for

1 the Commission to recommend an increase that is less than 10
2 percent for periodicals.

3 Q And is it your understanding that the Postal
4 Service would support such a recommendation from the
5 Commission?

6 A Given the public statement by the Postmaster
7 General, I believe that the Postal Service would support the
8 increase of less than 10 percent for periodicals.

9 MR. STRAUS: Thank you. That's all I have.

10 CHAIRMAN GLEIMAN: Are there any follow-up
11 questions?

12 I just -- I'm not clear on the exchange that took
13 place between you and Mr. Straus. He asked you -- and Mr.
14 Straus, I'll let you help me on this one -- he asked you a
15 question about whether, if the Commission were to accept
16 certain other testimony, that the Commission would be in a
17 position to recommend a rate increase for periodicals of
18 less than ten percent, and you answered in the affirmative,
19 and I just need to be refreshed, what is that information
20 that would let us --

21 THE WITNESS: He asked me that Witness Degan's
22 testimony includes cost reductions for periodicals in the
23 range of \$203 million plus some other additional revenue,
24 and I have not done complete analysis of the cost reductions
25 and how that would affect the rates, but I believe, based on

1 what I have seen and what I'm aware of, it is possible for
2 the Commission to recommend a smaller rate increase than
3 what we had proposed earlier, in fact less than 10 percent.

4 CHAIRMAN GLEIMAN: Okay. Thank you. I just
5 wasn't tuned all the way in and I wanted to make sure I
6 understood what the question was and what the answer was.

7 Are there any other questions from the bench?

8 [No response.]

9 CHAIRMAN GLEIMAN: Follow-up to questions from the
10 bench?

11 [No response.]

12 CHAIRMAN GLEIMAN: Would you like some time to
13 prepare for redirect, Mr. Rubin?

14 MR. RUBIN: No, I think we're fine.

15 CHAIRMAN GLEIMAN: That means there is no
16 redirect?

17 MR. RUBIN: That's correct.

18 CHAIRMAN GLEIMAN: Okay.

19 That being the case, Mr. Taufique, that completes
20 your testimony here today. We appreciate your appearance,
21 your contributions to the record. We thank you and you're
22 excused.

23 THE WITNESS: Thank you.

24 [Witness excused.]

25 CHAIRMAN GLEIMAN: I believe Mr. Hollies has the

1 next witness.

2 MR. HOLLIES: The Postal Service calls Richard L.
3 Prescott to the stand.

4 CHAIRMAN GLEIMAN: Mr. Prescott, rise, will you
5 please, and raise your right hand.

6 Whereupon,

7 RICHARD L. PRESCOTT,
8 a witness, was called for examination by counsel on behalf
9 of the United States Postal Service and, having been first
10 duly sworn, was examined and testified as follows:

11 DIRECT EXAMINATION

12 CHAIRMAN GLEIMAN: Counsel.

13 MR. HOLLIES: Mr. Chairman.

14 CHAIRMAN GLEIMAN: Mr. Hollies, you may proceed.

15 MR. HOLLIES: Thank you.

16 CHAIRMAN GLEIMAN: The witness is presenting two
17 pieces of testimony, rebuttal testimony 26 -- 24 and 26, and
18 I think the best way to proceed is to deal with one piece at
19 a time. So if we could introduce RT-24, complete whatever
20 questioning there is on that, and then introduce RT-26.

21 MR. HOLLIES: I think it might actually be better
22 to simply -- to put them both in at the same time. There is
23 a fair amount of substantive overlap and asking Mr. McKeever
24 to identify whether a question is specific to one or the
25 other piece is not exactly a necessary exercise under the

1 circumstances here today. So I would suggest that we put
2 both in and then --

3 CHAIRMAN GLEIMAN: I always open to suggestions
4 that will move things along.

5 MR. McKEEVER: That is fine with us, Mr. Chairman.

6 CHAIRMAN GLEIMAN: So, just let's understand, so
7 that we don't run into any problems later on, that Mr.
8 McKeever is not under any obligation to say, now with
9 respect to 24, 26, 24, 26.

10 MR. HOLLIES: That is my understanding.

11 CHAIRMAN GLEIMAN: Okay.

12 MR. HOLLIES: I don't think that would be useful.

13 CHAIRMAN GLEIMAN: Well, let's put both pieces in
14 then.

15 DIRECT EXAMINATION

16 BY MR. HOLLIES:

17 Q Mr. Prescott, do you have in front of you two
18 copies of a document marked "Rebuttal Testimony of Richard
19 L. Prescott on Behalf of the United States Postal Service,"
20 and identified as USPS-RT-24?

21 A Yes, I do.

22 Q And was that testimony prepared by you or under
23 your direction?

24 A Yes.

25 Q And does it include the errata sheet that was

1 filed last week, page 15?

2 A Yes, it does. It has been inserted.

3 Q And were you to testify orally today, would your
4 testimony be the same?

5 A Yes.

6 Q Do you also have before you two copies of a
7 document marked "Supplemental Rebuttal Testimony of Richard
8 L. Prescott on Behalf of United States Postal Service," and
9 denominated USPS-RT-26?

10 A Yes, I do.

11 Q And are there any errata or corrections to that
12 document?

13 A No, it is complete and final.

14 Q And were you to testify orally on the substance of
15 this testimony, would your testimony be the same?

16 A Yes, it would.

17 MR. HOLLIES: With that, the Postal Service moves
18 the admission of these two pieces of testimony into the
19 record and asks also that they be transcribed into the
20 record.

21 CHAIRMAN GLEIMAN: If counsel would please provide
22 copies of the testimony to the court reporter, I will direct
23 that the material be received into evidence and transcribed
24 into the record.

25 [Rebuttal Testimony of Richard L.

1 Prescott, USPS-RT-24, and
2 Supplemental Rebuttal Testimony of
3 Richard L. Prescott, USPS-RT-26,
4 were received into evidence and
5 transcribed into the record.]

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USPS-RT-24

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

REBUTTAL TESTIMONY OF
RICHARD L. PRESCOTT
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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1 Rebuttal Testimony
2 Of
3 Richard L. Prescott

4 AUTOBIOGRAPHICAL SKETCH
5
6

7 My name is Richard L. Prescott. I am Manager of Revenue, Volume and
8 Performance Measurement (RVPM), Statistical Programs, Finance. RVPM is
9 responsible for the Domestic Revenue, Pieces and Weight Sampling System
10 (DRPW), the Bulk Revenue, Pieces and Weight System (BRPW), the Revenue,
11 Pieces and Weight Adjustment System (ARPW), and the Revenue, Pieces and
12 Weight report.

13 I have been employed by the Postal Service since 1987. Before starting
14 to manage RVPM in January 1997, I worked first as a Senior Statistician
15 assigned to the Origin-Destination Information System (ODIS), and then as an
16 Economist and Project Leader of ARPW and RPW report production. Prior to my
17 employment with the Postal Service I worked for eight years at the United States
18 Department of Agriculture (USDA) as an Agricultural Economist. I published
19 many technical papers while at USDA and have contributed papers to the
20 American Journal of Agricultural Economics.

21 I was awarded a Bachelor of Science degree with a major in Economics
22 from the State University of New York at Binghamton in 1977. Upon completion
23 of the coursework requirements and the written examinations for a Ph.D. in
24 Agricultural Economics, I was awarded a Master of Science degree in
25 Agricultural Economics from the University of California at Davis in 1979.

