

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

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**COMPLAINT OF TIME WARNER, INC.  
ET AL. CONCERNING PERIODICALS  
RATES**

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**Docket No. C2004-1**

**REBUTTAL TESTIMONY  
OF  
RACHEL TANG  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE**

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1 **Autobiographical Sketch**

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3 My name is Rachel Tang. I am an economist in the office of Pricing at the United  
4 States Postal Service. Prior to joining the Postal Service in January, 2003, I was  
5 employed by Columbia Energy Group (CEG) in Herndon, VA, from 1998 to 2000. At CEG,  
6 I was a senior analyst in Risk Management. My responsibilities there included structuring,  
7 implementing, monitoring, and evaluating various risk management programs. From 2001  
8 to 2002, I was an independent business consultant to Sino-US Commercial Group and  
9 Chase Merchant Services, LLC.

10 I received a Master's Degree in Industrial Administration from Carnegie Mellon  
11 University in Pittsburgh, PA in 1998, and a Bachelor's Degree of Science in Business  
12 Administration from City University of New York in Queens, NY.

13 This is the first time I am testifying before the Postal Rate Commission.

1 **I. Purpose and Scope of Testimony**

2 The purpose of my testimony is to examine the impact of the Periodicals rate  
3 redesign proposed by complainants in this proceeding.

4 **II. Background**

5 The structural change proposed by the Time Warner complaint would require a  
6 large number of publications to alter their mail preparation behavior or face substantial  
7 increases that may adversely affect many smaller volume publications. The Postal  
8 Service agrees with much of the rationale provided by the complainants for this structural  
9 change, but, as in the past, believes that the benefits of significant structural change must  
10 be viewed in the light of the impact on affected customers.

11 In prior dockets when the Postal Service proposed and the Commission  
12 recommended classification changes that led to de-averaging of rates, both the Postal  
13 Service and the Commission were sensitive to the impact on customers, particularly  
14 those that could face higher rates. For example, in Docket No. R97-1, the Postal  
15 Service's proposal split the 3/5 Digit combined presort into 3-Digit and 5-Digit (Docket No.  
16 R97-1, USPS-T-34, at 6-12). In Docket No. R2001-1, the Postal Service introduced  
17 another level of dropship discount for mail entered at a Destination Area Distribution  
18 Centers (ADC) as well as discounts on dropshipment of editorial pounds (Docket No.  
19 R2001-1, USPS-T-34, at 5-9). Also, in Docket No. R2001-1, the Postal Service's  
20 proposal included discounts for palletized mail (Docket No. R2001-1, USPS-T-34,  
21 at 9-11). A common theme in these dockets was to implement this de-averaging while  
22 taking into account the impact on non-participants, and adjusting passthroughs, cost  
23 allocations, and markups to mitigate rate increases. See, e.g., R97-1, USPS-T-34 at 7;

1 Tr.10/4849; R2001-1, USPS-T-34 at 7-9, 11-12; Tr. 7/1202, 1212-1213, 1221, 1248-1249.  
2 Time Warner et al. have not demonstrated that there are ways to successfully mitigate  
3 the impact of their proposal.

4 The Postal Service is well aware of the issues relating to mail preparation and the  
5 resulting pressure on Periodicals processing costs, and appreciates discussions aimed at  
6 improving efficiency for the Periodicals class, including the efforts and thoughts behind  
7 the proposal by Time Warner et al. We believe that diverse opinions and their thoughtful  
8 articulation aid in the common goal of a vibrant and healthy Periodicals class. However,  
9 the classifications proposed by Time Warner et al. could make it difficult to mitigate the  
10 impact on those who are not able to make fundamental changes in their mail preparation  
11 behavior. The Postal Service believes the benefits of substantive structural changes must  
12 be evaluated in the context of other factors such as the impact on non-participants, as  
13 well as ease of implementation for all customers and post offices, both large and small.

