

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-6 THROUGH 12
September 15, 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-6 through 12.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 15, 2006

USPS/UPS-T1-6.

Please refer to Table 3 from your testimony, USPS-T-1, at page 15. Please also refer to USPS-LR-L-55, Table I-2B, in R2006 Ir-l-55_pt1.xls. Please also refer to the SAS program iocs_2005_analysis.sas in UPS-WP-1.

- a. Please confirm that witness Van-Ty-Smith's definitions of the D/BCS INC and D/BCSOUT pools include MPBCS and CSBCS operations (e.g., operations 874 and 911). If you do not confirm, please explain.
- b. Please confirm that witness Van-Ty-Smith's definitions of the SPBS OTH and SPBSPRIO pools include APPS and LIPS operations (e.g., operations 245 and 257). If you do not confirm, please explain.
- c. Please confirm that witness Van-Ty-Smith's definition of the 1CANCEL pool includes operations 017 (Cancelling Operations Misc), 018 (Collection Mail Separation), and 019 (Tabber). If you do not confirm, please explain.
- d. Please confirm that your SAS code does not assign MPBCS or CSBCS tallies (e.g., Q18C02=B or Q18C02=C) to the act_mods_group '0 D/BCS.' If you do not confirm, please indicate exactly where in your SAS code you do so.
- e. Please confirm that your SAS code does not assign APPS or LIPS tallies (e.g., Q18C04=B or Q18C04=C) to the act_mods_group '67 SPBS.' If you do not confirm, please indicate exactly where in your SAS code you do so.
- f. Please confirm that your SAS code does not assign tallies with Q18E10=E ("Collection/Separation/Dumping/Culling (Typically MODS Op. #s 017-018)") or Q18C02=F ("Tabber") to the act_mods_group '12 1CANCEL.' If you do not confirm, please indicate exactly where in your SAS code you do so.
- g. Please confirm that a portion of the tallies you assign to the "Non-Sorting Activity" group are tallies for breaks, clocking in or out, and empty equipment work (activity codes 6521-6523). If you do not confirm, please explain.
- h. Please confirm that correctly clocked employees in sorting operations may be observed on break, clocking in or out, or handling empty equipment. If you do not confirm, please explain.

USPS/UPS-T1-7.

Please refer to your testimony at page 15, line 9 to page 16, line 10, and Tables 4 and 6.

- a. Please confirm that "weighing batches of mail and applying conversion factors" for FHP measurement will, to the extent the conversion factors differ from the actual numbers of pieces per pound of mail, introduce error into the FHP measurement—i.e., the converted FHP and a hypothetical actual piece count would differ. If you do not confirm, please explain.
- b. Please confirm that the conversion error process in FHP measurement, as described in part a, is not present in machine counted TPH and TPF for automated and mechanized operations.
- c. Please confirm that, for some realizations of the FHP conversion error process, measured FHP may exceed TPH and/or TPF in the absence of any error in TPH and/or TPF measurement. If you do not confirm, please explain.

- d. Please consider a hypothetical sorting operation where (1) every handling would be eligible for an FHP count, and (2) no subsequent handlings are carried out, so theoretically FHP=TPH. Assume also the FHP conversion factors are on average correct and the number of observations is large. In the absence of any other errors in FHP or TPH measurement, what fraction of observations would you expect to exhibit converted FHP greater than TPH?
- e. Please confirm that your calculations for Tables 4 and 6 do not otherwise attempt to discern whether the FHP, TPH, and/or TPF data actually are anomalous.

USPS/UPS-T1-8.

Please refer to your testimony at page 16, line 12, and Tables 4-7. Please also refer to the Stata program Flag Errors.do, in UPS-WP-1, specifically the code:

```
*MAKE FLAG 1 = 1 IF HRS or TPF or TPH ARE ZERO FOR AUTO OPS
* AND IF HRS or TPF or TPH ARE ZERO FOR MANUAL OPS
gen flag_1 = 0
replace flag_1 = 1 if auto==1 & flag_0==0 & (hrs==0 | tpf==0 | tph==0)
replace flag_1 = 1 if manual==1 & flag_0==0 & (hrs==0 | tph==0)
```

- a. Please confirm that the above code is intended to indicate observations that fail the criterion “If volume data are present, hours data should also be present, and vice versa.” If you do not confirm, please explain the purpose of the code.
- b. Please confirm that observation counts from the two “replace” statements are the source of the observation counts in line 6 of Tables 4-7. If you do not confirm, please describe your calculations for those lines in detail.
- c. Please confirm that “(hrs==0 | tpf==0 | tph==0)” evaluates to “true,” and you flag an error (“flag_1 = 1”) for an automated or mechanized operation, if hours, TPF, and TPH are all zero. If you do not confirm, please explain.
- d. Please confirm that “(hrs==0 | tph==0)” evaluates to “true,” and you flag an error (“flag_1 = 1”) for a manual operation, if hours, and TPH are both zero. If you do not confirm, please explain.
- e. Please confirm that observations where hours, TPH, and (as applicable) TPF are all zero are not anomalous by the criterion from page 16, line 12—i.e., the data are consistent with being “valid zeros.” If you do not confirm, please explain.
- f. Please show the number of observations in each entry in line 6 of Table 4 and line 6 of Table 6, where hours, TPF, and TPH are all zero—i.e., (hrs==0 & tpf==0 & tph==0).
- g. Please show the number of observations in each entry in line 6 of Table 5 and line 6 of Table 7 where hours, and TPH are both zero—i.e., (hrs==0 & tph==0).
- h. Please provide the program code, and any output logs, used to produce the responses to parts f and g.

