

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAUFIQUE TO INTERROGATORIES OF
THE MAGAZINE PUBLISHERS OF AMERICA, INC.
(MPA/USPS-T34-13, 18(A-B), AND 19)

The United States Postal Service hereby provides the responses of witness Taufique to the following interrogatories of the Magazine Publishers of America, Inc.: MPA/USPS-T34-13, 18(a-b), and 19, filed on October 26, 2001. Interrogatories MPA/USPS-T34-14 and 18(c) have been redirected to witness Loetscher, and interrogatories MPA/USPS-T34-15 to 17 have been redirected to witness Mayes.

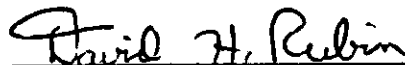
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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November 9, 2001

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MPA/USPS-T34-13. Please refer to your response to MPA/USPS-T34-1 (c) where you state, "It is difficult to quantify the change in dropship patterns due to the proposed discounts, but discussions with an industry expert leads me to believe that we could see a significant increase in the dropshipped volume in FY 2003."

(a) What types of mailers (in terms of issue size, editorial percentage, and containerization) do you expect will significantly increase their dropshipping to destination area distribution centers (DADCs) in FY 2003? Please explain your response fully.

(b) What types of mailers (in terms of issue size, editorial percentage, and containerization) do you expect will significantly increase their dropshipping to destination sectional center facilities (DSCFs) in FY 2003? Please explain your response fully.

(c) Please confirm that because the Postal Service is not proposing to passthrough the entire transportation and nontransportation cost differentials for editorial pounds, increases in dropshipping (under your proposed rates) will reduce USPS costs more than USPS revenues. If not confirmed, please explain fully.

RESPONSE:

a. Based on preliminary analysis that was performed by the above-mentioned industry expert using rates that are similar to the proposed rates, mailers that would increase their dropshipping to Destinating ADCs would have the following characteristics:

1. Small to medium (50,000 to 300,000 copies)
2. Editorial content ranging from 45 to 60 percent.

Containerization was not analyzed in this exercise, but most of the dropshipped pieces are expected to be on pallets.

b. Based on preliminary analysis that was performed by the above-mentioned industry expert using rates that are similar to the proposed rates, the mailers that

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would increase their dropshipping to Destinating SCFs would have the following characteristics:

- 1. Medium to large (150,000 to > 1 million copies)**
- 2. Editorial content ranging from 55 to 65 percent.**

Containerization was not analyzed in this exercise, but most of the dropshipped pieces are expected to be on pallets.

c. Confirmed only if the estimated cost differentials reflect the actual cost differentials when the rates are in effect.

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MPA/USPS-T34-18. Please refer to USPS-LR-J-114, Table 2, and USPS-LR-J-107, OC01.xls.

(a) Please confirm that your Test Year After Rates (TYAR) billing determinants assume that all mail entered at Origin Associate Offices (OAOs) in the Service Territory of the DSCF will be entered at the DSCF in the Test Year and therefore will receive the DSCF discount. If not confirmed, please explain fully.

(b) Please confirm that your TYAR billing determinants assume that half of the mail entered at OAOs and OSCFs in the Service Territory of the DADC will be entered at the DADC in the Test Year and therefore will receive the DADC discount. If not confirmed please explain fully.

(c) Please confirm that 65 percent of the mail entered at OAOs and OSCFs in DSCF/DADC service territories is sacked.

RESPONSE:

(a) Not confirmed. The estimates for pieces and pounds entered at the destinating SCF is based on base year figures, which in turn are based on FY2000 billing determinants. The estimate for editorial pounds entered at the destinating SCF was calculated in the worksheet 'Calc. of new cells'. This calculation did not impact the total volume of mail entered at the destinating SCF or its proportion. One implied assumption is that in the test year all pieces receiving the DSCF piece discount or the DSCF pound rates would be entered at the destinating SCF and not at any other facility within the area of the SCF.

(b) Confirmed.

(c) Redirected to witness Loetscher USPS-T-41.

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MPA/USPS-T34-19. Please refer to USPS-LR-J-107, OCOI .xls, worksheet Pound Data-Ed. and page 7 of your testimony where you discuss your rationale for passing through only 50 percent of the advertising pound rate differential for editorial pounds.

(a) Please confirm that the revenue leakage from the proposed Destination Delivery Unit (DDU) editorial pound rate "discount" relative to Zones 1 and 2 is approximately \$600,000 or 0.024 percent of TYAR Periodicals Outside-County revenue. If not confirmed, please explain fully.

(b) Please confirm that the revenue leakage from passing through 100 percent of the DDU-Zones 1 and 2 cost avoidance in the form of a lower DDU pound rate would increase this revenue leakage by approximately \$600,000 or 0.024 percent of TYAR Periodicals Outside-County revenue. If not confirmed, please explain fully.

(c) Please confirm that your rationale for only passing through 50 percent of the advertising pound rate differential for editorial pounds was to mitigate the rate increase for mailers who do not dropship. If not confirmed, please explain fully.

(d) Taking into account your responses to subparts (a) and (b) of this interrogatory, please confirm that increasing the passthrough for the DDU editorial pound rate to 100 percent will have a minimal, if any, impact on mailers who do not dropship. If not confirmed, please explain fully.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Partly confirmed. Maintaining the balance between economic efficiency (dropship incentives for editorial pounds) and dissemination of information (maintaining a reasonable unzoned editorial pound rate) is one of the goals of this proposal. See also the response to part (d).

(d) Confirmed. In order to maintain consistency between the three dropship locations, our proposal used a 50 percent pass-through in all the cases.

Because of the low volume being dropshipped at the DDU the impact of

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changing the passthrough for DDU does not have a significant impact on mailers that do not dropship. If passthroughs were changed for other locations such as DSCF and DADC the impact on the mailer who do not dropship is not expected to be minimal.

DECLARATION

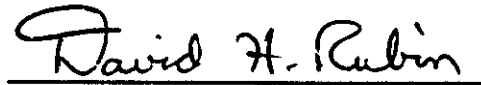
I, Altaf H. Taufique, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in dark ink, appearing to read "A. Taufique", is written over a horizontal line.

Dated: NOVEMBER 9, 2001

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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