

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

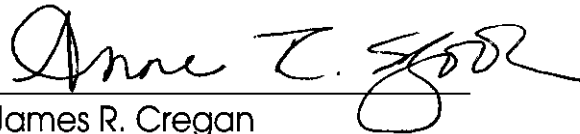
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Docket No. R2000-1

**RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA, INC.
WITNESS COHEN TO FIRST SET OF INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/MPA-T1-1-5)**

(JUNE 29, 2000)

Magazine Publishers of America, Inc. hereby provides the response of witness Cohen to the following interrogatories of the Office of the Consumer Advocate: OCA/MPA-T1-1-5, filed on June 15, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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**RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA WITNESS COHEN
TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE
(OCA/MPA-T-1-1-5)**

OCA/MPA-T-1-1. Please refer to page 21 of your testimony, lines 21 through 22. You state that the testimony presented by USPS witness Bozzo is "state-of-the-art."

- (a) Please indicate whether you believe that Dr. Bozzo's testimony is long run or short run in its economic modeling analysis.
- (b) Please state whether you believe the economic modeling effort should be long run or short run.
- (c) Please state your understanding of the Commission's findings on the issue of whether the economic modeling effort should be long run or short run.

Response:

- a. Dr. Bozzo stated at Tr. 15/6402-6406 that his analysis is short run, in the sense that he assumes some factors of production are "fixed" when the Postal Service decides how to staff its mail processing operations. I have no basis for disagreement with Dr. Bozzo's characterization of his own work.
- b. As the Commission has stated in the past: "The appropriate horizon for the Commission's work should reflect the period of time that the Commission's recommended rates would remain in effect if accepted by the Postal Service Board of Governors" (PRC Op., Docket No. R97-1, Vol. 1 at 73). Strictly speaking, the Commission does not specify a long run or a short run analysis, as I understand it, but rather a period of time which is approximately two to three years. Some of the Postal Service's "factors of production" clearly are not fully variable over a period of two to three years.
- c. Please see my response to part (b).

OCA/MPA-T-1-2. Please refer to page 22 of your testimony, lines 2 through 5.

- (a) Do you believe that witness Bozzo has provided an economic model that is theoretically correct, has included all necessary variables in the analysis, and has used the correct estimating methodology?
- (b) Has Dr. Bozzo complied with the Commission's findings in Docket No. R97-1 on the subject of methodology?
- (c) If the Commission should find that Dr. Bozzo's methodology contains errors, should the study be adopted?
- (d) If your answer to (c), above, is "yes", please explain why you would advocate adopting an incorrect study.
- (e) If your answer to (d), above, is that adoption of Dr. Bozzo's methodology, even though erroneous, represents improvement over the current state of knowledge, please indicate and quantify the level of improvement.

Response.

- a. I believe that Dr. Bozzo worked with Mr. Degen and other operational experts to construct an econometric model that reflects the operational realities of mail processing over the two-to-three year period of the postal rate cycle. In my testimony at page 22, lines 11-22, I have listed the changes in the model and variables that correct deficiencies in Dr. Bradley's analysis in R97-1. Furthermore, though I do not profess to be an expert on panel data econometrics, I understand that Dr. Bozzo used well-known specification tests to select among the various estimators he considered and that his preference for the fixed-effects model is consistent with those tests (see USPS-T-15 at pages 122-124).
- b. My testimony, at page 21, lines 6-28, is that Dr. Bozzo "has squarely addressed these defects (identified by the Commission) in his analysis and testimony and has incorporated important changes."
- c. I believe that the relevant issue would be the materiality of any errors the Commission might identify.
- d. I do not recommend that the Commission adopt a materially incorrect study.
- e. Not applicable.

OCA/MPA-T-1-3. Please refer to page 24 of your testimony, lines 19 through 20, and the associated Table 4 on page 25, wherein you assert that certain mail processing activities for which volume variabilites have not been estimated are analogous to certain mail processing activities for which volume variabilities have been estimated.

- (a) In comparing analogous activities at sites for which variabilities have been computed to activities for which variabilities have not been computed, have you gathered comparable data for comparing the sites at which the two types of activities are performed, such as the size of the sites, magnitude of the activities, capital use, geographical location, network position, and other relevant characteristics? If so, please furnish the data.
- (b) Please provide information on site visits during which you developed the above information, including the activity observed, date, location, and all data collected.
- (c) Please indicate how the information collected in (b), above, was analyzed to arrive at your conclusion.

Response:

- a. I have not collected quantitative data. My recommendation is based on the operational analogies provided by Dr. Bozzo, which in turn are based on the testimonies of Mr. Degen and Ms. Kingsley, as I state at page 24, lines 2-6. Since Mr. Degen also served with me on the Periodicals Operations Review Team, many of his operational descriptions refer to observations that we both had the opportunity to make during our many field visits. Furthermore, as I state at page 24, lines 15-18, "Witness Bozzo's suggested analogies involve mail-processing activities that are closely related. For example, it is intuitively obvious that the characteristics of the Non-MODS manual letters cost pool are likely to be similar to the characteristics of the Function 1 MODS manual letters cost pool."
- b. Not applicable.
- c. Not applicable.

OCA/USPS-T-1-4. Please refer to page 25 of your testimony, lines 9-11, in which you comment on witness Degen's testimony.

- (a) In your view, does witness Degen's testimony consider the long run or the short run aspects of mail processing?
- (b) Please provide the basis for your understanding.

Response:

- a. As I discussed in my response to OCA/MPA-T1-1, witness Bozzo has described the Bozzo/Degen analysis as short run, in the sense that some factors of production are assumed to be "fixed" during the analytical period.
- b. Please see the response to part (a).

OCA/USPS-T-1-5. Please refer to page 26 of your testimony, lines 10-13, in which you discuss allied volume variability factors. You advocate that the composite volume variability factor of the sorting operations should be used as an upper bound for the volume variability factors of the allied operations.

- (a) Do you have a study to substantiate this statement? If so, please provide the study.
- (b) Do you have studies, analyses, or position papers to substantiate any of your other suggestions concerning allied volume variability factors? If so, please furnish the studies, analyses, or position papers.

Response:

- a. As I state in my testimony at page 25, lines 9-18, my recommendation is substantiated by my observations of allied operations as part of the Periodicals Operations Review Team, Mr. Degen's analysis of allied operations in USPS-T-16, and Dr. Bozzo's preliminary updates to Dr. Bradley's allied labor models, presented in response to MPA/USPS-T15-1, Tr. 15/6233.
- b. I am not sure what "other suggestions concerning allied volume variability factors" you believe I make, apart from the recommendation that the sorting operation composite variability be used as an upper bound for the allied operations. As a general matter, my position on allied labor variability is substantiated by the analysis described in my response to part (a).

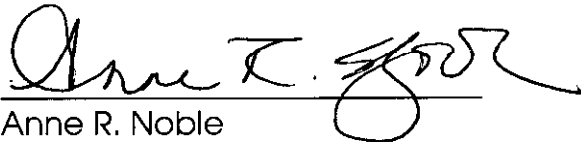
DECLARATION

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

Rita Cohen
Date: June 29, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing Erratum upon all participants of record in this proceeding in accordance with the Commission's Rules of Practice.


Anne R. Noble

Washington, D.C.
June 29, 2000