

DOCKET SECTION

PRESIDING OFFICER'S
RULING NO. R97-1/117

MAR 31 12 56 PM '98

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268

505 11 1111
9741 111111

Postal Rate and Fee Changes

Docket No. R97-1

PRESIDING OFFICER'S RULING
CORRECTING TRANSCRIPT VOLUMES 20-36

(March 31, 1998)

This ruling grants the motions to adopt transcript corrections and approves the proposed transcript corrections filed by participants, with exceptions and modifications listed later in this ruling. Where a filing listed below refers to more than one volume, it is included with reference to the first volume only and not repeated.

On March 16, 1998, the United States Postal Service filed a Notice Concerning Errata to Institutional Interrogatory Responses which appear at Tr. 19C/9050-51. This request to correct the transcript is granted.

The Motion of United Parcel Service to Correct Transcript (Volumes 26, 28, 34, 35, and 36), filed March 27, 1998, included replacement transcript pages to correct missing attachments, and format errors. Copies of these pages are appended to this ruling.

There have been no objections to the motions to adopt transcript corrections or proposed transcript corrections filed in this proceeding. Some corrections were filed after the date established for filing, but as it appears no party will be prejudiced, I am accepting the late-filed corrections and motions. The following motions are granted and corrections approved as filed.

- Volume 20 CTC Distribution Services, L.L.C., filed March 11, 1998; United States Postal Service, filed March 10, 1998;
- Volume 21 Newspaper Association of America, filed March 11, 1998;
- Volume 22 United States Postal Service, filed March 11, 1998;
- Volume 23 Office of the Consumer Advocate, filed March 11, 1998; United States Postal Service, filed March 6, 1998;
- Volume 25 Greeting Card Association, filed March 4, 1998; Office of the Consumer Advocate, filed March 11, 1998;
- Volume 26 United Parcel Service, filed March 11, 1998 and March 27, 1998; United States Postal Service, filed March 16, 1998;
- Volume 27 National Newspaper Association, filed March 9, 1998;
- Volume 28 United States Postal Service, filed March 16, 1998;
- Volume 30 LabOne et al., filed March 25, 1998;
- Volume 32 Office of the Consumer Advocate, filed March 27, 1998; Saturation Mail Coalition, filed March 23, 1998; United States Postal Service, filed March 27, 1998;
- Volume 33 Advo, Inc., filed March 23, 1998; Office of the Consumer Advocate, filed March 27, 1998; United States Postal Service, filed March 27, 1998;
- Volume 34 Advo, Inc., filed March 23, 1998;
- Volume 35 McGraw-Hill Companies, filed March 23, 1998; Office of the Consumer Advocate, filed March 27, 1998; United States Postal Service, filed March 30, 1998.

In addition, with the modifications and exceptions listed, the following motions are granted and transcript corrections approved:

- Volume 20 Office of the Consumer Advocate, filed March 11, 1998, the correction should read Change "Rollcall.H" to "Rowcol.h".

- Volume 21 Major Mailers Association, filed March 9, 1998, the corrections for page 11296, line 11 should read Change "objectivity" to "subjectivity".
- Volume 23 Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc., filed March 11, 1998, the corrections for page 12128, line 23 should be changed to read Remove the word "emphasis"; the change for page 12268, line 18, should read Change "effects" to "affects".
- Volume 27 Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc., filed March 11, 1998, the correction for page 15035, lines 9-10 should read on line 9, Delete the word "four", on line 10, Delete the word "dollars" and the words "dollar sign".
- Volume 28 Direct Marketing Association, Inc., filed March 5, 1998, the correction listed for page 15441, line 20, appears on line 21.
- Volume 33 Nashua Photo Inc., District Photo Inc., Mystic Color Lab, and Seattle Filmworks, Inc., filed late March 27, 1998, the change for page 17401, line 23 should read Change "that this machine with it channel transport processes" to "that'[t]his machine with its channel transport, processes".
- Volume 34 Newspaper Association of America, filed March 27, 1998, the correction listed for line 8 appears on page 18250.
- Volume 35 United States Postal Service, filed March 27, 1998, the correction for page 18679, lines 21-22 should read Change "up in my people" to "up with my people who"; the correction listed for page 18685, line 8 appears on page 18684; omit the correction for page 18687, line 25; the correction listed for page 19726 appears on page 18726; the correction for page 18742, line 1, change two should read Change "example one" to "one example".
- Volume 36 Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers' Association, Inc., and Carol Wright Promotions, Inc., filed late March 27, 1998, the correction listed for page 19568, line 7 appears on line 8.

