

BEFORE THE
POSTAL RATE COMMISSION

POSTAL RATE AND FEE CHANGES, 2006

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DOCKET NO. R2006-1

ERRATA FILED BY UNITED PARCEL SERVICE
TO THE DIRECT TESTIMONY OF UPS
WITNESS KEVIN NEELS (UPS-T-1)
(October 19, 2006)

Attached is a corrected version of page 37 of the direct testimony of UPS witness Kevin Neels, UPS-T-1. The changes to page 37 are identified on the following page, and result from the revision to Dr. Neels' workpaper UPS-T1-Neels-WP-1, which is referred to in his response to USPS/UPS-T1-29(a), filed on October 17, 2006. UPS regrets the inconvenience this error may have caused.

Respectfully submitted,

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IDENTIFICATION OF ERRATA TO
DIRECT TESTIMONY OF UPS
WITNESS KEVIN NEELS (UPS-T-1)

<u>Page</u>	<u>Lines</u>	<u>Revision</u>
37	1-3	The figures in the first five rows of Table 16 have been revised.

Table 16**Productivity Differentials Implied by the
Postal Service's Fixed Effects Models**

Cost Pool	Min	Max	Implied Productivity Differential
OCR	0.532	2.980	560%
FSM1000	0.245	2.658	1084%
SPBS	0.284	2.048	722%
BCS_IN	0.397	2.528	636%
BCS_OUT	0.449	2.905	647%
MANUAL FLATS	0.541	3.425	633%
MANUAL LETTERS	0.421	2.119	503%
MANUAL PARCELS	0.233	3.743	1607%
MANUAL PRIORITY	0.443	2.821	637%
CANCELLATION	0.274	5.013	1828%

Source: UPS-T1-Neels-WP-1\Analysis of USPS Models\Fixed Effects\Table of Fixed Effects.xls

The results are startling. The most productive plant in the network is anywhere from 500 percent to 1800 percent more productive than the least productive plant, depending upon which cost pool one considers.

I do not believe that these coefficient values can be interpreted or defended as true measures of non-transient productivity differences between mail processing plants. The implied range of productivity differences is simply too large to be believed. I cannot imagine that one would observe a productivity differential of this magnitude between two groups of postal employees operating the same piece of equipment at two different locations within the United States. One would have to envision that in order to process the same volume of mail, it would be necessary to staff a sorting operation with five people in one location and 50 in another.

If these fixed effects are not measuring productivity, one must then ask what they are measuring. Frankly, I am unsure how to answer this question. I am inclined to