

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 AMERICAN BUSINESS MEDIA AND THE  
MCGRAW-HILL COMPANIES  
(ABM-MH/USPS-T34-1-5, 17, 19, 20, 22, 24, 32-35, 41, AND 44-46)

The United States Postal Service hereby provides the responses of witness Taufique to the following interrogatories of the American Business Media and the McGraw-Hill Companies: ABM-MH/USPS-T34-1-5, 17, 19, 20, 22, 24, 32-35, 41, and 44-46, filed on December 5, 2001. Interrogatory ABM-MH/USPS-13 was redirected to the Postal Service, and interrogatory ABM-MH/USPS-43 was redirected to witness Loetscher.

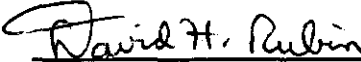
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
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David H. Rubin

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2986; Fax -6187  
December 19, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA, INC.

**ABM-MH/USPS-T34-1.** When was the last time that the editorial pound rate for Periodicals differed depending upon where the publication is entered into the mail and where it is ultimately to be delivered by the Postal Service?

**RESPONSE:**

Probably never. The research presented by my illustrious predecessor Dr. Robert W. Mitchell's testimony on behalf of the Postal Service in Docket No. R90-1 is enlightening. He starts his summary from prior to 1917 when there was no distinction between editorial and advertising pounds. A flat rate was charged for the total weight.

Then things changed in 1917. And the reason for change as provided in the 1917 Annual Report of Postmaster General Albert S. Burleson was that the cost of transporting and handling second-class mail was "several times the revenue received therefrom." The House of Representatives passed a bill that would have applied zoned rates to the total weight of all second-class publications, with no distinction between editorial and advertising content. The Senate initially approved the zoned rate concept for both editorial and advertising content, then later amended the bill to leave the rates as they were. A compromise solution of zoned advertising and a flat editorial rate was adopted by a conference committee.

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**ABM-MH/USPS-T34-2.** In the Commission's Opinion in Docket No. R90-1 that is cited at lines 15-17 of page 5 of USPS-T-34, the Commission stated at page V-122: "To diminish the encouragement of widespread dissemination of editorial matter throughout this nation by zoning the editorial rates strikes at the balance of the treatment between editorial and advertising matter in second class rate designs. We find nothing on this record to persuade us that we should abandon that balance in regular rate second class." Please list and explain all reasons why abandonment of that balance is now appropriate.

**RESPONSE:**

The proposal by the Postal Service in this docket does not zone the editorial rates. It merely provides additional incentives for mailers to enter the mail closer to its destination by passing along a portion of the cost savings to editorial pound rates if mail is entered at specified destinating locations. The Postal Service is not abandoning the balance discussed by the Commission in Docket No. R90-1 (cited in question). Our goal is to maintain this balance and simultaneously provide signals which in our estimation would lead to better preparation, service, cost, and cost coverage for this subclass.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-3.** Please explain fully why, in the view of Mr. Taufique, the Postal Service should take account of “social policy objectives” in setting rates as suggested at page 5 of USPS-T-34, lines 15-17.

**RESPONSE:**

The Postal Service is required to consider the educational, cultural, scientific, and informational value of the mail matter delivered. Periodicals are a class of mail with recognized ECSI value represented by the nonadvertising (or editorial) matter. In fact DMCS 412.2 states that a General Publication must be originated *for the purpose of disseminating information of a public character, or devoted to literature, the sciences, art, or some special industry.*

The presumption is that editorial matter has educational, cultural, scientific, or informational value and that the broad dissemination of such matter is in the national interest. Recognizing this value of Periodicals mail in rate design is the “social policy objective” from my perspective. Witness Moeller (USPS-T-28) considers this value in his rate policy testimony (USPS-T-28 at 30).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-4.** Please explain fully what is meant by the “concerns” for “dissemination of information” that allegedly are addressed by Mr. Taufique’s proposal as stated at lines 18-19 of page 5 of USPS-T-34.

**RESPONSE:**

One perspective about the concerns for dissemination of information relates only to maintaining a uniform editorial pound rate for all zones. The Postal Service agrees with this notion, but at the same time is concerned about the long-term health of the subclass that provides the vehicle for this dissemination. Our proposal maintains the unzoned uniform editorial pound rate but provides appropriate dropship price signals that would lead to lower combined cost for the class.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-5.** Please explain fully how the “concerns” for “dissemination of information” that are referenced at lines 18-19 of page 5 of USPS-T-34 are specifically addressed in the USPS’s proposal for separate editorial drop ship pound rates in this case.

