

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

POSTAL RATE AND FEE CHANGES, 2006:

Docket No. R2006-1

**INTERROGATORIES DIRECTED BY THE MCGRAW-HILL COMPANIES, INC.  
TO UNITED STATES POSTAL SERVICE WITNESS TANG  
MH/USPS-T35-6-15**

Pursuant to Rules 25, 26 and 27 of the Rules of Practice, The McGraw-Hill Companies, Inc. directs the following interrogatories and other discovery requests to United States Postal Service witness Rachel Tang (T-35). To the extent that the witness is unable to provide a full response, please provide a response by the witness best able to respond or by the Postal Service as an institution. If the information requested is not available in the precise format or level of detail requested, please provide responsive information in such format and level of detail as is available. In the event that the Postal Service would otherwise object to any of these discovery requests, please first contact the undersigned counsel to discuss whether the objection may be resolved informally.

Respectfully submitted,

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Companies, Inc.

**MH/USPS-T35-6.** With respect to proposed advertising pound dropship discounts, editorial pound dropship discounts, and per-piece dropship discounts for Outside-County Periodicals mail:

(a) Please confirm that the “Cost Avoided” for “Pound Rate Dropship Discounts” in cells C47, C48 and C49 of worksheet “Pound Data\_Adv” are the same as the “Nontransportation Handling Costs Avoided” in cells D10, D11 and D12 of worksheet “Discounts.” If you do not confirm, please explain fully.

(b) Please explain fully (showing calculations) why each “Final Discount” for “Pound Rate Dropship Discounts” in cells E47, E48 and E49 of worksheet “Pound Data\_Adv” differs from the rate differentials reflected in cells E56 through E59 (and cells D78 through D81) of that worksheet.

(c) Please confirm that the proposed editorial pound dropship discounts are based on the same cost savings as the proposed advertising pound dropship discounts, and differ from the latter only in that (i) the former are benchmarked from the proposed \$0.232 unzoned editorial pound charge while the latter are benchmarked from the proposed \$0.279 zone 1&2 charge, and (ii) the former reflect a 40% passthrough of cost savings while the latter reflect a 50% passthrough. If you do not confirm, please explain fully.

(d) With reference to your worksheet “Discounts”, lines 10-12, and your worksheet “Piece Discounts 2”, lines 17-19 and 34-36, please confirm that the proposed per-piece dropship discounts are based on the same nontransportation handling cost savings as the proposed per-pound dropship discounts, and differ from the latter only in that (i) the per-piece discounts reflect higher passthroughs of cost savings but (ii) otherwise reflect only 45.4% of the nontransportation savings reflected in the per-pound discounts, based on an average weight per piece of 0.454 pounds, and (iii) do not reflect any transportation savings. If you do not confirm, please explain fully.

(e) Please confirm that the dropship discounts based on nontransportation handling cost savings are first calculated on a per-piece basis, and then converted into per-pound discounts based on the average weight per piece (or average pieces per pound). If you do not conform, please explain fully

**MH/USPS-T35-7.** Please refer to your testimony at page 6 line 22 through page 7 line 3: “I propose a 37 – 63 split between revenue to be raised by pounds and pieces. This slight deviation from the traditional 40 – 60 split is moving towards the long-observed trend that the piece side contributes more than 60 percent of mail processing and delivery costs. See R2000-1, USPS-T-28 [witness Daniel], pages 18 -19b. The Postal Service believes that this design better reflects actual cost incurrence.”

Please refer also to your testimony at page 11, lines 17-22: “The non-transportation related (handling) cost savings form the basis of the per piece dropship discounts. . . .

In this docket I propose to continue splitting the non-transportation costs equally between pieces and pounds.”

(a) Please confirm that the non-transportation costs that you propose to continue splitting equally between pieces and pounds include those referred to by witness Mayes (USPS-T-25, at page 6 line 20) as the costs of “bulk transfer operations” (such as cross-docking at non-destination facilities), from which the per-piece and (in part) the per-pound dropship discounts are calculated. If you do not confirm, please explain fully.

