

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS BOZZO TO INTERROGATORIES OF  
MAGAZINE PUBLISHERS OF AMERICA  
(MPA/USPS-T15-9-11)

The United States Postal Service hereby provides the responses of witness Bozzo to the following interrogatories of Magazine Publishers of America: MPA/USPS-T15-9-11, filed on March 17, 2000.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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March 31, 2000

**Response of United States Postal Service Witness Bozzo  
To Interrogatories of Magazine Publishers of America**

**MPA/USPS-T-15-9. Please refer to your testimony at page 136, lines 11-14 and footnote 70, where you state that the analysis in Witness Degen's testimony "suggests that the operational basis for reduced volume-variability factors (relative to the IOCS-based method) is at least as strong for allied operations as for sorting operations" and "also indicates that allied operations should be expected to have lower volume-variability factors than sorting operations." Please refer further to your testimony at page 126, Table 9, where you provide your econometrically derived volume-variable factors for 10 MODS cost pools. Finally, please refer to Witness Van-Ty-Smith's testimony (USPS-T-17) at page 24, Table 1, which provides the volume-variable factors used by the Postal Service for the cost segment 3 cost pools.**

- a. Out of the set of MODS cost pools for which you provide econometrically derived volume-variable factors in Table 9, please state the subset of cost pools that are for sorting operations. Please further provide a composite econometrically derived volume-variable factor for these sorting operation cost pools. (To calculate this composite, please use the same methodology that you used to calculate the composite volume-variability factor given in Table 9 of your testimony.)**
  
- b. Please state the set of mail processing cost pools that are for allied operations for which you have not provided econometrically derived volume-variable factors in your testimony.**
  
- c. For the allied operation cost pools listed in (b), please confirm that the volume-variable factors provided in Table 1 of USPS-T-17 are derived using the "IOCS-based method" to which you refer on page 136 of your testimony. If not confirmed, please explain.**
  
- d. For the allied operation cost pools listed in (b), please confirm that the volume-variable factors provided in Table 1 of USPS-T-17 are larger than the econometric composite volume-variable factor for the sorting operation cost pools derived in (a).**
  
- e. Please confirm that the use of allied operation volume-variable factors that are larger than sorting operation volume-variable factors is inconsistent with the operational analysis of Witness Degen, which "indicates that allied operations should be expected to have lower volume-variability factors than sorting operations." If not confirmed, please explain.**

**Response of United States Postal Service Witness Bozzo  
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**MPA/USPS-T-15-9 Response.**

- a. All of the MODS cost pools presented in Table 9 (USPS-T-15, page 126) represent sorting operations except the Cancellation & Mail Prep cost pool. The composite variability for the remaining nine cost pools is 77.2 percent. A spreadsheet providing the calculation of the composite variability will be provided in LR-I-256.
- b. The set of MODS allied labor cost pools without econometrically estimated volume-variability factors includes Mechanized Sack Sorting (1SackS\_M) and the cost pools under the "Allied Operations" heading in witness Van-Ty-Smith's Table 1 (USPS-T-17, page 24), except Cancellation and Mail Prep.
- c. Confirmed.
- d. Confirmed.
- e. Confirmed.

**Response of United States Postal Service Witness Bozzo  
To Interrogatories of Magazine Publishers of America**

**MPA/USPS-T-15-10. Please refer to your answer to MPA/USPS-T-15-4, where you were requested to 'Identify the analogous pairings of Function 1 and Function 4 operations, and of Function 1 and non-MODS operations, for which there are similar factors that are consistent with lower volume-variability factors.'**

- a. Are there any analogous pairings between Function 1 and BMC operations, for which there are similar factors that are consistent with lower volume-variability factors? Please identify any such analogous pairings.**
  
- b. Please refer further to your testimony at page 135 where you state: "I believe Dr. Bradley's models represent a much more accurate method for estimating the volume-variable costs in BMC operations than the IOCS-based method." You describe at page 135 of your testimony the data limitations that led you to exclude BMC operations from your econometric analyses of volume-variable factors. As a result, there are no econometric estimates for BMC cost pools for R2000-1 that are comparable to Dr. Bradley's for R97-1. In the absence of such econometric estimates, it would be possible to use the analogous pairings between Function 1 and BMC operations listed in (a) to obtain Function 1 volume-variable factors that could be applied to analogous BMC operations. In your opinion, would the use of such analogous econometric volume-variable factors also be a 'more accurate method for estimating volume-variable costs in BMC operations than the IOCS-based method'?"**

**MPA/USPS-T-15-10 Response.**

- a. Based on my understanding of the testimony of Mr. Degen (USPS-T-16) and Ms. Kingsley (USPS-T-10), I identified analogous pairings of BMC and MODS Function 1 cost pools that are reported in the table provided as Attachment 1 to this response. Please note that the analogies refer to the general types of activities performed in the cost pools, and to general factors affecting the corresponding degrees of volume-variability. They should not be construed as claims that the paired MODS and BMC operations are identical.**

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- b. The MODS Function 1 operations analogous to BMC operations are primarily allied labor operations. Thus, it would be necessary to first identify appropriate econometric volume-variability factors to implement the pairings implied by the penultimate sentence of this part of the interrogatory. I believe the use of econometric results for analogous operations is potentially superior to the IOCS-based method in that it makes use of the qualitative operational information used to derive the analogies as well as the quantitative evidence for the analogous operations. Whether the operational analogy method is actually superior to the IOCS-based method for a given cost pool depends on whether the analogy neglects any salient characteristics of the BMC operation that would make its true degree of volume-variability closer to the IOCS-based result than the analogous econometric result(s). However, as I state in my testimony at page 135, lines 17-18, "I believe Dr. Bradley's efforts [to estimate variabilities for BMC operations], though flawed in some respects, provide the best available estimates of elasticities for BMC operations." Clearly, the available econometric results for MODS Function 1 operations, including the allied labor results provided in my response to MPAUSPS-T-15-1, are both more consistent with Mr. Degen's operational analysis and closer to Dr. Bradley's BMC variability estimates than the results of the IOCS-based method.

