

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

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

Docket No. C2004-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS RACHEL TANG TO INTERROGATORIES OF
TIME WARNER INC. ET AL.
(TW ET AL./USPS-RT2-1-12)

The United States Postal Service hereby files the response of witness Rachel Tang to the following interrogatories of Time Warner Inc. et al., filed on September 14, 2004:

TW ET AL./USPS-RT2-1-12.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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TW et al./USPS-RT2-1. On page 4, line 1, of your testimony, you indicate that some of the publications in your sample “are mailed mostly in skin sacks”.

- a. Please define the term "skin sack" as used here and elsewhere in your testimony.
- b. Please explain whether you agree that the Postal Service’s cost of handling skin sacks (not including transportation, bundle handlings, piece handlings, and carrier costs) is in many cases higher than the total postage for pieces contained in the sacks.
- c. Please explain whether you view it as in any sense businesslike or consistent with an efficient postal system to charge skin-sack mailers postage that fails by a wide margin to cover the costs of handling the mail involved.
- d. When mailers of skin sacks are charged postage that fails by a wide margin to cover the costs of handling the associated mail, please explain who it is that should be required to cover these costs.
- e. Please explain whether it is your position that mailers should be free to make a decision to begin using skin sacks when the additional postal costs caused by that decision are considerably larger than any increase in postage, even when the increase in postage is positive.

RESPONSE:

- a. The term “skin sack” refers to a sack that contains no more than 24 pieces.
- b-e. Since I am not a costing expert, I do not have sufficient first-hand information or knowledge to answer these questions. Moreover, I am not aware of cost studies that focused on skin sacks. My testimony is intended to examine the impact of the Periodicals rate redesign proposed by Time Warner et al. and to address the broad approach applied by the Postal Service to rate design policy.

While I am concerned that rates cover costs, I generally do not focus on whether rates cover costs for a particular piece of mail, or portion of a mailing. However, as a general notion, there is a concern that fewer pieces per sack means that there is a greater cost per piece for each sack handling. With that in mind, efforts to address the “skin sack” issue should take into account these additional costs and any impact on customers, along with other potential areas such as service quality -- whether real or perceived. Postal ratemaking should and does address the issue of mail preparation, be

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it skin sacks or other types of containers, automation compatibility, presort levels, and dropshipment. These factors are considered in the broad context of the rates covering costs for the subclass, impact on customers, real or perceived issues relating to service, and a host of other factors.

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TW et al./USPS-RT2-2. The right-hand two columns of Table 1 on page 4 of your testimony contain 11 percentage figures, all except the figure of 1.34% being an extreme for a category. For each of these 11 percentage figures, please provide the number of sacks and the number of pallets, including the average number of pieces per bundle and the average number of bundles per container.

RESPONSE:

See the following table:

Publication Size	Publication ID	Editorial %	Estimated Postage Change (%)	Number of Sacks	Number of Pallets	Average # of Pieces per Bundle	Average # of Bundles per Container
Small	S10	97%	0.2%	33	0	13.856	4.636
Small	S1	65%	67.1%	320	0	12.569	1
Small	S24	33%	-5.0%	142	0	20.27	1.254
Small	S11	68%	79.4%	23	0	11.40	1.087
Medium	M10	53%	-23.1%	496	3199	12.944	103.66
Medium	M1	100%	23.5%	1026	12	13.04	4.007
Medium	M20	58%	-23.2%	417	981	12.77	119.14
Medium	M11	92%	24.1%	935	72	12.022	11.197
Large	L1	55.0%	1.34%	5483	154	11.612	6.922
Large	L11	61.0%	-24.5%	2585	11433	16.104	150.887
Large	L2	85.0%	-4.1%	4194	265	11.512	12.354

Please note that for selected publications where preparation data were obtained from PostalOne mail.dat files (large and medium strata), all mail.dat files for the selected publication were used in the analysis. For these publications the sack and pallet counts do not represent the number of sacks and pallets used to mail a single issue. Data from multiple mailings were used, when available, to better represent the impact of the proposed rates. Treating multiple mailings separately captures the impact on back issues and supplemental mailings, as well as the effect of variations in copy weight or circulation.