**RESPONSE:**

“Concerns” for “dissemination of information” are specifically addressed by maintaining the unzoned editorial pound rate but at the same time providing the dropship pricing signals which in our view would lead to lower combined cost for the class.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-17.** At lines 14-17 of page 6 of USPS-T34, Mr. Taufique states, "Larger destination entry discounts would provide further incentive for smaller and medium mailers to combine their mailings or versions to achieve the volumes necessary to justify the transportation for deeper downstream entry." With respect to this statement, please explain specifically how, in Mr. Taufique's opinion, the mailings by individual small and medium mailers would have to be combined and prepared in order to justify the transportation for deeper downstream entry. Provide examples if possible.

**RESPONSE:**

Postal Service requirements on combining the mailings can be found in DMM

E230.4.0.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-19.** At page 7 of Mr. Taufique's testimony, he states that advertising pounds make up 44% of the total Periodicals weight but that he is allocating 50% of the transportation costs to advertising pounds. In response to POIR No. 5, question 3, Mr. Taufique states: "Distributing approximately 44 percent of the transportation cost to the calculation of advertising pound rates is more appropriate than the 50% allocation in the Postal Service's proposal."

- (a) Does this statement represent a concession that the filing has been done incorrectly and should be modified to reflect a 50% allocation? If not, what does it represent?
- (b) Please provide the rates that would result from substituting a 44% allocation for the 50% allocation.

**RESPONSE:**

(a) The allocation of transportation cost to calculation of advertising cost could have been done using the allocation of revenues to advertising pounds – approximately 53 percent. Or it could be based on actual advertising pounds – 44 percent. I chose to allocate 50 percent because that mitigated the impact on higher zones compared to a 53 percent allocation.

While that allocation remains the Postal Service proposal, my POIR No. 5 response signals participants and the Commission that the Postal Service would not oppose a 44 percent allocation,

(b) See the attached sheet for rates calculated with the 44 percent allocation of transportation cost to the calculation of advertising pounds.



<b>OUTSIDE COUNTY</b>					
<b>RATE COMPARISONS USING 43.5 PERCENT ADVERTISING PROPORTION</b>					
<b>Regular Rate</b>	<b>Current Rate</b>	<b>44% Rate</b>	<b>Percent Change 44%</b>	<b>Proposed Rate</b>	<b>% Change Proposed</b>
<b>Advertising Pounds</b>					
Destinating Delivery Unit	\$ 0.153	\$ 0.172	12.42%	\$ 0.160	4.58%
Destinating SCF	\$ 0.195	\$ 0.213	9.23%	\$ 0.204	4.62%
Destinating ADC		\$ 0.232	N/A	\$ 0.225	
Zones 1&2	\$ 0.238	\$ 0.255	7.14%	\$ 0.250	5.04%
Zone 3	\$ 0.253	\$ 0.271	7.11%	\$ 0.268	5.93%
Zone 4	\$ 0.292	\$ 0.313	7.19%	\$ 0.317	8.56%
Zone 5	\$ 0.351	\$ 0.377	7.41%	\$ 0.390	11.11%
Zone 6	\$ 0.413	\$ 0.444	7.51%	\$ 0.467	13.08%
Zone 7	\$ 0.488	\$ 0.525	7.58%	\$ 0.560	14.75%
Zone 8	\$ 0.552	\$ 0.594	7.61%	\$ 0.640	15.94%
<b>Editorial Pounds</b>					
Destinating Delivery Unit	\$ 0.179	\$ 0.161	-10.06%	\$ 0.158	-11.73%
Destinating SCF	\$ 0.179	\$ 0.181	1.12%	\$ 0.180	0.56%
Destinating ADC	\$ 0.179	\$ 0.191	6.70%	\$ 0.191	6.70%
Editorial Pound Rate (All other Zones)	\$ 0.179	\$ 0.202	12.85%	\$ 0.203	13.41%
<b>Science of Agriculture</b>					
<b>Advertising Pounds</b>					
Destinating Delivery Unit	\$ 0.115	\$ 0.129	12.17%	\$ 0.120	4.35%
Destinating SCF	\$ 0.146	\$ 0.160	9.59%	\$ 0.153	4.79%
Destinating ADC	\$ 0.179	\$ 0.174	-2.79%	\$ 0.168	-6.15%
Zones 1 & 2	\$ 0.179	\$ 0.191	6.70%	\$ 0.187	4.47%
<b>Nonadvertising</b>					
Destinating Delivery Unit	\$ 0.179	\$ 0.122	-31.84%	\$ 0.120	-32.96%
Destinating SCF	\$ 0.179	\$ 0.137	-23.46%	\$ 0.136	-24.02%
Destinating ADC	\$ 0.179	\$ 0.144	-19.55%	\$ 0.143	-20.11%
Zones 1 & 2	\$ 0.179	\$ 0.152	-15.08%	\$ 0.152	-15.08%
<b>Presort Rate Pieces</b>					
BASIC NON-AUTOMATION	\$ 0.333	\$ 0.369	10.81%		
BASIC AUTOMATION LETTER	\$ 0.266	\$ 0.277	4.14%		
BASIC AUTOMATION FLAT	\$ 0.291	\$ 0.321	10.31%		
3-DIGIT NON-AUTOMATION	\$ 0.283	\$ 0.320	13.07%		
3-DIGIT AUTOMATION LETTER	\$ 0.231	\$ 0.245	6.06%		
3-DIGIT AUTOMATION FLAT	\$ 0.248	\$ 0.279	12.50%		
5-DIGIT NON-AUTOMATION	\$ 0.219	\$ 0.252	15.07%		
5-DIGIT AUTOMATION LETTER	\$ 0.178	\$ 0.191	7.30%		
5-DIGIT AUTOMATION FLAT	\$ 0.194	\$ 0.222	14.43%		
CARRIER ROUTE BASIC	\$ 0.139	\$ 0.159	14.39%		
CARRIER ROUTE HIGH DENSITY	\$ 0.113	\$ 0.127	12.39%		
CARRIER ROUTE SATURATION	\$ 0.095	\$ 0.108	13.68%		
PERCENTAGE EDITORIAL DISCOUNT	\$ (0.067)	\$ (0.074)	10.45%		
WKSHARING DISCNT DELIVERY OFFICE ENTRY	\$ (0.017)	\$ (0.018)	5.88%		
WKSHARING DISCNT SCF ENTRY	\$ (0.008)	\$ (0.008)	0.00%		
WKSHARING DISCNT ADC ENTRY		\$ (0.002)			
WKSHARING DISCNT PALLETIZED PIECES		\$ (0.005)			