### 14 **III. Impact of Complainants' Proposal**

15 The rates proposed in witness Mitchell's testimony (Tr. 3/840) have differing  
16 effects on Periodicals publications of different sizes and densities. These effects can be  
17 illustrated by dividing Periodicals publications into three groups based on mailed  
18 circulation. Small-circulation publications are those with circulations of at most 15,000  
19 copies per issue. Medium-circulation publications are those with circulations between  
20 15,000 and 100,000 copies per issue. Large-circulation publications are those with  
21 circulations above 100,000 copies per issue.

22 In addition to mailed circulation, I divided publications based on density, that is, the  
23 geographic concentration of the distribution of a certain publication. Using the percentage

1 of mail pieces paying the 5-digit (5D) and/or Carrier Route (CR) rates, I defined high-  
2 density publications as publications with more than 30 percent of their mail volume paying  
3 5D or CR rates. High-density periodicals with large mailed circulation are usually  
4 national publications; those with small circulation tend to be regional publications. Those  
5 publications with less than 30 percent of the volume paying 5D or CR rates are defined as  
6 low-density publications.

7 I obtained an illustrative sample of publications in each of the three circulation  
8 groups. In order to calculate the estimated postage under Time Warner's proposal, it is  
9 necessary to obtain data from postage statements, as well as containerization information  
10 from either qualification reports or mail.dat files provided by the publications. For some of  
11 the sample publications, this information could be retrieved from the PostalOne Electronic  
12 verification system. For medium and large publications the sample was drawn from the  
13 publications providing mail.dat files to the PostalOne Electronic verification system, with  
14 probability proportional to annual volume. For the small publications, information was not  
15 available through PostalOne, so I collected data from the corresponding postal business  
16 mail entry units where these publications are entered. As a result, the sample of small  
17 publications was drawn randomly from the universe of small publications, with probability  
18 proportional to annual volume.

19 The result is a random sample of 55 publications drawn from the population of  
20 29,979 publications (see Table 5), including 24 small publications, 20 medium  
21 publications, and 11 large publications. This sample of publications not only includes  
22 publications of different sizes, but also represents various mail characteristics and/or  
23 patterns -- some of the publications have very high advertising content, while others have

1 none; some are mailed mostly in skin sacks, while some are on pallets and drop shipped  
2 close to their destinations.

3 Assuming the current mailing pattern and characteristics, both current Periodicals  
4 rates<sup>1</sup> and the proposed Time Warner rates were applied, and estimated postage  
5 payments under both sets of rates were calculated. Table 1 shows an overview of the  
6 estimated percentage change in postage under Time Warner's proposed rates.

7 Table 1: Overview of Estimated Postage Change

	Sample Size		Postage Change (%)	
	Low Density	High Density	Low Density	High Density
Small	10	14	0.2% - 67.1%	(5.0%) - 79.4%
Medium	10	10	(23.1%) - 23.5%	(23.2%) - 24.1%
Large	1	10	1.34%	(24.5%) - (4.1%)

8

9 Among the 24 small publications, 20 will face a postage increase ranging from 0.2  
10 percent to 79.4 percent under the Time Warner proposed rate structure and rates. Four  
11 publications will incur a moderate postage decrease between 0.1 percent and 5 percent.

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<sup>1</sup> This analysis has been performed without considering any increases that could be expected in the future as part of a general rate increase.

1 Table 2 presents detailed information on the estimated change in postage between  
 2 the current rates and the Time Warner proposed rates for these small publications.

