DOCKET SECTION

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

POSTAL RATE AND FEE CHANGES, 1997   DOCKET NO. R97-1

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
SECOND NOTICE OF ERRATA TO
DIRECT TESTIMONY OF LEONARD MEREWITZ
FGFSA-T-1

The attached errata identifies further changes in the testimony of Leonard Merewitz, FGFSA-T-1, and two of the Exhibits therein, namely Exhibits LAM-4b and LAM-6. A detailed listing of the changes are set forth in the attached Errata summary. Copies of the affected pages are enclosed.
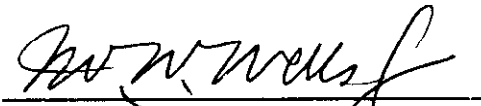
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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding on this date in accordance with Section 12 of the Rules of Practice and Procedure.

Dated : February 15, 1998

M. W. Wells, Jr., Attorney

Second Errata to Testimony of Leonard Merewitz FGFSA T-1

Page	Line	Change
5	6	Change 12.8 to 12.1
	7	Change "and a 24 % increase in" to "and an 18.5 increase in"
	8	Change "volume--13% of the larger" "volume--12% of the larger"
	9	Change "Standard (A) and shows that" to "Standard (A) regular and shows that"
	10	Change 41.9 billion to 41.8 billion; Change 33.1 billion to 36.9 billion
	11	Change "in a -21 percent" to "is a -11.6 per cent." Change 12.8 % to 13 %
	12	expunge line and substitute "The second part of Panel B shows that Stand A nonprofit workload declined by 5.8 percent whereas pieces have declined by more.
6	3	Change "is a 2.7 per cent" to "is a 4.3 per cent"
	18	Change "was 16.0" to "was 13.1"
7	1	Change" was a 10.8 percent" to " was a 13.7 percent"
	6	Change7181 to 8044.4 Change 6989 to 7700.9 Change"some 3%" To "some 4.3%"
	10	Change"was a 16 % real" To "was at least a 13.7 % real"
	11	after summarize insert "and simplify"
	11	Change "have a 16 % real" to "have a 14 % real"
	12	Change"of a 3 %" to "of a 4 %"
25	10	after contradiction add footnote 11a which should read "DBMC Parcel Post is delivered by the sender to the destination BMC. As such it should never appear on inbound purchased transportation runs. Yet it appears in the tallies and was counted, rated and weighed by TRACS data technicians."
	11	after LAM-4b add LAM-13.

1   Exhibit LAM-6 through LAM-8 show the impact of drop-ship rules new in 1991 and rates

2   in third-class and Standard (A) on the traffic in the two accounts of purchased transportation which

3   we study. Basically, the conclusion is that traffic is down while expenditures on transportation are

4   up. Traffic is down because mailers, especially Standard (A) mailers are taking advantage of work

5   sharing opportunities and doing more of their own transportation.

6   The top panel of LAM-6 is a summary showing a 12.1 percent drop in Standard (A) traffic

7   between 1991 and 1996 and a 18.5% increase in Standard (B) traffic. Since Standard (A) is a bigger

8   class in volume -- 12% of the larger group is greater than 18.5% of Standard (B).

9   Panel 2 concerns Standard (A) regular and shows that mail subject to nationwide entry or BMC

10   entry[1] was 41.8 billion in 1991 and is only 36.9 billion in 1996. The change in workload measured

11   by pieces is a -11.6 percent. When those pieces are converted to pounds the decrease goes to 13

12   percent. The second part of Panel B shows that Stand(A) nonprofit workload declined by 5.8 %

13   whereas pieces declined more.

14   Panel 3 (p. 2) concerns Standard (B). Here we have largely natural growth taking place with

15   one exception. There has been considerable work sharing proceeding apace in the rate category of

16   Destination-BMC parcel post. This phenomenon substitutes for Inter BMC transportation but not

17   for Intra BMC. Destination BMC parcels still require transportation to their destination SCF's and

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[1]This mail is "mail not drop-shipped beyond [i.e. deeper into the system than] the BMC."