RULING

Transcript Volumes 20-36 in Docket No. R97-1 are corrected as described in the body of this ruling.

A handwritten signature in black ink, appearing to read "Edward J. Gleiman". The signature is written in a cursive style with a long horizontal stroke at the end.

Edward J. Gleiman
Presiding Officer

Auxiliary Service Facilities Outgoing Parcel Splits

Auxiliary Service Facility (ASF)	Parent BMC	Other Outgoing Splits (BMCs and ASFs)
Buffalo	Pittsburgh	Springfield BMC
Fargo	Minneapolis	Billings ASF, Sioux Falls ASF
Oklahoma City	Dallas	Denver BMC, Kansas City BMC, Memphis BMC, St Louis BMC
Salt Lake City	Denver	Los Angeles BMC, Phoenix ASF, San Francisco BMC, Seattle BMC
Sioux Falls	Des Moines	Denver BMC, Fargo ASF, Minneapolis BMC

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEEDS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T1-34. Please refer to Table 5 on page 32 of your testimony.

a. Please confirm that the table provides two columns of variabilities, one entitled "Bradley's Scrubbed Data" and one entitled "All Usable Observations."

Please explain anything but an unqualified confirmation.

b. Please confirm that the variability listed for the Manual Parcel Sorting Activity is 40% for the "Bradley's Scrubbed Data" column but 32% for the "All Usable Observations" column. Please explain anything but an unqualified confirmation.

c. Please confirm that the variability listed for the Manual Priority Mail Sorting Activity is 45% for the "Bradley's Scrubbed Data" column but 42% for the "All Usable Observations" column. Please explain anything but an unqualified confirmation.

d. Please confirm that the variability listed for the SPBS-Priority Mail Sorting Activity is 80% for the "Bradley's Scrubbed Data" column but 73% for the "All Usable Observations" column. Please explain anything but an unqualified confirmation.

e. Please confirm that the variability listed for the Cancellation and Mail Prep Activity is 65% for the "Bradley's Scrubbed Data" column but 53% for the "All Usable Observations" column. Please explain anything but an unqualified confirmation.

f. Please confirm that the variability listed for the Pouching Activity is 83% for the "Bradley's Scrubbed Data" column but 81% for the "All Usable Observations" column. Please explain anything but an unqualified confirmation.

g. Please confirm that there are 12 activities for which the variability is higher in the "Bradley's Scrubbed Data" column than it is in the "All Usable Observations" column. If you do not confirm, please provide the number of activities for which the variability is higher in the "Bradley's Scrubbed Data" column.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEELS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

h. Please confirm that there are 11 activities for which the variability is lower in the "Bradley's Scrubbed Data" column than it is in the "All Usable Observations" column. If you do not confirm, please provide the number of activities for which the variability is lower in the "Bradley's Scrubbed Data" column.

Response to USPS/UPS-T1-34. (a) Confirmed.

- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.
- (e) Confirmed.
- (f) Confirmed.
- (g) Confirmed.
- (h) Confirmed.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEEDS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T1-35. Suppose that an estimated variability is 20 percentage points different from 100 percent. In your opinion, does that estimated variability support the assumption that the true variability is 100 percent? Please explain fully.

Response to USPS/UPS-T1-35. How one should interpret the evidence posed by this hypothetical depends upon a number of factors. Most important among these is the quality of the analysis that produced the estimate of variability. If the data upon which the study is based are unreliable, if the model is misspecified, or if the analysis is technically flawed, one should be extremely cautious in basing conclusions regarding variability on the study's results, regardless of the specific numerical value of the estimate. If, however, one has no reason for concern regarding the quality of the analysis, other considerations come into play. If the estimate of variability produced by the study is, say, 80 percent and the standard error of that estimate is 2 percent, these results would suggest that it is unlikely that the true variability is 100 percent. If the estimate of variability produced by the analysis is 80 percent and the standard error of that estimate is 30 percent, one's interpretation of the results would probably depend upon what other evidence regarding variability is available. If one had prior reason to believe that variability is 100 percent, an imprecise variability estimate of 80 percent could be interpreted as being consistent with that prior belief.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEEDS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T1-40. Consider the following model:

$$y_{it} = \delta_j + \beta X_{it} + \varepsilon_{it} \quad i = 1, \dots, N; \quad t = 1, \dots, T.$$

where y_{it} is the dependent variable, δ_j is a vector of site-specific constants, X_{it} is the explanatory variable and ε_{it} is independently identically distributed, with mean zero and variance σ^2 .

