

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

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAUFIQUE TO INTERROGATORIES OF  
THE NATIONAL NEWSPAPER ASSOCIATION  
(NNA/USPS-T38-1-2, 4-6)

The United States Postal Service hereby provides the responses of witness Taufique to the following interrogatories of the National Newspaper Association: NNA/USPS-T38-1 to 2, and 4 to 6, filed on March 17, 2000. Interrogatory NNA/USPS-T38-3 has been redirected to witness Mayes.

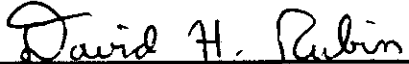
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
\_\_\_\_\_  
David H. Rubin

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2986; Fax -6187  
March 31, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

**NNA/USPS-T38-1.** You list the volume and cost estimate instability as a problem of the current Periodicals subclass classification, and improved volume and cost estimate stability as a benefit of the proposed combination of the Nonprofit, Classroom, and Regular subclasses and you also note that a rate anomaly was one reason for your decision to combine the three subclasses.

- (a) In what way is volume and cost estimate instability related to the Periodicals rate anomaly that led to the decision to combined these three subclasses.
- (b) Is one rationale for the proposed merger of three subclasses the difficulty of capturing Nonprofit and Classroom mail in a sampling system? Please explain your response.
- (c) What level of instability is deemed too great by the Postal Service to warrant continued support of a subclass?
- (d) Please confirm that greater stability of the volume and cost estimates of Periodical subclasses could be obtained if increased sampling of the existing subclasses were carried out. If not confirmed, please explain.
- (e) Would greater volume and cost estimate stability have allowed the Postal Service to devise rates that eliminated the rate anomaly without combining the three subclasses? Please explain.
- (f) If you answered the preceding question in the affirmative, did the Postal Service consider seeking greater volume and cost stability in the Nonprofit and Classroom subclasses by increasing the sample sizes? If so, please explain why this option was rejected. If not, please explain why this option was not considered.
- (g) Did the Postal Service determine that a change in the Revenue Foregone Reform Act (RFRA) would be preferable to seeking new rates for the existing subclasses before it calculated the effects of costs upon rates in the filing of this case?
- (h) Were there any other elements in the decision to seek a change in RFRA besides the desire to increase stability in the cost data and correct rate anomaly? If so, please list them and explain.
- (i) Did the Postal Service consider the merger of the Within County subclass with the other three subclasses in its current decision to seek a combination of the other three subclasses? If such a merger was considered and rejected, please explain why. If it was not considered at all, please explain why it was not.
- (j) Does the Postal Service currently have any plans for future rate cases to seek a combination of Within County subclass with the other three Periodicals subclasses.

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**RESPONSE**

The premise of the overall query appears to be that the instability of cost and volume led the Postal Service to combine the three above-mentioned subclasses into one Outside County subclass. My testimony (USPS-T-38), pages 2-4, discusses in detail that avoiding rate anomalies was the major reason for seeking the change in RFRA and combining these subclasses into one subclass. Greater stability in volume and cost estimates is considered to be an added advantage resulting from this combination. Also, please see my response to ANM/USPS-T38-4 where I have discussed that the statement in my testimony regarding attaining greater stability in the cost and volume estimates is purely comparative and does not make any qualitative or quantitative statement about the current state of reliability.

- a. I do not believe that volume and cost instability was a significant cause of rate anomalies. In the last rate proceeding the Postal Rate Commission recommended, and in this rate case, the Postal Service has proposed, a very small cost coverage for Regular Periodicals to mitigate trends in unit costs. This relatively small markup for the Regular subclass (one-half of which is applied to Preferred classes) removes the buffer between the Regular and Nonprofit subclasses. The small buffer, combined with larger discounts for Regular compared to Nonprofit, results in rate anomalies.
- b. No. As I have stated in my response to part (a), the prime reason for proposing this combination was the rate anomaly caused by the relatively low

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Regular markup. Any improvement in the data systems that estimate volume and costs is an added advantage.

- c. I do not believe instability alone would cause the Postal Service to terminate a subclass.
- d. Confirmed. It is my understanding that the coefficient of variation (CV) is a measure of the amount of variation in an estimate due to sampling. This sampling variation generally decreases with increases in sample size.

However, It is my understanding that the sampling system used by the Postal Service to measure the volume data for Nonprofit and Classroom captures these data with high precision. Therefore, any fluctuations in these estimates reflect actual changes in mailer activity and are not due to sampling. The coefficients of variation (CV) of the volume estimates for Nonprofit and Classroom are well below 1 percent.