5

1   AO's. Our solution is to claim one half the saved pounds as a workload saving since these two

2   accounts (intra BMC and inter BMC) are roughly equal in magnitude. Line 8 shows the full savings

3   and line 9 accounts for half the savings. The result when both Standard (A) and Standard (B) are

4   brought together is a 4.3 percent decrease in traffic.

5   We may now compare this small decrease in traffic to an apparent healthy increase in

6   transportation expenditures and explore the meaning of those changes. First we must obtain an

7   estimate of real increase in the use of transportation services. Expenditures alone will not tell the full

8   story because they include the results of price change, usually increases. When we have taken out

9   those price increases, we will have the real increase in transportation services purchased.

10   From LAM-7 and LAM-8 we may infer that price change in the over-the-road trucking sector

11   was no greater than 2.5 per cent per year (in fact the current estimate is 2.25 per cent per year) over

12   the period 1991 to 1996. The exhibits show the price index for trucking nonlocal between June 1992

13   and November 1997. Exhibit LAM-8 performs a regression analysis on the model

14        $\ln Y = A + b * t$

15   Where ln is natural logarithm and t is time in months. Time differentiation shows that the rate of

16   growth is the parameter b. The b we estimate is a monthly rate of growth. The quantity (1+b) raised

17   to the power 12 gives the annual rate of growth which is here estimated to be 2.25 per cent. Since

18   I do not have the complete series I need for my analysis I have to say that price growth was no

1   greater than 2.5 per cent per year. Therefore in the period of our comparison price increase was 13.1

2   per cent while contract expenditures increased 26.8 per cent. The result was a 10.8 per cent increase

3   in real purchased highway transportation services. One can say this was real in the sense of cubic

4   foot-miles abstracting from price level change.

5   Thus, between 1991 and 1996 volume in the nonpreferential highway transportation system declined

6   from 8044.4 million pounds to 7700.9 or by some 4.3% mainly because of drop shipping. Please see

7   LAM-6. During the same period, purchased highway transportation increased 27 %. Not more than

8   13.1% of this increase was price increase because the price index, "Trucking excluding local" shows

9   a 2.25 per cent average rate of growth in truck rental costs over that period). So, during this period

10   there was a 13.7% real increase in the purchase of highway transportation services by the postal

11   service. To summarize and simplify, we have a 14 % real increase in the face of a 4 % decrease in

12   volume demanding transportation.[2] What should we make of this? It certainly seems that the volume

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[2]Even though this is the non-pref transportation system, designed for third-class and fourth-class (with the preferential designed for first-class and second-class) periodicals are seen in the traffic. One might object that traffic was increased over the period from the second-class or periodicals direction. But, the volume, by which I mean cube and not pieces (of periodicals has not changed over this time period). In millions of cubic feet, it was 242 in 1991 and only 240 in 1996.

Zoning

Zoning has existed in periodicals for a long time and this is analogous to dropship discounts. There is a premium for delivering mail and depositing it into the system closer to the destination. There is simply less traffic on those trucks and yet the amount of purchased transportation services is up about 15.8% in real terms. Volume (whether cube or pieces) alone does not drive the amount of purchased transportation input.

7

1   Panzar says the same thing.

2   This distribution key would be more in line with economic theory. We could go further with

3   economic theory in the direction of linear or mathematical programming. Such analysis would lead

4   us to calculate costs at the maximum-load point as Meyer, Kain and Wohl (Cambridge: Harvard

5   University Press, 1965) have done in their classic study of urban transportation.[11] In our application

6   here this would suggest calculating costs when the trucks are at their fullest (certainly on outbound

7   trips). This peak-load approach looks at outbound runs only and divides costs as the proportions of

8   mail classes present on those trips. This distribution key is shown in Exhibit LAM-3.

9   Unfortunately the TRACS data collected are not reliable because (among other things) of the finding

10   DBMC mail on incoming runs: a logical contradiction.[12] Further TRACS data collection problems

11   are shown in LAM 4b and LAM-13. Lib Refs H-111 and H-135 are inconsistent in their estimates

12   of the relation between Parcel Post and Standard A cubic feet.

13

14   .

