

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS TANG
TO INTERROGATORIES OF TIME WARNER INC.
(TW/USPS-T35-1, 4-6, and 8-9)

The United States Postal Service hereby files the responses of Witness Tang to the above-listed interrogatories, filed on May 18, 2006. Responses to interrogatories TW/USPS-T35-2, 3, and 7 are still being prepared.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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TW/USPS-T35-1 Please refer to pages 6 and 7 of your testimony (USPS-T-35), beginning on line 22 of page 6, where you say: "I propose a 37 – 63 split between revenue to be raised from pounds and pieces." Please refer also to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Rate Design Input,' cell C15.

- a. Please confirm that cell C15 shows a target split of 37.5 – 62.5 instead of 37 – 63.
- b. Please confirm that your proportion in C15 was applied to a revenue requirement less fees less Ride-Along revenue, before the 5 percent discount for the preferred categories. See cells C3 and C4 on sheet 'Piece Discounts' in your rate design spreadsheets. If you do not confirm, please identify the figure to which you applied your proportion.
- c. Please confirm that the revenues on the 'Rates' sheet (before the 5 percent discount on line 53 and the fees and the Ride-Along revenue) show 36.96 percent of the revenue being obtained from the pound rates, assuming the container charge is not a pound rate. If you do not confirm, please provide an appropriate estimate of your own.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed, assuming the container rate is neither a pound nor a piece rate.

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TW/USPS-T35-4 Please refer to page 10 of your testimony (USPS-T-35), lines 10-13, where you explain that the editorial pounds of Science of Agriculture (SoA) publications should receive rates set at 75 percent of the rates for the corresponding editorial pounds of Regular publications, which you say is “consistent with the introduction of destination entry rates for other non-advertising pounds.” (line 13.)

- a. Please confirm that you are proposing to grant a rate preference to editorial pounds in SoA publications beyond what is required by Congress in P.L. 103-123 (the Revenue Forgone Reform Act). Explain any failure to confirm.
- b. Please explain the policy basis for exceeding the special consideration granted to SoA publications by Congress.
- c. Please identify the rate categories where you make up the revenue loss from the rate preference for SoA editorial pounds that you are proposing.
- d. Do you agree that SoA publications already receive larger dropship discounts than Regular publications on their advertising pounds, due to the preferred rates for SoA publications granted in P.L. 103-123? If you do not agree, please explain.
- e. If the editorial pound rates for SoA publications, zones 1-2 and closer, were set equal to the editorial pound rates you are proposing for Regular publications, do you agree that SoA publications would receive the same dropship discounts on their editorial pounds that you are proposing for Regular publications? If not, please explain.
- f. Please explain why SoA publications should receive dropship discounts on their editorial pounds, zones 1-2 and closer, that are greater than the dropship discounts received by Regular publications, and why this is necessary to be “consistent with the introduction of destination entry rates for other non-advertising pounds.”

RESPONSE:

- a. Confirmed, in that the current law does not apply to editorial pounds.
- b. I extended this approach to SOA editorial matter in order to maintain rate relationships between the regular and SOA dropship pound rates so that the SOA editorial dropship pound rate structure mirrors that of the SOA advertising dropship pounds.

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- c. The revenue leakage from the rate preference for SOA editorial pounds is added back to the total revenue needed from the editorial pounds.
- d. Yes, I agree.
- e. Yes. As I said in my response to part b, the rate preference treatment has been extended to SOA dropship editorial pounds to maintain consistent rate relationships. I do not consider SOA dropship editorial pounds any less deserving of such special consideration than SOA advertising pounds.
- f. Please see my responses to parts b and e.

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TW/USPS-T-35-5 Please refer to your rate design workbook “R2006-1 Outside County.xls” (in USPS-LR-L-126), sheet ‘Pound Data_Ed,’ cell C22. Please explain the meaning and the role of the figure “0.203” in the cell.

RESPONSE:

The formula in cell C22 was not linked to cell C8 in order to avoid a circular reference, but the cell should have been updated to the proposed average editorial pound rate of \$0.232. Errata will be filed shortly. This correction does not cause material changes to rates or rate design.

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TW/USPS-T35-6 Please refer to page 9 of your testimony (USPS-T-35), lines 20-24, where you say: “In order to make sure that the ECSI value from editorial pounds is recognized and reflected in rate design, an adjustment of \$0.013 is applied to the average editorial pound rate. The revenue leakage caused by this adjustment is added back to the total revenue required from the pound side and allocated to both the editorial and advertising sides.” See also your rate design workbook “R2006-1 Outside County.xls” (in USPS-LR-L-126), sheet ‘Pound Data_Ed,’ cells C45 through C47, and dependent cells.