If this model is estimated by Ordinary Least Squares (OLS) with cross-sectional data, please confirm that the probability limit of the OLS estimator is given by:

$$Plim \hat{\beta}_{LS} = \beta + \frac{COV(X_{it} \delta_j)}{\sigma_x^2}$$

where σ_x^2 is the variance of X_{it} .

If you do not confirm, please provide what you think the probability limit of the OLS estimator is.

Response to USPS/UPS-T1-40. As stated the question is incorrect and cannot be answered. The question assumes a cross-sectional dataset. Therefore, the question assumes $T=1$. As a result, this model cannot be estimated as specified because the number of parameters exceeds the sample size.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEELS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T1-41. Please refer to page 5, lines 9 and 10, of your testimony.

- a. Did you review the professional econometric literature in preparation of your testimony?
- b. Please identify and summarize all empirical studies conducted prior to Docket No. R97-1 that you are aware of that produce volume variabilities of 100% or more for manual letter and manual flat sorting operations at mail processing facilities. Please provide copies of those studies.
- c. With respect to the empirical studies identified and summarized in part (b.) above, please answer the following questions:
 - i. Were any observations eliminated from the data sets in these studies due to erroneous or suspect values?
 - ii. What were the measures of volumes used? Were they piece handlings, RPW pieces, ODIS pieces?
 - iii. How were the dependent variables defined? Specifically, were they defined as costs or workhours?

Response to USPS/UPS-T1-41. (a) Not all of it.

- (b) I am not aware of such studies.
- (c) N/A.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEELS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T1-42. Please refer to the "cross-sectional" volume variabilities that you present at table 1, page 7 and table 6, page 41 of your testimony. Please confirm that, in your view, both the table 1 variabilities and the table 6 variabilities qualify as estimates of "long-run volume variabilities." If you do not confirm, please explain why either set of variabilities do not constitute, in your view, estimates of long-run variabilities.

Response to USPS/UPS-T1-42. Each set of variabilities could be interpreted as estimates of the "long-run" volume variability.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEELS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

It is possible that productivity might increase in response to a temporary surge in volume. Workers might increase the pace of work, take fewer or shorter breaks, or adopt other strategies for dealing with the added workload. In his responses to interrogatories, Bradley concedes this point.²¹ Such increases in productivity may not be sustainable, however, and if the increase in volume persists it may eventually be necessary to hire additional workers to handle the increased workload. Thus, after an initial surge it is likely that productivity would decline to something closer to its original level.

The effect of the behavior described above would be to make mail processing labor costs less variable over the short term than over the long term.

I have not conducted a study to determine which of the two factors described above dominates, or whether other factors might also come into play to influence the relationship between short run and long run volume variabilities. However, the contrast between Bradley's short run results and the longer run results provided by the cross-sectional model does suggest that the volume variability of mail processing labor costs is higher over the long run than over the short run.

²¹ Tr. 11/5512.

**ANSWER OF UNITED PARCEL SERVICE
WITNESS NEELS TO INTERROGATORY OF
THE UNITED STATES POSTAL SERVICE**

USPS/UPS-T1-45. Please refer to your testimony at pages 16-17, where you state:

It is difficult to imagine actual operational practices that would . . . bring an activity to life for only a single accounting period. Data entry errors, such as recording piece handlings under the wrong activity or with the wrong facility identifier, would seem to provide a plausible explanation.

a. Please confirm that it is your testimony that the occurrence of a site with one observation is likely to be due to a data entry error such as a wrong facility identifier. If you do not confirm, please explain fully.

b. Please state for how many consecutive periods a site must report data for an operation before it is reasonable to believe that the recording of the operation is not due to data entry errors.

Response to USPS/UPS-T1-45. (a) Confirmed. However, I do not believe that it is impossible for an activity to be in operation at a particular site for only a single accounting period. Such situations may exist.

(b) One may reasonably accept the possibility that even when only one recorded period of data is present, it may represent real data as opposed to data entry errors. However, when there are very few observations compared to the total possible number of observations, this fact raises suspicions regarding data quality. In such a case investigation is warranted.