

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-T1-13 THROUGH 20
September 29, 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-T1-13 through 20.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 29, 2006

USPS/UPS-T1-13.

Please refer to your testimony, UPS-T-1, Table 11 (page 32). Please refer also to UPS-WP-1, program WP Chow_Big vs Rest.do and its accompanying output log.

a. Please confirm that the specification tests you report are based on the entire set of coefficients from the translog models for the listed cost pools, excluding the site-specific intercepts. If you do not confirm, please explain fully.

b. Please confirm that, for the translog models, the output elasticities or volume-variability factors are functions of subsets of the coefficients and certain data elements. Please see, e.g., Tr. 10/2557-8. If you do not confirm, please explain.

c. Please confirm that you did not compute output elasticities for the subsamples you developed for the analysis reported in Table 11. If you do not confirm, please explain where the results appear in the Stata program referenced above or elsewhere in your workpapers.

d. If you believe it is inappropriate to employ results from full-sample models, what method or methods would you recommend for combining results from subsamples to apply at the cost pool level or other level of cost aggregation you consider appropriate?

e. Please consider the following table of volume variabilities for the subsamples in your Table 11 analysis.

Cost Pool	Variability, "Big Plants" Sub-sample	"Big Plants" Share of FY05 Hours	Variability, "Small Plants" Sub-sample	"Small" Share of FY05 Hours	Weighted Average Variability, Cost Pool	USPS BY05 Variability, Cost Pool (USPS-T-12)
OCR	0.71 (0.07)	0.87	0.91 (0.07)	0.13	0.73 (0.06)	0.78 (0.05)
FSM 1000	0.75 (0.04)	0.79	0.68 (0.06)	0.21	0.73 (0.03)	0.72 (0.03)
SPBS	0.84 (0.06)	0.92	0.91 (0.08)	0.08	0.86 (0.05)	0.87 (0.05)
Incoming D/BCS	0.85 (0.09)	0.83	0.69 (0.11)	0.17	0.82 (0.08)	0.82 (0.07)
Outgoing D/BCS	0.97 (0.07)	.89	1.07 (0.07)	0.11	0.98 (0.07)	1.06 (0.06)

Standard errors in parentheses. Subsample variabilities are assumed uncorrelated in calculating the standard errors of the weighted average variabilities.

Please confirm that the table reflects the correct results for your Table 11 subsamples. If you do not confirm, please provide the results you believe to be correct, and provide the associated econometric code and output log(s).

USPS/UPS-T1-14.

Please refer to your testimony, UPS-T-1, section 3(b) and section 6. In the course of preparing your testimony, did you conduct any of the specification tests you describe in section 3(b) on the alternative model you present in section 6? If so, please provide all results, the associated econometric code, and output log(s). If not, why not?

USPS/UPS-T1-15.

Please refer to your testimony, Section 6 (pages 49-54) and to your response to USPS/UPS-T1-5. Please also refer to Docket No. R2000-1, Tr. 46-E/22041, lines 12-18.

a. In Docket No. R2000-1, Prof. Greene testified (Tr. 46-E/22041, lines 12-18):

[I]t is a maxim in econometrics that micro level data are always better than aggregates. The reason is almost self-evident. Aggregation almost always discards information contained in micro level data, and never creates new information. On the other hand, if it is genuinely believed that the micro level data contain no useful independent information, then they can be aggregated. This process cannot be reversed.

Do you agree or disagree with Prof. Greene? Please explain fully the basis for any disagreement.

b. Please provide all results, econometric estimation code, and output log(s) for the shape-level models you referenced in response to USPS/UPS-T1-5(b).

c. Please confirm that your Section 6 model includes SPBS handlings in the "Parcel" volume category. If you do not confirm, please describe fully your treatment of SPBS handlings, and provide detailed citations to the Stata code in your workpapers.

d. Does your treatment of SPBS differentiate handlings of bundles of flat-shape pieces and handlings of parcels or IPPs? If so, please explain your methods in full. If not, why not?

e. Do you believe that a unit of letter FHP will have the same effect on workhours in letter-shape operations and non-letter-shape operations? Please explain your response.

f. Do you believe that a unit of flat FHP will have the same effect on workhours in flat-shape operations and non-flat-shape operations? Please explain your response.

g. Do you believe that a unit of parcel FHP will have the same effect on workhours in parcel-shape operations and non-parcel-shape operations? Please explain your response.

USPS/UPS-T1-16.

Do you agree that automation-compatible, letter-shape mail pieces have distinct cost-causing characteristics for Postal Service sorting operations from nonmachinable letter-shape pieces? If you do not agree, please explain your position.

USPS/UPS-T1-17.

Do you agree that automation-compatible letter-shape pieces may be sorted in the Postal Service's automation letter-shape mailstream at lower marginal cost than otherwise identical pieces processed in the manual letter-shape mailstream? If you do not agree, please explain your position.

USPS/UPS-T1-18.

Do you agree that automation-compatible, flat-shape mail pieces have distinct cost-causing characteristics for Postal Service sorting operations from nonmachinable flat-shape pieces? If you do not agree, please explain your position.

USPS/UPS-T1-19.

Do you agree that automation-compatible flat-shape pieces may be sorted in the Postal Service's automation flat-shape mailstream at lower marginal cost than otherwise identical pieces processed in the manual flat-shape mailstream? If you do not agree, please explain your position.

USPS/UPS-T1-20.

Please refer to Tables 21 and 22 in your testimony, UPS-T-1. Please provide the marginal time (workhours) per FHP implicit in each of the coefficients you report on $\log(\text{FHP}_{\text{IN}})$ and $\log(\text{FHP}_{\text{OUT}})$. Please show your calculations.

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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