

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

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP DISCOUNTS FOR
HIGH EDITORIAL PUBLICATIONS, 2004

Docket No. MC2004-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA (ABM/USPS-T1-3, 6, 21-31)

The United States Postal Service hereby files the response of witness Altaf H. Taufique to the following interrogatories of American Business Media:

ABM/USPS-T1-3,6, 21-31, filed on March 24, 2004.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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ABM/USPS-T1-3. Please describe in detail, provide all documents related to, and provide the results of any study, investigation or other effort made by or on behalf of the Postal Service to determine the number of Periodicals (by title and total number of annual pieces) that would be eligible for the proposed experimental rate (that is, Periodicals weighing at least nine ounces with mailed circulations less than 75,000, containing no more than 15% advertising content and unable to palletize without combining with other Periodicals).

RESPONSE:

The PERMIT System was used to estimate the number of Periodicals (by title and number of copies) that would be eligible for the proposed experimental co-palletization discounts. Analysis was done during 2003 when the current proposal was being explored, and was repeated more recently to assist in responding to discovery. The results are presented in the following table. There are over 54 million copies that weigh at least 9 ounces, have less than 15% advertising content, and have circulation no more than 75,000.

			Publications	Pieces (000's)
Total PERMIT			26,615	8,658,099
Advertising	Weight (oz)	Circulation		
0-10%	-	-	12,897	1,045,467
0-15%	-	-	14,122	1,205,090
0-15%	>=9	-	3,640	106,994
0-15%	-	0-75,000	13,705	495,418
0-15%	>=9	0-75,000	3,594	54,027
0-15%	-	Monthly & less frequently	10,364	810,922
0-15%	-	0-75,000 & Monthly or less	9,966	289,305
0-15%	>=9	Monthly & less frequently	3,167	86,430
0-15%	>=9	0-75,000 & Monthly or less	3,122	37,464

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ABM/USPS-T1-6. Please refer to the November, 2003 report by the Postal Service in Docket No. MC2002-3 reflecting co-palletization during the end of FY 2003 and respond to the following: (a) please update that report with the latest available data, (b) for the data in the far right column on that report and any updated data provided, please separately identify the number of co-palletized pieces included in the total that were co-palletized prior to the initiation of the rate approved in Docket No. MC2002-3, (c) for each accounting period and total, please state the number and average weight of the “new pallets prepared as a result of co-palletization,” and (d) state how many titles have terminated participation in the co-palletization program.

RESPONSE:

(a) Please see “DOCKET NO. MC2002-3 COPALLETIZATION DATA COLLECTION REPORT FY 2003 AP9 THROUGH FEBRUARY 2004” on the following page.

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DOCKET NO. MC2002-3
COPALLETIZATION DTA COLLECTION REPORT
FY 2003 AP9 THROUGH FEBRUARY 2004

