

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268B0001

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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 COALITION OF RELIGIOUS PRESS ASSOCIATIONS AND
THE NATIONAL FEDERATION OF INDEPENDENT PUBLICATIONS
(CRPA-NFIP/USPS-T34-10, 12-14(C))

The United States Postal Service hereby provides the responses of witness Taufique to the following interrogatories of the Coalition of Religious Press Associations and the National Federation of Independent Publications: CRPA-NFIP/USPS-T34-10, and 12 to 14(c), filed on December 7, 2001. Interrogatories CRPA-NFIP/USPS-T34-11 and 14(d-e) have been redirected to witness Loetscher. A response to interrogatory CRPA-NFIP/USPS-T34-15 is still being prepared.

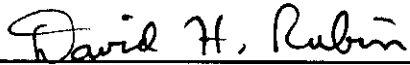
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



David H. Rubin

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December 21, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
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CRPA-NFIP/USPS-T-34-10. Your response to CRPA-NFIP/USPS-T-34-2 states that the Postal Service has chosen "to maintain the unzoned editorial pound rate in this docket."

(a) Confirm that USPS-LR-J-107, p.20 of 30, contains a rate schedule, lines 25-32, entitled "Proposed Editorial Rates and Revenue, which shows the following proposed rates for editorial pounds:

Destination DDU	\$0.158 per editorial pound
Destination SCF	\$0.180
Destination ADC	\$0.191
Unzoned Editorial Pound Rate	\$0.203

(b) Confirm that USPS-LR-J-107, pp. 8, 10, likewise shows the current editorial pound rate to be an identical 17.9 cents per editorial pound for all editorial weight, including periodicals entered at destination DDU's, destination SCF's, destination ADC's, and all other editorial periodical pounds which are transported through advertising postal zones 1-8.

RESPONSE:

(a) Confirmed.

(b) Confirmed. I still maintain that the Postal Service has maintained an unzoned editorial pound rate. Providing dropship incentives for destination entry does not change the fact that mail entered for any of Zone 1 through 8 pay the same editorial pound rate.

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CRPA-NFIP/USPS-T-34-12. You state in part in your answer to CRPA-NFIP/USPS-T-34-4(a) that, "One would expect that mailers would perform the additional work only if their cost was less than the discount provided by the Postal Service." Do mailers perform mail preparation and containerization which exceed USPS requirements for reasons other than cost? If so, identify the reasons. If not, identify the basis for your negative response.

RESPONSE:

Yes. My statement implied that just because a discount is offered does not mean that worksharing would automatically be performed by the mailers. It is an economic decision that would in part be made by comparing mailers cost to do the additional work with the postal discount being offered. Worksharing could be performed by mailers for other reasons such as a desired improvement in delivery times.

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CRPA-NFIP/USPS-T-34-13. You assert in your response to CRPA-NFIP/USPS-T-34-4(b) that worksharing discounts implemented after Docket R90-1 caused FY 1992 mail processing costs per piece for the "combined Outside County subclass" to decrease 3.8%.

(a) Please provide similar mail processing per piece data for Outside County periodicals, year by year, from FY 1993-2000, inclusive.

(b) Is it possible that mail processing costs per piece could vary year to year for reasons other than the expansion or implementation of worksharing discounts? If your answer is affirmative, provide examples of non-discount factors that could increase or reduce per-piece processing costs. If your answer is negative, please provide the data, studies or economic analyses on which you rely.

(c) Your response to CRPA-NFIP/USPS-T-34-4(b) further claims that realized increases per piece in revenue for Outside County periodicals after R90-1 rates and discounts went into effect were less than recommended per-piece increases in that case. You further claim that, "The implication of this observation is simply that changes in mailer behavior as a result of worksharing incentives could actually reduce the impact of a rate increase on mailers.". Is the purpose of presort and other postal discounts to reduce revenue to the Postal Service while reducing the impact of a rate increase on some mailers who happen to be able to qualify for a discount? Explain any affirmative or negative answer in detail, with mention of specific factors that could cause an increase or a decrease in revenue per piece from a subclass because of presort and "worksharing incentives".