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TW et al./USPS-RT2-3. On page 7, lines 21-22, you indicate that 10 percent of Periodicals volume “could represent more than 20,000 small Periodicals publications, and a large proportion of the editorial content in Periodicals.”

a. In Postal Fiscal Year 2003, there were just over 8.5 billion Outside County Periodicals pieces. Ten percent of that volume would be 850 million pieces. If these are the pieces of the 20,000 small publications you reference, please describe in detail how you would measure their proportion of the editorial content of the Periodicals subclass.

b. Do you have any basis for disagreeing that the per-piece and per-pound editorial discounts in the TW et al. proposal give substantial recognition to the editorial content in these 20,000 small publications? Explain any disagreement.

c. Please explain whether it is your contention that the editorial content in these 20,000 publications should as a rate-setting matter be singled out and given more recognition than the editorial content in the other publications of the subclass. If you so contend, please explain the basis for the additional recognition and how much additional recognition you would give.

d. If you were asked to measure the extent of the editorial recognition given to these 20,000 small publications, please explain the measures you would use.

RESPONSE:

a. In my testimony, on page 7, lines 21-22, I indicated that 10 percent of Periodicals volume “could represent more than 20,000 small Periodicals publications, and a large proportion of the editorial content in Periodicals.” This statement was based on Table 5 on page 8, which shows “small publications represent 12 percent of the total volume but 84 percent of the titles.” I used the quoted words to point out that even if the impact of a change might fall on a small percentage of the total volume, this small percentage of volume could represent a large percentage of Periodicals titles. Since each title contains editorial content, these titles would represent a large proportion of the editorial content produced for publication using Periodicals rates. I believe that is a useful context in which to view the impact. Gauging impact solely on the basis of mail volume can ignore the impact on many of the customers within a classification. The numbers I quote illustrate that point.

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b. I agree that the per-piece and per-pound editorial discounts in the TW et al. proposal give substantial recognition to the editorial content in the 20,000 small publications. And, as indicated in my response to a., I believe the assessments of impact should look not only at the number of pieces, but also at the customers within the classification.

c. I do not believe that the editorial content in these 20,000 publications should as a rate-setting matter be singled out and given more recognition than the editorial content in the other publications of the subclass. But the impact on all publications of changes to the current rate treatment of editorial content needs to be considered. I stated in my testimony, at page 9, that “the Postal Service proposes rate design and structure changes only after seriously considering and carefully weighing all the important ratemaking elements and public policy considerations,” including the ECSI value represented by the editorial content of all publications. In considering appropriate rate design, the Postal Service uses a broad and balanced approach involving a variety of policy goals. And as I pointed out previously, I see no reason why the Postal Service should merely assess impact as a percentage change on the classification as a whole without trying to assess the effect on the customers within the classification.

d. I do not have a specific measure for the extent of the editorial recognition given to the 20,000 small publications. Please see my response to a. above.

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TW et al./USPS-RT2-4. On page 8, lines 4-5, you indicate that “considerably more” can be done to advance the efficiency of Periodicals. Please explain the additional steps that you believe should be taken to advance the efficiency of Periodicals.

RESPONSE:

I stated on page 8 of my testimony that “the Postal Service has been striving to improve efficiency and contain cost increases for Periodicals.... Periodicals rate design has helped with these goals by sending consistent and positive signals to the Periodicals community – introduction of various worksharing discounts, e.g. dropship discounts and pallet discounts, and the recent co-palletization experiments (Docket Nos. MC2002-3 and MC2004-1).” I believe the Postal Service should continue these types of initiatives to advance the efficiency of Periodicals.

In the Answer of the United States Postal Service (February 11, 2004), at pages 22-23, the Postal Service described its efforts to advance the efficiency of Periodicals [footnotes omitted]:

The Postal Service shares many of the concerns expressed in the Complaint regarding potential opportunities to improve Periodicals efficiency through rate design. These issues began being affirmatively addressed through some of the mail preparation initiatives described in Docket No. R2000-1 (for example, reduction in bundle breakage, elimination of skin sacks for carrier route mailings, combined automation and presort mailings, and implementation of vertical flat casing). The rates arising out of Docket No. R2001-1 provided incentives related directly to the palletization of Periodicals and the deposit of those pallets closer to the point of delivery, as well as a new Area Distribution Center (ADC) dropshipping discount. And as mentioned previously, the Postal Service has worked to develop mechanisms for smaller-circulation publications to be combined and prepared in the more efficient manner normally associated with larger-circulation mailings. Despite these ongoing efforts, the Postal Service agrees that there is more to be done to promote efficiency within the Periodicals rate design.

