

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

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POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAUFIQUE TO INTERROGATORIES OF
THE AMERICAN BUSINESS PRESS
(ABP/USPS-T34-1-7(A), 7(C)-10(B), AND 11-15
AND ABP/USPS-T4-11[B] REDIRECTED FROM WITNESS MODEN)

The United States Postal Service hereby provides responses of witness Taufique to the following interrogatories of the American Business Press: ABP/USPS-T34-1-7(a), 7(c)-10(b), and 11-15, filed on August 20, 1997; and ABP/USPS-T4-11[b], filed on August 20, 1997, and redirected from witness Moden. Interrogatory ABP/USPS-T34-7(b) was redirected to witness Seckar, interrogatory ABP/USPS-T34-10(c) was redirected to witness Bradley (USPS-T-13), and interrogatory ABP/USPS-T34-10(d) was redirected to witness Nieto.

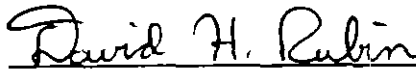
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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September 3, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-1

[a] Confirm that the zone and regular rate periodical advertising pound rates that are listed on p. 2, Table II of your testimony for the delivery unit, sectional center faculty [sic], Zones 1 and 2, and Zone 3 are all lower than the corresponding rate elements recommended by the Postal Rate Commission in Docket R94-1.

[b] Confirm that the advertising pounds to which the DDU-Zone 3 rate elements referred to above are applied represent approximately 58% of total regular rate advertising volume in the test year (before rates), as derived from USPS-T-34 W/P RR-E, p.1.

[c] Confirm that the pound rate for nonadvertising weight that you propose in Table II of 17.4 per pound is 9.4% higher than the corresponding nonadvertising pound rate of 15.9 per pound recommended by the Commission in Docket R94-1.

RESPONSE

[a] Confirmed

[b] Confirmed, assuming "volume" refers to pounds.

[c] Confirmed. A more recent comparison is that the nonadvertising pound rate of 17.4 cents is 8.1% higher than the 16.1 cents recommended by the commission in Docket No. MC95-1.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)**

ABP\USPS-T-34-2

Referring to your work paper USPS-T-34, RR-E please complete the chart below which would show the postage in cents per piece and percent increase per piece for a periodical weighing 7.4 ounces, with 58% editorial content, 42% advertising: nonmachinable under current USPS rules (and thus ineligible for automation), sorted to the five digit package level under past and proposed rates, and mailed to Zone 5.

RATES ADOPTED IN R94-1 (1/5/95 EFFECTIVE)	RATES ADOPTED IN MC95-1 (RATES EFFECTIVE 7/1/96)	RATES PROPOSED IN R97-1 (ASSUME EFFECTIVE 7/1/97)
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**POSTAGE (¢ PER
PIECE)**

% INCREASE N/A

RESPONSE

Using the example specified in the question, the following table was constructed:

RATES ADOPTED IN R94-1 (1/5/95 EFFECTIVE)	RATES ADOPTED IN MC95-1 (RATES EFFECTIVE 7/1/96)	RATES PROPOSED IN R97-1 (ASSUME EFFECTIVE 7/1/97)	
POSTAGE (¢ PER PIECE)	24.9 cents	26.9 cents	28.6 cents
% INCREASE	N/A	7.8 percent	6.3 percent

Note that the rates proposed in Docket No. R97-1 will not be effective until after 7/1/97. In any case, the effective date does not change the percentage increase in my response.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-3

Refer to your description of the "compound annual growth of 2.8% for regular rate periodicals 'between FY 1992 and FY 1996'." USPS-T-34, p.5, lines 1-9.

[a] What is the total cumulative revenue growth, compounded by year, for regular rate periodicals between FY 1992 and FY 1996?

[b] Assuming the Commission recommends the USPS-proposed rates for regular rate periodicals in R97-1, what would the total cumulative revenue growth of this subclass between FY 1992 and FY 1998 inclusive?

RESPONSE

[a] The 2.8% figure quoted in the question refers to revenue per piece that changed from \$0.202 to \$0.226, USPS-T-34, p.5, lines 8-9. The revenue as reported in my testimony grew by 17.7 percent or 4.2 percent (compounded by year) between FY 1992 (\$1339.6 million) and FY 1996 (\$1579.7 million), USPS-T-34, p.5, lines 7-8. These figures reflect changes in both volumes and revenue per piece.