(b) Please confirm that according to the cited testimony of witness Daniel in R2000-1 (USPS-T-28 at page 18 lines 13-22), non-transportation costs tend to be substantially more piece-related, and less pound-related, than transportation costs. If you do not confirm, please explain fully.

(c) Please explain fully why, in light of the testimony of witness Daniel in R2000-1, and in light of your proposal in this docket to change the overall pound/piece revenue split from 40–60 to 37-63, you nevertheless propose to maintain a 50-50 pound/piece revenue split for the non-transportation costs in question.

(d) Please confirm that to the extent a less than 50-50 pound/piece revenue split were adopted for the non-transportation costs in question, the per-piece dropship discounts would be commensurately larger, and the per-pound dropship discounts would be commensurately smaller, assuming that your rate design approach was otherwise unchanged.

**MH/USPS-T35-8.** Please refer to your worksheet Piece Discounts, lines 3-6:

(a) Please confirm that the piece rate target revenue in cell C4 amounts to 62.5%, rather than the stated 63%, of the required revenue set forth in cell C3 for Outside-County Periodicals mail. If you do not confirm, please explain fully and show your calculations.

(b) Please confirm that the actually derived piece rate revenue in cell C5 amounts to about 62.58% of the required revenue set forth in cell C3 for Outside-County Periodicals mail. If you do not confirm, please explain fully and show your calculations.

(c) Please confirm that the revenue needed from pound rates in cell C6 amounts to \$924,926,363 (cell C3 minus cell C5) (amounting to about 37.42% of the required revenue set forth in cell C3), rather than the stated \$934,355,798 (a difference of \$9,429,435). If you do not confirm, please explain fully and show your calculations.

(d) Please explain fully any significance of the fact that the seeming overstatement of the revenue needed from pound rates in cell C6 amounts to the revenue leakage from the 1.3¢ adjustment to the unzoned editorial pound rate, set forth in cell C47 of worksheet Pound Data\_Ed.

(e) Please confirm that if the revenue needed from pound rates in cell C6 of worksheet Piece Discounts is overstated by \$9,429,435, the editorial pound revenue as a percentage of target in cell E42 of worksheet Pound Data\_Ed would increase to approximately 96.16%, and the total pound revenue as a percentage of target in cell F101 of worksheet Pound Data\_Adv would increase to approximately 98.03%. If you do not confirm, please explain fully and show your calculations.

**MH/USPS-T35-9.** Please refer to your response to Presiding Officer's Information Request No. 2, Question No. 8, which states that: "[T]he initial split between pound and piece revenue is 37.5 – 62.5. Although the container rate is neither a pound nor a piece rate, in this case the container revenue was added back to the calculated piece revenue .... This was done to mitigate the rate impact on the piece side in this particular case, but this approach may not be followed in future cases. Since the additional revenue from the container rate was included in the revenue needed from the piece rates, the proportion of the revenue collected from the piece side actually is reduced."

(a) Please confirm that the container revenue for Outside-County Periodicals mail (\$43,319,140) amounts to about 1.75% of the total revenue required from the pound, piece and container rates (cell C3 of worksheet Piece Discounts). If you do not confirm, please explain fully and show your calculations.

(b) Please confirm that the proposed piece rates actually account for only about 60.83% (62.58 minus 1.75) of the total revenue required from the pound, piece and container rates. If you do not confirm, please explain fully and show your calculations.

(c) Please explain fully why you believed it appropriate to increase the percentage of revenue to be derived from the pound rates (from 37% to 37.42%) (approximately \$10.4 million) in order to mitigate the impact of the piece rates.

(d) Please confirm that if the target revenue for the pound rates were 37% of the total revenue to be derived from the pound and piece rates (cell C3 of worksheet Piece Discounts minus \$43,319,140), the proposed pound rates would more than cover that target. If you do not confirm, please explain fully and show your calculations.