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TW et al./USPS-RT2-5. On page 8, line 8, you refer to "the public policy goals for Periodicals." Please list and explain each public policy goal for the Periodicals subclass that you have in mind.

RESPONSE:

In addition to the nine pricing criteria listed and well addressed in Postal Service witness Moeller's testimony (Docket No. R2001-1, USPS-T-28, at 2-12), I stated in my testimony that in order to achieve the common goal of promoting the widespread distribution of editorial matters to bind the nation together, all the important ratemaking elements and public policy considerations should be carefully weighed and seriously considered. The signals to be sent to the Periodicals community should be consistent and positive to maintain a diverse, vibrant, and healthy Periodicals class.

In the Postal Rate Commission's Opinion And Recommended Decision (Docket No. R90-1, V-121), the Commission points out that:

Moreover §3622 (b) (8), which was added to the Act in 1976, further reinforces the special nature of the editorial content of second-class mail and requires special treatment of such. The Commission will not recommend a rate structure which will impair that special treatment. Although Dow Jones witness King could not find the term "widespread" in the Postal Reorganization Act, the Commission has consistently interpreted §§101 (a) and 3622 (b) (8) to support the public policy of widespread dissemination of public information. As the historian, Kielbowicz, on behalf of ABP, testifies, the history of Congressional second-class rate setting also supports this public policy.

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TW et al./USPS-RT2-6. On page 8, lines 12-14, you say: “This redesign needs to take into account revenue leakage from existing activities to ensure that the revenue target is achieved, especially in subclasses with a lean cost coverage.”

- a. Please explain how you would define a revenue leakage from an existing activity and how it would differ from a revenue leakage from an activity that does not yet exist.
- b. Please explain how the process of accounting for revenue leakages depends on the cost coverage of the subclass.
- c. Are you aware of any revenue leakages that have not been fully accounted for in the TW et al. proposal?

RESPONSE:

a. A revenue leakage from an existing activity occurs when such activity remains exactly the same but becomes entitled to a reduction in rates. In other words, this existing activity will be rewarded additional savings without the slightest change in behavior that would help the Postal Service reduce its costs.

For example, assume the Postal Service proposes a discount for improvement in mail preparation that would reduce the Postal Service’s costs of processing, transporting, and delivering that mail. Let’s assume that all palletized pieces are eligible for the proposed discount. If all eligible pieces were to move from sacks onto pallets, for example, then after the introduction of the discount, there would be no revenue leakage. However, if half of these eligible pieces were already on pallets, then revenue leakage would occur. And if other rates do not increase to recover the leakage, this would cause a negative impact on the overall cost coverage.

- b. Revenue leakage is more of a concern for Periodicals, because the cost coverage is already so low. Revenue leakage could produce a situation in which revenues do not cover costs.
- c. No.

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TW et al./USPS-RT2-7. On page 10, lines 2-3, you state that witness Mitchell's testimony contains a comparison between the CPI-U and the markup index for Periodicals.

- a. Generically, please explain the meaning that would attach to any comparison between the CPI-U and the markup index for Periodicals.
- b. Please point more specifically to any place in Mitchell's testimony where the CPI-U is compared to the markup index for Periodicals.

RESPONSE:

a. In general I believe that a comparison between the CPI-U and the markup index for Periodicals should be carefully considered, and may be particularly affected by a variety of factors described in b. below.

b. My testimony should not have stated that witness Mitchell compared the CPI-U index to a Periodicals Rate markup index. It should state that witness Mitchell compared the CPI-U index to "an index of Periodicals rates, at a constant markup index" (Docket No. C2004-1, TW et al.-T-1, at 10). An appropriate revision to my testimony will be filed shortly.

My revision to the description of witness Mitchell's analysis does not affect the balance of my testimony in any way. In that testimony I point out that one way to look at the changes in Periodicals rates over the past two decades is to look at the price of an average Periodicals piece. Indeed, I doubt that comparing the CPI-U index to Mr. Mitchell's "index of Periodicals rates, at a constant markup index" contributes usefully to the Periodicals pricing discussion. Witness Mitchell's comparison relies on assumptions that are not necessarily realistic or appropriate, and these assumptions render that comparison not meaningful for pricing Periodicals.

