

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
MAGAZINE PUBLISHERS OF AMERICA, INC. (MPA/USPS-RT2-1-7)

The United States Postal Service hereby files the response of witness Rachel Tang to the following interrogatories of Magazine Publishers of America, Inc.:
MPA/USPS-RT2-1-7, filed on September 30, 2004.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

/s/
David H. Rubin
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2986; Fax -6187
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MPA/USPS-RT2-1. Please refer to page 1, lines 7-8 of your testimony where you state, "The Postal Service agrees with much of the rationale provided by the complainants for this structural change." Please refer further to page 8, lines 3-5 where you state, "[t]here is no doubt that increasing efficiency is an important aspect of rate design and should be assigned considerable weight. In fact, we believe there is considerably more that can be done to advance such efficiency."

a. Please confirm that the Postal Service supports encouraging Periodicals mailers through rate incentives to reduce the number of sacks they use (e.g., by increasing sack minimums, comailing, co-palletization). If not confirmed, please explain your response fully.

b. Please confirm that the Postal Service supports encouraging Periodicals mailers through rate incentives to increase the amount of mail that they enter at destination facilities. If not confirmed, please explain your response fully.

c. Please confirm that the Postal Service supports the concepts specified in subparts (a) and (b) because the Postal Service believes that these changes in mailer behavior will reduce Postal Service costs for handling periodicals. If not confirmed, please explain your response fully.

RESPONSE:

a-b. Confirmed. The proposed rates for Periodicals in Docket No. R2001-1 included dropship incentives for editorial matter and a per-piece discount for palletized pieces. In Docket No. MC2002-3, experimental discounts were offered for co-palletization and dropshipment. In Docket No. MC2004-1, this pot was further sweetened for publications with high editorial content and heavier pieces based on the shifting of editorial pounds from various zones to either destination ADC or SCF. The Postal Service is committed to reducing the number of sacks in the Periodicals mail stream and encouraging Periodicals to be entered closer to their destinations.

c. Confirmed. The Postal Service believes that the effect of these changes would allow the Postal Service to process Periodicals mail more efficiently.

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MPA/USPS-RT2-2. Please refer to page 2, lines 11-13 where you state, “The Postal Service believes the benefits of substantive structural changes must be evaluated in the context of other factors such as ease of implementation for all customers and post offices, both large and small.” Given that advertising pound rates are already zoned, wouldn't you expect that mail preparation software and business mail entry systems could be modified fairly easily to accommodate zoned editorial pound rates or other weight-related rate elements that vary by zone? If not, please explain fully.

RESPONSE:

Providing dropship incentives for editorial content in some form is entirely possible in the current documentation preparation and acceptance environment. For a discussion of the Postal Service's proposals on this subject, please see my response to MPA/USPS-RT2-1 (a)-(b).

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MPA/USPS-RT2-3. Please refer to page 8, line 17 through page 9, line 1.

- a. How many pieces have qualified for either of the Docket No. MC2002- 3 experimental co-palletization discounts since they were introduced in October 2003?
- b. How many sacks were eliminated by co-palletizing the pieces specified in subpart (a)?

RESPONSE:

a. According to the Periodicals co-palletization data reports we have received from the participants, nearly 73 million pieces have been moved out of sacks and onto pallets from the introduction of the Docket No. MC2002-3 experimental co-palletization discounts in October 2003 until the end of September 2004. Among these pieces, nearly 68 million pieces were dropshipped.

It is my understanding that more pieces have qualified for and/or have claimed the co-palletization discounts than the above numbers, obtained from the data reports, suggest. Some mailers co-palletize or co-mail on a sporadic basis and have never submitted any data report. Some mailers have been co-palletizing or co-mailing but have not officially become participants in this co-palletization experiment.

b. According to the Periodicals co-palletization data reports, about 1.7 million sacks were eliminated by co-palletizing the aforementioned 73 million pieces, from the introduction of the co-palletization discounts in October 2003 until the end of September 2004. By the same token, this number is also likely to be understated to some extent.

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MPA/USPS-RT2-4. Please confirm that the pieces specified in your response to MPA/USPS-RT2-3(a) represent the Postal Service's best estimate of the number of Periodicals Outside-County flats that have migrated from sacks to pallets through comailing or co-palletization as a result of the co-palletization experiment. If not confirmed, please provide the Postal Service's best estimate of the number of pieces that have migrated from sacks to pallets.

RESPONSE:

Confirmed. My response to MPA/USPS-RT2-3(a) represents the Postal Service's best available and most current information collected from the co-palletization experiment participants.

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MPA/USPS-RT2-5. Please refer to page 8, line 17 through page 9, line 1. Please provide the total number of Periodicals Outside-County flats that did not qualify for any pallet or co-pallet discount as a result of the co-palletization experiment and confirm that these pieces represent the Postal Service's best estimate of the number of Periodicals Outside-County flats that are currently entered in sacks. If not confirmed, please provide the Postal Service's best estimate of the number of Periodicals Outside-County flats that have been entered in sacks since the beginning of the co-palletization experiment.