[b] The TYAR total revenue based on proposed rates is estimated to be \$1,689 million. The cumulative growth in revenue for regular rate periodicals between FY 1992 and FY 1998 (proposed) is 26 percent . On an annual compound basis this growth is 3.9 percent per year.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP\USPS-T-34-4

Refer to p. 5, lines 10-15. Do you agree that some periodical copies that qualified for the Level B discount (five digit and three digit unique city) prior to the effective date of MC95-1 rates actually moved into a higher-cost per-piece rate category (i.e. "Basic") as a result of that decision? If you can explain why this happened, please provide that information.

RESPONSE

I agree, my understanding of this change is described in the following:

Prior to implementation of Docket No. MC95-1, pieces mailed at nonautomation rates could qualify for Level B rates if prepared in an optional city package of six or more pieces, and that package was placed in an optional city or unique 3-digit sack, or on a pallet. For automation rate flats, and for automation rate letters prepared according to one of the package-based preparation options, pieces in optional city packages of six or more pieces qualified for Level B rates, regardless of the level of sack (for flats) or level of tray (for letters) in which they were placed. Automation rate flats prepared in optional city packages of six or more pieces placed on any level of pallet also qualified for Level B rates. Automation rate letters prepared under the tray-based preparation option could qualify for Level B rates if placed in a full two-foot tray for an optional city destination.

With implementation of Docket No. MC 95-1, preparation of optional city packages, sacks, and pallets was eliminated. Mail that was previously prepared in optional city packages is currently required to be prepared in 3-digit packages.

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ABP/USPS-T-34-4, Page 2 of 2

Since the optional cities were all for non-unique 3-digit ZIP Codes, such 3-digit packages currently qualify only for Basic rates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-5

[a] Elaborate on what you mean by "rate shock" as used in line 11, p. 7 of your testimony.

[b] Which particular presort tiers are you referring to when you describe why USPS chose cost savings passthroughs designed to "mitigate the 'rate shock' effect on the higher cost presort tiers"?

[c] Was the deliberate attempt to mitigate rate shock in part or in whole influenced by rate element adjustments approved by the Commission and the Governors in Docket MC95-1, even through the total revenues otherwise required from regular rate periodicals for FY 1995 (the test year of Docket MC95-1) did not change from that established in Docket R94-1?

RESPONSE

[a] In this docket for this particular subclass, a deliberate attempt was made to keep the increase in each cell below 10 percent.

[b] I am referring to piece rate cells that were affected by the 3/5 digit split and the shift of non-unique 3-digit from Basic to 3-digit. These include the Basic and 3-digit presort tiers.

[c] No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-6

On pp. 9-10 of your testimony you refer to Library Reference H-190, the "Mail Characteristics Study".

[a] Where you personally involved in that study?

[b] Specify the time period for which the data for H-190 were collected.

[c] Do you assume that the presort composition of regular rate periodicals, the quantity of automation-qualified periodical flats, and the number of pieces in packages and/or containers will remain unchanged from the time period H-190 data were collected through the test year? If there will be changes, explain them in detail, giving reasons for each change. If you do not think that the regular rate composition as described in H-190 will change, explain why.

RESPONSE

[a] No, I was not involved in conducting the study.

[b] I have been told that the data for LR-H-190 were collected in two distinct time periods. The field (or non-CPP) data were collected between November 20th 1995 and December 20th 1995 (See USPS-LR-H-190, p. 33). The CPP (Centralized Payment Processing) data were collected from individual mailers during the first six months of 1996.

[c] Yes; While the presort composition may change somewhat, with more 5-digit and 3-digit skin sacks, LR-H-190 contains the best information available. Please see my response to USPS-T-34-7(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-7

[a] Please refer to p. 11, lines 10-16 of your testimony. Does USPS anticipate more 3 digit sacks in the test year than formerly were ADC or mixed ADC sacks as a result of the proposed application of 3 digit presort discounts to 3 digit packages? If your answer is no, please explain the response.

[b] Will SCF sacks be allowed for periodicals in the test year? If they are going to be allowed, what will be the effect on USPS mail processing costs if (1) automated 3 and 5 digit packages, now in ADC or mixed ADC sacks, are placed in SCF sacks and (2) if nonautomated 3 and 5 digit packages, now in ADC or mixed ADC sacks, are placed in SCF sacks?