Implicit in Mitchell's comparison presented in Graph 1 of his testimony is the idea that Periodicals subclasses either would or should have maintained the same markup

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index over approximately a two-decade period. These assumptions are flawed. They inappropriately expand the role of the markup index from being a useful tool for describing relatively contemporaneous rate changes to being a long-run normative pricing rule.

Maintaining a constant markup index over time violates reasonable commonsense pricing principles. This is especially true over long periods of time when significant structural changes are occurring in rate designs and mail mixes. The following example illustrates the problems inherent in assuming a constant markup index.

In this simplified illustration, the Postal Service offers two products, A and B, each having the volume variable costs and institutional cost burdens shown in Table 1. The markup for each product is 100 percent, and the markup index is 1.00 for both A and B.

Table 1

	Product A	Product B	All Products
Volume Variable Costs	25	25	50
Institutional Costs	25	25	50
Total Revenue Requirement	50	50	100
Markup	100%	100%	100%
Markup Index	1.00	1.00	1.00

Table 2 shows what might happen after a 20 percent increase in all costs (except for Product A's volume variable costs) were factored into rates as a result of an omnibus rate case. In this analysis, let's assume that all other factors are the same as they were before the cost increase. Product A's unit costs could have remained constant for any number of reasons. One possibility is that underlying costs did increase by 20 percent

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(or 5 units out of 25), but that a worksharing opportunity worth 5 units exactly offset the volume variable cost increase. If the Postal Service proposed, and the Commission agreed, that each of the two products should again bear equal unit shares of the institutional cost burden, the resulting markups, markup indexes and average price increases would be as shown in Table 2.

Table 2

	Product A	Product B	All Products
Volume Variable Costs	25	30	55
Institutional Costs	30	30	60
Total Revenue Requirement	55	60	115
Markup	120%	100%	109%
Markup Index	1.10	0.92	1.00
Average Rate Increase	10%	20%	15%

It is worthwhile observing that as a result of this pricing approach, which is not only plausible, but also reasonable, Product A's markup and markup index both rise, while Product B's markup is the same as it was previously, but its markup index has fallen. Looking at the average rate increases, Product A enjoys a less-than-average increase, which is reasonable and consistent with its slower rate of cost increase. Product B has the full 20 percent cost increase passed along in rates. Again, this seems reasonable and consistent with the movement in underlying costs.

Now, suppose that instead of maintaining equal sharing of the institutional cost burden, the Postal Service and the Commission decided to impose the notion of constant markup indexes. Table 3 shows the outcome. Since Products A and B had equal markups before the cost increases, constant markup indexes would mean that A and B must have equal markups after the rate change.

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Table 3

	Product A	Product B	All Products
Volume Variable Costs	25	30	55
Institutional Costs	27	33	60
Total Revenue Requirement	52	63	115
Markup	109%	109%	109%
Markup Index	1.00	1.00	1.00
Average Rate Increase	4%	26%	15%

But imposing constant markup indexes has two effects that, in my view, are neither reasonable nor sound. First, the assumption of constant markup indexes reduces the relative share of institutional costs borne by Product A below what it was in the beginning (Table 1), and it increases the burden for product B. This happens despite the fact that there has been no change in the pricing factors that are used to develop institutional cost shares.

The second effect is that imposing constant markup indexes causes Product A to experience a rate increase that is far below average, while at the same time exaggerating Product B's rate increase far above both the system-wide average increase (15 percent), and the 20 percent rate of increase in its own costs. I believe that these outcomes show convincingly that it is neither reasonable nor appropriate to assume that constant markup indexes would or should be used as an element in developing product prices.

I suggested earlier in this response that one way for Products A and B to experience different cost increases would be for A's mailers to engage in worksharing while B's mailers do not (or for A to enjoy more extensive worksharing than B) over the time period between rate cases. But this is by no means the only scenario that would

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bring about the situation I have described. Any change that affects the volume variable costs of the two products differently (for example, different mail processing productivities, changes in fuel costs, etc.) can lead to Product A's costs increasing more slowly than Product B's or vice-versa.

