

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

NOTICE OF UNITED STATES POSTAL SERVICE OF FILING OF
ERRATA TO TESTIMONY OF WITNESS TANG (USPS-T-35) [Errata]
(July 13, 2006)

The United States Postal Service hereby provides notice of the filing of errata to the testimony of witness Tang (USPS-T-35). The changes reflect the errata to library reference L-126, also filed today, and include updated source references. These changes are shown in revised Tables 1, 2, 3, and 4 (pages 2 and 3), as well as pages 6, 9, and 14. The revisions are described in the attached pages, which are followed by the actual revised pages themselves.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Summary of Changes to Direct Testimony of Rachel Tang (USPS-T-35)

On Page 2 and Page 3, Tables 1, 2, 3, and 4 have been revised. The changes are as the following:

Table 1 TYAR Cost Coverage Summary

Original:

	Revenue	Fees	Total Revenue	Cost	Revenue as a Percent of Cost
Outside County	\$ 2,379,036,844	\$ 18,072,000	\$ 2,397,108,844	\$ 2,262,206,037	1.060
Within County	\$ 80,682,878	\$ 1,563,000	\$ 82,245,878	\$ 79,513,462	1.034
Total Periodicals	\$ 2,459,719,721	\$ 19,635,000	\$ 2,479,354,721	\$ 2,341,719,499	1.059

Revised:

	Revenue	Fees	Total Revenue	Cost	Revenue as a Percent of Cost
Outside County	\$ 2,375,166,856	\$ 19,159,320	\$ 2,394,326,176	\$ 2,250,111,030	1.064
Within County	\$ 80,687,773	\$ 1,666,370	\$ 82,354,143	\$ 79,517,168	1.036
Total Periodicals	\$ 2,455,854,629	\$ 20,825,690	\$ 2,476,680,319	\$ 2,329,628,199	1.063

Table 2 Revenue per Piece – TYBR

Original:

	Revenue, Including Fees	Pieces	Revenue Per Piece
Outside County	\$ 2,218,219,035	8,332,198,836	\$ 0.266
Within County	\$ 68,296,222	722,431,237	\$ 0.095
Total Periodicals	\$ 2,286,515,257	9,054,630,073	\$ 0.253

Revised:

	Revenue, Including Fees	Pieces	Revenue Per Piece
Outside County	\$ 2,218,219,629	8,332,198,836	\$ 0.266
Within County	\$ 68,296,222	722,431,237	\$ 0.095
Total Periodicals	\$ 2,286,515,851	9,054,630,073	\$ 0.253

Table 3 Revenue per Piece – TYAR and Percent Increase

Original:

	Revenue, Including Fees	Pieces	Revenue Per Piece	Percent Change
Outside County	\$ 2,397,108,844	8,097,226,591	\$ 0.296	11.28%
Within County	\$ 82,245,878	700,139,698	\$ 0.117	23.16%
Total Periodicals	\$ 2,479,354,721	8,797,366,289	\$ 0.282	11.46%

Revised:

	Revenue, Including Fees	Pieces	Revenue Per Piece	Percent Change
Outside County	\$ 2,394,326,176	8,049,954,276	\$ 0.297	11.65%
Within County	\$ 82,354,143	700,139,698	\$ 0.118	24.21%
Total Periodicals	\$ 2,476,680,319	8,750,093,974	\$ 0.283	11.86%

Table 4 Outside County Cost Coverage Prior to Nonprofit & Classroom Discounts

Original:

Revenue After Discounts	\$ 2,379,036,844
Nonprofit and Classroom Discounts	\$ 18,136,602
Revenue Before Discounts	\$ 2,397,173,446
Fees	\$ 18,072,000
Total Revenue Before Discounts	\$ 2,415,245,446
Cost	\$ 2,262,206,037
Cost Coverage Before Discounts	1.068

Revised:

Revenue After Discounts	\$ 2,375,166,856
Nonprofit and Classroom Discounts	\$ 18,016,075
Revenue Before Discounts	\$ 2,393,182,932
Fees	\$ 19,159,320
Total Revenue Before Discounts	\$ 2,412,342,252
Cost	\$ 2,250,111,030
Cost Coverage Before Discounts	1.072

On Page 2, the original 106.1 percent in line 7 has been revised to 106.3; in line 9, the original 106.2 and 103.4 percent have been revised to 106.4 and 103.6, respectively. In lines 15 and 16, the original 11.5, 11.3, and 23.2 percent have been revised to 11.9, 11.7, and 24.2, respectively.