- a. In reference to cell C45, please explain how you developed the “adjustment” of 0.013 that you propose. Specifically, what is it that signaled you that an adjustment was needed and how did you develop the size of it? Please include copies of any analysis you did of the size and the adequacy of the recognition of ECSI value.
- b. Please provide a walk-through indicating where and how you apply the “adjustment” of 0.013 to any “average editorial pound rate” in your spreadsheets.
- c. Please confirm that you calculate the “revenue leakage caused by this adjustment” as the sum of 0.013 times the pounds of non-SoA editorial zones 1-2 and above plus 0.013 times the pounds of SoA editorial above zones 1-2, as shown in cells C46 and C47.
- d. In postal parlance, a leakage would exist if the pounds referred in part c were charged 1.3 cents per pound less than they would have been otherwise. Please show where in your spreadsheets the “otherwise” rate is.
- e. Assume that the recognition of ECSI value takes place by making the rates for editorial pounds lower than the rates for advertising pounds. If, as you suggest, the leakage value “is added back to the total revenue required from the pound side and allocated to both the editorial and advertising sides,” please explain how and to what extent this adjustment increases the recognition of ECSI value. Please be specific about the separate effects this procedure had on the pound rates for both advertising and editorial pounds, and on the difference between them.

RESPONSE:

- a. The 0.013 adjustment was developed to mitigate the rate impact on heavier publications with higher editorial content. The goal is to strike a balance between encouraging / rewarding Periodicals mail to be entered closer to the destination and not overly burdening those who are not capable of doing so. The

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adjustment was made to bring the rate increase for unzoned editorial pounds closer to the average rate increase.

- b. The 0.013 adjustment has been applied to Cell C8 in worksheet "Pound Data_Ed," which is the average editorial pound rate.
- c. Confirmed.
- d. The "otherwise" rate would have been 0.245, which is not present in the workbook. It can be easily calculated by removing the 0.013 adjustment from Cell C8 in worksheet "Pound Data_Ed".
- e. A general goal in rate design is to strike a balance between providing incentives to appropriate mailer activities and not unduly harming nonparticipating customers. There are several proposals in this rate design: the introduction of editorial pound dropship rates and a container rate, and the elimination of per-piece pallet discounts, along with the elimination of the experimental discounts for co-palletization. Encouraging efficient mail preparation and more worksharing with the right pricing signals is not a simple task. It is a balancing act among providing new incentives so that mailers will adopt more efficient practices, maintaining pricing incentives so that those who already workshare will continue to do so, and not overly burdening those who are not able to take advantage of the incentives.

In this particular case, as I mentioned in response to part a, the adjustment brought the rate increase for unzoned editorial pounds closer to average rate increase, instead of a 20 percent increase under the "otherwise"

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rate. By adding back the revenue leakage “to the total revenue required from the pound side,” the burden can be shared by the overall pound segment so that the rate increases on both the advertising and non-advertising sides can be kept at a reasonable level.

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TW/USPS-T35-8 Please refer to your rate design workbook "R2006-1 Outside County.xls" (in USPS-LR-L-126), sheet 'Piece Discounts,' cell C3. Please explain whether the Ride-Along revenue deducted should be at proposed rates instead of at current rates.

RESPONSE:

The ride-along revenue deducted should be at the proposed rate of \$0.155 instead of at the current rate. Errata will be filed shortly.

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TW/USPS-T35-9 You propose to establish a container charge equal to 85 cents per container. Please state how the charge will be applied in the following situations and explain the reasoning behind your answer.

- a. Assume a letter shaped publication is entered in letter trays. Will there be a charge of 85 cents per tray? If no, why not?
- b. Assume a small flats shaped publication is entered in flats tubs. Will there be a charge of 85 cents per tub? If no, why not?
- c. Assume that a Periodical mailer brings to a postal plant a truck in which flats bundles are bed loaded, requiring postal employees to go inside the truck to manually retrieve the bundles. Will this mailer avoid the container charge altogether? If no, what kind of charge will he pay?
- d. Assume that a periodicals mailer enters flats bundles in APC's or other rolling containers. Will there be a container charge for the use of each container?

RESPONSE:

Most Periodicals items are entered into the mail stream in sacks or on pallets. We are still developing the rate implementation rules for the small remaining portion of containerization options, such as bedloaded bundles, tubs, trays, and APCs.