While I have simplified the products and pricing for this illustration, the conclusions drawn from Tables 1-3 do not depend on either the fact that my illustration has only two products, or the fact that Table 1 starts the analysis with both products having equal markups.

As a general principle the Postal Service seeks over time to develop rates for products that are fair and equitable when all relevant factors are taken into account, including unit contributions. As seen in my illustrative example, obliging any one product's markup index to hold constant over time can lead to obviously inappropriate outcomes. It is wholly unrealistic to assume—even for the purposes of analysis and exposition as witness Mitchell has done—that the Postal Service would have sought to maintain Periodicals' markup index constant in light of the massive changes in worksharing opportunities and productivity investments that have occurred throughout the Postal Service over the past two decades.

Witness Mitchell's testimony implies that his constant markup index Periodicals rate index somehow reflects the "correct" or "natural" price path for Periodicals prices over the last two decades. I disagree.

In a situation where there have been massive changes in relative costs, it is more appropriate to examine how unit contribution, as well as markup or cost coverage, has tracked over time. Including unit contribution for this kind of analysis does not mean that

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the Postal Service believes that the markup index has no value as a descriptive tool. Nor does it mean that the Postal Service believes that other percentage-based or relative markup measures should be neglected and only unit cost contribution be retained for guiding pricing strategy or be the primary focus.

In fact, the Postal Service is fully aware that focusing solely or primarily on unit contributions can also lead to inappropriate pricing policy. There are good and valid reasons why, for example, Priority Mail's unit contribution is significantly higher than First-Class Mail's, even though they both share important attributes like relatively expeditious service and closure against inspection.

On the other hand, the Postal Service believes that looking at unit contribution may provide additional insights beyond those obtained looking only at cost coverages or percentage markups. An illustrative example arises when comparing two versions of the same product, or two highly similar products, one heavily drop-shipped and the other not. In this instance, the cost coverage may be much higher on the heavily drop-shipped version and much lower on the non-drop-shipped version. But examining the unit contribution of the two rate categories and relevant demand information could reveal that, far from being unfair, the pricing on the heavily drop-shipped mail piece is appropriate, or conceivably, even too low.

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TW et al./USPS-RT2-8. On page 10, in the paragraph beginning on line 6, you discuss per-piece revenue indexes and say specifically, at lines 8-10: "In this context, the relevant data are the actual postage paid by the mailers as reflected in revenue per piece for the Outside County subclass." In Table 6 on page 11, you compare a per-piece revenue index with the CPI price index.

- a. Please explain whether you contend that a per-piece revenue index is a price index. If you do, please provide a reference to the literature on price indexes that shows the construction (i.e., variables involved and weighting schemes) of a per-piece revenue index and that explains the sense in which it is a price index.
- b. Do you agree that a number of factors affect per-piece revenue that would not or should not affect a price index? Explain any disagreement.
- c. Within the framework of a fixed schedule of postal rates, such as the schedules shown in the Recommended Decisions of the Postal Rate Commission, suppose a mailer began to dropship and his per-piece postage declined. Would you contend that this mailer had experienced a rate reduction?
- d. Would you contend that a reduction in per-piece revenue is a good indication that the Postal Service has been successful in controlling its costs?
- e. Suppose over the course of a given year the rate of inflation is 6 percent, the Postal Service's costs increase 10 percent, and there are no changes in the level of volume or in the qualitative characteristics of the service provided. At the end of the year, the Postal Service increases each rate cell by 10 percent, in order to maintain a cost coverage of 113 percent. Just after the rate increase, mailers begin to dropship to such an extent that their average per-piece postage, after factoring in the rate increase, increases just 4 percent. Please explain whether you would contend that the Postal Service has been successful in controlling its costs, that mailers should not be concerned about the relation between inflation and rates, and that mailers should be pleased with the level of their postage bills.
- f. Assume the same situation as in the previous part of this question except: at the end of the year, no changes in postal rates are made and it is accepted by the Rate Commission that a cost coverage of 103 percent is suitable. If mailers make the same dropship decisions and their average per-piece postage declines 6 percent, please explain whether you would contend that the Postal Service has been successful in controlling its costs, that mailers should not be concerned about the relation between inflation and rates, and that mailers should be pleased with the level of their postage bills.

