

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

WRITTEN RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY TO ORAL REQUEST OF
MPA, ET AL.
(TR. 43/18462-64)

The United States Postal Service hereby provides the response of witness Bradley to the oral request of counsel for MPA, et al. (Tr. 43/18462-64) at hearings on August 28, 2000.

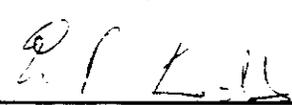
The request is paraphrased and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


Eric P. Koetting

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August 30, 2000

Response of Postal Service Witness Bradley to
Request Made by MPA et. al. During Cross Examination

Request:

Please provide the estimates of the β parameter from workpaper RWP-2 for the equation presented on lines 24-27 on page 28 of your testimony. Tr. 43/18462-64.

Response:

For convenience, that equation is repeated here:

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

Inspection of the equation shows that β parameter enters twice, once in the coefficient on frequency and once in the coefficient on cube times route length. Thus, estimation of this equation should yield the same value for β in both terms. If it does not, then the specification must be rejected.¹ The following sets of β parameters can be thought of as providing an informal test of that specification.² If the β parameters are different, then the specification is wrong and neither of the two sets of β parameters is useable. Inspection of the following table clearly shows that the two sets of parameters are different and the specification must be rejected. This means that one must resist the temptation to present either of these sets estimated β parameters as the estimated variabilities for purchased highway transportation. In addition, as explained in my testimony, the estimates suffer from other empirical defects that disqualify them from consideration.

¹ In essence, there is no way to pick between the two sets of estimated values for β . To estimate the model, one must restricted the estimation procedure so that only a single β is estimated. The results of this estimation procedure are presented in Table 7 of my rebuttal testimony.

² A formal test of this specification is provided in my workpaper RWP-3. In all cases the specification and the associated variability coefficients must be rejected.

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		Estimated β Parameters from Frequency Variable	Estimated β Parameters from Cube * RL Variable
Intra-PDC	City	0.7366	0.3586
	Van	0.7465	0.4314
	Tractor Trailer	0.8949	0.6427
Intra-CSD	City	0.7750	0.3341
	Van	0.6486	0.3747
	Tractor Trailer	0.9301	0.4762
Inter-PDC	Van	0.6935	0.4198
	Tractor Trailer	0.9746	0.7625
Inter-Cluster	Van	0.7895	0.4330
	Tractor Trailer	0.9454	0.7559
Inter-Area	Van	0.7774	0.4841
	Tractor Trailer	0.9466	0.7901
Intra-BMC	Tractor Trailer	0.9824	0.7456
Inter-BMC	Tractor Trailer	0.9977	0.9371
Plant Load	Tractor Trailer	0.9447	0.6866

DECLARATION

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


Date: Aug 30, 2000

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.



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