1 I. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of my testimony is to address and elucidate issues involving
3 the RPW Parcel Post estimates. This testimony rebuts witness Sellick's
4 testimony, UPS-T-4, by showing that it is speculative and without support. I
5 further establish for the Commission the basic soundness of using PERMIT
6 System-derived permit imprint Parcel Post data for RPW in Government Fiscal
7 Year 1998, the proposed base year in this docket, by explaining how such use
8 reduces and eliminates possible sources of error. While I am not a PERMIT
9 System expert, I am an informed user of PERMIT System data and my testimony
10 should be viewed from that perspective.

11 The testimony is organized as follows: section two provides the history
12 and scope of PERMIT System and postage statement usage in the RPW report;
13 section three describes why postage statement data (provided to RPW via the
14 PERMIT System) are essential for accurate RPW estimation; section four
15 discusses the specific history and methods involved in the decision to use
16 PERMIT System Parcel Post data in the RPW report; section five rebuts specific
17 criticisms raised by witness Sellick; finally, section six presents a brief
18 conclusion.

1 II. HISTORY OF THE USE OF PERMIT SYSTEM AND POSTAGE
2 STATEMENT DATA IN THE RPW REPORT
3

4 In these proceedings, attention has been focused by United Parcel
5 Service (UPS) on the use of PERMIT System data in RPW. However, in a
6 certain sense, what underlies this line of inquiry is the use of postage statement
7 data in the RPW report. The PERMIT System is merely a conduit for capturing
8 data that enter the Postal Service mailstream through postage statements.

9 The use of postage statement data in producing the RPW Report is
10 longstanding. At the time I began working in the RPW area in 1989, the use of
11 PS Form 3541 data for Periodicals, PS Form 3602 data for permit imprint
12 Standard Mail (A) and PS Form 3605 data for permit imprint Bound Printed
13 Matter was already well established.¹ DRPW sampling data have never been
14 used for these mail categories, and DRPW does not sample them.

15 In 1992, because of budget pressures, the costly manual forms systems
16 noted above were discontinued and we relied solely on the PERMIT System to
17 provide electronic files of summarized postage statement data for RPW
18 processing. These electronic data were then combined with a sample of postage
19 statement data from non-PERMIT System offices to derive RPW report inputs of
20 bulk mail revenue, pieces and weight. This estimation approach exemplifies
21 what today is known as the BRPW System.

22 For reasons detailed in the next section, the use of PERMIT data for RPW
23 accelerated in the mid-1990s after the Postal Service started introducing
24 additional worksharing rate categories. PERMIT System data for presort and

1 automation First-Class Mail (all indicias) were used in RPW starting in PQ 1 FY
2 1995 and retroactively introduced into Government Fiscal Year 1994. PERMIT
3 System data for precanceled stamp and meter Standard Mail (A) began to be
4 used for RPW in PQ 1 FY 1997. Finally, in PQ 1 FY 1999 (December 1998) the
5 Postal Service began using permit imprint Parcel Post estimates from the
6 PERMIT System in RPW. At that time, in order to make prior year comparisons,
7 the Government Fiscal Year 1998 RPW report was revised using the updated
8 Parcel Post methodology and these revised reports provide the base year
9 volume estimates for Docket No. R2000-1.

¹ See witness Bailey's testimony, USPS-T-1, pages 5 and 6 in Docket No. R90-1.

1 III. POSTAGE STATEMENT DATA ARE NEEDED FOR RPW

2
3 The general policy the Postal Service has adopted in producing the RPW
4 report is to replace sample based estimates with census or near-census
5 estimates whenever possible, thereby minimizing statistical variance. While
6 census and near census-measures are also subject to potential nonsampling
7 error (e.g. misreporting, software errors), we prefer to use them in RPW reporting
8 because we expect any potential nonsampling error to be less than the
9 combined sampling and potential nonsampling errors of alternate sampling
10 estimates.

11 However, this general preference does not by itself drive the use of
12 postage statement data from the PERMIT System in RPW. Because of the
13 nature of Postal Service indicia, endorsement requirements, and mail
14 acceptance policies, a DRPW data collector cannot with certainty record the
15 actual revenue per piece of a selected mailpiece for some categories of bulk
16 entered mail. The visible revenue on the piece (if any) is not necessarily equal to
17 the revenue paid for the piece. Thus, using PERMIT System data for RPW is
18 more than a matter of reducing sampling error; it is essential to getting accurate
19 RPW report estimates for some bulk mail items because it is only from postage
20 statements that we can obtain accurate revenue per piece estimates. (Note that
21 this doesn't hold for single-piece mail which can be accurately identified in
22 DRPW by its per piece revenue and/or its *lack* of markings.)

23 The situation described above also holds for estimates of bulk mail
24 volume by rate category. To accurately classify a piece of mail to a specific rate

1 category, three characteristics are used: mailpiece endorsements, per piece
 2 revenue, and per piece weight. RPW data collectors know the per piece weight
 3 of a sampled mailpiece, but because some bulk mail categories lack suitable
 4 mandatory endorsements they must depend on accurate per piece revenue to
 5 classify the piece in a rate category successfully. When accurate per piece
 6 revenue cannot be determined, this process breaks down.

7 There are at least four reasons why the visible postage on a piece of bulk
 8 mail may not correspond with the postage actually paid:

- 9 1. When permit imprint or precanceled stamps are used on bulk mail there is no
 10 visible postage. Even if the weight of the piece is known, the lack of suitable
 11 mandatory endorsements prevents an accurate estimate of the postage.
 12 (See number 4, below.)
 13
- 14 2. Presort and automation rate metered mail may be paid for by metering an
 15 entire mailing at the lowest postage required by any piece in the mailing.
 16 Generating a meter strip for the amount owed and affixing it to the postage
 17 statement then pays for the remaining amount due. (See DMM P013.1.5.)
 18
- 19 3. Presort and automation rate metered mail may, under the "value-added"
 20 program, be metered out at a given presort rate and then passed to a third-
 21 party who by batching it with mail from other customers and deepening the
 22 sortation level and/or affixing barcodes can then present it to the Postal
 23 Service and pay a per piece rate less than the per piece affixed meter
 24 postage. The third party then collects a refund from the Postal Service based
 25 on the spread between the affixed meter postage and the required postage.
 26 (See DMM P014.4.0.)
 27
- 28 4. Required endorsements for presort and automation rate mail are not "fine-
 29 grained" enough to identify a mailpiece's exact rate category. For instance,
 30 the 3-digit and 5-digit presort barcoded Standard Mail (A) rates both require
 31 the same endorsements: "Standard Mail Regular" and "AUTO." There is no
 32 requirement for separate 3-digit and 5-digit endorsements for these rate
 33 categories, respectively.
 34

35 In all of these cases, a DRPW data collector cannot accurately record the
 36 mailpiece's per piece revenue by observing the mailpiece. In each case, the

1 only source for accurate revenue and volume data by detailed rate category is
2 postage statements. As the number of rate categories increased in the mid-
3 1990s, so did the revenue identification issues that drive the use of PERMIT-
4 System derived postage statement data for RPW.