RESPONSE:

a-b. Let me clarify the context in which revenue per-piece was discussed in my testimony. What I specifically stated in the sentences prior to the lines 8-10 in question was that this data needs to be interpreted in a broader context, while I also made a reference to footnote 4 on pages 11 and 12 of witness Mitchell's testimony that

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discusses the issue of volume shifts among various worksharing categories. The reason I believe that revenue per-piece provides a broader context in this analysis is that revenue per-piece for Periodicals was not only affected by worksharing but also by changes in eligibility rules. For example, currently, automation compatible barcoded presort rates are based on the bundle label rather than the container label. Non-unique 3-digit pieces are currently eligible for 3-digit rates as opposed to basic rates. Both of these eligibility changes took place within the time period used by witness Mitchell for the comparison. Although revenue per-piece data might fall short in terms of mail mix changes due to additional worksharing, it does reflect the impact of the aforementioned eligibility changes on Periodicals customers.

I have not used the term "price index" to describe my use of revenue per-piece in the section of my testimony to which you refer. Moreover, I am not aware of an exclusive set of criteria which generically define a "price index," and I do not know what significance you might ascribe to the term. As it is not relevant to my testimony, I have no need to contend that revenue per piece is or is not a "price index."

c. It depends. If a mailer began to dropship and his or her expenses to qualify for the dropship discount were less than the discount, and the circumstances of dropshipping otherwise caused no diminution in the value of the mail service, then I would contend that the mailer had experienced benefits commensurate with the benefits of a rate reduction. Alternatively, if the mailer began dropshipping, and the total costs of dropshipping exactly offset the dropship discount, from the mailer's perspective, no effective rate reduction would have occurred. Even under these circumstances, however, it is conceivable that dropshipping would increase the value of the service

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(e.g. faster delivery), and there thus could be alternative benefits other than a “rate reduction,” per se.

d. Not necessarily. It may reflect success of joint efforts by the Postal Service and the mailers to control postal costs. Consider the following scenario. An unsophisticated mailer prints its mailing labels alphabetically, unaware that merely by hitting a button, it could print its mailing labels by address sequence, qualify for presort discounts, and save the Postal Service substantial costs when sorting its mail. If the mailer subsequently gets clued in and makes the change, with regard to that mailer, both the Postal Service’s cost per piece and revenue per piece would drop. Under such circumstances, the drop in revenue per piece could be considered a reflection of joint success in controlling postal costs. However, it may not reflect success of joint efforts by the Postal Service and the mailers to control postal costs, if the reduction in revenue per-piece happens to be the result of changes in eligibility rules.

e.-f. In neither instance would I unequivocally contend that the Postal Service had been successful in controlling its costs, or that mailers should not be concerned about the relation between inflation and rates. In both instances, however, it appears that mailers have identified means to mitigate their postage bills. Whether mailers should be pleased about their ability to mitigate their postage bills may relate to the level of the workshare costs they must incur in order to achieve that mitigation. The greater the proportion of the discounts that are offset by workshare costs, the smaller the level of satisfaction likely to be associated with mitigation of the postage bills.

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TW et al./USPS-RT2-9. At page 3, line 20, and page 7, line 14, you refer to 29,979 publications.

- a. Please confirm that this number refers to the universe of Outside County Periodicals. If not confirmed, please explain what it refers to. If the number includes In-County Periodicals, then please state how many of this total are Outside County. If it does not include In-County Periodicals, then state how many additional Periodicals are In-County.
- b. How do you know that there are 29,979 publications?
- c. Please describe the database that the Postal Service maintains that enables it to keep a count of the number of Periodicals currently being published. Describe also the procedures by which this database is updated and how frequently such updates occur.
- d. Assume that a given Periodical stops publishing. By what method(s) is this fact ascertained and transmitted to those responsible for maintaining the list of active Periodicals? Does it depend on notification by the publisher that he has stopped publishing? Does it depend on the Postal Service discovering that mail from this particular Periodical is no longer being entered into the system? Please explain fully.