Regarding the cost estimates, it is my understanding that for subclasses of mail having very small costs, increasing sample sizes is generally not practical. Consider, for example, the cost estimates of Classroom publications in Cost Segment 3.1 (Clerks and Mailhandlers, mail processing). The CV associated with the Cost Segment 3.1 Classroom publications costs is about 18 percent. See USPS-T-2, page 8. In order to decrease this by half (to a CV of around 9 percent), the sample size for the entire IOCS would have

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to be increased four-fold. Currently the data collection costs for IOCS are around 15 million dollars. See response to ANM/USPS-T2-15. The total revenue received in BY 1998 for Classroom Publications is about 12 million dollars. It would make little sense to increase data collection costs by around 45 million dollars to produce slightly more reliable costs for a subclass which generates only 12 million dollars of revenue.

Alternatively, under the proposed combination of Nonprofit, Classroom, and Regular subclasses, the resulting cost estimate for Cost Segment 3.1 would be quite stable and have a CV of approximately 1.4 percent, with no corresponding increase in data collection costs.

This example only addresses IOCS cost estimates. The total costs for Classroom publications are produced by combining estimates from other sources. To the extent that any of those are sample based, there could be far more data collection costs involved than what is illustrated above for IOCS alone.

- e. I do not believe so.
- f. Not Applicable.
- g. No.
- h. No. The interest in avoiding rate anomalies drove the decision to seek a change in RFRA.

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- i. No. It was not considered at all because the issue of anomalous rates did not arise for Within County rates.
- j. No.

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**NNA/USPS-T38-2.** Please confirm that you are using FY 99 volume data in calculating cost coverages for the Within County subclass.

**RESPONSE**

Please see my response to UPS/USPS-T38-1 regarding the use of FY 99 data in my testimony and workpapers.

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**NNA/USPS-T38-4.** Please refer to p. 14, lines 3-4 of your testimony, where you state "the passthroughs for Within County are by necessity much smaller than other classes because the cost study is for nonprofit mail."

- a. Notwithstanding the Postal Service's proposal to merge Nonprofit mail with Regular Periodicals mail, what would the passthroughs of Nonprofit mail have been?
- b. Does the Postal Service use Nonprofit mail cost studies as a proxy for Within County costs? If so, please provide a reference to all uses within R2000-1 where such a proxy is used for Within County costs and explain why this proxy is used. If not, explain the meaning of your statement.
- c. What elements of "necessity" did you have in mind in this statement?
- d. If RFRA is amended as the Postal Service proposes, how will development of cost studies, rates, cost coverages or rate design for Within County mail in future cases be affected?

**RESPONSE**

- a. Since the Postal Service proposal did not include a separate Nonprofit subclass, I have not determined appropriate passthroughs for a separate Nonprofit subclass.
- b. Yes. All of the cost savings in Spreadsheet WC-G in LR-I-167 are either from Nonprofit Periodicals or Nonprofit Standard (A) cost studies. Similar cost studies were also utilized in Docket No. R97-1. These cost savings are considered to be the best available proxy.
- c. The elements of "necessity" that I had in mind are that the entry, handling, and preparation characteristics of Within County are different from Nonprofit, and produce lower costs from which cost savings are subtracted.
- d. If RFRA is amended as the Postal Service proposes, then, depending on available resources, the Postal Service may either conduct separate cost studies for Within County or use the Outside County cost studies with suitable passthroughs.



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**NNA/USPS-T38-5.** How did the Postal Service select a 5 percent discount from Regular rate mail as an appropriate rate level for Nonprofit and Classroom mail, as opposed to any other percentage discount?

**RESPONSE**

Currently the discounts for Nonprofit and Classroom subclasses are approximately 2.5 and 5.5 percent respectively. These were calculated by applying the Regular rate schedule to Nonprofit and Classroom billing determinants and comparing the resulting revenue per piece with the existing revenue per piece for those subclasses. A 5 percent discount is deemed reasonable given the current level of discounts for these two subclasses. It provides a significant rate preference to "preferred mailers" without substantially affecting other mailers.

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**NNA/USPS-T38-6.** Is it possible in an environment of low cost coverages for Periodicals mail that mail priced at a set pricing discount below Periodicals prices will be carried by the Postal Service for a price that does not cover the direct and indirect costs of that mail?

**RESPONSE**

Regardless of the cost coverage environment (high or low), it is always possible that some rate cells may not cover the direct and indirect cost of that mail.

**DECLARATION**

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

  
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Dated: MARCH 31, 2000

## CERTIFICATE OF SERVICE

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

  
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David H. Rubin

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Washington, D.C. 20260-1137  
(202) 268-2986; Fax - 6187  
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