

USPS-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP
DISCOUNTS, 2002

Docket No. MC2002-3

DIRECT TESTIMONY
OF
ALTAF H. TAUFIQUE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

My name is Altaf H. Taufique. I currently serve as an economist in the office of Pricing at the United States Postal Service. Prior to joining the Postal Service in July 1996, I was employed by the Gulf States Utilities Company (GSU) in Beaumont, Texas, from 1980 to 1994. At GSU, I served as an economic analyst in the Corporate Planning department and was subsequently promoted to Economist, Senior Economist and finally to the position of Director, Economic Analysis and Forecasting. My responsibilities at GSU included the preparation of the official energy, load, and short-term revenue forecasts, and the economic forecasts, for the regions served by the Company.

I have testified before the Public Utility Commission of Texas in Austin and the Federal Energy Regulatory Commission in Washington, D.C. My testimony defended GSU's official energy and load forecasts. I have testified before the Postal Rate Commission on seven occasions. In Docket No. MC96-3, I filed rebuttal testimony that addressed the Postal Service's role in the post office box market, and other issues relating to pricing of post office boxes. In Docket No. MC97-5, I rebutted a claim of undue harm to Postal Service competitors due to the proposed packaging service. In Docket No. R97-1, my direct testimony presented the rate proposals for the Periodicals Regular and Within County subclasses, and my rebuttal testimony challenged a proposal to allocate institutional costs based on weighted attributable costs. My testimony in Docket No. MC99-3 addressed the issue of a rate anomaly affecting Nonprofit and Classroom Periodicals mailers. My testimony in Docket No. MC2000-1 presented

the Postal Service's proposal for an experimental "Ride-Along" classification for Periodicals. My testimony in Docket No. R2000-1 presented the rates for the newly established Outside County and Within County subclasses of Periodicals. My latest testimony, in Docket No. R2001-1, once again presented the rates for the Periodicals Outside County and Within County subclasses.

I received a Master's Degree in Economics from Central Missouri State University in Warrensburg, Missouri in 1976, and a Bachelor's degree in Economics & International Relations from Karachi University in Karachi, Pakistan. I have also completed thirty-three credit hours of coursework towards a Ph.D. in Economics at Southern Illinois University. I taught economics at Chadron State College in Chadron, Nebraska between 1978 and 1980. During my employment at GSU in Texas, I taught courses in economics at Lamar University in Port Arthur, Texas.

1 **I. Purpose of Testimony**

2
3 My testimony proposes an experimental classification change testing the
4 extent to which rate incentives will cause Periodicals mailers, especially smaller
5 publications, to co-palletize their mail and dropship it at either destination Area
6 Distribution Centers (ADCs) or destination Sectional Center Facilities (SCFs).¹
7 While co-palletization currently is permitted, not much actually occurs. This
8 proposed classification change would provide per-piece discounts for co-
9 palletized pieces (and co-mailed pieces, as explained later) based on the entry
10 point. The discounts would offer an incentive for predominantly new worksharing,
11 so no rate increases are needed to pay for the discounts. Since cost savings
12 estimates are derived from the Docket No. 2001-1 materials, no new cost studies
13 are needed to support this proposal. I am presenting the only direct testimony,
14 including two exhibits, in this filing. There are no library references or
15 workpapers.

16 I also propose to remove the Ride-Along postage rate from DMCS
17 § 443.1a. The correct rate is provided in note 6 to Rate Schedule 421 and note 2
18 to Rate Schedule 423. The original Ride-Along rate was inadvertently included in
19 DMCS § 443.1a following Docket No. MC2000-1. While the rate was increased
20 to 12.4 cents in Docket No. R2001-1, the rate was not updated in section 443.1a.

¹ While the Postal Service does not technically have facilities called Sectional Center Facilities anymore, this term is still used to refer to service areas for purposes of presorting and destination entry. See DMM § L005.

