

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-T15-12-13)

The United States Postal Service hereby provides the responses of witness Bozzo to the following interrogatories of Magazine Publishers of America:

MPA/USPS-T15-12-13, filed on March 23, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Susan M. Duchek

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April 7, 2000

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

MPA/USPS-T15-12. Please refer to your Testimony at page 35, where you state: "the fixed effects capture those unobserved cost-causing factors that are constant (or fixed) over the sample period for the sites." Please further refer to your Testimony at pages 122-124 where you discuss the specification tests you conducted in relation to the fixed effects, random effects, pooled, and between models. Please further refer to Witness Degen's testimony (USPS-T-16) at page 22, where he states: "Plants in large urban areas tend to be less efficient than smaller plants..." Please further refer to Witness Degen's testimony (USPS-T-16) at pages 22-23, where he states: "the scarcity of large building sites and high land prices in large urban areas require plants to be in less efficient multi-story facilities." Please further refer to Witness Degen's testimony (USPS-T-16) at page 23, where he states: "the skill mix and discretionary effort of the workforce may vary with the relative wage level being paid by a plant. Postal Service wages are less competitive, relative to private sector wages, in high-cost areas." Please further refer to Witness Bradley's rebuttal testimony (R97-1 USPS-RT-5) at page 33, where he states: "Data exist for three characteristics of facilities, their age, the number of mail processing square feet contained in the facility and the number of floors that perform mail processing." Finally, please refer to USPS-LR-I-107 where you provide the mail processing facility data file REG9398.XLS.

- a. Please confirm that the pooled and between model specifications do not include any variables that control for the urban or non-urban location of mail processing facilities.
  
- b. Please provide an update of the REG9398.XLS data file that includes an urban dummy variable for the location of each facility. Please construct this dummy variable to indicate facilities located in or adjacent to major metropolitan areas, as measured by the population size of the relevant metropolitan area and reported in the latest issue of the *Geographical Reference Report* (Economic Research Institute, Redmond WA), or in a substantially similar source. Please use a population cutoff for determining the urban dummy value that appropriately captures the meaning of the term "large urban areas" as used by Witness Degen. Please further explain your choice of population cutoff.
  
- c. Please provide an update of the REG9398.XLS data file that includes a field with the population density of the place (city, town, village, or county) where the street address of each facility is located, as indicated in the latest issue of the *Geographical Dictionary* (Merriam-Webster, Springfield MA), or in a substantially similar source. If an individual "facility" encompasses multiple street addresses in different places, please use the address corresponding to the location where the greatest amount of mail processing occurs.

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

- d. Please confirm that the pooled and between model specifications do not include any variables that control for the number of floors of mail processing facilities.
- e. Please provide an update of the REG9398.XLS data file that includes a field giving the number of floors that perform mail processing in each facility. If an individual "facility" encompasses multiple buildings, please use the number of floors that perform mail processing corresponding to the building where the greatest amount of mail processing occurs.
- f. Please confirm that the pooled and between model specifications do not include any variables that control for the age of mail processing facilities.
- g. Please provide an update of the REG9398.XLS data file that includes a field giving the year of construction of each facility. If an individual "facility" encompasses multiple buildings that were constructed in different years, please use the construction year corresponding to the building where the greatest amount of mail processing occurs.
- h. Please confirm that the pooled and between model specifications do not include any variables that control for the level of private sector wages in the area where the facility is located.
- i. Please provide an update of the REG9398.XLS data file that includes a field giving the average annual pay for the area where each facility is located, as indicated by the Bureau of Labor Statistics. If the facility is located in or adjacent to a metropolitan area, the average annual pay for the metropolitan area may be used for that facility. If the facility is not located in a metropolitan area, the average annual pay for the state where the facility is located may be used for that facility.
- j. Please confirm that the pooled and between model specifications do not include any variables that control for the cost of living in the area where the facility is located.
- k. Please provide an update of the REG9398.XLS data file that includes a field giving the cost of living for the area where each facility is located. Please use the cost of living index compiled by the American Chamber of Commerce Research Association (ACCRA) for the metropolitan area that is

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

closest to each facility. If available, a substantially similar cost of living index defined for metropolitan areas may be substituted for the ACCRA index.

**MPA/USPS-T-15-12 Response.**

- a. I assume for this and other relevant parts of the interrogatory, the referenced "specification" is that used to develop the results presented in Appendixes E and F of USPS-T-15. Confirmed that the pooled and between specifications include no variables to control for characteristics of the location of the facility.
- b. In LR-I-285, the data file MPA-12.xls provides a dummy variable for "large urban areas" that I believe is consistent with Mr. Degen's description. The criterion is a service territory population exceeding 1.5 million or a service territory population density exceeding 5,000 per square mile. The population estimates by 3-digit ZIP Code were obtained from 1996 Claritas data and mapped to facilities using the ZIP Code to facility mapping procedure employed for certain other variables in REG9398.XLS. See the response to part (c) for a description of the population density calculation.
- c. In my opinion, the procedure specified in the interrogatory is not likely to produce population density data that accurately represent the facility characteristics described by Mr. Degen. In particular, it seems likely to overstate the applicable population density for facilities serving low-density territories, though conceivably it may also understate the density for facilities located in the outskirts of very high-density cities. In LR-I-285, the data file

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

MPA-12.xls provides estimated area in square miles for each facility's service territory. The area by 3-digit ZIP Code were obtained from 1996 Claritas data and mapped to facilities using the ZIP Code to facility mapping procedure employed for certain other variables in REG9398.XLS. The population density of the service territory is computed as the ratio of the population variable described in the response to part (b) to the area variable described above.