5 A recent example of this is the introduction in January 1999 of new
6 dropship discounts for Parcel Post. Previously only a DBMC discount existed.
7 Docket No. R97-1 (effective January 10, 1999) introduced DSCF and DDU
8 dropship discounts, but specific endorsements for these rates were not required.
9 A single "Dropship" (or "D/S") endorsement is all that is currently required for
10 DBMC, DSCF, or DDU dropship Parcel Post mail. DRPW data collectors thus
11 cannot distinguish between these rate categories based on the markings and
12 since most of this mail uses permit imprint indicia, accurate revenue per piece
13 identification (and volume classification by rate category) cannot be
14 accomplished when sampling this mail at Mail Exit Points. Only postage
15 statement data can be used to do this. If the Postal Service had not switched to
16 using PERMIT System-derived postage statement data in FY 1999, it would
17 have inaccurately estimated the revenue and volume for Parcel Post and its rate
18 categories. Note that once this new data series was introduced in FY 1999, it
19 was imperative to recast the FY 1998 RPW report using the same methodology
20 because (a) comparisons to the prior year were needed and (b) the most
21 accurate available data should be used in any rate proceeding.

22 In this section, I illustrated the necessity for using PERMIT System-
23 derived postage statement data in the RPW Report with a specific emphasis on

1 the need to use postage statement data for RPW estimates of Parcel Post. In
2 the next section, I will discuss the history of the Parcel Post revision. Witness
3 Sellick (UPS-T-4) argues that any errors in PERMIT System data for Parcel Post
4 somehow warrant the continued use of DRPW. I will show later in Section five
5 that errors in PERMIT System data affecting Parcel Post are minor and
6 immaterial and that given the consistent evidence of serious DRPW Parcel Post
7 undercounting, use of the PERMIT System is the right and correct way to
8 measure Parcel Post volume.

1 IV. THE PARCEL POST REVISION: HISTORY AND METHODS

2 Witness Sellick claims the Postal Service implemented the Parcel Post
3 revision without "external validation." USPS-T-4, page 20, lines 17-18. This
4 would be a shortcoming, if true, because it would leave unchecked the possibility
5 that PERMIT System data could be seriously flawed.

6 In fact, the Postal Service validated the use of PERMIT System-derived
7 permit imprint Parcel Post data in RPW. UPS apparently chose to attack the
8 massive data underlying the BRPW results rather than to inquire directly into the
9 reasoning behind the switch to BRPW. Strong indications of the discrepancy
10 between permit imprint Parcel Post estimates from DRPW and the PERMIT
11 System first came to light in late FY 97. The PERMIT System was yielding
12 greater estimates of permit imprint Parcel Post revenue and volume than DRPW.
13 We were hesitant to move immediately to use of the Parcel Post PERMIT
14 System data in RPW, however, without knowing more about what might be
15 causing the discrepancy. We considered two possible contributing factors: (a)
16 we were unsure if mailers were marking their drop ship parcels with the (at that
17 time) required "DBMC" endorsement and (b) the DRPW panel was updated
18 beginning PQ 1 FY 98 to include all CAG C offices, and we didn't know if this
19 would affect the discrepancy. Additionally, we inquired whether the PERMIT
20 System transactions data were being summarized correctly in the Corporate
21 Business Customer Information System (CBCIS) data that were used as a
22 source of aggregated PERMIT System Parcel Post data.

1 During FY 1998, we undertook a number of tasks to learn more about
2 these concerns:

- 3 1. A study was conducted of DBMC parcel shipper endorsement practices. It
4 was found that they adequately complied with the drop ship marking
5 requirements. Therefore, properly endorsed DBMC items should have been
6 identifiable by a DRPW data collector.
7
- 8 2. The results of the PQ 1 FY 98 DRPW sampling improvements were analyzed
9 and we found no significant impact on the DRPW Parcel Post data. The
10 discrepancy between DRPW and the PERMIT System still existed after
11 updating the DRPW panel.
12
- 13 3. A study was conducted on the accuracy of the movement and roll-up of
14 PERMIT transaction level data through CBCIS to the BRPW input file. No
15 material errors in this process were found. (See LR-I-279 and response to
16 USPS-T5-43.)
17
- 18 4. Comparisons of DRPW and PERMIT System Parcel Post volume time series
19 estimates with a third source, the ODIS system, showed that ODIS permit
20 imprint Parcel Post volume data aligned well with the PERMIT System data,
21 not the DRPW data.
22
- 23 5. At a series of Statistical Programs conferences, field Statistical Programs
24 managers and data collectors were consulted on the data discrepancy. The
25 shared consensus was that some DRPW data collectors were considering all
26 Standard Mail (B) permit imprint mail to be ineligible for sampling. In other
27 words, some data collectors were erroneously treating permit imprint Parcel
28 Post the same way they treated permit imprint BPM which is the only
29 Standard Mail (B) category ineligible for DRPW sampling. (The fact that
30 Standard Mail (A) is also ineligible for DRPW sampling contributed to this
31 problem.) Other possible reasons for the undercount were (a) not sampling
32 Parcel Post bearing the "Bulk" payment marking because of its similarity to
33 the Standard Mail (A) "Bulk Regular" marking; and, (b) not sampling any
34 permit imprint Parcel Post that enters the Postal Service weighing less than a
35 pound; this mail could be misidentified as Standard Mail (A) and would be
36 viewed as ineligible for sampling. (The material in this item was also
37 discussed in the Postal Service's response to POIR-15, item 2a.)
38

39 Parallel to the work described above, a BRPW module for permit imprint
40 Parcel Post was designed and tested. A survey conducted in FY 1997 for
41 general BRPW purposes (USPS-LR-I-403) facilitated this by ascertaining the

1 magnitude of permit imprint Parcel Post entered at non-PERMIT System sites
2 which then allowed us to assess the need for a supplemental BRPW panel.
3 Finally, PERMIT System-derived postage statement data were used for permit
4 imprint Parcel Post inputs in the PQ 1 FY 1999 RPW report. As mentioned
5 above, FY 1998 data were also revised at this time.

6 The previous material demonstrates that, with respect to RPW Report
7 methodology, the Postal Service implemented the switch to using PERMIT
8 System-based Parcel Post inputs in a measured, considered, and reasoned
9 fashion. As the manager responsible for the production of the RPW report, I
10 concluded that the use of PERMIT System-derived Parcel Post data in RPW was
11 necessary and an improvement over the use of DRPW for the permit imprint
12 Parcel Post RPW inputs.

1 VI. ADDITIONAL REBUTTAL ITEMS

2 This section addresses other issues raised by witness Sellick that attempt
3 to impugn the acceptability of PERMIT System data used in RPW.

4 1. Lack of a True Trial Balance Adjustment

5 Witness Sellick says the use of permit imprint Parcel Post data from the
6 PERMIT System for the Government FY 1998 RPW report should not be allowed
7 in these proceedings because "Unlike other BRPW mail categories, the 1998
8 BRPW Parcel Post estimates are not subject to a unique trial balance account
9 adjustment." (UPS-T-4, at 30, lines 12-13.) However, witness Sellick ignores
10 the fact that BRPW estimates for precanceled stamp and meter presort and
11 automation First-Class and Standard Mail (A) are used in RPW, and there are no
12 specific trial balance categories for these items. The use of a trial balance
13 account to control RPW inputs is not mandatory in RPW report production. It is
14 used when it exists for a mail category. Using FY 1998 PERMIT System Parcel
15 Post data controlled to an interim factor (1.0092075) constructed from recent
16 census data (see LR-I-230) is more accurate than using an underestimate of
17 Parcel Post from DRPW.