(d) The response to CRPA-NFIP/USPS-T-34-4(b) also refers to a decline in FY 1997 Purchased Transportation costs on a per-piece basis after changes in worksharing discounts were recommended in Docket MC95-1. For each year from FY 1998 through FY 2000, did Purchased Transportation costs increase or decrease on a per-piece basis and were there changes in periodical discounts implemented as a result of either the R97-1, or R2000-1 proceedings, which you believe affected the increase or decrease of Purchased Transportation costs attributed to Periodical mail?

RESPONSE:

(a) Please refer to page 1 of 2 of the attachment to my response to CRPA-NFIP/USPS-T34-13 for the cost data on mail processing from FY1991 to FY2000.

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(b) I am sure it is possible. I am not familiar enough with the costing methodology to answer your question. The only example that I can refer to is the 9 percent cost reduction between 1995 and 1996 which is partly due to a change in costing methodology.

(c) No. The purpose of worksharing discounts is to induce appropriate behavioral changes that would lead to lower combined cost for the subclass. The example cited by me in CRPA-NFIP-T-34-4(b) merely points out that mailers actually change behavior as a result of incentives provided. Revenue per piece could change because of changes in the components of billing determinants. For example, if all mailers prepared their mail to Carrier Route presort level and dropped their mail at the destination delivery unit, there would be a significant decline in the revenue per piece.

(d) Between FY1998 and FY1999 transportation cost increased by 2.5 percent. From FY1999 to FY2000 this cost grew by 2.4 percent. I do not believe that there were significant changes in dropshipment in Docket No. R2000-1. In Docket No. R97-1 piece discount for dropshipment decreased but there was a corresponding increase in the incentives for advertising pounds that are dropshipped.

ATTACHMENT TO
CRPA-NFIP/USPS-T-34-13
Page 1 of 2

Outside County Periodicals Mail Processing Costs Per Piece		
Year	Unit Cost	Percent Change
1991	\$ 0.061	
1992	\$ 0.059	-3.8%
1993	\$ 0.059	0.3%
1994	\$ 0.063	6.6%
1995	\$ 0.057	-9.0%
1996	\$ 0.064	11.8%
1997	\$ 0.067	5.4%
1998	\$ 0.072	6.8%
1999	\$ 0.079	10.3%
2000	\$ 0.082	3.8%

ATTACHMENT TO
CRPA-NFIP/USPS-T-34-13
Page 2 of 2

Outside County Periodicals Purchased Transportation Costs Per Piece		
Year	Unit Cost	Percent Change
1996	\$ 0.033	
1997	\$ 0.032	-3.9%
1998	\$ 0.036	11.0%
1999	\$ 0.037	2.5%
2000	\$ 0.037	2.4%

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CRPA-NFIP/USPS-T-34-14.