USPS/UPS-T1-9.

Please refer to your testimony, Table 4, line 5, and Table 6, line 5.

- a. Please confirm that the entries in the “BCS Outgoing” and “BCS Incoming” columns were screened at a finer level of operation disaggregation than the operation groups

shown in the header. If you do not confirm, please describe in detail how you arrived at the observation counts in line 5 for those operation groups.

- b. Using your methods, please show how many observations in line 5 of Table 4 and line 5 of Table 6 have (i) only HRS < 0, (ii) only FHP < 0, (iii) only TPH < 0, (iv) only TPF < 0, and (v) more than one variable with negative values. Please also provide the program code, and any output logs, used to produce your response.
- c. Please confirm that for the “BCS Outgoing” and “BCS Incoming” cost pools employed in Dr. Bozzo’s analysis, the counts of negative values of hours, FHP, TPF, and TPH are as follows:

Quarterly observations with negative MODS data, BCS Operation Groups

Variable	BCS Incoming (group 71 + group 73)	BCS Outgoing (group 72 + group 74)
HRS < 0	0	0
FHP < 0	0	2
TPF < 0	0	0
TPH < 0	0	0

Source: USPS-LR-L-56, vv9905.xls.

If you do not confirm, please provide the counts you believe to be correct, and show your calculations in detail.

USPS/UPS-T1-10.

Please refer to your testimony at page 24, lines 11-21, and Table 8. Please also refer to USPS-T-12, Table 26.

- a. Please confirm that the estimated standard error for Dr. Bozzo’s recommended Manual Priority elasticity is 0.09. If you do not confirm, please explain.
- b. Please confirm that the estimated standard error for the Manual Priority alternative elasticity based on weekly screens is 1.8. If you do not confirm, please explain.
- c. Please confirm that what you term the “true composite” in Table 8 is presented in USPS-T-12, Table 26.
- d. Given the large decrease in the precision of the Manual Priority estimate, is it necessarily unreasonable to present the composite variability with and without the result in the unreliable cell?
- e. Please confirm that, as statistical estimates, a set of econometric elasticities would be expected to exhibit increases and decreases of varying amounts (depending on the sampling errors of the estimates) when estimated on different samples. If you do not confirm, please explain.

USPS/UPS-T1-11.

Please refer to your testimony at page 24, lines 19-21, and Table 8. Please also refer to your testimony from Docket No. R2000-1, UPS-T-1 at 58, lines 14-16 (Tr. 27/12830).

- a. Please confirm that your Table 8 (and USPS-T-12, Table 26, from which your table is derived) show that the imposition of stricter data screens increased some elasticities and decreased others. If you do not confirm, please explain.
- b. Please confirm that, in your previous testimony cited above, you attributed a higher variability from a “parcels” model aggregated over several cost pools, as compared to cost pool results presented at the time by the Postal Service, to “elimination of gross errors” in the data, and not to other sample or specification differences between your alternative model and the Postal Service’s models. If you do not confirm, please provide the interpretation of your previous testimony that you believe to be correct.
- c. Please confirm that, as a general matter, elimination of data errors may affect the variabilities in either direction. If you do not confirm, please explain.
- d. In your previous testimony, did you conduct any explicit analysis to decompose your results among sample size changes, econometric specification changes, and elimination of data errors? If so, please provide detailed references to all such analysis in the Docket No. R2000-1 record.
- e. Consider two operations, X and Y. Suppose a datum that should be recorded to operation X is instead recorded under operation Y. Please confirm that, in such a case, data for operations X and Y exhibit errors, but the aggregate X+Y is correct. If you do not confirm, please explain.
- f. Please confirm that an aggregation of data as in part e is the method by which you purported to “eliminate” errors in the MODS data in your Docket No. R2000-1 analysis referenced above. If you do not confirm, please explain fully how your analysis “eliminated” the errors.

USPS/UPS-T1-12.

Please refer to section 3a of your testimony at pages 27-30, and Table 10.

- a. Is your “Interpretation” of the “Partial R-squared of excluded instruments” in Table 10 based on a formal statistical test?
- b. If your answer to part a is yes, please specify the test (with appropriate references to the econometric literature), identify the p-value (or confidence level) for each cost pool, and specify the critical p-value (or confidence level) you employed.
- c. Please refer to the Staiger and Stock paper cited in your footnote 28, at page 557. Please confirm that in the second sentence of the paper’s first paragraph, Staiger and Stock use a first-stage F statistic less than 10 as a rule-of-thumb for the weak instruments case. If you do not confirm, please explain.
- d. Please confirm that Staiger and Stock show that the two-stage least squares and limited-information maximum likelihood have different finite-sample properties in the case of weak instruments (see section 6.A of the cited paper, page 575). If you do not confirm, please explain.

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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