(e) Please confirm that if the target revenue for the pound rates were 37% of the total revenue to be derived from the pound and piece rates, and editorial pounds were required to cover 51.2% of pound revenues (as you propose), the proposed editorial pound rates would cover more than 98% of the target set for them. If you do not confirm, please explain fully and show your calculations.

(f) Please confirm that the actual revenues derived from the proposed piece rates (cell C5 of worksheet Piece Discounts minus \$43,319,140) amounts to only 61.9% of the total revenue to be derived from the pound and piece rates. If you do not confirm, please explain fully and show your calculations.

(g) Please confirm that if the target revenue for the piece rates were 63% of the total revenue to be derived from the pound and piece rates, the proposed piece rates would cover only 98.27% of that target (\$1503.537 million divided by \$1529.9319 million). If you do not confirm, please explain fully and show your calculations.

**MH/USPS-T35-10.** With reference to your worksheet "Rev. Adj+Ed. Cont.", cells D59-61 and D66-68, and your worksheet Pound Data\_Ed, cells D14-16 and D 28-30

(a) Please confirm that according to the FY 2005 data upon which you rely, approximately 67% of the editorial pounds of Outside-County Periodicals mail is already dropshipped (i.e., entered at the destination ADC, destination SCF, or destination delivery unit). If you do not confirm, please explain fully.

(b) Please confirm that according to the data, only 7.12% of the editorial pounds of Outside-County Periodicals mail is entered in zone 6 or higher. If you do not confirm, please explain fully.

(c) Please state whether, in proposing to establish editorial-pound dropship discounts from the longstanding flat editorial pound charge, the primary goal of the Postal Service is to encourage additional dropshipping or to reward those mailers who are already dropshipping two thirds of all editorial pounds, and explain fully the goals of the Postal Service in this regard and the reasoning underlying those goals.

(d) Please confirm that in developing the proposed rates, you assumed that no additional editorial pounds would be dropshipped in FY 2008. If you do not confirm, please explain fully, with references to the record.

(e) Please confirm that according to your worksheets (Rev. Adj+Ed Cont., cell C60; Pound Data\_Ed., cell D29; RR TYAR, cells B18 and B36; NP TYAR, cell B18; CR TYAR, cell B18), even if the proposed editorial pound dropship discounts are implemented, the number of editorial pounds dropshipped by Outside-County Periodicals mailers to a destination SCF in FY 2008 will decline by some 732.3 million pounds, by comparison with FY 2005. If you do not confirm, please explain fully, with references to the record, and showing calculations. If you do confirm a substantial decline, please explain fully the reasons for the decline

(f) For each proposed dropship (destination entry) rate category for editorial pounds of Outside-County Periodicals mail, please provide your best estimate of the number of editorial pounds of Outside-County Periodicals mail that are not presently being dropshipped, but that would be dropshipped in TY 2008 under the proposed editorial pound dropship discounts, and explain the basis for your estimates.

(g) Assuming that the proposed editorial pound dropship discounts were to be implemented, please provide your best estimate of the net savings (not passed through to mailers) that would accrue to the Postal Service in TY 2008 as a result of

dropshipping that would not occur absent editorial pound dropship discounts, and explain the basis for your estimate.

**MH/USPS-T35-11.** Please refer to your testimony at page 8 lines 20-22 and page 9 lines 7-19:

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. . . .

. . . This balanced approach would provide incentives for Periodicals mail to be dropshipped closer to the destination. Meanwhile, it also would mitigate the impact of rate increases on those who are not able to take advantage of these incentives.

Finally, in addition to the aforementioned \$0.013 adjustment to the editorial pound rates to mitigate the impact, I propose to raise the 50 percent passthrough to 80 percent for the rate differentials derived for the advertising pound rates. The flat editorial pound rate . . . . increases by 14.29 percent, less than three percentage points above the average increase. Through this rate design, the Postal Service believes that mailers, both large and small, would have the potential to move significant volume of mail to destinating facilities.