Time Period	No. of Pieces ADC	No. of Pieces SCF	No. of Titles	Sacks Pre-Copalletization			Pallets Pre-Copalletization			Sacks After Copalletization			Pallets After Copalletization		
	Discount	Discount		No.	Weight	Pieces	No.	Weight	Pieces	No.	Weight	Pieces	No.*	Weight	Pieces
AP 9 - 2003	381,677	-	16	8,572	145,202	414,031	323	124,922	253,553	438	7,369	30,000	181	131,194	384,031
AP10 - 2003	511,710	749,851	62	30,382	639,032	1,533,520	621	282,425	351,157	1,082	23,178	46,767	3,504	615,854	1,486,753
AP 11 - 2003	836,819	648,936	24	34,520	680,867	1,771,811	811	392,429	967,239	800	34,977	125,814	3,213	652,856	1,645,997
AP12 - 2003	775,020	701,984	9	33,768	704,873	1,700,002	371	124,458	354,005	773	13,964	31,001	3,559	690,908	1,669,001
AP13 - 2003	608,645	727,672	3	31,551	624,633	1,534,641	219	77,223	199,624	1,107	22,106	43,625	3,493	604,269	1,491,016
Transition Period - 2003	1,266,355	899,430	5	51,861	1,007,852	2,450,177	1,255	661,992	1,147,821	2,125	43,267	91,724	4,271	964,001	2,358,453
October, 2003	1,319,634	870,006	93	49,335	949,974	2,458,239	612	256,512	631,520	1,793	37,477	89,349	4,697	1,004,564	2,368,890
November, 2003	1,425,438	935,283	11	55,398	1,068,756	2,279,312	696	297,341	630,213	2,282	51,857	125,275	4,570	1,017,417	2,625,178
December, 2003	1,667,762	1,138,919	46	64,164	1,238,546	3,173,405	1,830	1,015,911	1,458,990	2,613	54,429	127,875	4,698	1,184,107	3,045,531
January, 2004	2,384,259	1,379,800	40	93,324	1,769,770	4,239,839	3,415	2,232,337	4,204,641	4,163	93,272	193,092	7,384	1,676,498	4,049,600
February, 2004	2,627,873	2,047,042	32	203,401	2,149,230	5,095,475	4,733	3,003,320	5,768,931	4,604	105,094	222,854	8,354	2,044,136	4,772,621
Grand Total	13,805,192	10,098,923	341	656,276	10,978,734	26,650,452	14,886	8,468,869	15,967,694	21,780	486,990	1,127,376	47,924	10,585,804	25,897,071

Note:

* The After Copalletization data generally tracks the data for Pre-Copalletization sacks. The number of pallets after co-palletization includes both new pallets prepared as a result of copalletization and pre-copalletization pallets that were built upon (comail), but excludes other pre-copalletization pallets.

** Number of titles reported in October, 2003 is not the new title count. It is the starting-over number of titles for the new fiscal year.

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(b) We do not know the number of co-palletized pieces that were co-palletized prior to the initiation of the discounts approved in Docket No. MC2002-3, and cannot determine how much of the volume reported in the reports would have been co-palletized even if the discounts had not been implemented.

(c) Please refer to the table below for the number and average weight of the “new pallets prepared as a result of co-palletization”.

Time Period	New Pallet	
	No.	Avg. Weight
AP 9 - 2003	181	725
AP10 - 2003	191	626
AP 11 - 2003	331	744
AP12 - 2003	288	797
AP13 - 2003	169	845
Transition Period - 2003	639	602
October, 2003	1,605	297
November, 2003	1,183	339
December, 2003	913	465
January, 2004	1,371	456
February, 2004	1,493	342

(d) The number of the titles that have terminated participation in the co-palletization program is unknown because the participants are not required to report such information.

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ABM/USPS-T1-21. Is there a transfer hub or other facility in Southern California at which the Postal Service could accept dropshipped pallets destined for the Southern California ADCs? If so, please explain why no discounts are being offered for periodicals that are being co-palletized and dropshipped to such a transfer hub?

RESPONSE:

Yes. There is a transfer hub in Southern California in Van Nuys, CA. The facility is essentially a truck terminal and cannot accommodate drop shipments (e.g., no interior access and no proper acceptance capabilities).

There are a number of reasons that discounts are not being offered for periodicals that are being co-palletized and transported by the mailer to a transfer hub, including but not limited to:

1. Proposed experiment is an extension of the existing co-palletization experiment. Adding an additional dropship location would hinder in the efforts to combine mail from both experiments on the same pallet.
2. We do not have cost studies to estimate the discount for this level of dropshipping. Current rate schedule does not have 'transfer hub' dropship rate, therefore, we cannot use the cost differential from Docket No. R2001-1 to estimate the discounts.
3. Adding a 'transfer hub' pallet would dilute the savings and discounts in the proposed experiment.
4. Transfer hubs are not currently recognized as a discount level supported in Mail.dat or any standardized documentation prepared by mailers. Therefore, adding a new destination entry discount for Transfer Hubs would add significantly

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to the level of complexity in the documentation, verification and acceptance of mailings.