On Page 3, the original 103.4 percent in line 10 has been replaced by 103.6.

On Page 6, the original 37-63 split in line 22 has been revised to 37.5 - 62.5.

On Page 9, the original source reference for editorial pound distribution data, USPS-LR-L-91, in line 21, has been replaced by USPS-LR-L-87, Table 6.

On Page 14, in line 16, the original 103.4 percent has been revised to 103.6; the original 23 percent has been replaced by 24 percent.

1 included in library reference L-126, which I sponsor. These spreadsheets use data from a
2 number of witnesses identified above and from library reference L-77 (FY2005 Billing
3 Determinants).

4 **III. Overall Rate Increases and Cost Coverages**

5 In this docket witness O'Hara proposes a moderate cost coverage for Periodicals.
6 The overall cost coverage for Periodicals (after removing revenue for the five percent
7 Nonprofit and Classroom discounts) is proposed to be 106.3 percent. The Outside
8 County cost coverage (after removing revenue for the preferred discounts) is proposed to
9 be 106.4 percent. The Within County cost coverage is proposed to be 103.6 percent.

10 **Table 1 TYAR Cost Coverage Summary**
11

	Revenue	Fees	Total Revenue	Cost	Revenue as a Percent of Cost
Outside County	\$ 2,375,166,856	\$ 19,159,320	\$ 2,394,326,176	\$ 2,250,111,030	1.064
Within County	\$ 80,687,773	\$ 1,666,370	\$ 82,354,143	\$ 79,517,168	1.036
Total Periodicals	\$ 2,455,854,629	\$ 20,825,690	\$ 2,476,680,319	\$ 2,329,628,199	1.063

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14 Based upon the above cost coverages, the proposed overall increase for
15 Periodicals is 11.9 percent. Outside County rates would increase by 11.7 percent, while
16 Within County rates would increase by 24.2 percent.

17 Table 2 presents the calculation of test year revenues per piece before the
18 proposed change.

19 **Table 2 Revenue per Piece - TYBR**

	Revenue, Including Fees	Pieces	Revenue Per Piece
Outside County	\$ 2,218,219,629	8,332,198,836	\$ 0.266
Within County	\$ 68,296,222	722,431,237	\$ 0.095
Total Periodicals	\$ 2,286,515,851	9,054,630,073	\$ 0.253

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1 Table 3 presents the calculation of test year after rates (TYAR) revenue per piece.
2 A comparison of TYBR and TYAR revenues per piece provides the average increases for
3 the subclasses, as well as the whole Periodicals class.

4 **Table 3 Revenue per Piece – TYAR and Percent Increase**

	Revenue, Including Fees	Pieces	Revenue Per Piece	Percent Change
Outside County	\$ 2,394,326,176	8,049,954,276	\$ 0.297	11.65%
Within County	\$ 82,354,143	700,139,698	\$ 0.118	24.21%
Total Periodicals	\$ 2,476,680,319	8,750,093,974	\$ 0.283	11.86%

6 Table 4 below shows the cost coverage for the Outside County subclass prior to
7 applying the discounts for the Nonprofit and Classroom rate categories. This cost
8 coverage of 107.0 is used as a benchmark to determine the cost coverage for Within
9 County. Following the statutory requirement that Within County's markup be half this high,
10 the resulting cost coverage for Within County is 103.6 percent.

11 **Table 4 Outside County Cost Coverage Prior to Nonprofit & Classroom**
12 **Discounts**

Revenue After Discounts	\$ 2,375,166,856
Nonprofit and Classroom Discounts	\$ 18,016,075
Revenue Before Discounts	\$ 2,393,182,932
Fees	\$ 19,159,320
Total Revenue Before Discounts	\$ 2,412,342,252
Cost	\$ 2,250,111,030
Cost Coverage Before Discounts	1.072

16 **IV. Outside County Rate Design**

17 I propose several changes to the rate design for the Outside County subclass.
18 First, the proposed rate design includes a new container rate, established in a proposed

1 L-123 "Container" worksheet. Since there is no historical or future forecast on pieces per
2 containers, I use these pieces per container numbers for the test year in my rate design.