- (a) Please confirm that by proposing an above-average 14.3% increase in the unzoned editorial pound rate, in conjunction with creating editorial pound dropship discounts, the Postal Service did not intend to penalize relatively small, high-editorial publications that are distributed nationally, and for whom copalletization and dropshipping may not be feasible options. If you do not confirm, please explain fully.
- (b) Please confirm that the unzoned editorial pound charge has traditionally been set at 75% of the zone 1&2 advertising pound charge (which would amount to \$0.209 per pound under the proposed rates), but is proposed to be set in this case at 83.2% of the proposed zone 1&2 advertising pound charge (amounting to \$0.232 per pound). If you do not confirm, please explain fully. In either event, please explain your use (at page 8 lines 21-22) of the term “average” editorial pound rate.
- (c) Please confirm that the proposed 14.3% increase in the unzoned editorial pound charge is the only proposed double-digit increase among the pound charges for Outside-County Periodicals mail, and exceeds the proposed percentage increases for all but three of the piece charges for such mail. If you do not confirm, please explain fully.

(d) Please provide the weighted-average percentage increase proposed for (i) the advertising pounds and (ii) the piece charges, respectively, for Outside-County Periodicals mail, and show your calculations.

(e) Please confirm that if as a policy matter the Postal Service wished to do so, it would be feasible for the Postal Service to make a further reduction of up to 2.3¢ in the unzoned editorial pound charge, without necessarily reducing the proposed editorial pound dropship discounts, because both the advertising/editorial revenue split and the pound/piece/container revenue split are ultimately guided by rate design objectives, as you appear to recognize at page 9 (lines 1-10) of your testimony and in your response to Presiding Officer's Information Request No. 2, Question 8. If you do not confirm, please explain fully.

(f) Please explain fully: (i) whether the Postal Service considered making any such further reduction in the proposed unzoned editorial pound charge, and if so, specify the reduction that was considered and explain fully why the Postal Service decided against it; and (ii) whether the Postal Service deemed it more important to "mitigate the rate impact on the piece side" (response to Presiding Officer's Information Request No. 2, Question 8), and if so, please explain fully the reasons why.

(g) Please specify the "rate differentials derived for advertising pound rates" for which you "propose to raise the 50 percent passthrough to 80 percent" (page 9 lines 12-13 of your testimony), and specify the costs subject to passthrough and the precise portions of your workpapers where the referenced differentials and passthrough are reflected.

**MH/USPS-T35-12.** For purposes of gauging the impact of the proposed rate structure on Outside-County Periodicals mailers:

(a) Please provide alternative (non-binding) pound rates designed to recover the same revenue as the proposed pound rates and containing an unzoned editorial pound charge set at 75% of the zone 1&2 advertising rate, but not containing editorial pound dropship discounts.

(b) Please provide alternative (non-binding) pound rates designed to recover 40% (rather than 37% or 37.5%) of the aggregate piece, pound and container revenues for Outside-County Periodicals mail in TY 2008, both (i) under the proposed rate structure and (ii) under the alternative rate structure described in subpart (a) above.

**MH/USPS-T35-13.** With reference to your testimony at page 9 lines 1-7:

(a) Please explain fully your reference on line 2 to "increased dropship discounts," by reference to your workpapers and/or otherwise.

(b) Please explain fully how allocating fewer (48.8% rather than 50%) of the transportation costs to advertising pounds would increase the rates for farther zones.

(c) Please explain fully your use of the term “pound allocation” (as opposed to revenue allocation) on line 6 and explain fully the derivation of a 50% allocation of transportation costs to advertising pounds, by reference to your workpapers and/or otherwise.

**MH/USPS-T35-14.** With reference to your worksheet Piece Discounts 2, please explain fully the 24% passthrough for palletized pieces in cell D20.

**MH/USPS-T35-15.** With reference to your worksheet Discounts, please reconcile the 9.795¢ unit mail processing cost for carrier route nonautomation mail in cell C33 with the 4.011¢ unit mail processing cost for basic carrier route mail in cell C59.