5. Transfer Hubs are not maintained and disseminated on any official USPS list for mailer use, such as the labeling lists in the DMM.

And more importantly:

6. Transfer hubs are internal facilities set up only for the transfer of mail. They are not designed or staffed to accept mail from mailers and I do not believe that the Postal Service wants to accept mail at these facilities. These facilities are part of the logistics network to assist Postal Service in getting mail from one part of the country to another.

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ABM/USPS-T1-22. With reference to the documentation requirements listed at pages 10-12, please provide the Postal Services estimates of the costs to the mailer (that is, the publisher, printer and/or fulfillment house) of complying with these requirements.

RESPONSE:

The Postal Service has not studied mailer costs of participation in the proposed experiment. I'm not aware of instances, when the Postal Service has attempted to rigorously study mail preparation costs. Instead, as with other discounts, it is up for the customers to determine if the postage reductions and any perceived service benefits offset their particular additional preparation costs. As reflected in my response to ABM/USPS-T1-5, the Postal Service did attempt to determine whether the proposed discounts would be attractive to some Periodicals mailers. The Postal Service does not believe that the documentation requirements will have a significant impact on participation in the experiment.

The "after" documentation requirements are essentially the same requirements for submitting mailings at discounted rates today, where the documentation provides information about how the mailing is prepared, presort levels, and postage. The additional costs of producing the "before" documentation would likely depend on factors such as whether the mailer has presort software capabilities in-house or uses the services of a third party.

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ABM/USPS-T1-23. Has the Postal Service been told by publishers, printers or fulfillment houses that the cost and other burdens associated with the documentation requirements in the current or proposed co-palletization experiments prevent participation? If so, please provide the details.

RESPONSE:

See the response to ABM/USPS-T1-22. The “before” presort documentation is needed to identify whether pieces would be eligible to receive the current and proposed discounts (i.e., if presorted separately, there would not be enough pieces to meet the minimum pallet weight). A borderline case may be affected by the documentation costs. One mailer has indicated to us that the cost associated with running the “before” presort documentation would likely preclude its participation in the experiment, but I do not believe that this mailer’s concerns are typical.

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ABM/USPS-T1-24. Please explain how the Postal Service determined that a 30% passthrough is appropriate.

RESPONSE

Please see my response to interrogatory TW/USPS-T1-2(e)

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ABM/USPS-T1-25. (a) Would participation be greater at a 50% passthrough? (b) What, if anything, would be the downside of a 50% passthrough?

RESPONSE:

(a) Probably. However, increasing participation was not our only goal. For the discussion of our interest in keeping the proposed experiment small, please see my response to interrogatory TW/USPS-T1-2(a & c).

(b) For the discussion of why we chose the conservative 30 percent passthrough, please see my testimony, USPS-T-1 at 16. An additional pricing constraint was to avoid rate anomalies. Thus, the discounts could not be larger than the current nonadvertising pound rate of \$0.193. Please refer to the following table for hypothetical discounts at various passthroughs.

At a 50% passthrough, the effective editorial pound rate for editorial matter would be negative if dropshipment to the DADC or DSCF is based on skipping 8 zones. As the passthrough gets bigger, this problem gets worse.

Discounts applicable to editorial pounds @ various hypothetical pass-through

Pass-through	30%		50%		80%		90%	
	DADC	DSCF	DADC	DSCF	DADC	DSCF	DADC	DSCF
Zones 1 & 2	\$ 0.008	\$ 0.014	\$ 0.013	\$ 0.023	\$ 0.020	\$ 0.036	\$ 0.023	\$ 0.041
Zone 3	\$ 0.013	\$ 0.019	\$ 0.022	\$ 0.032	\$ 0.035	\$ 0.051	\$ 0.040	\$ 0.058
Zone 4	\$ 0.028	\$ 0.034	\$ 0.046	\$ 0.056	\$ 0.074	\$ 0.090	\$ 0.083	\$ 0.101
Zone 5	\$ 0.050	\$ 0.056	\$ 0.083	\$ 0.093	\$ 0.133	\$ 0.149	\$ 0.149	\$ 0.167
Zone 6	\$ 0.073	\$ 0.079	\$ 0.122	\$ 0.132	\$ 0.194	\$ 0.210	\$ 0.219	\$ 0.237
Zone 7	\$ 0.101	\$ 0.107	\$ 0.168	\$ 0.178	\$ 0.269	\$ 0.285	\$ 0.302	\$ 0.320
Zone 8	\$ 0.125	\$ 0.131	\$ 0.208	\$ 0.218	\$ 0.332	\$ 0.348	\$ 0.374	\$ 0.392