15   In the Opinion and Recommended Decisions of several recent cases, the PRC has found that

16   the identity and integrity of the preferential and nonpreferential transportation systems which once

17   existed separately is now a thing of the past. (R 87-1)

18   We see first class loading in candidate Distribution Key's of 14%; 11-17% in the fourth

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[11]See p. 186 for their decision to charge the construction cost of rapid transit largely to the traffic at the peak.

[12][11a] "DBMC Parcel Post is delivered by the sender to the destination BMC. As such it should never appear on inbound purchased transportation runs. Yet it appears in the tallies and was counted, rated and weighed by TRACS data technicians."

25

Estimates of Parcel Post and Standard A CF From Non-TRACS Sources

Panel A			Parcel Post	
Mail Category	Intra BMC		Cubic Feet (000)	
Parcel Post	22,497	a		
DBMC	70,468	b		
	92,965			
	Inter BMC			
Parcel Post	42556	c		

Source: Lib. Ref. H-135, Standard Mail (B) Parcel Post Volume and Cubic Feet
Data Distribution by Weight and Zone and BMC/ASF - GFY 1996, Attachment I.
a. p. 32
b. p. 44
c. p. 38

Panel B Standard (A)
Cubic Feet (000)

	Inter BMC	Intra BMC
Standard(A)	135,639	381,540

Source: Lib Ref. H-111 Dropship Savings in Periodicals and Standard Mail
Appendix A, Table 4 and conversion factor .056583 = 1/17,673 from TRACS program
"hwy 1", p. 171, Lib. Ref. H- 82.

Panel C Summary Figures

	Inter BMC		Intra BMC		ratio StA/PP
Parcel Post	42600	a	92965	b	
Standard(A)	135639	c	381540	d	4.104122

Sources:	a Panel A .	c Panel B
	b Panel A	d Panel B

Impact of Drop Shipping on Workload
In Intra-BMC and Inter BMC Purchased Transportation

		1991		1996	
			millions		
Standard (A) mail not ds beynd	~	41786.4	pcs	36945.2	
BMC ee/					
lb regular See workpaper 2		5287.7	lbs	4602.9	workpaper 5
nonprofit		695.4	lbs	655.4	
Standard (B) w. DBMC correction		2061.3	lbs	2442.6	1.185
		8044.4	lbs	7700.9	0.957

Standard A Mail

		1991			1996	
		Standard A	millions			Standard A
	a Dest. SCF Entry	6619		bb SCF DE		16516 c
	b DDU Entry	1821		DDU DE		5870 d
		8440				
						22386
see W/P 2	e Total BR Regular	50226.4		Tot St. A Reg		59331.2 f
	Dst SCF or Dest D	8440				
	not ds beynd BMC	41786.4		Dst SCF or Dest DDU		-22386
						36945.2
	mail not ds beynd	41786.4				
	BMC e/					
	Nonprofit				Nonprofit	
pieces	(millions)	pounds		pcs	(millions)	lbs.
Nationwide Entr) 10,193.716		659.618		12209.083		822.824
			SCF entry	1287.673		70.964
BMC Entry 575.571		35.762				
			SCF entry	961.524		72.9175
			DU entry	371.126		23.5255
Total not ds beyond BMC		695.380	low transport	2620.323		167.407
			notds byndBMC	9588.76		655.417

Notes: 1. Single-letter notes refer to Workpaper 1.
2. ds = drop-shipped
bb. SCF DE = SCF Destination Entry
ee. "ds beyond BMC" means to SCF , AO or DU.

Standard B Mail

Mail	1991 Pieces	Weight		1996 Pieces	Weight
	(000)	thous lbs			
1 PP	138,494	729,724		212.8	1094.9
2 BPM	363,532	918,484		516.1	1231.3
3 Special	153,138	308,611		189.8	319.4
4 Library	40,228	117,641		30.1	51
5 Total	695392	2,074,480		948.8	2696.6
					bef DBMC adjus
ratio of workload				1.3619	
6 lbs/pc PP		5.1447		5.2688	
7 DBMC PP (mills)		5.12		96.41	
8 lbs saved millions		26.3		508.0	
9 half of DBMC savings		13.2		254.0	0.9732
10 Standard (B) after DBMC adj		2061.3 mill lbs		2442.6	1.242

DBMC PP avoids inter BMC transp but it does not avoid intraBMC transp