RESPONSE:

As I mentioned in my response to MPA/USPS-RT2-3 (a), the co-palletization data reports capture only those who qualify for the discounts, participate in the experiment, claim the discounts, and submit the reports. The co-palletization reports do not ask for information regarding the total number of Periodicals Outside-County flats that did not qualify for any pallet or co-pallet discount. Since the only other way to determine the sacked volume would be to subtract the palletized volume from the total volume, and palletized volume is not know, the Postal Service is not able to provide an estimate of the number of Periodicals Outside-County flats that have been entered in sacks since the beginning of the co-palletization experiment.

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MPA/USPS-RT2-6. Based upon your responses to MPA/USPS-RT2-3-5, please estimate the proportion of Periodicals Outside-County pieces that have migrated from sacks to pallets through comailing and co-palletization since the beginning of the co-palletization experiment. Please also estimate the proportion of sacked Periodicals Outside-County flats that have migrated to pallets through comailing and co-palletization as a result of the co-palletization experiment.

RESPONSE:

I am not able to provide either estimate. Please see my response to MPA/USPS-RT2-5.

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MPA/USPS-RT2-7. Please refer to page 8, line 15 through page 9, line 1 where you state, “[t]he Postal Service has been striving to improve efficiency and contain cost increases for Periodicals. And we appreciate the efforts of Time Warner et al. to work with us in past and ongoing efforts. 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).”

a. Would you agree that, in most instances, despite the “introduction of various worksharing discounts”, the difference in Postal Service costs between Periodicals entered in sacks and those entered on pallets is substantially more than the difference in postage paid for Periodicals entered on sacks and those entered on pallets? If not, please explain fully.

b. Would you agree that, in most instances, despite the “introduction of various worksharing discounts”, the difference in Postal Service costs between Periodicals entered at origin facilities and those entered at destination facilities is substantially more than the difference in postage paid for Periodicals entered at origin facilities and those entered at destination facilities? If not, please explain fully.

c. Do you believe that the recent introduction of pallet and co-pallet discounts has increased the proportion of Periodicals mail volume that is co-palletized and dropshipped? Please explain your response fully.

d. Do you believe that the recent introduction of pallet and co-pallet discounts has made co-palletization and dropshipping services more widely available than they were previously? Please explain your response fully.

e. Would you agree that, despite the introduction of pallet and co-pallet discounts, the current Periodicals rate design is not likely to provide enough incentive to encourage Periodicals mailers to switch the majority of sacked Periodicals Outside-County flats to pallets? Please explain your response fully.

f. Would you agree that, despite the introduction of pallet and co-pallet discounts, the current Periodicals rate design provides essentially no incentive to increase the size of sacks used by mailers? Please explain your response fully.

g. Holding all else equal, do you believe that increasing the rate differential between sacks and pallets would encourage the Periodicals industry to increase the proportion of mail that is co-palletized, comailed, and dropshipped? Please explain your response fully.

h. Holding all else equal, do you believe that increasing the rate differential between origin-entered and destination-entered Periodicals would encourage the Periodicals mailing industry to increase the proportion of mail that is co-palletized, comailed, and dropshipped? Please explain your response fully.

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i. Holding all else equal, do you believe that increasing the rate differential between Periodicals entered in small sacks and those entered in large sacks would encourage the Periodicals industry to increase the average size of sacks that it uses? Please explain your response fully.

RESPONSE:

- a. Yes. Postal ratemaking necessitates some degree of averaging. However, in the spirit of fairness and equity, we have worked with various groups of mailers to recognize efficient preparation without causing major hardships on those who could not participate. Be it worksharing incentives for barcoding, containerization, or dropshipment, the Postal Service's goal has been to be mindful of the impact on non-participants while providing reasonable incentives that would encourage change in mailer behavior when possible. With that in mind, the Postal Service would like to do more to encourage dropshipping as our proposals in recent rates and classification filings attest.
- b. Please see my response to subpart (a) above.
- c. Yes. As shown in my response to MPA/USPS-RT2-3, a significant portion of Periodicals volume is co-palletized and dropshipped as a result of these recently introduced discounts.
- d. Yes. Attachments to McGraw Hill witness Schaefer's testimony (MH-T-1) provide a few announcements of these types of services that have recently been made available to publishers and printers.
- e. I do not know. The Postal Service believes that the efforts over the past several cases have been successful in encouraging the Periodicals customers to utilize effective worksharing more. At the same time, much more can be done.

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f. Yes. When rates from Docket No. R2000-1 were implemented, the carrier route sack minimums were increased from 6 to 24 pieces, but there were no rate incentives associated with that change. 65 Fed.Reg. 46361 (July 28, 2000). While there might be some efficiencies to be gained by encouraging larger sacks, any such goal would need to be examined in view of the complexity added to the schedule by offering rate differences for large and small sacks, the impact on customers who use small sacks, any other efficiency issues, and the degree to which the Postal Service wants to encourage the use of any sacks, even large ones. We would also want to see if there are other ways to address the issue of the costs of handling smaller sacks. With all of that in mind, it is difficult to answer unequivocally that the form of rate structure suggested in the question would represent movement in the appropriate direction.

g-i. Yes to all three propositions, but holding all else equal (the *ceteris paribus* assumption) is difficult in the world of rate design. The challenge is in providing incentives to encourage behavioral change while keeping the impact on non-participants manageable.