

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
TIME WARNER, INC. (TW/USPS-T1-19-20)

The United States Postal Service hereby files the responses of witness
Altaf H. Taufique to the following interrogatories of Time Warner, Inc.:

TW/USPS-T1-19-20, filed on April 2, 2004.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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/s/ _____
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April 13, 2004

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OF TIME WARNER, INC.

TW/USPS-T1-19. On page 14 of your testimony, beginning on line 3, you say: “I did not separately analyze potential cost savings, because the differences between the zoned advertising pound rates reflect all pound-related transportation and nontransportation cost savings that accrue to the Postal Service when mail is entered closer to its destination.” Then in a footnote following this sentence, you say: “Further, the pound-related portion of non-transportation cost savings is fully passed through to estimate the destination entry advertising pound rates.” For purposes of this question, please consider all dropship discounts provided through the advertising pound rates to involve the sum of two components. The first component is from zone z down to zones 1&2 and the second component is from zones 1&2 down to the DSCF, where z can take on values from 3 through 8.

- a. Do you contend that the non-transportation savings of the Postal Service for the first component, from zone z down to zones 1&2, are reflected or recognized in any degree whatsoever in the zoned pound rates from which the dropship discount is calculated? If you do, please provide references to the cost study on which this cost savings is based and describe in detail, using your rate design spreadsheet from Docket No. R2001-1, where and how these savings are built into the zone rates.
- b. If you do not so contend, would you agree that the sentence beginning on line 3, quoted above, is in error? If not, please explain. If so, please provide a corrected sentence.
- c. Please identify the cost study on which the non-transportation savings between zones 1&2 and the DSCF, the second component outlined above, is based, and explain how the pound-related non-transportation costs are developed from it.
- d. If your answer to the question in part a above is essentially “no,” please explain whether the Postal Service has any analysis or other information relating to the non-transportation savings for sacks, and/or pallets, and/or both across the first component, from zone z down to zones 1&2. If it does, please provide that analysis.

RESPONSE:

- a. My contention is that when mail is entered at the destination ADC, SCF or Delivery Unit both transportation and non-transportation (non-transportation cost savings are estimated in comparison to zones 1 & 2) savings are reflected in these rates compared to zones 1 & 2. The

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footnote on page 14 clarifies this issue categorically. I did not claim that the zones 1 & 2 rates compared to Zone 6 rate (for example) takes into account non-transportation cost savings.

Another clarification that is in order is that we are dealing with non-transportation cost savings. "Pound-related" in this context implies that fifty percent which is applied to pound rates. The other fifty percent applies to the calculation of piece-related dropship discounts. Traditionally the rate design for advertising pound rates has included the non-transportation savings only for the calculation of destination entry rates compared to zones 1 & 2. The estimates of these savings were provided by witness Mayes (see USPS-LR-J-68, Appendix F), and the actual numbers used in my spreadsheet can be found in cells D10, D11, and D12 of the sheet titled 'Discounts', reflecting the estimates for SCF and ADC respectively. These estimates are converted to per-pieces bases in C10, C11, and C12. One-half of these savings is used in the calculation of advertising pound rates for destination entry (ADC, SCF and DU). See 'Pound Data_Adv' cells C47, C48 and C49. The other half of these estimates is used in deriving per-piece entry discounts. See worksheet 'Piece Discounts 2' cells C17, C18 and C19.

- b. The sentence to which you refer is accurate when combined with the explanation in the footnote. If I were to re-state this idea, I might say the following: I did not separately analyze potential cost savings, because the differences between the zoned advertising pound rates reflect all

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- transportation and non-transportation (as compared to zones 1 & 2) cost savings that accrue to the Postal Service when mail is entered at the destination ADC, SCF or DDU. As I have stated in part (a), the study is provided in library reference J-68, Appendix F, sponsored by witness Mayes (USPS-T-23). The use of these estimates in my workpapers is also discussed in part (a).
- c. This second component is provided in Library Reference J-68 sponsored by witness Mayes in Docket No. R2001-1. See also my response to part (a).
- d. No.

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TW/USPS-T1-20. On page 14 of your testimony, beginning on line 13, you say: “The existing rate structure allows the mailer of advertising pounds to make an economic decision regarding dropshipping based on the existing advertising pound rate differentials.”

a. By “economic decision,” please explain whether you mean that the mailer sees reflected in the rates the postal-resource implications of dropshipping vs. not dropshipping. If you mean something fundamentally different from this, please explain in detail what you mean, including the framework within which the decision is made and any attendant assumptions made.

b. Do you agree that if any non-transportation costs are *not* reflected in the zoned pound rates, an economic decision of the kind you reference cannot really be made, even for advertising? Explain any disagreement.

c. Do you agree that periodicals generally have some editorial content and therefore that for any actual publication, an economic decision of the kind you discuss cannot be made, even neglecting questions about how nontransportation costs are recognized? Explain any disagreement.

d. Do you agree that, apart from the rates you propose, mailers of publications that are 100 percent editorial have no information whatever on the postal resource implications of any decision they might make and therefore that they cannot be expected to make economic decisions?

e. Would you agree generally that if the rates you propose are adopted, mailers of advertising could make economic decisions (except for certain nontransportation costs), most mailers of publications with non-zero portions of editorial could make distorted economic decisions, most mailers of all-editorial publications could make severely distorted economic decisions, and mailers that use the rates you propose could make moderately distorted economic decisions? Explain any disagreement and explain where you see any fairness and equity in partitioning mailers into these camps.

RESPONSE:

a. Yes.

b. I agree that if the non-transportation cost savings are not reflected in the pound rates then at least one piece of information that is the basis of the economic decision that I have discussed is lacking. However, I contend that the advertising pound rates for destination entry points (DADC,

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DSCF, and DDU) do not lack that component (as stated earlier non-transportation cost savings are benchmarked to Zones 1 & 2), and, at least for the advertising pounds, provide the information that is needed to make these economic decisions. Please see my response to interrogatory TW/USPS-T1-19 part (a).

- c. I agree and that is the reason for our proposal in this docket. As I stated in my testimony:

The existing rate structure allows the mailer of advertising pounds to make an economic decision regarding dropshipping based on the existing advertising pound rate differentials. Thus, no additional per-pound incentive for advertising pounds is needed to reflect the related transportation costs. On the other hand, editorial pounds pay a uniform rate regardless of the entry point. This uniform rate does not reflect the savings generated by dropshipping. Therefore, the cost savings for editorial pounds constitute the basis for the development of the proposed incentives.

USPS-T-1, at 14, lines 13-20

- d. Please see my response to part (c) above. This proposal is attempting to address this issue with respect to decisions to co-palletize and dropship high-editorial publications..
- e. Since the economic decisions that I referred to relate to dropshipping the mail at the DADC, DSCF and DDU, I do not believe that these economic decisions are completely distorted regarding the entry of advertising pounds. Regarding the dropshipment of editorial pounds, I believe that the incentives which reflect the Postal Service's cost

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information were lacking. Our proposal in this docket moves toward a greater consideration of this issue. This proposal is designed to create better signals for economic decisions by certain mailers regarding dropshipping.

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.

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