3 Table 2: Estimated Postage Change – Small Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage /Piece	% Change
Low	S1	65%	0.280	0.302	0.504	67.05%
Low	S2	75%	0.274	0.286	0.424	48.29%
Low	S3	71%	0.180	0.322	0.428	32.69%
Low	S4	100%	0.357	0.281	0.368	31.00%
Low	S5	100%	2.640	0.766	0.986	28.73%
Low	S6	86%	1.170	0.490	0.552	12.51%
Low	S7	100%	0.107	0.244	0.274	12.24%
Low	S8	59%	0.186	0.303	0.315	3.95%
Low	S9	100%	0.172	0.332	0.336	1.23%
Low	S10	97%	0.110	0.229	0.229	0.24%
High	S11	68%	0.160	0.292	0.524	79.43%
High	S12	47%	0.190	0.222	0.336	51.20%
High	S13	60%	0.466	0.256	0.352	37.43%
High	S14	71%	0.405	0.255	0.338	32.64%
High	S15	98%	0.390	0.260	0.315	21.28%
High	S16	41%	0.281	0.231	0.260	12.50%
High	S17	98%	0.460	0.283	0.317	11.99%
High	S18	100%	0.080	0.227	0.248	9.43%
High	S19	75%	0.150	0.186	0.203	9.00%
High	S20	26%	1.904	0.642	0.674	5.07%
High	S21	38%	0.130	0.247	0.247	-0.05%
High	S22	90%	0.060	0.141	0.139	-1.37%
High	S23	42%	0.480	0.323	0.315	-2.33%
High	S24	33%	1.200	0.416	0.395	-5.00%

4  
 5  
 6 Table 3 shows the postage impact of the Time Warner proposed rate structure and  
 7 rates upon the 20 medium-size publications. The estimated postage changes are more  
 8 evenly dispersed in terms of their magnitude as well as direction. These estimated  
 9 postage changes range from a 23.2 percent decrease to a 24.1 percent increase.

10

1 Table 3: Estimated Postage Change – Medium Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage /Piece	% Change
Low	M1	100%	0.452	0.284	0.350	23.46%
Low	M2	96%	0.383	0.274	0.311	13.29%
Low	M3	50%	0.539	0.447	0.501	12.14%
Low	M4	40%	0.520	0.406	0.414	2.04%
Low	M5	27%	1.988	0.933	0.911	-2.39%
Low	M6	45%	1.193	0.539	0.507	-5.99%
Low	M7	61%	0.649	0.316	0.272	-14.00%
Low	M8	50%	0.488	0.271	0.229	-15.48%
Low	M9	62%	0.576	0.256	0.199	-22.22%
Low	M10	53%	0.692	0.274	0.211	-23.11%
High	M11	92%	0.384	0.261	0.324	24.07%
High	M12	100%	0.574	0.269	0.307	14.25%
High	M13	62%	0.183	0.223	0.253	13.52%
High	M14	41%	0.945	0.475	0.506	6.50%
High	M15	51%	0.758	0.425	0.452	6.31%
High	M16	50%	0.418	0.311	0.327	4.92%
High	M17	50%	0.490	0.288	0.254	-11.78%
High	M18	61%	0.416	0.232	0.190	-17.89%
High	M19	51%	0.581	0.257	0.204	-20.78%
High	M20	58%	0.596	0.252	0.193	-23.21%

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3

4 The estimated postage impact of the Time Warner structure and rates on the large  
 5 publications, on the other hand, seems to be more consistent, with all but one publication  
 6 paying less postage under the Time Warner rate structure, as shown in Table 4.

7 Table 4: Estimated Postage Change – Large Publications

Density	Publication ID	Editorial %	Piece Weight (lb)	Current Postage / Piece	TW Postage /Piece	% Change
Low	L1	55%	0.387	0.330	0.334	1.34%
High	L2	85%	0.461	0.288	0.276	-4.09%
High	L3	75%	0.464	0.278	0.253	-8.97%
High	L4	50%	0.409	0.249	0.214	-14.13%
High	L5	67%	0.278	0.196	0.167	-14.68%
High	L6	64%	0.416	0.229	0.188	-18.04%
High	L7	60%	1.479	0.488	0.398	-18.45%
High	L8	59%	0.582	0.257	0.206	-19.87%
High	L9	56%	0.620	0.266	0.211	-20.35%
High	L10	45%	0.895	0.321	0.253	-21.25%
High	L11	61%	0.427	0.213	0.161	-24.51%

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1           The Postal Service recognizes that the results presented in Tables 1-4 are not  
2 based on a statistically random selection of publications. However, these results do  
3 indicate the range of potential impacts on different types of publications.