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ABM/USPS-T1-26. (a) Would participation be greater at an 80% passthrough? (b) What, if anything, would be the downside of an 80% passthrough?

RESPONSE:

Please my response to interrogatory ABM/USPS-T1-25.

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ABM/USPS-T1-27. If the passthrough were 90%, would the saving to the Postal Service exceed the discount to the mailer?

RESPONSE:

Yes. But see my response to ABM/USPS-T1-28.

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ABM/USPS-T1-28. Please confirm that, if the passthrough were 90%, the effective editorial pound rate for pieces shipped from zones 6, 7 and 8 would be negative. If you cannot confirm, please explain why.

RESPONSE:

Confirmed. It is also worth noting that we are not proposing a passthrough of 90 percent.

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ABM/USPS-T1-29. Please confirm that, if the passthrough were 90%, and assuming the mailing characteristics of the 100% editorial publication described at page 4, the effective *total* rate for pieces shipped from zones 7 and 8 would be negative. If you cannot confirm, please explain why.

RESPONSE:

It is confirmed that, with a 90% passthrough, assuming the mail piece weighs 9 ounces and has 100% editorial content, the effective total rate for such a piece shipped from zone 8 will be negative.

The effective rate for such a piece shipped from zone 7 will also be negative if such piece is nonprofit or classroom mail and drop-shipped at a DSCF (please see the following table).

Calculation of Total Postage @ 90% Passthrough - Zone 7

Editorial Content	100%		
Piece Weight	9 oz		
Pound Rate	$\$0.193 \times 0.5625 =$	\$ 0.109	\$ 0.109
Piece Rate	Basic Automation	\$ 0.325	\$ 0.325
Total Rate before Discounts		\$ 0.434	\$ 0.434
Applicable Discounts		DADC	DSCF
	Nonprofit / Classroom 5% Discount	\$ (0.022)	\$ (0.022)
	Nonadvertising Content	\$ (0.074)	\$ (0.074)
	Destination Entry Discount	\$ (0.002)	(0.008)
	Destination Entry Pallet	\$ (0.015)	(0.015)
	Proposed Copal Disc @ 90% Passthrough - Zone 7	\$ (0.302)	(0.320)
Total Rate After Discounts		\$ 0.019	\$ (0.005)

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ABM/USPS-T1-30. Please define and quantify what you mean by “substantial additional cost reductions” at page 16, line 14.

RESPONSE:

Please see my response to interrogatory ABM/USPS-T1-31.

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ABM/USPS-T1-31. If your forecast of 20,000,000 participating pieces is accurate, please provide your best estimate of the per piece saving that would be experienced by all non-participating pieces.

RESPONSE:

The combined (DADC = \$1.7 million and DSCF= \$0.2 million) estimated transportation and non-transportation savings is \$1.9 million (Exhibit USPS-1A). Additional savings due to palletization (0.5 cents per-piece; see USPS-T-1 at 18) increase this estimate to slightly over \$2 million. On a per-piece basis this amounts to over 9.5 cents for each piece that is expected to participate in the experiment. After subtracting out the estimated passthrough to the participants, net savings for each participating piece is over 7 cents or \$1.4 million. These savings are substantial when calculated on the basis of participating pieces.

Any small experiment will not have a big impact on the many non-participating pieces. When these savings are distributed over the other 8.5 billion Outside County pieces the impact is in the range of 2/100th of a cent per piece.

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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