RESPONSE:

a. The number (29,979) does not correspond to the universe of Outside County Periodicals, although I understand how you could reach that misunderstanding based on the wording of some of my testimony. Instead, it is the number of observation units in a database that was specifically constructed for purposes of comparing mail preparation options and characteristics across Outside County publications. In general, each observation unit relates to an individual publication. In some instances, however, as explained below, some observation units relate to different versions or sets of copies of a publication printed and entered in discrete locations. Because of this feature of the database, the number of observation units would tend to be greater than the universe of Outside County Periodicals. The extent to which that might be true can be seen in the table presented below.

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On the other hand, the source of inputs to the database was information from the FY 2003 PERMIT system. In FY 2003, 97.24 percent of Outside County Periodicals revenue was accepted at PERMIT equipped offices, compared with 68.34 percent of In-County revenue accepted at PERMIT equipped offices. (As also explained below, publications with mixed In-County/Outside County distribution were included in the data base, while publications with distribution limited to In-County were excluded.) Thus, while almost all Outside County Periodicals would be expected to be picked up in a database developed from the PERMIT system because of the high percentage of subclass revenue obtained from offices linked to that system, the possibility exists that some Outside County publications could be omitted. In this sense, the number of observation units theoretically could be less than the universe of Outside County Periodicals. The extent to which that might be true is unknown, because we do not know how many publications have potentially been omitted due to the limitations of the PERMIT system data. On balance, it seems unlikely that the number of omitted publications would exceed the number of observation units added by the procedure discussed above. Overall, though, it is clear that there are two effects, working in opposite directions, which preclude any claim (other than by sheer coincidence) that the number of observation units exactly coincides with the universe of Outside County Periodicals.

With respect to the matter of In-County publications, the fact that almost one-third of the revenue for the In-County subclass comes from non-PERMIT offices suggests that information based on the PERMIT system is unlikely to produce an accurate measure of the total number of In-County publications. Some other source of

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information would be needed for that purpose, which was beyond the scope of what I was attempting to address in my testimony.

b.-c. As explained above, my testimony actually was not intended to be equated with a claim of knowledge that there are 29,979 Outside County publications. Moreover, it would also be a mistake to confuse the database constructed for purposes of my analysis with an ongoing database maintained (and routinely updated) by the Postal Service to keep count of the number of Periodicals currently being published.

Nevertheless, I can explain how the 29,979 figure was derived.

For this analysis, the PERMIT system was used to construct a database of Periodicals postage statement form 3541 information for FY 2003. The PERMIT system information was linked to a database of Periodicals statement of ownership (form 3526) information to obtain figures on publication issue frequency. The 29,979 publications used in the analysis refers to USPS publication and acceptance office combinations for which postage statement form 3541 information was entered into the PERMIT system in FY 2003 and form 3526 information was available for the USPS publication number.

The purpose of the analysis was to demonstrate the impact of the proposed rates on publications with similar preparation characteristics. We chose the USPS number and acceptance office combination as the unit of observation because we believe this more accurately reflects the preparation characteristics of the mailing. That is to say, the preparation of a national mailing of a publication with a circulation of 50,000 copies that is prepared independently at 50 separate locations is likely to be more similar to a publication with a circulation of 1,000 pieces than it would be to a publication with circulation of 50,000 pieces prepared at one location. Therefore, for purposes of this

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analysis, such a publication would have contributed 50 observations units to the database.

The aggregate count of observation units in this analysis thus includes multiple entries for non-Centralized Postage Payment publications that present mail at multiple offices. The count also includes publications that enter volume at both In-County rates and Outside County rates. The count excludes publications that enter all mail at In-County rates, publications entering Periodicals volume at offices that are not connected to the PERMIT system, and publications for which no 3526 issue frequency information was available. The FY 2003 database constructed from the PERMIT system contains 26,318 unique USPS publication numbers and 31,521 USPS publication number acceptance office combinations. The 5,203 additional observations units (i.e., the difference between 31,521 and 26,318) relate to 3,540 different unique USPS publication numbers. The distribution of USPS publication numbers and USPS publication number acceptance office combination is as follows:

Description	Unique USPS No's	Database Records
Total	26,318	31,521
Pending Publication Records	22	291
All In-County USPS No's	77	101
Missing 3526 Information	1,124	1,150
Some In-County Volume	9,614	9,817
All Outside County Volume	15,491	20,162
Non-PERMIT	Unknown	Unknown

Focusing on the second column, the 29,979 observation units (perhaps oversimplistically reported in my testimony as "titles") can be derived either by adding the two rows of Some In-County Volume and All Outside County Volume, or by starting with the 31,521 Total row and subtracting each of the next three rows.