18 2. Lack of Detailed Weight Information

19 Witness Sellick says that using "the new system provides less detail on
20 the volume of mail by weight increment, rendering billing determinants less
21 accurate." (UPS-T-4, at 30, lines 7-19.) While it is true the PERMIT System
22 provides less weight distribution detail than DRPW, witness Sellick does not
23 provide a *a priori* argument or empirical evidence that applying DRPW-based

1 distribution keys to PERMIT System-derived totals yields inaccurate weight
2 distributions. In any case, revenue and volume are key parts of the billing
3 determinant process and BRPW does a better job than DRPW of estimating
4 these for Parcel Post. I understand that the analysts who prepare the Billing
5 Determinants are familiar with the PERMIT System-derived Parcel Post data in
6 RPW and have developed and used these in accordance with their own
7 professional judgment.

8 3. Data Collector Inability to Distinguish Indicia

9 Witness Sellick posits that DRPW data collectors cannot accurately
10 distinguish between permit imprint and other indicia (stamp and meter) during a
11 RPW test. (USPS-T-4, at 28, lines 8-11; at 29, lines 1-3 & 13-15.) He correctly
12 points out the importance of this distinction in later RPW report processing
13 because DRPW permit imprint Parcel Post records must be excluded from
14 ARPW (i.e., the system that combines DRPW and BRPW data) to avoid double
15 counting. However, his testimony consists merely of speculation for he has
16 presented no evidence that making this distinction poses any difficulty to DRPW
17 data collectors, or that errors of this type even occur. Given the complete
18 absence of evidence, there is no reason to conclude DRPW data collectors
19 cannot distinguish between a permit imprint and a stamp or meter. Finally, my
20 experience is that summary DRPW data by indicia aligns well with that from
21 other Postal data sources.

1 4. Inspection Service Financial Audit Results

2 Witness Sellick has cited summary Inspection Service financial audit
3 results that mention deficiencies in bulk mail acceptance procedures as a criteria
4 for potentially rejecting the use of PERMIT System data in RPW. (USPS-T-4 at
5 24, line 18; at 25, lines 1-2.) However, he does not say how these deficiencies
6 might lead to a specific type of recording error. Additionally, he does not and
7 cannot project the reported deficiencies to any level of systematic error in the
8 BRPW data. Therefore he does not establish that the magnitude or pattern of
9 these deficiencies somehow warrant not using PERMIT System data in the RPW
10 report. While any found deficiencies need management attention, the existence
11 of financial audits shows how seriously the Postal Service takes its commitment
12 to obtain the best available data and to take advantage of opportunities for
13 improving its quality still further.

14 5. LR-I-401 and Replicating BRPW Inputs

15 The Postal Service provided data (USPS-LR-I-401) in response to
16 Presiding Officer's Ruling No. R2000-1/48 that provides a proxy means for rolling
17 up PERMIT System data into the BRPW input records. The Postal Service
18 warned, however, that this roll-up was not identical to the CBCIS roll-up actually
19 employed. As explained in the April 5, 2000 pleading that preceeded the
20 issuance of POR-48, "The least burdensome means of looking at the roll-up
21 would be via an outside contractor, and it retains information that is similar, but
22 not identical, to postage statement level." Therefore, from the Postal Service's

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perspective, LR-I-401 was not expected to provide a perfect replication of the BRPW inputs.

The LR-I-401 data set provided a basis for aggregating data from an approximate postage statement level to the CBCIS RPW extract level, which is the level at which CBCIS data are used as an input for BRPW. While the LR-I-401 data replication process and the CBCIS RPW extract production process both start from PERMIT System data, the sequences of operations are not identical, the software and hardware systems and the code differ, and the actual times and periods over which the data are taken from the distributed source VAX computers are not the same. Thus a data user should not be surprised that a replication based on LR-I-401 data does not match CBCIS data perfectly.

The ultimate question answered in the affirmative by LR-I-401 is, does its data substantially replicate the CBCIS extract file used for BRPW. Revenue matches to .000017%, volume to -.000343%, and weight to 4.1%. The revenue and volume differences are miniscule. The weight difference is small. These discrepancies in no sense imply that PERMIT System Parcel Post data should not be used.

1 VI. CONCLUSION

2 My testimony reviews and explains the necessity for using PERMIT
3 System data in the RPW report production process and why, since the last
4 omnibus rate case, great reliance has been placed on postage statement-based
5 BRPW data for permit imprint Parcel Post. I have demonstrated the long history
6 of this use and its necessity. With respect to the change to using PERMIT
7 System data for RPW Parcel Post estimates, I reviewed the underlying reasons
8 for doing this and described the actions the Postal Service went through to
9 guarantee the change was warranted and correctly implemented. Finally, I have
10 addressed various points raised by witness Sellick and UPS that attempted to
11 show PERMIT System deficiencies should rule out its use as a source for Parcel
12 Post inputs in GFY 98 RPW. I have shown that these points are ill founded and
13 unsupported by evidence, and irrelevant to establishing accurate Parcel Post
14 revenue and volume estimates for RPW. To conclude: there is no basis for not
15 using PERMIT System Parcel Post inputs in the RPW reporting process. On the
16 contrary, considerations of data quality require that PERMIT System data be
17 used.

USPS-RT-26

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

SUPPLEMENTAL REBUTTAL TESTIMONY OF
RICHARD L. PRESCOTT
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

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1 I. INTRODUCTION

2 My name is Richard L. Prescott; I previously presented another piece of
3 rebuttal testimony (USPS-RT-24) on the RPW Report production process. My
4 background is described in that testimony.

5 This testimony rebuts United Parcel Service (UPS) witness Sellick's
6 supplemental testimony (UPS-ST-1) which, per Presiding Officer's Ruling No.
7 R2000-1/108, focused upon information made available in library references
8 USPS-LR-I-401 and 403 only after intervenors' direct cases were filed.

9

10 II. THE BRPW-BASED ESTIMATES OF REVENUE AND VOLUME, WHOSE
11 INPUTS ARE DOCUMENTED IN LR-I-194, ARE REPLICATED TO NEAR
12 PERFECTION BY THE PERMIT SYSTEM EXTRACT FOUND IN LR-I-401
13

14 The RPW Report provides estimates of revenue, volume, and weight
15 totals. With respect to the reconciliation effort between the data in LR-I-194 and
16 LR-I-401, the two most critical of these totals, revenue and volume, replicate to
17 near perfection. My first piece of rebuttal testimony states:

18
19 The ultimate question answered in the affirmative by LR-I-401 is,
20 does its data substantially replicate the CBCIS extract file used for
21 BRPW. Revenue matches to 0.000017%, volume to -0.000343%,
22 and weight to 4.1%. The revenue and volume differences are
23 miniscule. The weight difference is small. These discrepancies in
24 no sense imply that PERMIT System Parcel Post data should not
25 be used.

26
27 (USPS-RT-24 at 15, lines 12-17, as revised on August 22, 2000.) Witness

28 Sellick himself agrees that the volume and revenue numbers replicate to near
29 perfection, conceding that the replication is accurate to within \$1,000 and 1,000

1 pieces. Tr. 37/17007. These numbers correspond to the percentages quoted
2 above from my previous testimony.