<b>BMC cost pool (SAS Code)</b>	<b>Predominant Activities</b>	<b>Analogous MODS Function 1 cost pool(s) (SAS Code)</b>
<b>Platform (PLA)</b>	<b>Platform activities</b>	<b>Platform (1PLATFRM)</b>
<b>Allied Labor &amp; Other Mail Processing (OTHR)</b>	<b>Allied labor for BMC sorting operations; other manual mail processing</b>	<b>Opening, pouching, manual sack sorting (1OPBULK, 1POUCHNG, 1SACKS_H)</b>
<b>Parcel Sorting Machine (PSM)</b>	<b>Mechanized parcel sorting</b>	<b>Mechanized Parcels (MECPARC)</b>
<b>Sack Sorting Machine (SSM)</b>	<b>Mechanized sack sorting</b>	<b>Mechanical Sack Sorting (1SACKS_M)</b>
<b>SPBS &amp; IPP (SPB)</b>	<b>Mechanized sorting of small parcels and IPPs</b>	<b>SPBS (SPBS OTH)</b>

**Response of United States Postal Service Witness Bozzo  
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**MPA/USPS-T-15-11. Please refer to your answer to MPA/USPS-T-15-4, where you were requested to 'identify the analogous pairings of Function 1 and Function 4 operations, and of Function 1 and non-MODS operations, for which there are similar factors that are consistent with lower volume-variability factors.' Please refer also to Witness Van-Ty-Smith's testimony USPS-T-17, at Table 1, which provides the volume-variable factors used by the Postal Service for the cost segment 3 cost pools.**

- a. For each entry in the "Analogous Function 1 cost pool(s)" column of your answer to MPA/USPS-T-15-4, please provide the volume-variability factor of the associated Function 1 cost pool(s). In cases where you have supplied multiple analogous Function 1 cost pools, please provide a composite volume-variability factor that weights the individual analogous Function 1 cost pools in an appropriate way, and please also explain the weighting procedure used.**
  
- b. For each of the Function 4 and Non-MODS cost pools listed in your answer to MPA/USPS-T-15-4, please state whether you believe that the volume-variable factor provided in Table 1 of USPS-T-17 is a better or a worse estimate of the true volume-variable factor when compared to the volume-variable factors from the analogous Function 1 cost pools provided in (a). In each case, please explain how your belief is justified by the best currently available knowledge of these Function 4 and Non-MODS cost pools.**

**MPA/USPS-T-15-11 Response.**

- a. Please see the table provided as Attachment 1 to this response. The non-MODS allied labor variability is the composite MODS allied labor variability, using econometric results from MPA/USPS-T-15-1, from the material provided in response to AAP/USPS-T16-7. A spreadsheet providing the calculations for the LDC 43 and LDC 44 cost pools will be provided in LR-I-256. The remaining variabilities are the factors for the specified MODS cost pools.**

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b. I believe the use of econometric results for analogous operations is potentially superior to the IOCS-based method in that it makes use of the qualitative operational information used to derive the analogies as well as the quantitative evidence for the analogous operations. Whether the operational analogy method is actually superior to the IOCS-based method for a given cost pool depends on whether the analogy neglects any salient characteristics of the Function 4 or non-MODS operation that would make its true degree of volume-variability closer to the IOCS-based result than the analogous econometric result(s). In contrast with the BMC situation described in my response to MPA/USPS-T-15-10(b), there is no quantitative evidence on the volume-variability factors for Function 4 or non-MODS operations to facilitate a comparison. However, I note that the analogous econometric results are consistent with the available qualitative evidence provided in Mr. Degen's operational analysis.



<b>Function 4 or non-MODS cost pool</b>	<b>Analogous Function 1 cost pool(s)</b>	<b>Volume-variability factor from analogous cost pool(s)</b>
<b>LD41</b>	<b>BCS</b>	<b>0.895</b>
<b>LD42</b>	<b>FSM</b>	<b>0.817</b>
<b>LD43</b>	<b>Manual letters, manual flats, manual parcels; platform, opening, pouching</b>	<b>0.677</b>
<b>LD44</b>	<b>Manual letters, manual flats</b>	<b>0.677</b>
<b>Auto/Mec (non-MODS)</b>	<b>BCS</b>	<b>0.895</b>
<b>Manual letters (non-MODS)</b>	<b>Manual letters (Function 1)</b>	<b>0.735</b>
<b>Manual flats (non-MODS)</b>	<b>Manual flats (Function 1)</b>	<b>0.772</b>
<b>Manual parcels (non-MODS)</b>	<b>Manual parcels (Function 1)</b>	<b>0.522</b>
<b>Allied labor (non-MODS)</b>	<b>Platform, opening, pouching</b>	<b>0.600</b>

**DECLARATION**

I, A. Thomas Bozzo, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A. Thomas Bozzo

Dated: 3-31-00

## CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in cursive script, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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