1 In any case, with the rate included in the appropriate rate schedules, there is no
2 need for it to be in section 443.1 at all.²

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II. Background/History

A. Current Mail Preparation

10 One of the key Periodicals issues in recent rate cases has been the need
11 to control cost increases. The Postal Service employs worksharing incentives to
12 encourage palletization and dropshipping, thus mitigating increases in processing
13 costs. As of the base year in Docket No. R2001-1, about 69 percent³ of
14 Periodicals mail was presented on pallets, and about 44 percent⁴ was
15 dropshipped to destination facilities.

16 Even with worksharing incentives, Periodicals volume still includes a
17 substantial amount of sacked, non-dropshipped mail. More importantly, this
18 volume accounts for a disproportionate amount of Periodicals processing costs,
19 primarily because the same amount of mail requires the handling of many more
20 sacks than pallets.

² Correction of three minor omissions of the unit (pound or piece) in existing Rate Schedule 421 is also proposed. These changes, which are underlined in Attachment A, correct omissions which appear to have arisen from Postal Service pleadings filed in connection with the settlement of Docket No. R2001-1. See, e.g., Motion of United States Postal Service Submitting Second Revised Stipulation and Agreement (January 17, 2002), Attachment B, at 24-25.

³ Docket No. R2001-1, USPS-LR-J-107, Outside County, Worksheet Calc. Of New Cells, Cell C119.

⁴ Docket No. R2001-1, USPS-LR-J-107, Outside County, Worksheet Base Year, Cells (B48+B49+B50) / Cell B53.

1

2 **B. Mailers' Options**

3 My understanding is that mailers make economic decisions to palletize
4 and dropship their mail based on whether the mail volume and density justify
5 preparing pallets of required minimum weights, and transporting the mail to a
6 destination facility, given the rate incentives and service benefits they may obtain
7 for doing so. Typically the density for each publication (e.g., enough mail to make
8 at least a 250-pound pallet to a destination ADC) is key. For smaller publications,
9 and the less dense portions of larger publications, the minimum densities cannot
10 be achieved.

11 One way to increase mail density is to combine different publications on a
12 pallet. Co-palletization combines bundles of different publications going to the
13 same destination ADC or SCF, on the same pallet. Co-mailing combines different
14 publications in the same bundles, with the bundles then combined on pallets. In
15 both cases more mail can be palletized and dropshipped. Usually when different
16 publications are co-palletized the presort level of individual mailings does not
17 change because bundles prepared in the individual mailings remain intact. Co-
18 mailing, on the other hand, prepares bundles from different publications, thereby,
19 achieving a finer presort level than would be feasible for any of the publications
20 individually.

1 **C. Recent Developments**

2 In Docket No. R2001-1, the Postal Service proposed new Periodicals
3 incentives for both palletization and dropshipment. These proposals were
4 designed to improve the preparation of mail and encourage entry closer to
5 destination. I specifically discussed the benefits of dropshipping and palletization
6 for Periodicals in my testimony in that case. Docket No. R2001-1, USPS-T-34, at
7 6, 8-11. The settlement and Recommended Decision in that docket resulted in
8 enhanced Periodicals dropshipment and pallet discounts. PRC Op., R2001-1, at
9 104-06. While these discounts should encourage more dropshipment and
10 palletization, I believe that additional discounts promoting copalletization (and
11 subsequent dropshipping) should be tested, with the goal of reducing the
12 increases in Periodicals costs. This could build on the momentum resulting from
13 the recently implemented discounts.

14

15 **D. Rationale for Proposal**

16 Although there are currently rate incentives to encourage dropshipment
17 and palletization of Periodicals, the proposed discounts are intended to test the
18 extent to which further rate incentives will encourage additional consolidation and
19 dropshipment of Periodicals mailings. These new incentives may be needed by
20 mailers to offset additional costs, and delays in entering mail, resulting from the
21 co-palletization process.⁵ The Postal Service believes that the proposed co-

⁵ While I do not have studies on the level of these costs, and do not base the proposed discount on these costs, my understanding is that co-palletization can require additional space, transportation, barcoding, sortation, and

1 palletization/dropship discounts would be appealing to both smaller publications
2 and less dense portions of larger publications (“tail of the mail”) in terms of
3 encouraging both efficient preparation and dropship worksharing.⁶

4 There is a wide gulf between the mail characteristics of large and small
5 publications, and how these characteristics cause costs related to mail
6 processing and transportation. This proposed classification provides incentives
7 for the smaller mailers to prepare their mail more like larger mailers do, despite
8 all the constraints resulting from the nature of their mailings. In particular, this
9 proposal will help smaller mailers take greater advantage of co-palletization and
10 dropshipment.