3 With respect to weight, which is a less critical product in the RPW Report,
4 the replication is not as good. When UPS informally inquired regarding the
5 weight replication, we conducted additional analysis, which was shared with
6 UPS, and found initially that three postage statement records contributed 51 of
7 the 55 million pounds of error cited by witness Sellick. These appear to be
8 keystroking errors. While I am not familiar with all the details, our contractors
9 reported to me their understanding that all but 387 pounds of the weight
10 difference could ultimately be accounted for. Accordingly, I fundamentally
11 disagree with witness Sellick's assertion that "The Postal Service has been
12 unable to explain this discrepancy." UPS-ST-1 at 4, lines 21-22.

13 While insignificant discrepancies still remain unexplained, pursuing an
14 encyclopedic understanding of all the data differences and establishing a
15 complete concordance are not worthwhile activities at this stage because they
16 will not change the basic conclusion already described above in the quote from
17 my earlier testimony: the CBCIS RPW extract-based revenue and volume
18 estimates, for all practical purposes, match what can be obtained from the
19 PERMIT System level transaction data.

20

21

22

1 III. WITNESS SELICK'S SPECULATION THAT THE PERMIT SYSTEM
2 INCORRECTLY COUNTS STANDARD MAIL (A) PARCELS AS
3 STANDARD MAIL (B) PARCEL POST LACKS ANY QUANTITATIVE
4 SUPPORT AND MERIT
5

6 Witness Sellick (UPS-ST-1 at 6, lines 7-15) deduces from his
7 understanding of mail classification rules for Standard Mail (A) paid at Standard
8 Mail (B) rates that such mail is always Standard Mail (A). Then he questions the
9 PERMIT System data because in FY 1998 and FY 1999 it recorded Standard
10 Mail (A) items paid at Standard Mail (B) rates as Standard Mail (B).

11 It is not my role to elucidate mail classification policy, but I would point out
12 that with Docket No. R97-1 implementation (January 1999), the Postal Service
13 started requiring Standard Mail (A) paid at Standard Mail (B) rates to be
14 endorsed with the appropriate Standard Mail (B) marking. Thus, *ipso facto*, from
15 the Postal Service's perspective these items should be considered Standard
16 Mail (B) and the PERMIT System's procedures are correct: the FY 1998
17 estimates do not "...incorrectly count some unknown portion of Standard (A)
18 parcels as Parcel Post" (UPS-ST-1, at 7, lines 7-8) and the costs of such mail
19 are also properly accounted for as Standard Mail (B).

20 In these circumstances, the changes in DRPW recording rules for
21 Standard Mail (A) paid at Standard Mail (B) rates that witness Sellick discusses
22 (UPS-ST-1 at 7, lines 10-15 and elsewhere) make perfect sense. Prior to
23 Docket No. R97-1 implementation, DRPW classified these items as Standard
24 Mail (A) primarily based on the presence of the original Standard Mail (A)

1 marking. After the implementation, DRPW recording policy changed and
 2 classification became primarily based on the newly required Standard Mail (B)
 3 endorsements. DRPW followed standard procedure by classifying this mail as it
 4 was endorsed.

5

6 IV. WITNESS SELICK PRESENTS AN INAPPROPRIATE COMPARISON OF
 7 CARRIER COST PARCEL POST VOLUME TO DRPW PARCEL POST
 8 VOLUME
 9

10 Witness Sellick incorrectly claims that "Volume information in the Postal
 11 Service's City Carrier Cost System ... corroborates the DRPW-only results."
 12 UPS-ST-1, at 8, lines 10-11. The Carrier Cost System is not my area of
 13 expertise, but after witness Sellick's supplemental testimony became available,
 14 witness Harahush pointed out to me his response to a question from
 15 Commissioner Goldway concerning the relationship between DRPW and the
 16 Carrier Cost Systems. The following is an excerpt from that response:

17 The RPW system estimates volume of mail for all forms of delivery.
 18 The RCCS estimates volume for rural carrier routes, while the
 19 CCCS estimates volume for city letter routes. As a result, the RPW
 20 system includes mail delivered to customers via other delivery
 21 methods – firm holdouts, box sections, and extremely large mail
 22 recipients, for example. Volumes of mail not delivered on rural and
 23 city letter routes but counted in RPW will contribute to volume
 24 differences shown in the attached table.
 25

26 Response of United States Postal Service Witness Harahush to Questions
 27 Asked During Hearings (May 10, 2000.)

1 Given these definitional differences between DRPW and the Carrier Cost
2 systems, the data witness Sellick presents do not impugn the use of PERMIT
3 System permit imprint Parcel Post data in RPW. On the contrary, they support
4 it. The fact that the Carrier Cost System's results, which by definition do not
5 represent the universe of Parcel Post volume, align with DRPW implies that
6 DRPW is missing parcel post volume. This is why the Postal Service uses
7 PERMIT System permit imprint Parcel Post in the RPW report.

8

9 V. WITNESS SELICK'S CRITICISM OF THE PERMIT SYSTEM FOR ITS
10 INABILITY TO DETERMINE WEIGHT BY RATE CATEGORY AND ZONE
11 IGNORES THE FACT THE POSTAL SERVICE DOES NOT USE PERMIT
12 SYSTEM DATA FOR THAT PURPOSE AND IS IRRELEVANT TO
13 AGGREGATE VOLUME AND REVENUE ESTIMATES
14

15 In his supplemental testimony at pages 10-14, witness Sellick attempts to
16 impugn the use of all PERMIT System permit imprint Parcel Post data by
17 critiquing BRPW Parcel Post estimates of weight by rate category and zone.
18 "The Postal Service's RPW results assume that BRPW provides accurate weight
19 estimates by rate category and zone. That is not correct." UPS-ST-1 at 10, lines
20 13-14. He then proceeds to illustrate the difficulties in using PERMIT System
21 data to construct weight by rate category and zone distribution.

22 This criticism completely misses the mark because the base year RPW
23 total estimates are independent of the BRPW weight estimates by rate category
24 and zone. The base year RPW total estimates depend on BRPW estimates for
25 total revenue, volume and weight, respectively, not on how any of these three

1 items are distributed across rate category and zone. Therefore, from the
2 perspective of supporting the use of PERMIT System Parcel Post data in the
3 RPW report, *his technical arguments are irrelevant.*

4 It is my understanding that in order to estimate weight by product category
5 (i.e., "VIP Code") for nonidentical weight-per-piece mailings, a distribution of
6 total weight to product category based on product volume is required. However
7 this artifice in no way contributes to the generation of billing determinants; it is
8 merely part of the creation of the CBCIS RPW extract file. My understanding
9 from witness Mayes is that while certain types of distributed data are needed for
10 billing determinant purposes, the strengths and weaknesses of the PERMIT
11 System in this regard are well understood and PERMIT System data are not
12 used to distribute weight to rate category and zone; total weight is the sole
13 PERMIT System input to billing determinants.

14

15 VII. SUMMARY AND CONCLUSIONS

16 In this testimony, I address witness Sellick's supplemental testimony in
17 UPS-ST-1. I show that the data discrepancies issue has no practical or material
18 impact on the BRPW permit imprint Parcel Post estimates found in the RPW
19 Report for FY 1998 or FY 1999. Additionally, I show that two of his lines of
20 argument, (a) Standard Mail (A) paid at Standard Mail (B) rates and (b) the
21 quality of PERMIT System weight distribution data, are inapplicable or irrelevant.
22 Finally, his testimony on the similarity of Carrier Cost System and DRPW volume
23 estimates works against his own argument. In my opinion, his criticisms and

- - 1 concerns are incorrect and unwarranted, and PERMIT System permit imprint
 - 2 Parcel Post data are the appropriate inputs for the RPW Report production
 - 3 process.

