

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF POSTAL SERVICE WITNESS TANG
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA, INC.
AND THE ALLIANCE OF NONPROFIT MAILERS
(MPA/USPS-T35-3-7)

The United States Postal Service hereby files the responses of witness Tang to the above listed interrogatories, filed on June 7, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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MPA/USPS-T35-3 Please refer to USPS-LR-L-126, R2006-1 Outside County.xls, worksheet 'Rates.'

- a. Please confirm that the average pound rate for destination-entered advertising pounds is 16.7 cents less than the average pound rate for Zones 1-8 advertising pounds. If not confirmed, please provide the correct figure and your underlying calculations.
- b. Please confirm that the average pound rate for destination-entered editorial pounds is 3.7 cents less than the average pound rate for Zones 1-8 editorial pounds. If not confirmed, please provide the correct figure and your underlying calculations.
- c. Please confirm that the average passthrough of the pound-related costs avoided by dropshipping editorial pounds is only 22% (3.7 cents divided by 16.7 cents). If not confirmed, please explain fully and provide the correct figure.
- d. Taking into account your responses to subparts (a)-(c) of this interrogatory, would you agree that, under the proposed rates, dropshipping an editorial pound increases the Periodicals Outside County subclass contribution by an average of 13 cents per editorial pound? If not confirmed, please provide the correct figure.

RESPONSE:

a. I can confirm the arithmetic, if the average pound rates were derived by dividing the total revenue from destination-entered advertising pound rates by the total destination-entered advertising pounds, and likewise by dividing total revenue from Zones 1-8 advertising pound rates by total Zones 1-8 advertising pounds. However, when calculating dropship savings in rate design, the Zones 1&2 rate has been used as a benchmark (see table below), not the average editorial or advertising pound rates.

	Proposed Advertising Pound Rate	Dropship Saving
DDU	\$ 0.181	\$ 0.098
DSCF	\$ 0.230	\$ 0.049
DADC	\$ 0.251	\$ 0.028
Zone 1 & 2	\$ 0.279	

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b. I can confirm the arithmetic, if the average pound rates were derived by dividing the total revenue from destination-entered editorial pound rates by the total destination-entered editorial pounds, and likewise by dividing total revenue from Zones 1-8 editorial pound rates by total Zones 1-8 editorial pounds. However, when calculating dropship savings, the Zones 1&2 rate has been used as a benchmark (see table below), not the average editorial or advertising pound rates.

	Proposed Nonadvertising Pound	Dropship Saving
DDU	\$ 0.154	\$ 0.078
DSCF	\$ 0.193	\$ 0.039
DADC	\$ 0.210	\$ 0.022
Zone 1 & 2	\$ 0.232	

The new dropship discounts were designed to introduce a new concept in a balanced way. They would make dropship discounts more fairly available to all Periodicals mail, while at the same time, account for the impact on non-dropshipped editorial content.

c. As I said in my responses to parts a and b, the Zones 1&2 rate has been used as a benchmark to calculate the dropship savings. In worksheet "Pound Data_Ed." in LR-L-126, the table between row 10 and row 24 shows the editorial pound revenue leakage at 80 percent of the advertising pound dropship rates differentials, which are calculated at a 50 percent passthrough (see worksheet "Pound Data_Adv"). 80 percent multiplied by 50 percent yields an overall 40 percent passthrough.

Please also note that the dropship savings are applied to the pound as well as the piece rate design. In my worksheet "Piece Discount 2," cells D17, D18, and D19 show that on the piece side, the passthroughs are 68 percent at the DDU level, 80 percent at the

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DSCF level, and 85 percent at the DADC level. The dropship incentives should be looked at in a comprehensive fashion from both the piece and the pound sides.

d. Not confirmed. Please see my responses to part a to c.

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MPA/USPS-T35-4 Please refer to USPS-LR-L-126, R2006-1 Outside County.xls, 'Piece Discounts.'

- a. Please confirm that 30 percent of Periodicals Outside County volume is entered at the 5-Digit Automation Flat rate. If not confirmed, please provide the correct figure.
- b. Please confirm that 47 percent of Periodicals Outside County volume is entered at Carrier Route rates. If not confirmed, please provide the correct figure.
- c. Please confirm that two percent of Periodicals Outside County volume is entered at the 5-Digit Nonautomation rate. If not confirmed, please provide the correct figure.
- d. Based upon your knowledge of comailing, would you expect that one major effect of comailing on mail preparation is the upgrading of flats from the 5-Digit Automation rate to the Carrier Route Basic rate? Please explain your response fully.
- e. Would you expect that, for most publications, the savings available from upgrading 5-Digit Automation Flats to the Carrier Route Basic piece rate provide the single largest postage incentive to comail? Please explain your response fully.
- f. Given your response to subparts (a) through (e) of this interrogatory, would you agree that the relationship between the 5-Digit Automation Flat rate and the Carrier Route Basic rate has more practical importance than the relationship between the 5-Digit Nonautomation rate and the Carrier Route Basic rate? Please explain your response fully.