11 I believe the discounts I propose, in combination with the Docket No.
12 R2001-1 rates implemented on June 30, 2002, would provide the additional
13 incentive needed for smaller, national publications to re-evaluate the co-
14 palletization option. My discussions with mailers and printers lead me to believe
15 that combining even four to six medium-to-small publications could eliminate over
16 3,000 sacks and generate about 100 pallets in a single mailing, and would make
17 dropshipment of this mail easier.

18 I would like to reiterate the Postal Service’s position as stated in my
19 testimony in Docket No. R2001-1 regarding the differences in handling pallets
20 and sacks. In that docket, the Postal Service found 2.09 cents per piece of pallet

documentation. The proposed discounts may also encourage more printers and consolidators to invest in co-palletization programs as a new mailer option.

⁶ Some heavy weight pieces with high editorial content and national distribution may not find this proposed discount particularly useful. In this and some other aspects, this proposed discount is not a cure-all.

1 cost savings. Docket No. R2001-1, USPS-T-43 (Witness Schenk), at 6.
2 Significantly, these cost savings are not related to savings in cross-docking costs
3 as the pallet moves from origin to destination. Rather, these savings are related
4 to handling (both full and empty) sacks and pallets and unloading and moving
5 these two types of containers at the destination facility. *Id.* at 7. In this context a
6 palletization requirement with a dropship discount makes sense.

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9 **III. Application of Proposed Discounts**

10 **A. General Description**

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12
13 The proposed discounts apply to co-palletized bundles of Periodicals mail
14 that remain intact (before and after co-palletization) and move from sacks
15 (absent co-palletization) to either ADC or SCF pallets entered at the appropriate
16 destination facility. Some mail that is combined in a co-mailing operation would
17 also be eligible for the proposed co-palletization discount. Under the rules
18 discussed below, only that portion of co-mailed volume that moves from sacks (if
19 titles or versions are sorted independently) onto pallets that are dropshipped
20 would qualify for the additional incentive.

21 Both smaller circulation publications (ones that are either exclusively or
22 predominantly in sacks due to their low density) and smaller portions of larger
23 circulation publications will be able to participate and receive the proposed
24 discounts under the rules described below. Residual volumes of independently
25 presorted versions, as well as editions of current issues of larger circulation
26 publications for those destinations where there is insufficient volume to prepare

1 an ADC pallet of at least 250 pounds would also qualify. The Postal Service
2 hopes that offering the co-palletization incentives to small circulation publications,
3 and to smaller circulation versions, editions, and supplemental mailings of large
4 circulation publications, will begin to move a significant portion of high cost
5 sacked mail onto pallets and be dropshipped.

6 For example, a publication that would otherwise be prepared in sacks,
7 because it cannot meet the required 250-pound minimum for an ADC pallet at
8 the bindery, would qualify for the proposed discount if it were co-palletized with
9 other publications on an ADC or SCF pallet and dropshipped to either the
10 destination ADC or SCF.

11 The residual mail from any mailing after preparation of pallets would also
12 qualify for the additional discounts as long as it was co-palletized and
13 dropshipped. The consolidator/mailer will preserve originally presorted mail on 5-
14 Digit, 3-Digit (optional), SCF, and ADC pallets of 250 or more pounds and this
15 mail will not qualify for the co-palletization incentives. Mailers may build upon
16 originally presorted SCF and ADC pallets, but only the co-palletized pieces with
17 less than 250 pounds per title or version per ADC destination, if independently
18 presorted, would qualify for the co-palletization incentives proposed in this
19 classification experiment. Multiple versions or titles that are presorted together
20 into bundles through a selective binding operation will qualify, if presorted
21 bundles would move from sacks to co-pallets.