- (a) Confirm that neither your response to CRPA-NFIP/USPS-T-34-5(c) nor the attachment referred to in that response provide any volumetric data as to the total number of periodicals which now co-mail, commingle or co-palletize.
- (b) Confirm that your response to CRPA-NFIP/USPS-T-34-5(c) does not provide the volume of periodical pieces (or pounds) which are w-mailed, commingled, or co-palletized.
- (c) Confirm that the USPS-performed scan of the websites of the eight printing companies, listed in the attachment which follows your response to CRPA-NFIP/USPS-T-34-5(c), does not verify that these companies combine, co-mail, or co-palletize periodicals with average circulations of 50,000 copies or less. If you believe that the website information does confirm that this information, or any other documents, brochures or informational material in your possession or in the possession of other USPS employees of whom you are aware, please provide either the originals or copies of such materials.
- (d) Confirm that the first two charts (for both nonprofit and regular periodicals) of stratified periodical circulations which follow your response to CRPA-NFIP/USPS-T-34-5(d) show (1) that the only circulation strata therein which display publications which have combined DDU/SCF/Zone I&2 postal entries in excess of 50% of their total mailed copies are the 500,000-1,000,000 and 1 million + levels for regular rate periodicals, and (2) that there are no strata where nonprofit periodicals of any circulation size mail more than 50% of their circulations to a combination of DDU/SCF/Zones 1 & 2 entries.
- (e) Please explain what universe the chart entitled "Regular and Nonprofit" which follows your response to 5(d), supra, is supposed to describe, and why that data was not included in the two earlier tables which list Nonprofit and Regular stratified volumes separately.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed that the review of the websites of eight printing companies did not provide sufficient detail to determine if these companies offer the cited services for periodicals with average circulations of 50,000 or less. But the Postal Service

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CRPA-NFIP/USPS-T-34-14 (CONTINUED)

RESPONSE:

received a letter from the Magazine Publishers of America, attached to this response, that provides a preliminary analysis of the proposed Periodicals rate structure effects. This attachment provides more specific information concerning the impact of the proposed discounts on co-mailing, co-palletization, presortation, and dropshipping. The letter also contains specific information concerning the current availability of these services to small and medium sized Periodicals mailers.

(d)-(e) Redirected to witness Lotscher (USPS-T-41).

Attachment to CRPA-NFIP/USPS-T34-14(c)

December 19, 2001

Mr. W. Ashley Lyons
Manager, Pricing
United States Postal Service
1735 North Lynn Street, 3rd Floor
Arlington, VA 22209-6036

Dear Ashley,

In light of questions being raised with regard to the potential for the rates proposed by USPS in the ongoing rate case to lead to increased worksharing by periodicals mailers, I wanted to share with you some of the preliminary feedback we have received thus far from MPA's inquiries about potential improvements in mailing efficiency likely to result if the USPS-proposed rates are implemented. This is an issue of great importance to MPA and we are devoting significant resources to examining ways to enhance the efficiency of periodicals mailings and the potential of the USPS-proposed rates to provide a much needed boost to worksharing incentives. Based on what we have already learned and continue to learn, MPA is confident that presort optimization, comailing and copalletization will flourish under the proposed rate structure. The results will be substantial savings and efficiencies for the Postal Service and publishers.

In our discussions with industry experts, we have found that many printers now have technologies to improve mail preparation through presort optimization, comailing and copalletization, and that both large and small publishers can take advantage of these capabilities. As an additional benefit of these programs, the increased level of palletization can, and has, also increased the amount of mail entered at destination facilities. One printer we talked to noted that publications taking part in their comail program typically achieve destination entry for 75 to 85 percent of their mail.

Furthermore, our discussions indicate that the Postal Service's rate design proposal will significantly increase the amount of mail that will be entered at destination facilities. Using entry point planning software, one printer analyzed several publications and found that your proposed rates would increase the amount of mail that these publications enter at destination facilities by 10 to 40 percent, with the most significant increase in dropshipping for a publication with high editorial content (nearly 80 percent).

Improving Mail Preparation

There are a number of opportunities for large and small publications to improve their mail preparation. These opportunities include presort optimization, inline comailing, offline comailing, offline copalletizing, and reconsolidation, each of which I discuss below.

Presort Optimization

While there has been much discussion lately about improving mail preparation through comailing, copalletization, and consolidation, presort optimization (e.g., changing container

minimums) provides a significant opportunity in and of itself. Optimizing presort allows national publications with circulations as small as 50,000 -- and likely smaller -- to palletize and dropship a significant portion of their mail. According to one printer to whom we spoke, a publication with a circulation of approximately 50,000 copies, weighing 8 ounces, can get at least 50% of the mail on pallets with 250 pound ADC pallet minimums and no 3-Digit pallets. Once palletized, the printer uses dynamic entry, with the result that most of the palletized portion can drop ship. While presort optimization may not appear to be as exciting an opportunity as comailing, it provides significant opportunities for improving preparation, even at small printers. The proposed rates would encourage a greater degree of presort optimization by providing incentives for palletization and dropshipping.