\* Nonprofit and Classroom mailers pay the same rates and receive a 5% discount on postage.

Discount is not applicable to advertising pound postage

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-20.** At lines 11-13 of page 7 of USPS-T34, Mr. Taufique states that: "Second, the allocation of transportation cost to advertising pounds is designed to mitigate the impact of the larger dropship discounts on advertising pounds entered in higher zones." With respect to this statement, please state the advantages and disadvantages of the 50% allocation of transportation costs to advertising pounds as compared with alternative allocations based on the advertising revenue percentage and on the advertising weight percentage.

**RESPONSE:**

See my responses to ABM-MH/USPS-T34-19 and Presiding Officer's Information

Request No. 5, question 3.

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**ABM-MH/USPS-T34-22.** At lines 23-25 of page 7 of USPS-T34, Mr. Taufique states: "In other words, only half of the transportation and non-transportation cost avoidances derived for advertising pounds are applied to the calculation of editorial pound dropship rates." With respect to this statement, please provide workpapers with supporting references that demonstrate that 50 percent of the transportation and non-transportation cost avoidances derived for advertising pounds are applied to the calculation of editorial pound dropship rates.

**RESPONSE:**

Worksheet Pound Data\_Editorial, for Outside County in Library reference LR-J-107 (page 20) is where this 50 percent passthrough takes place. Rows 14, 15 and 16, under the heading "Rate Savings from Zone 1 & 2 Rate" is where the cost avoidances for advertising pounds are divided by 2. In essence that is a 50 percent passthrough of these cost avoidances to calculate the dropship rates for editorial pounds.

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**ABM-MH/USPS-T34-24.** On page 8 of USPS-T-34, at lines 3-5, Mr. Taufique states: "The Postal Service believes that this additional incentive may help both large and small mailers and has the potential to move significant volume of mail to *destinating facilities.*" With respect to this statement, please confirm that any Periodical mailer whose mailings include advertising that currently faces zoned advertising pound rates already has an incentive to move volumes of mail to *destinating facilities.* Please explain any answer other than a confirmation.

**RESPONSE:**

Confirmed. There is already an incentive for advertising pounds, but advertising *pounds account for only 43.5 percent of total pounds in the Outside County subclass.* The Postal Service's proposal extends a portion of that incentive to the other 56.5 percent which is the editorial content in terms of weight.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-32.** At lines 23-24 of page 8 of USPS-T34, Mr. Taufique states: "Also the Postal Service proposal provides time for mailers to take a fresh look at comailing and commingling." With respect to this statement, please define the terms "comailing" and "commingling" and provide examples of each.

**RESPONSE:**

Please see my response to CRPA-NFIP/USPS-T-34-7.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-33.** At line 5 of page 9 of USPS-T34, Mr. Taufique states that he has made use of "average haul" figures in determining pound rates for Periodicals in this case. With respect to these figures, please provide underlying documents that support the derivation of these average haul figures and explain the period over which these average haul data were measured.