22 Other dropship and palletization incentives available in the current rate
23 schedule would apply to all pieces based on their eligibility (e.g., all dropship

1 discounts and the \$0.015 dropship pallet discount for pieces on pallets of 250 or
2 more pounds that are dropshipped to DADCs or DSCFs). Supplemental mailings
3 prepared after, and separate from, the original mailing (e.g., back issues not part
4 of the mailing of the current issue) would be treated as a separate title and would
5 have to meet the same requirements for pieces to be eligible for the additional
6 incentives (for co-palletization/dropshipment). That is, for the supplemental
7 mailing, only pieces that could not have been prepared on destination ADC
8 pallets of 250 or more pounds under the original presort before co-palletization
9 would be eligible for the co-palletization incentives.

10 The Postal Service proposes to offer the co-palletization incentive to mail
11 prepared either on ADC or SCF pallets of 250 or more pounds. I do not expect
12 sufficient volumes to create finer levels of co-palletized pallets, and I, therefore,
13 am not proposing to offer additional incentives for this experiment beyond the
14 DSCF entry level. To limit the scope of the experiment and simplify
15 administration, any mail that is co-palletized on 5-Digit or 3-Digit pallets will not
16 be entitled to the proposed co-palletization incentives.

17 **B. Waiving of “Finest-Level” Requirement**

18 In preparing a co-palletization mailing, mailers/consolidators cannot easily
19 predict co-palletized volumes for each destination. Therefore, during the
20 experiment, co-palletized mail will not be required to be placed on the finest level
21 pallet possible. For example, even if a co-palletized ADC pallet contains more
22 than 500 pounds to a particular SCF, an SCF pallet will not be required.
23 Mailers/consolidators will be encouraged to periodically re-evaluate mail volumes

1 for each ADC destination to determine whether additional SCF pallets could be
2 created on a regular basis.

3 **C. Documentation**

4 The consolidator/mailer will provide documentation (e.g., Mail.dat files that
5 can be printed, if necessary) for only the mail that is co-palletized, both before
6 and after co-palletization. The “before” documentation must be in Mail.dat files
7 that permit easy identification of mailings (e.g, by job ID, segment ID, and
8 container summary) included in the co-palletization program separate from
9 mailings that are not included in the program. The “after” documentation must
10 identify publications or segments with 250 or more pounds on a pallet (mail that
11 does not qualify for added co-palletization incentives) separately from small
12 volumes of other publications or segments with less than 250 pounds that do
13 qualify for the new incentives. Documentation will be by title and version,
14 segment, or edition, or by codes representing each title and version, segment, or
15 edition. The consolidator/mailer will output a new file (e.g., Mail.dat) for the mail
16 after co-palletization showing how the mail was presorted and where it was
17 entered. Data in the “after co-palletization” files must be prepared so that they
18 can be easily reconciled with the “before” Mail.dat files to validate that proper
19 postage has been paid for all pieces (e.g., the same job IDs and mailing segment
20 IDs appear in “before” Mail.dat files and “after” documentation).

21 The primary goal of this documentation is to substantiate that without co-
22 palletization the mail would have been prepared in sacks (i.e., ADC pallets of 250

1 or more pounds for any individual title, independently presorted version, or
2 selectively bound pool, could not have been made).

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5 **IV. Development of Discount**

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7 **A. General Description**

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9 The proposed discount is 0.7 cents per piece for co-palletized pieces
10 prepared on an ADC or SCF pallet and entered at the destination ADC. For
11 pieces that are prepared on an SCF pallet and entered at the destination SCF
12 the proposed discount is 1.0 cent per piece.