1 CHAIRMAN GLEIMAN: Mr. McKeever, as I understand
2 it, UPS requested oral cross-examination on RT-26?

3 MR. McKEEVER: That is correct, Mr. Chairman.

4 CHAIRMAN GLEIMAN: But not RT-26?

5 MR. McKEEVER: I do not expect to have any
6 questions on that piece of testimony.

7 CHAIRMAN GLEIMAN: Well, we will let you proceed
8 then.

9 Is there anyone else in the room that wants to
10 cross-examine this witness on RT-24?

11 [No response.]

12 CHAIRMAN GLEIMAN: We will proceed with RT-24
13 cross-examination, Mr. McKeever, and then we will find out
14 if anyone else who is present wants to cross-examine on the
15 other piece of rebuttal testimony.

16 MR. McKEEVER: Thank you, Mr. Chairman.

17 CROSS-EXAMINATION

18 BY MR. McKEEVER:

19 Q Mr. Prescott, could you turn to page 3 of your
20 testimony?

21 A Page 3. Got it.

22 Q On lines 15 to 18, you indicate that in 1992,
23 because of budget pressures, the costly manual forms systems
24 noted above were discontinued and we relied solely on the
25 PERMIT System to provide electronic files of summarized

1 postage statement data for RPW processing, do you see that?

2 A Yes, I do.

3 Q Am I correct in reading into that that prior to
4 1992, for the classes or types of mail mentioned in lines 9
5 to 14 on that page, there was kind of a dual system in
6 effect, or am I wrong on that?

7 A What do you mean by dual?

8 Q Well, you say the costly manual forms systems
9 noted above were discontinued and we relied solely on the
10 PERMIT System to provide electronic files. And I am really
11 trying to get at what you intended when you used the word
12 "solely" there.

13 A What I meant was that we gave up the manual
14 processing and taking in of the manual forms at
15 headquarters, and, also, we stopped relying on the
16 predecessor to the PERMIT System, which has not been
17 mentioned here, but which has been mentioned in previous
18 testimony, the BAARS System and the BRAVIS System, which in
19 a small way contributed some data to those, to the pre '92
20 systems.

21 Q Okay. Now, was PERMIT System data used at all in
22 any way prior to 1992?

23 A Not to my knowledge, not through the PERMIT
24 System.

25 Q Okay. Thank you. Could you turn to page 4,

1 please?

2 A Yeah, I am there.

3 Q At lines 6 through 9, you indicate that the
4 government Fiscal Year 1998 RPW report was revised using the
5 updated Parcel Post methodology.

6 A Yes.

7 Q And I think you indicate in the sentence prior to
8 that, that in Postal Quarter 1 of Fiscal Year 1999, and then
9 you put in parentheses (December 1998), the Postal Service
10 began using permit imprint Parcel Post estimates from the
11 PERMIT System and RPW, is that correct?

12 A Yes, it is. That's for sure.

13 Q Now, when was information from Parcel Post, when
14 was the information on Parcel Post from Parcel Post postage
15 statements first actually input the PERMIT System database,
16 do you know?

17 A From the beginning, the old 3605 forms were always
18 part of PERMIT because of PERMIT's billing nature for the
19 Postal Service.

20 Q Okay. When you say from the beginning, I take it
21 that means prior to even Fiscal Year 1997?

22 A I am not exactly sure when the PERMIT System went
23 into existence, but I would assume that from the start, they
24 took data from all the available mailing statements and
25 entered it into the PERMIT System. So that is why I would

1 say that, yes, before this date mentioned in my testimony,
2 mailing statement Parcel Post data was available in the
3 PERMIT System.

4 Q Okay. I thought I heard you say, I assumed that
5 -- go ahead.

6 A Well, no, repeat back to me the quote that you
7 were interested in.

8 Q Yeah. I thought I heard you say in your answer
9 that you assumed that Parcel Post postage statement data
10 were entered into the PERMIT System, but that is what I want
11 to be clear on.

12 A Well, I don't know for sure. I am assuming that
13 once the PERMIT System was established, the screens which
14 are used to have the data keyed in and paid for had a screen
15 for Parcel Post entries that linked to the existing 3605
16 mailing statement which pre-dates the PERMIT System. So my
17 assumption, and it is no more than that, is that that data
18 was in PERMIT prior to this time here, PQ 1 of '99, or
19 whatever the time was that you mentioned.

20 Q Okay.

21 A That you were interested in.

22 Q Could you turn to page 5, please?

23 A Yes, I'm there.

24 Q There you indicate on lines 12 through 16 that
25 because of the nature of Postal Service indicia endorsement

1 requirements and mail acceptance policies, a DRPW data
2 collector cannot with certainty record the actual revenue
3 per piece of a selected mail piece for some categories of
4 bulk entered mail; do you see that?

5 A Yes, I do.

6 Q What categories of bulk entered mail were you
7 referring to there when you said for some categories of bulk
8 entered mail?

9 A What I mean --

10 Q And I'm talking about -- I'm sorry.

11 A No, go ahead.

12 Q Let me qualify my question. I'm talking about in
13 the 1998 timeframe.

14 A Right, the more recent timeframe. When I say
15 categories, I'm not -- I don't mean specific rate
16 categories, because the problem that I'm referring to here
17 with mail identification is not rate category-specific.

18 It concerns more the payment and the institutional
19 arrangements that the Postal Service has set up that are
20 mentioned on the next page of my testimony, page 6, things
21 such as the use of permit imprint indicia or the value-added
22 payment system for metered postage.

23 These apply to a number of types of bulk mail,
24 depending on the specific arrangement. So when I use the
25 word, categories, there, I'm talking about categories of

1 mail defined by their payment arrangements as opposed to the
2 rate category.

3 Q Okay, so it's not possible for you to indicate
4 what those some categories were in 1998 in terms of --

5 A Well, I could by example. For instance, First
6 Class presort mail; presort mail is eligible for the
7 value-added program, so it can be metered out at a higher
8 level than it's actually paid for when it's accepted into
9 the Postal Service.

10 It's also eligible for First Class mail to have
11 every piece in the mailing metered out at the lowest -- I'm
12 sorry, at the highest rate piece that the mailing requires.

13 In that latter category, I believe, Standard A
14 mail is also subject to that same situation.

15 So, both First Class and Standard A fall into,
16 quote/unquote, those categories. And also Parcel Post does
17 as well.

18 For the -- yes, Parcel Post does as well for
19 another reason which is not mentioned on page 6. So there's
20 -- practically all the bulk mail categories -- and I'd have
21 to go through them one-by-one -- would fall into this.

22 Q Well, why does Parcel Post fall into that?

23 A Well, what Parcel Post had in '98 -- well, first
24 in '99, as I think I wanted to make sure because I was
25 starting to mis-apply that, we added two new discount

1 categories to Parcel Post, SCF and DDU discounts, which
2 didn't require an endorsement.