4           With over 80 percent of the small publication sample facing potential postage  
5 increases, the Postal Service is concerned about the rate impact on this group of  
6 publications. In this sample, 58 percent of the small publications will face at least a 10  
7 percent postage increase, 33 percent will face over a 30 percent postage increase, and  
8 13 percent will face over a 50 percent postage increase. The results suggest, in no subtle  
9 fashion, that small publications are the ones most vulnerable under the rate structure and  
10 rates proposed by Time Warner et al.

#### 11 **IV. Rate Design Policy**

12           The aforementioned sampling and assessment listed comparable numbers of  
13 sample publications for different size groups to get an even feel of the impact. However,  
14 the 55 sample publications, randomly drawn from 29,979 publications, do not depict the  
15 true proportion in terms of titles and mail volume in the Periodicals class.

16           As presented in Table 5, the distribution of titles and annual volumes shows that  
17 small publications represent 12 percent of the total volume but 84 percent of the titles.  
18 Large publications, on the other hand, represent 3 percent of the titles but 68 percent of  
19 the total volume. This distribution suggests that Periodicals ratemaking must consider the  
20 full range of publication sizes. Even if the impact of a change might fall on less than 10  
21 percent of the total volume, that 10 percent could represent more than 20,000 small  
22 Periodicals publications, and a large proportion of the editorial content in Periodicals.

23

1 Table 5: Count of Periodicals Titles & Volume<sup>2</sup>

Publication Size	Count of Titles	% of Total Titles	Total Pieces	% of Total Pieces
Small	25,234	84%	1,145,511,644	12%
Medium	3,816	13%	1,871,810,847	20%
Large	929	3%	6,313,661,606	68%
Total	29,979	100%	9,330,984,097	100%

Note:

1. All publications with only within-county volume are excluded.
2. All publications with no reported frequency of issuance are excluded.

2  
3           There is no doubt that increasing efficiency is an important aspect of rate design  
4 and should be assigned considerable weight. In fact, we believe there is considerably  
5 more that can be done to advance such efficiency. However, before major classification  
6 changes are presented to the Commission, the Postal Service believes that other issues  
7 along with efficiency should be addressed, such as the impact on customers, operational  
8 readiness, and implementation, as well as the public policy goals for Periodicals. In  
9 considering appropriate rate design, the Postal Service believes a broad approach  
10 considering a variety of policy goals is needed. In this regard, the Postal Service believes  
11 that redesign of rate structures cannot be fully assessed or accomplished without a  
12 simultaneous design of the actual rates for the structure. This redesign needs to take into  
13 account revenue leakage from existing activities to ensure that the revenue target is  
14 achieved, especially in subclasses with a lean cost coverage.

15           The Postal Service has been striving to improve efficiency and contain cost  
16 increases for Periodicals. And we appreciate the efforts of Time Warner et al. to work with  
17 us in past and ongoing efforts. Periodicals rate design has helped with these goals by  
18 sending consistent and positive signals to the Periodicals community – introduction of  
19 various worksharing discounts, e.g. dropship discounts and pallet discounts, and the

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<sup>2</sup> Source: FY2003 PERMIT Mailing System data

1 recent co-palletization experiments (Docket Nos. MC2002-3 and MC2004-1). In fact, one  
2 can argue that in the past few years, Periodicals have received the most attention in  
3 terms of structural changes designed to improve efficiency, as compared to other classes.  
4 However, the Postal Service recognizes that more improvements are in order and more  
5 can be expected in the future.

6 The Postal Service proposes rate design and structure changes only after  
7 seriously considering and carefully weighing all the important ratemaking elements and  
8 public policy considerations. The signals to be sent to the publishing and mailing  
9 community through rate design should be consistent and positive. A balanced approach  
10 with consistent steps to send the right signals and encourage better mail preparation and  
11 more worksharing can enhance efficiency without sacrificing the broad diversity of  
12 editorial content in Periodicals.