[c] Would copies of periodicals within 3 or 5 digit packages placed in SCF sacks be eligible for 3 or 5 digit piece discounts if the carrier route sort of these pieces is performed at the SCF within which delivery of each piece occurs?

RESPONSE

[a] The Postal Service anticipates that some increase in 3-digit sacks is possible, although it cannot predict the amount of this increase since it is based on anticipating mailer behavior. Since Periodicals mailers may prepare 3-digit sacks containing as few as one package of mail, it is anticipated that more mailers may prepare such "skin sacks" in order to qualify more mail for the 3-digit rates. However, the Postal Service has no data showing how many mailers are currently preparing such "skin sacks" for service reasons, or how many mailers will prepare such sacks under the proposed structure. Furthermore, since preparation of "skin sacks" involves extra production costs for mailers, it is not known how many mailers that do not currently prepare such sacks would find the proposed new rate structure an economic incentive to do so.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
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ABP/USPS-T-34-7, Page 2 of 2

[b] Redirected to Witness Seckar

[c] No. If the Postal Service reinstates SCF sacks, it is my understanding that all mail in SCF sacks would be eligible for Basic rates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-8

[a] Explain why pound rate revenue in periodical regular rate as a percent of total subclass revenue would increase from the 40% allocation established by the Commission in Dockets R90-1 and R94-1 to 41%.

[b] Since the approval of R94-1 rates by the Governors, did USPS perform any studies intended to re-examine, as repeatedly requested by the Postal Rate Commission in past rate cases since Docket R87-1, the appropriate proportion of revenues that ought to be obtained from pound rates as opposed to per-piece rates?

[c] If studies were performed, please produce all such studies.

[d] If studies were not performed, please explain why they were not performed.

RESPONSE

[a] The pound rate revenue in Periodicals regular rate as a percent of total subclass revenue is increased to 41% from 40% to avoid rate shock for some piece rate cells (See response to ABP/USPS-T-34-5).

[b] No.

[c] Not Applicable.

[d] They were not performed because the Postal Service was unable to complete all rate-related studies it might wish due to resource constraints. The issue of "appropriate proportion of revenues that ought to be obtained from pound rates as opposed to per-piece rates" is still on the list of issues to be studied. The Postal Service will try to accommodate this Commission request prior to the next omnibus filing.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-9

If USPS obtained, hypothetically, 70% of periodical regular revenues from pieces, and 30% from pounds, would it not be possible for editorial pounds to achieve "100 percent cost coverage" while either avoiding any increase in the editorial pound rate, or at least raising the editorial pound rate less than the 8.1% increase that USPS proposes? Was this option or some other increase in the proportion of revenue obtained from pieces rather than pounds considered, and if not, why not? If it was considered, why was it rejected?

RESPONSE

At the onset, I would state that the editorial content cost coverage is not a function of revenue split between pieces and pounds. Rather, it is directly affected by the editorial pound rate and the piece rate discount on editorial content.

Using your hypothetical the editorial content cost coverage might improve slightly (but remain below 100 percent) and the editorial content pound rate would also be lower than proposed, but the piece rates will increase significantly (some in the range of 15 to 20 percent). As stated earlier, this option was not considered because the issue of implicit cost coverage deals directly with the editorial pound rate and the editorial piece discount. Shifting the revenue requirement to piece rates does not address this issue.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-10

On p. 14, line 23, you refer to "average haul" as a factor in allocation of distance related transportation costs to periodical rate zones.

[a] How are the average hauls calculated?

[b] Was the Highway Contract Support System (HCSS) database consulted to calculate average haul per zone? If not why not?

[c] Confirm that HCSS contains a route length measure for each USPS-purchased highway contract, the annual cost of the contract, the annual miles traveled on the contract, the number of trucks on a contract and their cubic capacity and the highway cost account for the contract.

[d] Confirm that data comparable to that described in part C above also available for rail contracts.