3 Prior to '98, there was only one type of drop ship
4 Parcel Post and one type of required endorsement DBMC.

5 But there was a payment method that was allowed.
6 It wasn't a rate category; it was a postage payment method
7 where mailers could pay the average postage required for all
8 the pieces in a mailing across all the zones, and that was
9 an average payment method that they could use for
10 simplicity.

11 And those pieces had to be marked bulk rate. So
12 in that case, which is admittedly a minor instance, Parcel
13 Post would have been difficult to identify because the exact
14 revenue per piece required wouldn't be on the piece; it
15 would be an average across the whole mailing.

16 Q Am I correct that that method was available only
17 for identical-weight pieces of Parcel Post?

18 A You may be. I don't know; I can't answer that. I
19 don't think so, because I thought the whole purpose of that
20 was that it was an averaging across different weight for
21 pieces and different zones. But again, not to be
22 argumentative, I'm not sure of that.

23 Q You're not sure?

24 A Yes.

25 Q Okay. Now, I think you did indicate in your

1 answer that in 1998 there was only one drop ship category of
2 Parcel Post, and that was the DBMC category?

3 A That's right.

4 Q And there was a required endorsement for DBMC
5 Parcel Post?

6 A There was.

7 Q Can you turn to page 6 of your testimony, please?

8 A Sure, page 6.

9 Q There you give four reasons why the visible
10 postage on a piece of bulk mail may not correspond with the
11 postage actually paid.

12 A Yes.

13 Q Does that first reason, did that apply to Parcel
14 Post in 1998?

15 A Yes. If I could elaborate, the drop shipment
16 category almost exclusively uses permit imprint, so that it
17 was especially important for the DBMC category.

18 Q Now, of course, there was only that one drop
19 shipment category; was that right, the DBMC?

20 A Yes.

21 Q And it was clearly identified by an endorsement
22 that the piece was a DBMC piece; is that correct?

23 A Yes, in practice we found that it was.

24 Q And the DRPW data collector was able to weigh a
25 piece of Parcel Post that the data collector sampled; is

1 that corrected?

2 A Yes, they do have scales.

3 Q Okay, how about Reason Number Two? Did that apply
4 to Parcel Post in 1998?

5 A I don't know. What I understand through just
6 osmosis over the years is that Number Two applies mostly to
7 First Class and Standard A mail.

8 Q Okay, so you don't know one way or the other,
9 whether it applied to Parcel Post?

10 A No, I don't.

11 Q How about Reason Number 3?

12 A It's my understanding that only First Class mail
13 is available for that. I've never heard of it being
14 available for Parcel Post.

15 Q And how about Number Four?

16 A That applies to the post-R97 implementation data.

17 Q So it doesn't apply to 1998?

18 A It does not.

19 MR. HOLLIES: Mr. Chairman, there was at least one
20 example in that last exchange when an affirmative response
21 from the witness consisted of a nod rather than an
22 articulated statement. If the witness could speak in
23 response each time, that might aid our reading of the
24 record.

25 THE WITNESS: Sure.

1 CHAIRMAN GLEIMAN: The Court Reporter got the nod.

2 MR. HOLLIES: Thank you.

3 BY MR. McKEEVER:

4 Q Now, you do talk, beginning on page 7, about a
5 problem that arose with the introduction in January of 1999
6 of new drop ship discounts for Parcel Post; is that correct?

7 A Yes, I do.

8 Q Am I correct that another way of dealing with that
9 situation would have been or would be to require an
10 endorsement for DSCF Parcel Post shipments, say, a DSCF
11 endorsement and a DDU endorsement for DDU Parcel Post
12 shipments?

13 A Yes.

14 Q On page 7, lines 10 to 14 -- and I think we're
15 talking now about the post-January 10, 1999 timeframe there;
16 aren't we, in that paragraph?

17 A Yes, those completing that example.

18 Q Okay. You indicate that DRPW data collectors thus
19 cannot distinguish between these rate categories -- I take
20 you're referring there to DBMC, DSCF and DDU?

21 A Yes, I am.

22 Q But the data collectors would be able to tell
23 whether a piece was Parcel Post or not; is that correct,
24 regardless of rate category?

25 A They should have been with the -- for the drop

1 ship category, yes, they should have been, because they
2 should had have had either a D/S endorsement or the old DBMC
3 endorsement, because it had -- it was allowed to continue
4 for awhile.

5 Q And for non-drop ship categories, they could also
6 identify that the piece was a Parcel Post piece; is that
7 correct?

8 A Yes, it should have been, if over a pound,
9 regardless of the indicia, it should have been, even if not
10 endorsed by our classification system, a Parcel Post piece.

11 Q Now, on page 7 at lines 18 and 19, you indicate
12 that once this new data series was introduced in FY 1999, it
13 was imperative to recast the FY 1998 RPW report using the
14 same methodology, and then you give two reasons, is that
15 correct?

16 A Yes, it is.

17 Q The new data series was not introduced -- well, I
18 will withdraw that question. I think you have answered it.
19 Thank you.

20 Could you turn to page 10, please?

21 A Page 10. Okay.

22 Q On lines 13 to 16, you refer to Library Reference
23 I-279, do you see that?

24 A Yes, I do.

25 Q Now, is that the study where information on 286

1 postage statements was compared to information in the
2 corresponding PERMIT System records?

3 A Yes, that is my understanding.

4 Q Have you reviewed that document, I-279?

5 A Not prior to this testimony. I reviewed it at the
6 time.

7 Q Okay. But you haven't reviewed it since when?
8 When is the last time you reviewed it?

9 A Probably two to three months ago, if not earlier,
10 and then, frankly, only in cursory way.

11 Q Okay. Do you recall if 236 PERMIT System records
12 were selected out of the PERMIT System database to be
13 checked?

14 A I can't testify to the exact number, but that was
15 the general approach that the contractor-consultant took,
16 was to take a certain number of PERMIT records and compare
17 them, map them through the processing.

18 Q Do you know how many Parcel Post records were
19 selected?

20 A No, I don't.

21 Q Now, on page 10, at lines 31 to 33, you give
22 possible, that is the word you use, possible reasons for an
23 undercount of Parcel Post by DRPW with respect to BRPW.

24 A Yes.

25 Q And one of them, the first one, is that there may

1 not have been sampling of Parcel Post -- let me just quote
2 it. You say the one reason is, quote, "Not sampling Parcel
3 Post bearing the bulk payment marking because of its
4 similarity to the Standard Mail A Bulk Regular marking, do
5 you see that?

6 A Yes, I do.

7 Q Am I correct that the Bulk Parcel Post marking
8 says Bulk Parcel Post on it?

9 A It was my understanding that just the "Bulk" could
10 sometimes be used and was seen. But even -- I am willing to
11 grant your understanding because what I meant in that is in
12 the actual process of sampling the mail on a work room floor
13 early in the morning, if a data collector just saw the word
14 "Bulk," and they weren't being 100 percent assiduous, they
15 might assume that it was Standard A.

16 It was just a possible reason that was mentioned
17 to us when we tried to diagnose this problem, and that is
18 why I threw it there. And that, frankly, could happen
19 sometimes, even if the parcel had the phrase "Parcel Post"
20 after the word "Bulk."

21 Q So you think even though the endorsement said Bulk
22 Parcel Post, which I believe is required by the DMM, by the
23 way, even though it said Bulk Parcel Post, they may have
24 just seen the "Bulk" and then not sampled it?