13 The discounts were developed using advertising pound rates
14 recommended by the Commission and approved by the Governors in the last
15 rate case. I did not do a separate analysis of potential cost savings, because the
16 differences between the zoned advertising pound rates reflect all pound-related
17 transportation and non-transportation cost savings that accrue to the Postal
18 Service when mail is entered closer to its destination.⁷ This assumption also
19 applies to the current advertising pound rates agreed upon in the negotiated
20 settlement and recommended by the Commission in Docket No. R2001-1. The
21 settlement pound rates are based on the same methodology as the rates I
22 proposed, with the simple substitution of a uniform rate for editorial pounds.

⁷ Advertising pound rates are calculated by allocating distance-related transportation cost to various zones using pound-miles (the product of advertising pounds and average haul in miles for each zone). Further, the pound-related portion of non-transportation cost savings are fully passed through to estimate the destination entry advertising pound rates.

1 The existing rate structure allows the mailer of advertising pounds to take
2 advantage of these rate differentials and make an economic decision regarding
3 dropshipping. On the other hand, editorial pounds pay uniform rates regardless
4 of the entry point, and do not receive signals that reflect the savings generated
5 by this worksharing. Therefore, these cost savings become the basis for the
6 development of the proposed incentives.

7

8 **B. Methodology**

9 Using the Zones 1 & 2 advertising pound rate as my benchmark, I
10 estimate the cost savings that result from dropshipping of editorial pounds. I then
11 convert the per-pound estimate to a per-piece discount using the average weight
12 of the piece in FY2001. Thus, a pound of mail entered at the destination SCF,
13 compared to a pound entered in Zones 1 & 2, would save the Postal Service 4.5
14 cents (24.8 cents minus 20.3 cents) in transportation and non-transportation
15 costs. Using the average weight of the piece for the Outside County subclass in
16 FY 2001 (0.452 lbs.), and the average editorial content of 63.75 percent, 4.5
17 cents is converted into approximately 1.3 cents per piece for the average editorial
18 content. Applying an 80 percent passthrough produces a discount of 1.0 cent per
19 piece for pieces that are co-palletized and dropshipped at the destination SCF.
20 Similarly, for the destination ADC the cost savings are 2.5 cents per pound,
21 which adjusts to 0.72 cents per piece for the editorial content. Applying a 95
22 percent passthrough results in the proposed 0.7 cents per piece discount. These

1 calculations, including the unrounded numbers actually used, are presented in
2 Exhibit A.

3 **C. Rationale for Conservative Approach**

4 The Postal Service has deliberately chosen a conservative approach in
5 estimating the discount due to the relatively low mark-up for the Outside County
6 subclass as whole. The balance that I sought was motivated by three goals. The
7 first goal is to assure that there is no erosion of subclass mark-up due to this
8 classification change. The second goal is to provide sufficient incentive to
9 encourage participation in co-palletization programs. Because of this goal, I
10 increased the passthrough to 95 percent for the DADC discount, since the initial
11 focus of new co-palletization/dropship programs likely will be on the ADC level,
12 the easier level of preparation and dropshipping to achieve. The third goal is to
13 ensure that non-participants not only avoid any rate increases, but also receive
14 any additional cost savings resulting from the classification change.

15 My rate design is conservative in three ways. First, I assume that
16 qualifying mail would have been entered in Zones 1 & 2 absent the co-
17 palletization dropship discount. Cost savings are underestimated to the extent
18 that some of the mail would be shifted from higher zones.

19 Second, all of the cost savings that are being considered in the derivation
20 of these discounts are related to dropshipment and not palletization. Even if I
21 assume that the 1.5-cent dropship pallet discount in the current rate schedule is
22 related only to palletization, this discount is less than the more than two cents of
23 pallet cost savings. Each palletized piece in the current rate schedule saves the

1 Postal Service more than the discount. Every piece that is palletized as a result
2 of these proposed discounts is expected to save more than the 1.5-cent discount
3 that it would receive in the current rate schedule.

4 Third, the passthroughs on the proposed discounts are 80 percent and 95
5 percent for DSCF and DADC entries, respectively, which provide a margin of
6 error in estimating cost savings, and offset the discount provided to existing
7 worksharing.

