

DOCKET SECTION

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

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POSTAL RATE AND FEE CHANGES, 1997

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RESPONSES OF MAGAZINE PUBLISHERS OF AMERICA WITNESS
COHEN TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/MPA-T2-1-3)

(January 29, 1998)

Pursuant to the Commission's Rules of Practice, Magazine Publishers of America hereby submits the attached responses to interrogatories propounded by UPS to witness Cohen. (UPS/MPA-T2-1-3)

Respectfully submitted,



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**Magazine Publishers of America Witness Rita Cohen
Responses to Interrogatories of UPS**

UPS/MPA-T2-1. Please refer to your Table 4 (page 24) and the attached table.

(a) Please confirm that the distribution of the costs of mixed mail sacks by witness Degen (USPS-T-1 2) approximately follows the percentages listed in your Table 4. For example, mixed Blue & Orange sacks would be distributed about 76% to Express Mail, while mixed Brown sacks would be distributed about 72% to periodicals. If not confirmed, please explain and provide the correct proportions for each of the examples in your Table 4.

(b) Please confirm that under your method, the distribution of the costs of mixed mail sacks would approximately follow the percentage listed in the 'Cohen Distribution to Assoc. Class' in the attached table. For example, mixed Blue & Orange sacks would be distributed about 1% to Express Mail, while mixed Brown sacks would be distributed about 5% to periodicals. If not confirmed, please explain and provide the correct proportions for each of the examples in your Table 4.

(c) Please confirm that, with the exception of Green Sacks (associated with First Class Mail), your distribution methodology would result in a significantly reduced proportion of mixed mail sack costs being distributed to their associated classes relative to witness Degen's distribution.

Association of Sack Type and Mail Class

<u>Sack Color or Type</u>	<u>Associated Class</u>	<u>Associated Class %</u>	<u>Cohen Distribution to Assoc. Class</u>
Blue and Orange	Express	76%	1%
Brown	Periodicals	72%	5%
Green	First Class	73%	74%
International	International	90%	2%
Orange and Yellow	Priority	86%	4%
White	Standard A	63%	22%

Source: MPA-T-2 Table 4, and MPA-LR-1.

**Magazine Publishers of America Witness Rita Cohen
Responses to Interrogatories of UPS**

Response:

(a) I confirm that the distribution of the costs of mixed mail sacks by witness Degen should approximately follow the percentages listed in my Table 4. There will be differences because witness Degen used separate distribution keys for each cost pool.

(b) I cannot confirm because I do not know how you calculated the percentages in the "Cohen Distribution to Assoc. Class" column. I did not perform such a calculation because I distributed mixed mail costs by activity code, not by item type. As an approximation, I list below my overall distribution of mixed mail costs to the classes listed in my Table 4 as well as the corresponding distribution of Direct Costs.

Table 1. Distribution of Direct and Mixed Mail Costs to Mail Class

Express	0.5%	0.6%
Periodicals	5.0%	4.6%
First-Class	61.9%	60.0%
International	1.8%	2.5%
Priority	3.2%	3.4%
Standard A	22.2%	22.3%

(c) I cannot confirm as this question is stated. The question seems to suggest that there is a known association between classes and sack type for mixed sack tallies. My Table 4 only provides data on the association in direct sack costs. Neither the Postal Service nor I have any data on the existence or extent of associations between classes and sack type in mixed sack tallies. There is strong evidence on the record that such associations would be far weaker in mixed sack tallies than in direct sack tallies, particularly identical sack tallies.

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First, as witness Stralberg and I testified, identical sacks are generally prepared by bulk mailers, not the Postal Service. This leads to a higher proportion of Standard A and Periodicals mail in identical sacks than is likely in mixed sacks, which may contain collection mail and other mail packaged by the Postal Service.

Second, as I described in my testimony, witness Degen's data demonstrate that there is a tendency to count sacks with fewer pieces, which leads to a higher percentage of Priority Mail and Periodicals in the counted sack tallies than is likely in the uncounted sack tallies.

Third, data underlying my Table 4 demonstrate that associations for counted sacks are weaker than for identical sacks. The results contained in my Table 4 are actually a composite of the results for identical sacks and counted sacks. The table below shows the association between class and sack type for identical and counted sacks separately for First-Class, Periodicals, and Standard A mail. As this table shows, for each of these classes, the association between class and sack type is less strong for counted sacks than for identical sacks. For white sacks, which represent more than 40% of the direct sack costs, the association is much weaker in the counted sacks.

Table 2. Association Between Sack Color and Class for MODS Offices

Color	Class	Associated Class	Associated Class
		% of Identical	% of Counted
Brown	Periodicals	75%	67%
Green	First-Class	90%	75%
White #1	Standard A	66%	32%
White #2	Standard A	73%	41%
White #3	Standard A	81%	58%

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Please also note that the high sampling errors in witness Degen's item type and cost pool distributing sets affects the reliability of associations measured in the direct item costs. As I stated in my testimony, approximately 70% of the item type-cost pool-subclass combinations of direct tallies have coefficients of variation greater than or equal to 50 percent. These statistically questionable combinations distribute approximately 25 percent of mixed item and identified container costs to subclass.

I would also note that the table attached to this interrogatory makes it appear that witness Degen's proposal and mine yield vastly different distributions of costs to classes and subclasses. This impression is inaccurate. While my proposed method may distribute less cost for a particular sack type to a particular class, that same class may get a correspondingly higher share of the costs of some other item type. Overall, my proposed distribution is not that different from that proposed by witness Degen.

**Magazine Publishers of America Witness Rita Cohen
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UPS/MPA-T2-2 Please refer to page 34, lines 17-20, of your testimony where you state, "Second, if mail processing costs are inflated due to inefficiency in mail processing operations, no class or subclass of mail should be held responsible for the portion of these costs resulting from this inefficiency."

(a) Please explain how your proposal to treat not handling costs as institutional costs would render no class or subclass of mail responsible for those costs.

(b) Please confirm that moving costs from attributable costs to institutional costs results in those costs being "allocated" to classes and subclasses of mail by markup factors. If not confirmed, please explain.

Response:

(a) My proposal to treat the portion of mail processing costs that is due to inefficiency as institutional would remove these costs from the attributable cost floor established in section 3622(b)(3) of the Postal Reorganization Act. The Act requires all subclasses and services to at least cover those costs attributable to the subclass or service. Under my proposal, subclasses would not be held responsible in the sense that no subclass would have to cover these costs for rates to be above the attributable cost floor.

Please also note that if the Commission chooses to do so, it has authority under its "honest, economical, and efficient management" mandate to disallow costs due to inefficiency. This would remove the inefficient costs not only from the attributable cost floor but from institutional cost assignments as well.

(b) Confirmed.

UPS/MPA-T2-3. Please refer to your proposal to "treat a portion of volume-variable mixed mail and not-handling costs as institutional" (beginning on page 33 of your testimony). Please confirm that this proposal would decrease the overall ratio of attributable costs to total cost in Cost Segment 3 from about 71% (Postal Service case) to about 65%. If not confirmed, please explain.

Response:

Not confirmed. Based upon Exhibit USPS-15I in witness Patelunas' testimony, I calculate that the ratio of attributable costs to total costs in Cost Segment 3 would change from 72%.

DECLARATION

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

Rita D. Cohen

Dated: Jan 29, 1998

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 section 12 of the rules of practice.



James R. Cregan

Washington, D.C.
January 29, 1998