

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
UNITED PARCEL SERVICE WITNESS NEELS: USPS/UPS-T-1 THROUGH 5
September 13, 2006

Pursuant to rules 25 and 26 of the Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to the United Parcel Service witness Kevin Neels: USPS/UPS-T-1 through 5.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 13, 2006

USPS/UPS-T1-1.

Please refer to your testimony at page 12, lines 7-9. Please also refer to USPS-T-12 at page 46, lines 6-13, where Dr. Bozzo states:

In the CRA, A is estimated (as shares of handlings by subclass, i.e., distribution keys) from In-Office Cost System (IOCS) data. The process makes use of the most widely-known function of IOCS: producing estimates of proportions of handlings of the subclasses of mail (see also USPS-T-46, Section II.B.1).

It is important to note that the IOCS-based distribution key analysis is updated annually with the current year's IOCS sample data, as are the calculations of total labor costs by operation and (potentially) the variabilities. [Footnotes omitted.]

Do you disagree with Dr. Bozzo's characterization of the CRA methods? If so, please state the basis for your disagreement.

USPS/UPS-T1-2.

Please refer to your testimony at page 12, lines 3-4. Please also refer to USPS-T-12 at page 26, lines 10-21. For each of the sorting operation activities listed by Dr. Bozzo (runtime, quasi-allied labor, setup and take-down, waiting for mail, "overhead" activities, and other not-handling activities), please provide your operational explanation why each would (or should) depend on volumes of mail other than the piece handlings of mail processed within the cost pool for a sorting operation. If you have no operational explanation(s) in any case, please so indicate.

USPS/UPS-T1-3.

Please refer to your testimony at page 13, lines 14, to page 14, line 10.

- a. Please confirm that, for an econometric analysis using MODS workhours at some level of operational disaggregation (whether or not the Postal Service cost pools) as the dependent variable, "misclocking" introduces an error to the dependent variable. If you do not confirm, please explain.
- b. Please confirm that if "misclocking" adds a random error term with mean zero to the dependent variable of an econometric analysis of MODS workhours, the statistical consistency properties of OLS, GLS, and/or instrumental variables (IV) estimators normally is unaffected by the introduction of the error. If you do not confirm, please explain.
- c. Please confirm that if "misclocking" adds a random error term with nonzero mean to the dependent variable of an econometric analysis of MODS workhours, the statistical consistency of OLS, GLS, and/or IV estimators normally is only affected to the extent that various regressors (e.g., overall intercept, site-specific intercepts,

quarterly dummy variables, trend variables) fail to control for the systematic component of the “misclocking.” If you do not confirm, please explain.

USPS/UPS-T1-4.

Please refer to your testimony at page 14, lines 7-8. You characterize it as “surprising” that \$537.6 million in cost was “transferred from Mail Processing to Administration” in BY 2000. Please also refer to USPS-LR-L-9, file “IOCSDataEntryFlowchartFY05.xls, “Q18” tab.

- a. Please refer to PRC Op., Docket No. R97-1, ¶3140. Please confirm that the “transfer” is performed to “apportion Segment 3 costs according to the established method” prior to Docket No. R97-1, as recommended by UPS witness Sellick in that proceeding. If you do not confirm, please explain.
- b. Please refer to Docket No. R97-1, Tr. 26/14222. Please confirm that, at the time, UPS witness Sellick testified that he did not study the appropriate classification of the transferred (or “migrated”) costs, and that the Postal Service’s approach in Docket No. R97-1 may have been reasonable. If you do not confirm, please explain.
- c. Please confirm that in question 18B, “Operational Area,” the parenthetical description of option ‘I’, “Administrative,” is “Including Claims and Inquiry Work, Personnel & Time & Attendance Work, Accounting & Auditing Work, Data Collection & Processing Activities, Procurement, Training, Quality Control/Revenue Protection, General Office Work, Union Business.” If you do not confirm, please explain.
- d. Is it “surprising” that mail processing plants would incur costs for some or all of the activities listed in part a? Please explain.
- e. To the extent that “administrative” costs incurred at mail processing plants (NOT post offices, stations, branches, or headquarters units) are volume-variable, is it better to treat such costs as representing administration of mail processing activities or as general administration of the Postal Service? Please explain.

USPS/UPS-T1-5.

Please refer to the econometric analysis presented in Section 6 of your testimony.

- a. Please provide, in notation similar to Section IV.D. of USPS-T-12, the estimating equation(s) you used in your analysis.
- b. Did you explore any alternative model(s) or specification(s) in addition to those provided in Section 6 and/or whose estimating equation(s) are provided in response to part a? If so, for each alternative model or specification, please describe the alternative model or specification, indicate the difference(s) between the alternative and the analysis you present in Section 6, and provide a statement of the reasons for rejecting that alternative.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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