

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-RT2-21-22)

The United States Postal Service hereby files the response of witness Rachel Tang to the following interrogatories of Time Warner Inc. et al.:
TW ET AL./USPS-RT2-21-22, 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:

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/s/

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TW et al./USPS-RT2-21 Please refer to your response to TW et al./USPS-RT2-2. Please provide the average number of pieces per bundle and the average number of bundles per container separately for sacked pieces and palletized pieces.

RESPONSE:

First of all, please note that I have revised a few numbers as well as the postage calculation for the 55 observations. Corrections have been made that alter the postage change percentages, though deviation from the previous data appears moderate. Revision to my rebuttal testimony will be filed separately.

As a result, the table below on the following page both replicates the table in my response to TW et al./USPS-RT2-2 (using the revised data), and provides the additional information you have now requested. The shaded area indicates revised values.

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Publication Size	Publication ID	Editorial %	Estimated Postage Change (%)	Number of Sacks	Number of Pallets	Average # of Pieces per Bundle	Average # of Bundles per Container	Avg Pieces/Bundle Sacked	Avg Pieces/Bundle Palletized
Small	S10	97%	0.55%	33	0	13.856	4.636	13.9	0
Small	S1	65%	67.18%	320	0	12.569	1	12.6	0
Small	S24	33%	-5.46%	142	0	20.27	1.254	20.3	0
Small	S11	68%	80.00%	23	0	11.40	1.087	11.4	0
Medium	M10	57%	-22.65%	496	3199	12.944	103.66	10.3	14.0
Medium	M1	100%	23.66%	1026	12	13.04	4.007	12.6	15.6
Medium	M20	58%	-22.26%	417	981	12.77	119.14	10.3	14.4
Medium	M11	85%	22.31%	935	72	12.022	11.197	10.6	12.7
Large	L1	55%	1.44%	5483	154	11.612	6.922	10.7	13.5
Large	L11	61%	-22.51%	2585	11433	16.104	150.887	11.0	16.1
Large	L2	85%	2.48%	4194	265	11.512	12.354	8.9	13.7

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TW et al./USPS-RT2-22 Please refer to your response to TW et al./USPS-RT2-7, in which: (1) you say that you “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” and that Mitchell “relies on assumptions” that the “Periodicals subclasses would or should have maintained the same markup index over approximately a two-decade period”; (2) you describe your testimony as “point[ing] 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”; and (3) you discuss certain characteristics of the markup index, such as how it might be affected by an increase in Periodicals worksharing relative to that in other subclasses.

- (a) Please explain how the “price of an average Periodicals piece” is affected by an increase over time in the level of worksharing in Periodicals.
- (b) Do you have any fundamental reason for taking the position that one of the objectives in the development of quantity-weighted price indexes is to abstract from the effects of changes such as changes in product mix and in the degree of worksharing? Explain any non-no answer.
- (c) Please explain how the “price of an average Periodicals piece” is affected by reductions in the cost coverage of Periodicals.
- (d) Please identify with particularity any evidence suggesting that the purpose of Mitchell’s “index of Periodicals rates, at a constant markup index” was anything other than to help isolate and quantify the basic increase in Periodicals costs due to factor prices and resource usage (corrected for changes in volume, product mix, worksharing, and cost coverage).
- (e) Do you agree that another approach to developing an index of basic Periodicals costs would be to identify a complete (i.e., exhaustive) set of component unit costs for the various Periodicals processing, transporting, and delivery operations, and to construct a quantity-weighted index of these components over time (much as is done in the construction of price indexes)? Explain any non-yes answer.
- (f) Has the Postal Service developed a basic cost index for Periodicals of the kind referred to in the previous part of this question? If it has, please supply that index.

RESPONSE:

- (a) Generally speaking, the “price of an average Periodicals piece” will decrease as a result of increasing level of worksharing in Periodicals. I have categorically stated this in my response to TW et al./USPS-RT2-7. An interesting aspect of

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analyzing the price of an average Periodicals piece is that rate eligibility changes could also result in significant changes in this measure. For example, if eligibility changes cause mail previously entered at one workshare rate to become eligible for a lower workshare rate (with no change in mailer preparation), this creates the appearance of an increase in the level of worksharing, when none has actually occurred. By focusing on average revenue per piece, however, it could be discerned under these circumstances that some mailers have effectively received an actual rate reduction.

- (b) What I was suggesting in my response is that constructing a price-index that isolates the price increases from all other factors is a very difficult task in this context, and that is why we may have to look at a variety of variables to understand the history of Periodicals rate increases.
- (c) There is no simple answer to this question. Periodicals cost coverage was reduced to minimize the impact of above-average increases in Periodicals' costs. Depending on the relative change between these two factors, average revenue per-piece could go in either direction.
- (d) I have no reason to doubt that witness Mitchell's purpose was to help isolate and quantify the basic increase in Periodicals cost. However, as I have pointed out in my response, the index constructed does not adequately fulfill that purpose.
- (e) Yes.
- (f) No, not to my knowledge.