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

POSTAL RATE AND FEE CHANGES, 2000 : Docket No. R2000-1

RESPONSES OF MAGAZINE PUBLISHERS OF AMERICA, INC.
WITNESS CROWDER TO INTERROGATORIES OF THE
UNITED STATES POSTAL SERVICE (USPS/MPA-T5-29)

(July 7, 2000)

The Magazine Publishers of America hereby submits the responses of witness Crowder to interrogatories USPS/MPA-T5-29, filed on June 23, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

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USPS/MPA-T5-29. Please refer to your Docket No. R2000-1 testimony at page 48, footnote 46, where you make the following statement:

> When there is less than 100% coverage, a volume increase causes an increase in coverage which reduces average volume per stop on the route. If there are stop/delivery-level load time scale economies (i.e., elemental load time variability is less than 100%), then average per piece load time actually increases (coverage-related load time is positive). On the other hand, if there are no such scale economies (i.e., elemental load time variability is less 100% and there is no fixed stop/delivery time), then average load time per piece does not change and changes in coverage have no effect on per piece load time (.e., coverage-related load time is zero).

Suppose a route has 300 SDR possible stops, and that at current route volumes and volume allocations, 280 of these stops are covered and 20 stops are not covered. Assume that volume now increases by one piece, and that this new piece goes to one of the previously uncovered 20 SDR stops. Assume further that "there are stop/delivery-level load time scale economies." Given these facts, please answer the following:

(a) Is it your view that "average per piece [SDR] load time" will increase because the additional load time generated by loading this new piece at this new SDR stop will exceed the average load time per piece over the original 280 actual SDR stops? If this is not your view, please explain why the presence of "stop/delivery-level load time scale economies" implies "that average per piece load time" will increase when volume growth causes a new mail piece to be delivered to a previously uncovered SDR stop.

(b) Suppose that the additional load time generated by the loading of this new mail piece at the previously uncovered SDR actual stop is 6 seconds, and the average load time per piece over the original 280 actual stops is 4 seconds. Does the entire 6 seconds of additional load time caused by this coverage of the new SDR stop equal coverage-related load time? Alternatively, do only the 2 seconds by which this marginal 6 seconds exceeds the 4 seconds average load time per piece constitute coverage-related load time? Please explain fully.

(c) Suppose the additional load time that would be generated if the new mail piece is delivered to one of the pre-existing stops 280 SDR stops is 3.5 seconds. Suppose further that the reason this additional load time is less than the average pre-volume-increase load time per piece of 4 seconds over these 280 stops is the existence of load time scale economies. Consider the 2.5 second excess of the 6 seconds of load time resulting from loading the piece at a new stop over this marginal increase of 3.5 seconds from loading the new piece at the pre-existing SDR actual stop. Does this 2.5 seconds qualify as coverage-related load time? Please explain fully.

RESPONSE:

(a) Confirmed for this example where measurement of average per piece load time is made only for this one specific time. However, the example provided is too static and does not demonstrate the proper relationship between volume, coverage, and load time over an annual planning cycle. This latter is the proper focus for rate setting and revenue/cost projections. The difference between the simple static example and the correct dynamic analysis may cause some confusion that I would like to eliminate here.

To view the relationship properly, the posited example can be expanded as follows. Suppose we ran the same experiment 100 times and observed that the new piece fell on a new stop only 10 percent of the time because on average the route is 90 percent covered. Then we would observe that average unit costs fall 90 percent of the time because of stop level scale effects (when the piece falls on an existing stop) and increase only 10 percent of the time. Also unit costs will decline over the 100 days (total costs for 100 days divided by total volume for the same period) compared to the existing level because the piece usually falls on existing stop. However the decline is not as great as if the piece always fell on an existing stop. The difference between the greater decline possible and the actual decline represents a scale effects loss from new stop creation 10 percent of the time. Also see my response to USPS/MPA-T5-2(b).

(b) Neither. The coverage-related effect is the difference between the marginal increase in load that would result if the piece went to an existing stop and the actual increase that occurs. Also please see my response to (a) above and USPS/MPA-T5-2(b).

(c) Confirmed for this example where measurement of average per piece load time is made only for this one specific time. The comments and example in (a) apply here also. Over the planning cycle, on an expected basis, we would expect to see an additional piece falling on a new stop only 10 percent of the time. As a result, I would expect to see the true marginal (total stop) load cost fall somewhere 3.5 seconds and 4 seconds, so that average unit costs would still decline from the four second average. If the marginal (total stop) load cost were 3.8 seconds, then 0.3 seconds would represent the coverage-related portion.

DECLARATION

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

Antoinette Crowder

ANTOINETTE CROWDER

Dated: July 7, 2000

CERTIFICATE OF SERVICE

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

Thomas W. McLaughlin

July 7, 2000