3 If the container rate were allocated to each mail piece within an average sack or
4 pallet, each piece on a pallet would bear \$0.001, while each piece in a sack would bear
5 \$0.02. The differential of \$0.019 is higher than the per-piece destination entry pallet
6 discount of \$0.016, and much higher than the per-piece non-destination pallet discount of
7 \$0.005, whose removal I will propose and discuss later in the Piece Rates section of my
8 testimony.

9 The proposed container rate would provide several benefits. First, it would
10 encourage customers to move toward more efficient containerization, such as from sacks
11 to pallets when appropriate. Second, it would encourage better use of existing containers.
12 The more pieces placed in a container, the lower the container charge per piece. Finally,
13 the container rate would replace the co-palletization discounts. The co-palletization
14 experiments have shown that, even with substantial limitations, co-palletization is
15 desirable and possible for many customers. The Postal Service believes it is now
16 appropriate to lift these limitations and encourage all Periodicals to share pallets or sacks
17 as appropriate. The Postal Service has elected one single container rate. This rate would
18 be relatively easy to implement and underscores the importance of materials handling
19 efficiency.

20 **B. Pound Rates**

21 ***1. Piece Pound Split***

22 I propose a 37.5 - 62.5 split between revenue to be raised from pounds and pieces.
23 This slight deviation from the traditional 40 - 60 split is moving towards the long-observed

1 Second, the allocation of transportation cost to advertising pounds is designed to
2 mitigate the impact of the increased dropship discounts on advertising pounds entered in
3 higher zones. I have chosen to maintain the allocation of 50 percent of the transportation
4 cost to advertising pounds for this purpose. Using the revenue allocation (48.8 percent
5 advertising vs. 51.2 percent editorial) would increase the rates for farther zones. Using
6 the pound allocation (50 percent) instead appropriately narrows the rate difference
7 between near and far zones. This balanced approach would provide incentives for
8 Periodicals mail be dropshipped closer to the destination. Meanwhile, it also would
9 mitigate the impact of rate increases on those who are not able to take advantage of
10 these incentives.

11 Finally, in addition to the aforementioned \$0.013 adjustment to the editorial pound
12 rates to mitigate the impact, I propose to raise the 50 percent passthrough to 80 percent
13 for the rate differentials derived for advertising pound rates. The flat editorial pound rate
14 applies to all editorial pounds that are not dropshipped to the destinating ADC, SCF, or
15 DDU (for Science of Agriculture, it applies to all editorial pounds that are not dropshipped
16 to DADC, DSCF, DDU, or zones 1&2). This flat editorial pound rate increases by 14.29
17 percent, less than three percentage points above the average increase. Thorough this
18 rate design, the Postal Service believes that mailers, both large and small, would have
19 the potential to move significant volume of mail to destinating facilities.

20 The introduction of the editorial pound dropship uses FY 2005 editorial pound
21 distribution data from USPS-LR-L-87, Table 6, sponsored
22 by Witness Loetscher. These are the best data available to derive distance-related
23 editorial pounds distribution information, though they are not further broken down to the

1 **4. Ride-Along Pieces**

2 In FY2005, the volume growth of ride-along pieces slowed from the strong growth
3 trend in FY 2001 through FY 2004. In this docket, instead of developing a separate
4 volume forecast for ride-along pieces, I choose to follow the volume forecast for the
5 overall Periodicals class. The rate increase for ride-along pieces follows the original
6 methodology which was used when the ride-along per-piece rate was introduced – using
7 the Zone 8 advertising pound rate on a 3.3 ounce piece, which yields a rate of \$0.152. In
8 order to keep the Periodicals cost coverage at a moderate yet acceptable level, the ride-
9 along piece rate is adjusted to \$0.155, which should not have a large impact on other
10 Periodicals rates, and would still be cheaper than alternatives for mailing advertising
11 materials.

12 **V. Within County**

13 Within County rate design essentially has not changed from the previously
14 established practice of the Commission and the Postal Service. The Within County cost
15 coverage, which is half of the Outside County (pre-discount) cost coverage, ends up at
16 103.6 percent. The proposed overall increase is 24.2 percent. That result is higher than
17 the increase for the Outside County subclass because of different Within County costs,
18 and is balanced by the rate reduction for Within County in Docket No. R2005-1. Within
19 County discounts are generally based on cost avoidance derived for the Outside County
20 subclass with appropriate passthroughs. Table 6 below presents a comparison of
21 proposed versus current Within County rates.