8

9 **V. Designation as Experimental**

10

11 **A. Objectives of Experiment**

12

13 The objective of this experiment is twofold. The first objective is to gauge
14 the feasibility of using a discount to change behavior that requires cooperation
15 between various publishers and printers. The second objective is to provide an
16 incentive to reduce the number of sacks and get mail entered at specific
17 destination facilities.

18 **B. Compliance with Section 3001.67**

19

20 **1. Novel in Nature**

21 Providing a worksharing discount, per se, is not novel, but a discount that
22 predominantly applies to new worksharing and does not require a push-up of
23 other rates is unusual in the ratemaking context. This classification targets mail
24 that is otherwise prepared in sacks, that is expensive for mailers to prepare and
25 the Postal Service to handle, and that is almost always origin entered. The
26 proposal is also novel because it focuses on a worksharing discount for less

1 dense publications, and provides an incentive for publishers and printers to
2 cooperate in a fashion that benefits both mailers and the Postal Service. It is
3 also novel as the first discount to explicitly focus on the combining of mail from
4 different customers. While some of the existing discounts may have this ultimate
5 effect, this is the only discount designed with that as a singular outcome. Given
6 the costs caused by origin-entered sacks, the entire subclass will gain if these
7 mailers co-palletize their mail, and the cost savings over and above the discounts
8 accrue to the entire subclass. This initiative would lead to better preparation of
9 mail and may help turn Periodicals into a vibrant subclass with a larger
10 contribution to the institutional costs of the Postal Service.

11
12 **2. Magnitude of the Proposed Change**
13

14 The purpose of conducting this experiment is to evaluate the reaction of
15 mailers to incentives which are intended to create new and expand existing co-
16 palletization programs. I believe that the proposed incentives, combined with the
17 existing dropship and palletization incentives, may make a significant, though
18 limited, reduction in the number of sacks in Periodicals mailings, and lead to a
19 greater portion of Outside County periodicals being entered at either the
20 destination SCF or ADC.

21 The Postal Service requested Magazine Publishers of America to conduct
22 an informal survey designed to roughly estimate the mail volume affected by the
23 proposed classification change. Based on their non-scientific survey, I believe
24 that the total number of Outside County pieces that would qualify for this discount
25 would be approximately 194 million pieces. MPA's informal study estimates that

1 sixty percent, or approximately 114 million pieces, would be co-palletized and
2 dropshipped to destination ADCs while approximately 40 percent (about 80
3 million pieces) would be co-palletized and dropshipped at destination SCFs.
4 Based on these estimates the total revenue leakage is expected to be about
5 \$1.6 million. Of this total, only a minimal amount (less than \$250,000) would
6 occur due to mailers who are currently performing this worksharing either through
7 co-palletization or co-mailing. The existing volume that would qualify for this
8 proposed discount is approximately 26.6 million pieces (15.5 million pieces to the
9 SCF and 11.2 million pieces to the ADC). These volumes are only a small
10 portion of total Periodicals volumes, let alone all mail volumes. Therefore, I
11 conclude that the experiment would be of limited magnitude.

12 Cost savings are expected to be equal to the estimated leakage, using the
13 conservative cost savings estimates underlying the discounts. Additional savings
14 could accrue due to palletization alone (slightly more than 0.5 cents per piece)
15 and, if the mail is moved from zones higher than Zones 1 & 2, substantial
16 additional savings are expected in transportation costs. Also, I believe that the
17 volume estimates provided in the MPA survey probably capture the "Existing
18 Volume," but could be conservative in estimating the "New Volume." To the
19 extent there is additional "New Volume," the savings from worksharing would
20 exceed the leakage from the discount, resulting in positive contribution.

21 The MPA survey results are presented in my Exhibit B, and the
22 calculations underlying the cost and revenue impacts are shown in Exhibit A,
23 page 2.

1 **3. Data Collection**

2 The Postal Service plans to use postal data systems to collect data
3 automatically on all pieces receiving the proposed discount. Since the rate
4 discount differs for destination ADCs and SCFs, the data would not only reflect
5 co-palletization, but also the depth of entry for this mail as well.

