



**RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA WITNESS COHEN  
TO INTERROGATORIES OF UNITED PARCEL SERVICE  
(UPS/MPA-T-1-1-5)**

**UPS/MPA-T1-1.** Confirm that the following volume variability factors are used in MPA's calculation of volume variable mail processing costs. If not confirmed, explain in full. If confirmed, provide the basis for using these factors.

FACILITY TYPE	COST POOL	MPA
MODS	LD43	0.775
MODS	LD44	0.775
BMC	SSM	0.775

Source: Library Reference MPA-LR-3 (files "dolwgt" and bmc4).

**Response:**

Confirmed.

The MODS LD43 and LD44 cost pools involve a mix of allied and sorting operations, as I note in my testimony at page 26, lines 23-24. For the allied operations in general, I use the composite volume-variability factor from the sorting operations as "an upper bound that represents the most accurate available estimate." Since most of the rest of the operations in these cost pools involve sorting operations, as identified by Dr. Bozzo, I have also used the sorting operation composite as an approximation of the volume-variability factors for the rest of these operations. Dr. Bozzo provides an alternate volume-variability factor of 0.677 for these two cost pools, based on a weighted average of volume-variability factors from eight cost pools. Tr. 15/6283. I did not use his calculation in this case because it included his econometrically estimated value of 0.600 for the volume-variability of allied operations. Since I had decided to use the more conservative upper-bound estimate from the sorting operation composite for the allied operations in general, I also decided to use this more conservative estimate for the LD43 and LD44 cost pools. I could have recalculated Dr. Bozzo's weighted average using the upper-bound estimate instead, but instead I decided for simplicity to use the sorting operation composite as a general upper-bound for all of the operations included in LD43 and LD44.

The BMC SSM cost pool was identified by Dr. Bozzo as being analogous to the MODS Function 1 cost pool of Mechanical Sack Sorting (1SACKS\_M). Tr. 15/6280. This is one of the cost pools that Dr. Bozzo identified as being a MODS allied labor cost pool. Tr. 15/6277.

**UPS/MPA-T1-2.** On page 9, line 9, of your testimony you indicate that you served as co-chair of the Periodicals Operations Review Team.

- (a) List the identities of the organizations participating in the Periodical Operations Review Team and the number of team member from each listed organization.
- (b) Confirm that the summaries and opinion reflected in the Periodicals Operations Review Team Report (referred to as the "Team Report") generally reflect the view of all of the Operations Review Team members.

**Response:**

(a)

United States Postal Service and Contractors (8 members)  
Magazine Publishers of America (2)  
American Business Press (1)  
Time, Inc. (2)  
Meredith Corporation (1)  
The McGraw-Hill Companies (1)

(b)

*In writing the Team Report, our goal was to accurately report our observations and develop fact-based conclusions and recommendations. This meant reporting the problems we saw in both Postal Service operations And mail preparation. We also made a significant effort to ensure that the conclusions and recommendations stated in the report represented a consensus among Team members. This meant that some conclusions were not stated as strongly as some Team members would have liked. Therefore, I believe that while all members of the Team agree with all of the conclusions and to each of the recommendations, Team members may disagree on the importance of each recommendation.*

**UPS/MPA-T1-3.** On page 21, lines 21-22, of your testimony, you opine that "USPS witness Bozzo, USPS-T-15, presents a *state-of-the-art* analysis of the volume variability of 10 MODS cost pools" (emphasis added). Please identify the characteristics of Dr. Bozzo's study that, in your opinion, qualify it as a state-of-the-art econometric study.

**Response:**

It is my understanding that the approach used by Dr. Bozzo is the kind of approach an econometrician would be expected to use today. For more detail, please see my response to OCA/MPA-T1-2(a).

**UPS/MPA-T1-4.** On page 22, lines 8-10, of your testimony, you state that "Witness Bozzo has squarely addressed these defects [which prevented the Commission from acceptance of Dr. Bradley's econometric approach in Docket No. R97-1] in his analysis and testimony..."

(a) In Docket No. R97-1, the Commission was concerned about unobserved facility-specific effects changing over time (Docket No. R97-1 Opinion, Volume 1, at 86, and Volume 2, Appendix F at 10).

(i) Does Dr. Bozzo address this concern in the analysis he presents in USPS-T-15? If your answer is yes, explain in detail the basis of your response, and provide appropriate citations to USPS-T-15. If your answer is no, reconcile your response with your statement on page 22, lines 8-10, of your testimony, referenced above.

(b) In Docket No. R97-1, the Commission expressed concern about the validity of the proportionality assumption (see Docket No. R97-1 Opinion, Volume 2, Appendix F at 17-19).

(i) Does Dr. Bozzo address this concern in the analysis he presents in USPS-T-15? If your answer is yes, explain in detail the basis of your response, and provide appropriate citations to USPS-T-15. If your answer is no, reconcile your response with your statement on page 22, lines 8-10, of your testimony, referenced above.

**Response:**

(a)(i). Yes. As indicated in my testimony at page 22, lines 20-22, Dr. Bozzo explicitly includes in his models three variables that were not present in Dr. Bradley's data set and which capture the effects of time-varying facility-related factors on cost pool workhours: the wage variable, the facility capital variable, and the possible deliveries variable. See also Dr. Bozzo's model specifications at pages 117-118 of USPS-T-15.

(b)(i). Yes. Dr. Bozzo addresses issues related to the "distribution key" method, including the "proportionality assumption," in USPS-T-15 at pages 28-29 and 53-56.

**UPS/MPA-T1-5.** On page 22, lines 24-25, of your testimony, you state that Dr. Bozzo has “worked with witness Degen to make sure his quantification was firmly grounded in operational realities.” In describing activities at mail processing operations, Mr. Degen describes the highly dynamic way in which mail is allocated across parallel processing operations (USPS-T-16, pages 18-20). Where, if at all, does Dr. Bozzo reflect this institutional reality in the analysis he presents in USPS-T-15? Explain in detail the basis of your response, and provide citations to USPS-T-15. Reconcile any contradictions of your response with your statement on page 22, lines 24-25, of your testimony, referenced above.

**Response:**

The cited section of Mr. Degen’s testimony is entitled “Network and Location-Related Factors Affect Costs, But Do Not Change With Volume.” I believe that Dr. Bozzo’s models reflect the “institutional reality” described by Mr. Degen in this section in the following four significant ways:

- use of the “manual ratio” variable, where appropriate, to capture the effects of the allocation of mail among the manual and automated operations on cost pool labor requirements (see USPS-T-15 at pages 49 and 116-117);
- use of the facility capital variable, to capture the effects of equipment and, potentially, some aspects of plant configuration on cost pool labor requirements (see USPS-T-15 at pages 15, 88, 116-117; Tr. 15/6407-6408);
- use of the possible deliveries variable, which plays a significant non-volume role in determining sort schemes, processing windows, and consequently the non-volume effects of those factors on cost pool labor requirements (see USPS-T-15 at pages 47-49; 116-117);
- provision for “fixed effects,” to capture the effect of fixed cost-causing factors (such as whether the facility is located in a large urban area) that are difficult or impossible to quantify otherwise on cost pool labor requirements (see USPS-T-15 at pages 25-26, 35-36, 67-70, and 122-124).

**DECLARATION**

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

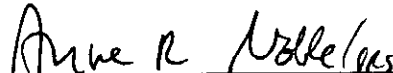
Rita D. Cohen

RITA D. COHEN

Date: July 3, 2000

**CERTIFICATE OF SERVICE**

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

  
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Anne R. Noble

Washington DC  
July 3, 2000