RESPONSE:

- a. Confirmed, if this is referring to Cell E28 in USPS-LR-L-126, R2006-1 Outside County.xls, 'Piece Discounts.'
- b. Confirmed, if this is referring to Cell D14 in USPS-LR-L-126, R2006-1 Outside County.xls, 'Piece Discounts.'
- c. Confirmed, if this 2 percent is derived by subtracting Cells E27 (5-digit barcoded letter size) and E28 (5-digit barcoded flats) from Cell D13 (total 5-digit).

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d. Presumably, mailers comail, at least in part, in order to obtain lower workshare rates. That includes lower presort rates, such as moving down a presort tier from 5-digit automation rates to carrier route rates.

e. That depends upon the point of reference. Most pieces are carrier route sorted already. In that sense, comailing benefits come from areas other than presort.

However, in terms of the number of pieces, the second largest category is 5-digit automation flats. In that sense, there exists the most potential, in terms of presort, to move those pieces from the second most populated piece rate to a lower piece rate category. While the vast majority of *pieces* fall within the two categories discussed above, the vast majority of *publications* do not rely on those presort tiers nearly as much. For those publications, there is significant potential elsewhere.

f. Rate design is not only about designing the current rates but also anticipating future changes / adjustments. It is a balancing act which requires us to be mindful of the possible rate impact on mailers, the overall rate increase, and the future processing environment. The ongoing initiatives and efforts might lead to a future processing environment where the importance of Carrier Route Basic presort may be less emphasized. The Postal Service would like to provide incentives for mail to be presorted to the Carrier Route Basic level (at the current passthrough of 148 percent shown in my worksheet "piece discount 2," Cell D14), but not to offer something which later has to be taken back or drastically reduced. Therefore, it is more practical to maintain the link between the 5-Digit Nonautomation rate and the Carrier Route Basic rate. The

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proposed passthrough on 5-Digit Automation flats is the highest passthrough of a cost savings I am aware of. If one were focused on increasing the gap between the two prices, a rationale could be readily provided that the most appropriate mechanism is to decrease that very high passthrough rather than to increase the one for carrier route. In the end, I believe that my proposal properly seeks to balance the measured costs, impact on customers, and future operating environment.

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MPA/USPS-T35-5 Please refer to Section IV.A of your testimony, which discusses the container charge. Assume that a publisher has 400 pounds of Periodicals Outside County Carrier Route flats for each of the following four ZIP Codes: 200AA, 200BB, 200CC, and 200DD.

- a. Please confirm that such a publisher has the option of entering this mail on four 5-Digit pallets. If not confirmed, please explain fully.
- b. Please confirm that the publisher has the option of entering this mail on one 3-Digit pallet. If not confirmed, please explain fully.
- c. Please confirm that under the proposed rates entering this mail on four 5-Digit pallets (as opposed to one 3-Digit pallet) would increase the publisher's postage. If not confirmed, please explain fully.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. It is my understanding that three-digit pallets are optional but only for specified ZIP Codes for which they are deemed to have value. It is my understanding that, as specified in Labeling List L002 (which can be found at <http://pe.usps.com/text/dmm300/L002.htm>), the 3-digit Code 200 is marked with an "N" which indicates that 3-digit pallets for this ZIP Code are prohibited.
- c. Not confirmed. Aside from the technicality raised in my response to part b, I cannot confirm how the postage is going to change without specific knowledge about the mailing, such as the number of pieces, editorial percentage, and the dropship profile.

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MPA/USPS-T35-6 Please refer to page 6 of PRC Order No. 1446, which states that “progress towards a more cost-based structure is both possible and necessary to increase efficiencies in the Periodicals rates.” Do you agree with the quoted statement? If not, please explain your response fully.

RESPONSE:

Yes, I agree.

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MPA/USPS-T35-7 Please refer to lines 8 through 13 on page 11 of your testimony where you state:

I propose replacing the per-piece pallet discounts and the experimental co-palletization discounts with a combination of the introduction of editorial pound dropship rates, the increased per piece dropship discounts, and the container rate discussed above in the pound rate section. An assessment of the impact makes me expect that mailers would have comparable if not better incentives under these proposals.

Does your statement that “[a]n assessment of the impact makes me expect that mailers would have comparable if not better incentives under these proposals” mean that, on average, your proposal only marginally increases the postage incentive to palletize and dropship periodicals? Please explain your response fully.

RESPONSE:

No, my statement is limited to mailers currently participating in the co-palletization experiment, and does not mean that my proposal aims to only marginally increase the postage incentive to palletize and dropship periodicals. In the process of rate design, I applied the proposed rates to a number of the postage statements of the co-palletized or co-mailed magazines to assess the postage impact. The purpose is to see if these publications would receive comparable, if not greater, incentives to continue efficient mail preparation and dropshipping, under the proposed rates. The incentives under the proposal vary, according to the characteristics of the publication itself and how it is prepared and mailed. Overall, my assessment shows “... that mailers would have comparable if not better incentives under these proposals.”