25 A I think, yes, it is a technical possibility.

1 Q A technical possibility.

2 A A technical. It was one thing that was mentioned
3 to us when we were having the meetings discussed in Section
4 5 and brainstorming, although it is a minor reason, if it is
5 a reason at all. I was basically giving the full gamut of
6 possibilities that we considered here. The primary one is
7 the one mentioned earlier in Section 5, the primary cause.

8 Q And that is that data collectors were erroneously
9 treating permit imprint Parcel Post the same way they
10 treated permit imprint Bound Printed Matter?

11 A Yes.

12 Q Am I correct that the Bound Printed Matter
13 endorsement also says Bound Printed Matter on it?

14 A Yes, you are.

15 Q Do you know if it has the word "Bulk" on it?

16 A I have forgotten if the Bulk Presort Bound Printed
17 Matter requires the word "Bulk" or the word "Carrier Route,"
18 or perhaps both, I believe, because there's two rates.

19 Q Am I correct that permit imprint mailings must
20 contain at least 200 pieces or 50 pounds?

21 A There are minimum requirements, I can't confirm
22 that exactly, but there are minimum piece count/pound
23 requirements for permit mailings, and they may vary by
24 class, but I can't exactly confirm what you said.

25 Q Do you know if that requirement of 200 pieces or

1 50 pounds for a permit imprint mailing applies -- I will
2 represent to you that the DMM, I have a copy here which I
3 can show you if it makes you more comfortable.

4 A That's fine.

5 Q But let me ask you to assume that the requirement
6 is that permit imprint mailings must contain at least 200
7 pieces or 50 pounds.

8 A Okay.

9 Q And let's just focus on the pieces, the 200
10 pieces. Do you know if that requirement is that a permit
11 imprint mailing have at least 200 pieces of the same type of
12 mail, e.g., Parcel Post versus Bound Printed Matter, or is
13 it just 200 pieces with permit imprint on it?

14 A I am not sure. I don't know. I believe that
15 there have been some provisions made over the years for
16 mixing classes of mail in bulk mailings, and perhaps they
17 allow multiple classes to contribute to the minimum, but I
18 don't know for sure.

19 Q Are those provisions that allow mixing of
20 different classes of mail the exception rather than the
21 rule?

22 A If I could answer in the sense of a supposition,
23 yes, I think you are right, but I don't know.

24 Q Now, at the bottom of page 10 and top of page 11,
25 you refer to a survey conducted in Fiscal Year 1997 for

1 general BRPW purposes, Library Reference I-403, do you see
2 that?

3 A Yes, I do.

4 Q Is that the survey that resulted in the
5 non-automated PERMIT System office blowup factor of 1.009
6 and a whole lot of other digits for Parcel Post, do you
7 know?

8 A Yes, I think it is.

9 Q On page 10, at lines 27 to 29, we already talked a
10 little bit about the fact that data collectors may have been
11 erroneously treating permit imprint Parcel Post as permit
12 imprint BPM.

13 A Yes.

14 Q Are you sure that under the DRPW Data Collector's
15 Guide, permit imprint Bulk Parcel Post is always ineligible
16 for DRPW sampling? Let me strike the "are you sure," and
17 just ask you, do you know if, under the DRPW Data
18 Collector's Guide, permit imprint Bulk Parcel Post is always
19 ineligible for DRPW sampling?

20 A No, unless I am confused, it is always eligible.
21 It is permit Bound Printed Matter that is ineligible.

22 Q Is permit imprint Bound Printed Matter always
23 ineligible for DRPW sampling?

24 A Yes, I believe so.

25 Q You believe it is always ineligible?

1 A Yes.

2 Q Okay. Now, if it is true that DRPW data
3 collectors were erroneously treating permit imprint Parcel
4 Post the same way they were treating permit imprint Bound
5 Printed Matter, and permit imprint Bound Printed Matter is
6 the only Standard Mail B category that is ineligible for
7 DRPW sampling, I believe you state that, --

8 A Yes.

9 Q -- do you believe there is any chance that data
10 collectors were also not sampling permit imprint Special
11 Standard B and Library Rate mail?

12 A No, for the reason that we have never seen any
13 other data series that indicates those series are out of
14 line, that they are lower.

15 MR. McKEEVER: That's all I have, Mr. Chairman.

16 CHAIRMAN GLEIMAN: Is there any followup?

17 [No response.]

18 CHAIRMAN GLEIMAN: Are there questions from the
19 Bench?

20 [No response.]

21 CHAIRMAN GLEIMAN: Are you sure that there has
22 never been any problem with Library Rate Mail?

23 THE WITNESS: Well, I think there's a problem from
24 the accurate measurement point of view because of the large
25 variance involved and the fact that the series bounces

1 around a lot.

2 But as far as I know, we have never had a
3 systematic undercount or overcount.

4 CHAIRMAN GLEIMAN: So you're just saying that the
5 variance is a true variance; that there's no reason to
6 believe that the variance was due to some non-sampling
7 error?

8 THE WITNESS: As far as I know, there is not.
9 Now, if I could elaborate, probably at my own risk, there is
10 no other source to corroborate. The Postal Service has no
11 other source of Library Rate Volumes.

12 CHAIRMAN GLEIMAN: Is there any followup to the
13 question from the Bench?

14 [No response.]

15 CHAIRMAN GLEIMAN: If not, it's a question of
16 whether you want to do redirect now, or whether I get to ask
17 the magic question about whether anyone in the room would
18 like to cross examine on RT-26. And why don't I ask that
19 question real fast.

20 [No response.]

21 CHAIRMAN GLEIMAN: Speak now or forever hold you
22 peace.

23 [No response.]

24 CHAIRMAN GLEIMAN: Nobody appears to be
25 interested, so that brings us to redirect.

1 Would you like some time with your witness?

2 MR. HOLLIES: Yes, I'd like a few minutes.

3 CHAIRMAN GLEIMAN: Five, ten?

4 MR. HOLLIES: Let's go for the five and we'll see
5 if we can shorten that up.

6 CHAIRMAN GLEIMAN: Certainly.

7 [Recess.]

8 CHAIRMAN GLEIMAN: Mr. Hollies?

9 MR. HOLLIES: We have no redirect.

10 CHAIRMAN GLEIMAN: In that case, there's not going
11 to be any recross, in which case that pretty much wraps us
12 up for the day.

13 Mr. Prescott, that completes your testimony here
14 today. We appreciate your appearance and contributions to
15 the record; we thank you, and you're excused.

16 [Witness Prescott excused.]

17 CHAIRMAN GLEIMAN: Before I officially concluded
18 today's hearing, I just want to mention that if people are
19 going to eat chocolate candy in the back of the room, that
20 they have to bring enough for the Commissioners, too.

21 [Laughter.]

22 CHAIRMAN GLEIMAN: And the later we go, the more
23 chocolate candy they have to bring.

24 [Laughter.]

25 CHAIRMAN GLEIMAN: That concludes today's hearing.

1 We'll reconvene on Tuesday, the 29th, at 9:30, and we will
2 receive testimony from witnesses Bentley, Haldi, Bradpiece,
3 Giuliano, Wilson, a different Witness Prescott, Crowder,
4 Bozzo, and Haldi.

5 Have a good afternoon, or least what's left of it.

6 [Whereupon, at 3:48 p.m., the hearing was
7 recessed, to be reconvened on Tuesday, August 29th, 2000, at
8 9:30 a.m.]

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