- d. Confirmed.
- e. In LR-I-285, the data file MPA-12.xls provides a variable indicating the number of floors at the facility (or, as appropriate, the main mail processing facility). Note that I was unable to obtain the requested information for some facilities.
- f. Confirmed.
- g. In LR-I-285, the data file MPA-12.xls provides a variable indicating the year in which the facility (or, as appropriate, main the mail processing facility) was first occupied. Note that I was unable to obtain the requested information for some facilities.
- h. Confirmed.
- i. In LR-I-285, the data file MPA-12.xls provides 1996-1998 per capita income estimates for each facility's service territory. The data by 3-digit ZIP Code

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

were obtained from Claritas data and mapped to facilities using the ZIP Code to facility mapping procedure described in LR-I-107. It is my understanding that the Claritas income data are derived from decennial U.S. Census data, updated annually using a variety of local area sources.

j. Confirmed.

k. It appears that the ACCRA data specified in the interrogatory have some limitations that seriously limit their usefulness. There appear to be material omissions in the form of irregular reporting or non-reporting for a variety of areas, which may reflect the degree of attention (if any) the production of these data receive by the local Chambers of Commerce to which the responsibility for compiling the data apparently falls. The local origins of the data also raise the possibility that there may also be material inconsistencies in the methods used in various areas. Consequently, in LR-I-285, I provide annual CPI-W index numbers for an applicable area (either the metropolitan area or region). While the CPI-W is not a cost of living index per se, it provides offsetting advantages in the form of consistent methodology and the availability of regionally applicable values to supplement those for specific metropolitan areas. The attachment to this response provides the BLS series IDs from which the provided data are drawn.

BLS Series Ids used to develop response to MPA/USPS-T15-12(k)

CWUS0000SA0	CWUSX000SA0
CWUS0100SA0	CWUSX100SA0
CWUSA100SA0	
CWUSA101SA0	
CWUSA102SA0	
CWUSA103SA0	
CWUS0200SA0	
CWUS0300SA0	
CWUS0400SA0	
CWUSA000SA0	
CWUSA209SA0	
CWUSA210SA0	
CWUSA211SA0	
CWUSA212SA0	
CWUSA213SA0	
CWUSA104SA0	
CWUSA200SA0	
CWUSA207SA0	
CWUSA208SA0	
CWUSA318SA0	
CWUSA319SA0	
CWUSA320SA0	
CWUSA321SA0	
CWUSA400SA0	
CWUSA214SA0	
CWUSA300SA0	
CWUSA311SA0	
CWUSA316SA0	
CWUSA426SA0	
CWUSA427SA0	
CWUSA433SA0	
CWUSD000SA0	
CWUSA421SA0	
CWUSA422SA0	
CWUSA423SA0	
CWUSA424SA0	
CWUSA425SA0	
CWUSX200SA0	
CWUSX300SA0	
CWUSX400SA0	
CWUSD200SA0	
CWUSD300SA0	

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**MPA/USPS-T15-13.** Please refer to your Testimony at page 137, where you state: "The use of volumes from sorting operations as allied labor cost drivers has an operational foundation since one purpose of the allied labor operations is to prepare mail for sorting in the facility, and to prepare mail that has been sorted for shipment to other facilities." Please refer further to your Testimony at page 138, where you state: "In general, the results from models enhanced with these additional data indicated that Dr. Bradley's 'proxy' cost drivers-the volumes from piece sorting operations-still provided the bulk of the explanatory power." Finally, please refer to your analyses of allied operations provided in response to MPA/USPS-T-15-1.

- a. Please confirm that the TPH data for the OCR, LSM, BCS, FSM, Manual Letters, and Manual Flats cost pools provide the bulk of the explanatory power for the regressions you performed for the Opening Unit-Preferred, Opening Unit-BBM, Platform, and Pouching Operations cost pools.
  
- b. Please confirm that volumes at the piece-sorting operations listed in (a) are either the true drivers of a portion of allied costs or good proxies for the true drivers of a portion of allied costs,
  
- c. Please confirm that the econometric evidence developed in this case cannot determine whether volumes at the piece-sorting operations listed in (a) are the true cost drivers of a portion of allied costs or simply good proxies for the true cost drivers of a portion of allied costs.

**MPA/USPS-T-15-13 Response.**

- a. Confirmed.
  
- b. Confirmed.
  
- c. Confirmed.



## 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: 4-7-00

## 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 black ink, appearing to read "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

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April 7, 2000