

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

RECEIVED
FEB 28 4 17 PM '02

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 10

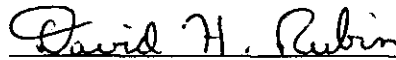
The United States Postal Service hereby provides its response to Presiding Officer's Information Request No. 10, issued February 21, 2002. The question is stated *verbatim* and is followed by the response.

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
February 28, 2002

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 10

Page 1 of 4

1. This question pertains to the pallet discount (DMCS 421.48) and the dropship pallet discount (DMCS 421.49).
 - (a) How many pieces does the Postal Service anticipate will receive each of these discounts in the Test Year? Please provide the calculations necessary to derive this volume.
 - (b) Please provide workpapers that estimate the Test Year cost savings associated with the dropship pallet discount.
 - (c) Please provide workpapers that show the cost coverage for the Outside County subclass after the application of the settlement rates.

RESPONSE:

(a) As shown in USPS-LR-J-107, OC01.xls, worksheet "TYAR B.D.", the Postal Service expects 6.293 billion pieces to receive the 0.5-cent per-piece pallet discount (DMCS 421.48) in the Test Year. Based upon the entry profile study filed as USPS-LR-J-114, I estimate that approximately 3.299 billion (of these 6.293 billion) pieces will receive an additional dropship pallet discount (DMCS 421.49) of one cent per piece. Therefore, these 3.299 billion pieces will receive a total pallet-related discount of 1.5 cents per piece (the 0.5-cent per-piece pallet discount plus the one-cent per-piece dropship pallet discount).

The derivation of 3.299 billion pieces is provided in the Excel spreadsheet provided in USPS-LR-J-217.

On January 30, 2002, the Postal Service published in the Federal Register the rate schedules that would be used if the Commission recommends the settlement agreement rates. Notes 1.3e and 2.3e of the Periodicals rate schedule (pages 4612 and 4614) presents a per-piece destination entry pallet

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 10

Page 2 of 4

discount of 1.5 cents. The 1.5-cent per piece discount shown in the rate schedules combines the 0.5-cent per piece pallet discount (DMCS 421.48) and the one-cent per piece dropship pallet discount (DMCS 421.49).

(b) There are no workpapers that estimate additional cost savings associated with the 1-cent dropship pallet discount (DMCS 421.49). But the dropship and pallet cost savings relied upon in my testimony provide a complete basis for the new 1-cent discount.

The original Postal Service proposal sought to provide dropship incentives by providing lower rates for editorial pounds entered at destinating facilities (DU, SCF and ADC), while maintaining a uniform editorial pound rate for all zones ranging from Zones 1 & 2 to Zone 8. The negotiated rate structure for the settlement rates instead provides a dropship pallet discount on the piece side of the rate schedule. Since virtually all dropship volume is palletized (USPS-T-34 at 17), this discount can be justified as another way to pass through some of the dropship cost savings underlying the original proposal. The original Postal Service proposal provides a discount worth \$22.2 million (LR-J-107, worksheet 'Pound Data_Ed.) for dropshipped editorial pounds based on a 50 percent passthrough of the transportation and non-transportation cost savings estimated for advertising pounds that are dropshipped. Using a still modest passthrough of 75 percent, the value of the editorial pound rate discount would be roughly equal

to the value of the 1-cent discount (DMCS 421.49) on the approximately 3.3 billion palletized and dropshipped pieces.

Additional support for this discount can be provided by looking at the cost savings associated with palletization. As shown by witness Schenk, the cost savings for palletized pieces compared to pieces in sacks is 2.09 cents. USPS-T-43 at 6. The original pallet discount of 0.5 cents per piece is based on a small passthrough of this cost saving. An approximately 72 percent passthrough of the cost savings of 2.09 cents would lead to a 1.5 cent discount for palletized pieces.

One potential concern regarding the pallet discount relates to the distance that a pallet travels. In Docket No. R90-1, the Commission recommended a 3-cent per-pound discount for mail on pallets that was entered at zones 4 through 8, but no discount for mail entered closer to its destination. This discount was designed to insure that the pallet of mail will receive at least one cross dock transfer. PRC Op., R90-1, Vol. 1, at V-129.

The cost savings estimated by witness Schenk in this docket are based on "costs associated with unloading and moving palletized and sacked mail at the 'destination' facility." USPS-T-43 at 7. Cross-docking savings are not included.

Therefore, the application of a cumulative discount of 1.5 cents to dropshipped pallets versus 0.5 cents for all other pallets is justified based on dropship savings

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 10

Page 4 of 4

as well as the efficiency of unloading and handling pallets at the destination facility. The end result is a proposed structure that provides lower piece rates to mail which requires the least postal handling.

(c) The cost coverage for Outside County resulting from the settlement rates is 108.5 percent, based on volume variable costs estimated using the Postal Service's cost methodology. It should be noted that, based on my understanding of estimates of attributable costs under the Commission costing methodology, the resulting cost coverage would be 101.3 percent cost. The derivation of these cost coverages is shown in the Excel spreadsheet provided in library reference J-217.

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: February 28, 2002

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

David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
February 28, 2002