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d. To my knowledge the Postal Service does not maintain a national list of active Periodicals. To my knowledge the Postal Service can only identify publications that have ceased entering mail by the publication's failure to enter 3541 data in the PERMIT system, or by the publication's failure to file a Form 3526 (Annual Statement of Ownership, Management, and Circulation).

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TW et al./USPS-RT2-10. Please describe the nature of the information the Postal Service has about each of the 29,979 Periodicals referred to in your testimony. In particular, please include in your answer whether the following characteristics are known:

- (1) subclass (regular, science of agriculture, nonprofit, classroom);
 - (2) whether or not a publication is a requester publication;
 - (3) publication frequency;
 - (4) approximate annual volume;
 - (5) percent editorial content;
 - (6) shape;
 - (7) any other characteristics (please list).
- b. To the extent that these facts are known, how are they updated on a regular basis?

RESPONSE:

a-b. Through the PERMIT system the Postal Service is able to collect information from a periodical's postage statement (form 3541). Each record in the PERMIT system contains information for each form 3541 presented to the Postal Service at a PERMIT system equipped acceptance office. The PERMIT system record contains information on the subclass, the number of requester copies, editorial content and shape. In addition to these characteristics the PERMIT record contains information relevant to calculating postage and billing such as:

- advertising pounds and copies by zone
- the number of pieces and copies by presort rate element
- the number of pieces receiving pallet discounts
- the number of pieces receiving entry discounts
- editorial pounds
- USPS publication number

The PERMIT system is updated when mailings are presented to the Postal Service.

The Postal Service also maintains a database of form 3526 data that includes the

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publication's name and issue frequency. This database is updated upon receipt of a new form 3526. The Postal Service can calculate approximate annual volume for a particular USPS publication number by aggregating data contained in the PERMIT system. However, to my knowledge this is not done on a routine basis.

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TW et al./USPS-RT2-11. Does the Postal Service make use of any non-postal data sources in order to keep track of the number of active Periodicals? If yes, please identify all such sources and explain how they are used.

RESPONSE:

To my knowledge the Postal Service does not use any non-postal data sources in order to keep track of the number of active Periodicals.

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TW et al./USPS-RT2-12. Please provide an estimate of the number of Periodicals, corresponding to your current estimate of 29,979, for each year from 1970 forward (or as far back toward 1970 as data are available).

b. For each year for which such an estimate is available, please provide a breakdown of the total number by subclass, by subscriber versus requester status (controlled circulation), and by publication frequency (daily, weekly, etc.).

c. Additionally, please provide similarly disaggregated estimates, for each year for which data are available, of the number of new Periodicals permits granted in that particular year and, to the extent available, of the number of Periodicals that ceased to exist in that year.

RESPONSE:

As explained in my response to your interrogatory 9, the figure of 29,979 was not intended to constitute, and should not be viewed as, an accurate estimate of the current overall number of Periodicals, or even of the Outside County portion of Periodicals.

Therefore, attempting to replicate the same analysis going back in time would not produce such an estimate for any prior years. (Any attempt to use PERMIT data over time for these purposes would be particularly confounded because of the difficulty of distinguishing true changes in the underlying series versus changes in the coverage of the PERMIT system.) Efforts to explore other potential sources within the Postal Service of a series estimating total number of Periodicals going back in time on an annual basis were not successful. The existing record keeping systems were primarily designed to respond to inquiries regarding the current status of a single publication.

The computer platforms upon which these systems rely were implemented many years ago, and are not as flexible as might be the case were the systems being designed today. Even if aggregations of the available information could more readily be extracted from these systems, however, the accuracy of estimates might still be in doubt because obtaining such estimates was not a primary objective of the systems as designed.

Specifically, the Postal Service has no certain mechanism for identifying and eliminating

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from its centralized lists periodicals which have ceased publication. This could result in estimates which overstate the number of current publications. Moreover, minor variations over time in data input could cause multiple listings for the same publication, also leading to potential inflation of aggregate estimates. In light of these limitations, it is my understanding that the Postal Service has no reliable information to provide at this time that is likely to meet the objectives of the inquiry.

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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September 28, 2004