RESPONSE

[a] The average haul miles used in the calculation of zoned pound rates have been in use by the Postal Service and the Commission since at least Docket No. R87-1. The only revision came about in Docket No. R90-1, when the average haul for Zones 1 & 2 was increased from 133 miles to 189 miles. The same average haul miles were used in Dockets No. R90-1, R94-1, and MC95-1. Scanning the workpapers and interrogatory responses for previous cases reveals that the original estimation of the average haul miles dates back to the mid-1970s.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
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[b] No. It is my understanding that HCSS does not contain any mail-specific information. In other words, it contains information by truck, but not on the type of mail carried on those trucks. In addition, contracts are specific to an account (intra-SCF, inter-SCF, etc.) such that it is extremely unlikely that a single contract would provide all the highway transportation required for any piece of mail. For example, a piece of mail that travels from an originating AO to a destinating AO might receive intra-SCF transportation (to the SCF), inter-SCF transportation (from the originating SCF to the destinating SCF), and another leg of intra-SCF transportation (to the destinating AO). Specifics on the actual routings of any class of mail are not available in HCSS.

[c] Redirected to Witness Bradley (USPS-T-13).

[d] Redirected to Witness Nieto.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-11

Is the proper percent of non-advertising content for rates in the periodical regular subclass that dividend that can be found in W/RR-G, p. 1, by dividing editorial pounds by total pounds, (54.5%) or is it found in W/P RR-D, line 20, which uses a figure of 58.7%?

Explain the differences between the two percentages.

RESPONSE

Both percents of non-advertising content are proper in their respective contexts.

The figure of 58.7 percent is derived from the actual column inches of advertising versus non-advertising content. The figure of 54.5 percent is based on pounds.

Since weight per piece is not constant for all periodicals, dividing editorial pounds by total pounds produces a different ratio. It appears that periodicals with higher advertising contents weigh more than periodicals with lower advertising content.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-12

Does USPS's recognition of non-distance dropship shipment cost savings (p. 19, lines 16-19) by reducing piece rates, not pound rates, result from a belief that platform and cross-docking costs that may be avoided are piece related and not pound-related? If your answer is negative, please explain the reason piece and not pound rates were reduced in this instance?

RESPONSE

No. Dropshipment rates for both SCF and DDU are proposed to be lower in Docket No. R97-1 compared to the Commission recommended rates in Docket No. MC95-1. The inclusion of non-transportation related cost savings would reduce dropshipment rates further, and would lead to higher increases for the distant zones. Once again, the Postal Service wants to avoid abrupt and large increases in any rate cell.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-13

Confirm that there are transportation costs incurred by USPS for mail dropshipped by the mailer into a SCF from which intra-SCF mail is transported to a delivery station or unit.

How are these costs allocated in your periodical rate design?

RESPONSE

Confirmed. Transportation costs are allocated between distance related and non-distance related costs. The distance related transportation costs are allocated to Zones 1&2 through Zone 8 by pound miles. The non-distance related transportation costs are allocated to zones and the SCF dropshipment category by pounds.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-14

With respect to your testimony at page 14, lines, 14-21, do you agree that editorial content should have an "inherent" cost coverage of 100%? Explain why or why not. If you have no opinion on the subject, please refer this question to the appropriate Postal Service witness.

RESPONSE

I agree with the Commission that the implicit cost coverage on editorial matter should not be below 100 percent. However, I would avoid abrupt rate changes in achieving this goal.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)

ABP/USPS-T-34-15

At page 16, lines 8-9, should the reference to "0.01 cents" be corrected to "1 cent"?

RESPONSE

No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP)
(REDIRECTED FROM WITNESS MODEN)

ABP/USPS-T-4-11

[b] Workpaper RR-J, which accompanies USPS-T-34 (Witness Taufique), projects volumes of automated periodicals in the test year (after rates). Does this volume take into account deployment of bar-code readers on FSM 1000 before the end of the test year, as well as improvements to 812 FSM 881 flat sorters to which you refer to on p.13, line 7 of your testimony? If RR-J does not take into account added volumes of automated periodicals because of planned equipment deployment in FY 1998, what is estimate of added volume?

RESPONSE

[b] No, the TYAR volume reported in RR-J does not take into account the added volume of automated periodicals. The added volumes of automated periodicals due to the referenced deployment and improvements has not been estimated.

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.

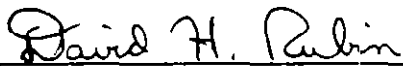


ALTAH H. TAUFIQUE

Dated: 9/3/97

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.



David H. Rubin

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September 3, 1997