13 **V. Comparison Between Periodicals Rate Increases and Consumer Price Index**

14 Witness Mitchell poses what he calls “the obvious threshold question”: “what is so  
15 wrong with the Periodicals rates as to justify a complaint proceeding seeking to effect  
16 their reform?” Tr. 3/800. In responding to this question, witness Mitchell discusses  
17 increases in Periodicals rates, stating:

18

19 Over a period that extends back into the 1980s, the increases in  
20 Periodicals rates have been greater than the increases in the Consumer  
21 Price Index, even after the reduced markups recommended by the  
22 Commission. The fact that this has been occurring makes it all the more  
23 important to search for other avenues of progress, on which this complaint  
24 focuses.  
25

1 *Id.* Then he describes this phenomenon in detail, under the heading of “Periodicals  
2 Rates Have Been Increasing Too Rapidly,” by comparing a CPI-U<sup>3</sup> index to the  
3 Periodicals rate markup index. He concludes that Periodicals rates have been rising too  
4 rapidly, especially in the light of technological changes made by the Postal Service and  
5 mail preparation changes made by mailers resulting in cost reductions. Tr. 3/806-08.

6 While witness Mitchell accurately describes the data, interpreting this data requires  
7 broadening this picture a bit. In fact, witness Mitchell alludes to a broader approach in  
8 footnote 4 on pages 11 and 12 of his testimony. Tr. 3/808-09. In this context, the relevant  
9 data are the actual postage paid by the mailers as reflected in revenue per piece for the  
10 Outside County subclass. When the revenue-per-piece ratio is indexed, the spread  
11 between CPI-U and the revenue-per-piece index is substantially closer than implied by  
12 witness Mitchell’s comparison. Further, if these two indices are compared using rates  
13 resulting from Docket No. R94-1 as the base, the increase in the revenue-per-piece index  
14 is actually lower than the change in the CPI-U index. (See Table 6: Revenue-per-Piece vs.  
15 CPI-U.) The revenue-per-piece ratio reflects changes in mail mix, especially due to  
16 worksharing that is paid for by the mailers, with the actual expenditure by the mailer  
17 including both postage and the cost of worksharing activities. Changes in rate design  
18 resulting from recent rate cases have not simply been across-the-board increases, but  
19 have also provided mailers with opportunities to avoid postage increases through limited  
20 changes in their mail preparations practices.

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<sup>3</sup> CPI-U stands for Consumer Price Index – All Urban Consumers.

1 Table 6: Revenue-per-Piece<sup>4</sup> vs. CPI-U<sup>5</sup>

Year	Revenue (000's)	Piece (000's)	Revenue/Piece	Rev/Pc Index	CPI Index
1995	\$ 1,874,876	9,287,048	\$ 0.202	100%	100%
1996	\$ 1,917,424	9,248,366	\$ 0.207	103%	103%
1997	\$ 1,964,605	9,464,357	\$ 0.208	103%	105%
1998	\$ 1,972,901	9,392,726	\$ 0.210	104%	107%
1999	\$ 2,017,696	9,380,373	\$ 0.215	107%	109%
2000	\$ 2,076,257	9,467,716	\$ 0.219	109%	113%
2001	\$ 2,106,875	9,198,266	\$ 0.229	113%	116%
2002	\$ 2,066,900	8,839,847	\$ 0.234	116%	118%

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4 In summary, the Postal Service appreciates efforts to improve efficiency in  
 5 Periodical rate design. As we go forward in identifying the relevant cost-driving  
 6 characteristics that can be incorporated into the rate design, we must balance a number  
 7 of considerations, including the impact on customers. While we work with the diverse  
 8 group of customers to improve the Periodicals class, we believe it is premature to  
 9 determine the particular rate structure to be employed.

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<sup>4</sup> Source: USPS RPW data

<sup>5</sup> Source: Bureau of Labor Statistics data