Comailing

Comailing, which combines different publications in the same bundle, can be performed either inline or offline. Inline comailing can be performed on selective binding equipment, which is available at many printers. Selective binding equipment allows a printer to combine different versions of a single publication in a bundle, but the same process can, and is used, to comail several different publications. A smaller printer to whom we spoke offers inline comailing for publications with circulations as small as 30,000. A large printer offers inline comailing for periodicals mailings as small as 500 copies.

Offline comailing is performed on equipment that addresses and bundles the unaddressed copies of multiple publications. Two printers to whom we spoke have offline comailing and comail a significant amount of periodicals mail. One of these printers has comailed more than 160 million periodicals pieces in 2001, up from approximately 35 million pieces in 1990. Comailing significantly increases presort and palletization. In the weekly run detailed in Table 1, comailing has increased the amount of mail presorted to Carrier Route from 15 percent to 68 percent, and reduced the number of sacks by over 90 percent.

Table 1: Changes in Presort with Comailing

	Without Comailing	With Comailing
Presort		
Carrier Route	14.6%	67.7%
5-Digit Barcoded	66.3%	24.7%
3-Digit Barcoded	15.2%	4.3%
Other	3.9%	3.4%

As with inline comailing, both large and small publications can, and do, use this program. One large printer offers offline comailing for periodicals mailings as small as 1,500 copies. Another offers the service for periodicals mailings as small as 500 pieces. Indicative of the eligibility of small publications for these services, one of the large printers to whom we talked has several plants dedicated to short-run publications and offers comailing, copalletization, and dropship services to publications printed at these plants.

Copalletization

In addition to the comailing services described above, a medium-sized printer offers copalletization services, which involves combining single-publication bundles from multiple publications on the same pallets. This printer copalletizes periodicals mailings as small as 500 pieces and also offers dropshipping of both single-publication and comail pallets. A large printer also offers copalletization, primarily for mailings between 20,000 and 70,000. The increased incentives for palletization and dropshipping in the proposed rates are likely to do for copalletization what significant carrier route presort discounts have done for comailing.

Reconsolidation

MPA is currently co-sponsoring a pilot reconsolidation study in the Chicago area. This facility will receive bundles of periodicals mail that are presorted to basic, 3-digit and 5-digit zip codes, perform a comail operation and sort them to Carrier Route, and then dropship them to local DDU's. Reconsolidation will be available to publications of all sizes, with particular appeal to smaller publications. It is our hope that this pilot facility will serve as a model for a nationwide network of offsite comailing facilities.

Dropshipping

Once the Postal Service filed its case, several printers noted to MPA that they expected the proposed rates to significantly increase the amount of mail that they enter at destination facilities. Based upon these discussions, we asked a printer to perform an entry point analysis of several publications to determine the extent to which these publications would increase the amount of mail they dropship if the Postal Service's rate design proposal were implemented.

This printer analyzed 3 publications and found that the proposed rates will increase the amount of mail dropshipped by 10 to 40 percent, or 8 to 24 percentage points. As you might have predicted, the publication with the highest editorial content experienced the largest increase in dropshipping.

We are continuing our discussions with printers and publishers and will share more information as it becomes available.

Sincerely,

Rita D. Cohen
Senior Vice President,
Magazine Publishers of America

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.

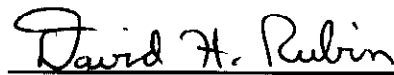


ALTAH H. TAUFIQUE

Dated: DECEMBER 21, 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

475 L'Enfant Plaza West, S.W.
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December 21, 2001