**RESPONSE:**

The average haul miles used in the calculation of zoned advertising 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, MC95-1, R97-1 and R2000-1. 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.

The revision that was made in the current filing was the addition of average haul for destination ADC. The derivation of DADC average haul is discussed in my response to Presiding Officer's Information Request No. 3, question 2.

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**ABM-MH/USPS-T34-34.** At line 6 of page 9 of USPS-T34, Mr. Taufique states that he has used “the calculation of pound miles to allocate distance-related transportation cost.” With respect to this statement, please define “distance-related transportation costs,” and explain how the transportation cost totals that are alleged to be distance-related in this case can be validated or verified.

**RESPONSE:**

A quote from page 3 witness Pickett’s (USPS-T-17) direct testimony provides a brief description of distance-related transportation cost.

The rate designs for certain zone-rated products rely on drawing a distinction between distance- and non-distance-related transportation costs. The calculation of these costs follows the Commission’s methodology used in prior cases. The base year and test year calculations appear in an Excel spreadsheet in USPS Library Reference J-43. Test Year FedEx network costs are treated as non-distance related in light of the fact that there is no mileage component to the rates FedEx charges for transportation service.

These calculations can be validated and verified by reviewing Library Reference LR-J-43 filed by witness Pickett (USPS-T-17).

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**ABM-MH/USPS-T34-35.** At lines 6-7 of page 9 of USPS-T34, Mr. Taufique states that: "the allocation of residual revenue requirement on a per pound basis" is based on traditional ratemaking practices established in previous cases. Please define "revenue requirement" as used in that statement, and explain the basis for your definition (including, without limitation, any legal basis).

**RESPONSE:**

I use "Revenue Requirement" to refer to the overall revenue that Periodicals should contribute to the Postal Service's overall revenue requirement. In this context the residual revenue requirement means the amount of money to be raised from pound rates after transportation cost is allocated. Essentially it is the difference between the total amount of dollars allocated to pound rates (40 percent of total Outside County Periodical revenue) minus the purchased transportation cost in the test year.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-41.** At lines 24 of page 11 and lines 1-2 of page 12 of USPS-T34, Mr. Taufique states: "the partial zoning of editorial pounds should go a long way in sending correct signals for dropship decisions." Please explain fully what Mr. Taufique means by "correct signals" and why "correct signals" for dropship decisions are not now sent through zoned rates for advertising pounds in Periodicals.

**RESPONSE:**

"Correct signals" in this context implies that pricing signals would allow mailers to perform the work when it is cheaper for them to do the work. These signals generally lead to lowest combined cost for transporting, processing, and distributing mail pieces in question.

Correct signals are now sent through zoned rates for advertising pounds in Periodicals but advertising pounds make up less than 50 percent of the pounds mailed by the industry. The Postal Service's proposal extends a portion of these "correct signals" to the rest of the pounds.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-44.** With respect to USPS-LR-J-107, please confirm that the TYAR proportion of Periodicals revenue to be derived from piece rates can be correctly altered solely by changing the general design input that appears in row 15 of page 19 of 32 of the Outside County Worksheet Rate Design Input page. If other spreadsheet adjustments are required, please provide a detailed explanation and a revised Periodicals rate design spreadsheet that demonstrates how this proportion could correctly be altered.

**RESPONSE:**

Confirmed assuming that you are referring to row 15 of page 17 of 30.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-45.** With respect to USPS-LR-J-107, please confirm that the TYAR proportion of Transportation Cost that is Distance Related can be correctly altered solely by changing the general design input that appears in row 18 of page 19 of 32 of the Outside County Worksheet Rate Design Input page. If other spreadsheet adjustments are required, please provide a detailed explanation and a revised Periodicals rate design spreadsheet that demonstrates how this proportion could correctly be altered.

**RESPONSE:**

Confirmed assuming that you are referring to row 18 of page 17 of 30.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
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**ABM-MH/USPS-T34-46.** With respect to USPS-LR-J-107, please confirm that the TYAR pas&roughs of unit cost savings for piece discounts in Periodicals can be correctly altered solely by changing the general design inputs that appear in rows 5 to 20 of page 25 of 32 of the Outside County Worksheet Rate Design Input page. If other spreadsheet adjustments are required, please provide a detailed explanation and a revised Periodicals rate design spreadsheet that demonstrates how these proportions could correctly be altered.

**RESPONSE:**

Confirmed assuming that you are referring to rows 5 to 20 of page 23 of 30.

**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: DECEMBER 19, 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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David H. Rubin

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
December 19, 2001