6
7 **VI. Classification Criteria**

8
9 Section 3623(c) of title 39 U.S.C. requires the Commission to make its
10 decision on establishing a new classification in accordance with the following
11 factors:

- 12 1. the establishment and maintenance of a fair and equitable
13 classification system for all mail;
- 14
15 2. the relative value to the people of the kinds of mail matter entered into
16 the postal system and the desirability and justification for special
17 classifications and services of mail;
- 18
19 3. the importance of providing classifications with extremely high degrees
20 of reliability and speed of delivery;
- 21
22 4. the importance of providing classifications which do not require an
23 extremely high degree of reliability and speed of delivery;
- 24
25 5. the desirability of special classifications from the point of view of both
26 the user and of the Postal Service; and
- 27
28 6. such other factors as the Commission may deem appropriate;
- 29

30
31 I believe that the proposed classification is fair and equitable (criterion 1)
32 in a comprehensive sense because it improves the preparation of mail for the
33 whole class, and increases dropshipment, thereby reducing costs. And, it does
34 not adversely affect the non-participants. Superficially, an argument could be

1 made that the Postal Service is offering a discount on only some of the mail that
2 is palletized and dropshipped at destination facilities. There is a significant
3 volume of palletized and dropshipped mail that would not qualify for the proposed
4 discount. However, the proposed classification change provides incentives for
5 mailers that physically cannot palletize and, consequently, are not able to
6 dropship.

7 My understanding is that preparation of mail on pallets and dropshipping it
8 at a destination facility is often not a matter of choice. A mailer with limited mail
9 density does not have enough volume for specific destinations, even for an Area
10 Distribution Center, the broadest destination category for dropshipping
11 Periodicals. Absent co-palletization, these mailers thus have no choice but to
12 sack their mail and enter it at the origin facility. In fact, my understanding is that
13 preparing mail in sacks is an expensive proposition for the mailer. For the Postal
14 Service, transporting this mail across the country is also costly. Handling of sacks
15 with relatively few pieces both in transit and at the destination facility requires
16 more work, leading to higher costs for Periodicals. By offering this discount
17 exclusively to the publications or portions of publications that do not have the
18 density to make a 250-pound ADC pallet, the Postal Service is making the mail
19 processing for the subclass more efficient, and, thereby, reducing total costs.
20 Thus this classification would benefit all Periodicals mailers.

21 Also, the mailers of publications that do not have the density to make a
22 250-pound ADC pallet will incur additional costs when combining their mail with
23 other similar publications. Besides the additional costs of space, transportation,

1 sortation and documentation that are mentioned earlier, these publications also
2 might sacrifice some delivery time because the mail is held back for a day or
3 more while being co-palletized. Thus, these mailers may need an additional
4 discount to reach the same level of worksharing as other mailers.

5 In summary, criterion 1 (fairness and equity) is satisfied because this
6 proposed classification change benefits the entire Periodicals Outside County
7 subclass without hurting the non-participants. It provides an incentive to the
8 mailers who currently cannot palletize and dropship on their own due to the
9 nature of their mail. An economic incentive encourages them to cooperate with
10 other printers and publishers. The benefit received is less than the postal cost
11 saved, and those who are currently performing these worksharing tasks are not
12 punished.

13 Criterion 2 (the relative value to the people of the kinds of mail matter
14 entered into the postal system and the desirability and justification for special
15 classifications and services of mail) is satisfied in several ways. The discounts
16 will promote the distribution of Periodicals mail with Educational, Cultural,
17 Scientific, and Informational (ECSI) value. Mailers are compensated for their co-
18 palletization and dropshipment worksharing. Costs from origin-entered sacks can
19 be reduced. Overall, this proposal can help the mail remain affordable for the
20 recipient.

21 Criterion 5 (the desirability of special classifications from the point of view
22 of both the user and of the Postal Service) is satisfied because the Postal

- 1 Service's costs are reduced and we expect mailers to gain from the success of
- 2 this proposed experimental classification.