

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 YEH  
TO INTERROGATORIES OF AMAZON.COM, INC.**  
(AMZ/USPS-T38-1 - 16)

The United States Postal Service hereby provides the responses of witness Yeh to the following interrogatories of Amazon.com, Inc., filed on June 27, 2006:

AMZ/USPS-T38-1 - 16.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 12, 2006

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS YEH  
TO INTERROGATORY OF AMAZON.COM, INC.

**AMZ/USPS-T38-1.**

Please refer to USPS-LR-L-41, BPM Spreadsheets, tab FY2005 Presort Billing Det. (WP-BPM-3), and tab FY2005 SP Billing Det. (WP-BPM-4).

- a. Were the data shown in these two spreadsheets prepared by you, or under your supervision? If so, please provide the source or sources used to compile or prepare these data.
- b. Are you sponsoring the data in the tables in these two spreadsheets? If not, please identify the witness or witnesses who can sponsor and verify the billing determinants data in these two spreadsheets.

RESPONSE:

- a. Yes. The source used to compile these data is the FY2005 Bound Printed Matter Billing Determinants.
- b. Yes.

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**AMZ/USPS-T38-2.**

Please refer to USPS-LR-L-41, Media Mail and Library Spreadsheets, tab FY 2005 Billing Determinants (WP-MM-2).

- a. Were the data that appear in this spreadsheet prepared by you, or under your supervision? If so, please provide the source or sources used to compile or prepare these data.
- b. Are you sponsoring the data in this spreadsheet? If not, please identify the witness or witnesses who can sponsor and verify the billing determinants data in this table.

RESPONSE:

- a. Yes. The source used to prepare these data is the FY 2005 Media Mail and Library Mail Billing Determinants.
- b. Yes.

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**AMZ/USPS-T38-3.**

Please refer to your testimony at page 12, lines 17-19, and your statement that “[m]ost Media Mail and Library Mail pieces consist of small parcels: half weigh less than one pound ....”

- a. Please indicate where this datum for parcels under one pound can be found in, or computed from, your workbook, USPS-LR-L-41, Media Mail and Library Spreadsheets.
- b. If this datum is not contained in your workbook, USPS-LR-L-41, Media Mail and Library Spreadsheets, but is derived from this workbook, please show the derivation.
- c. If this datum is neither contained in nor derived from your workbook for Media Mail and Library Mail Spreadsheets in USPS-LR-L-41, please provide the source.

RESPONSE:

- a. This datum is not contained in USPS-LR-L-41, Media and Library Mail Spreadsheets.
- b. This datum was not derived from USPS-LR-L-41, Media and Library Mail Spreadsheets.
- c. This datum was derived from the FY2005 Media Mail Billing Determinants.

Please note that the percentage stated in my testimony should be 39 percent of Media Mail and Library Mail weighs less than one pound, and 97 percent weigh less than six pounds. Corrections to my testimony will be filed.

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**AMZ/USPS-T38-4.**

Please refer to your testimony at page 13, lines 9-12.

- a. Please confirm that your proposed rates for Media Mail and Library Mail do not have a three-part rate structure, such as that which exists today, and which has been in existence since 1975 for Media Mail, and since 1978 for Library Mail. If you do not confirm, please provide the different rates you used for: (i) pounds two through seven, and (ii) each additional pound.
- b. If you confirm preceding part a, then please provide all reasons why you rejected the existing three-part rate structure.

RESPONSE:

- a. Not confirmed. Please see USPS-LR-L-41 Media and Library Mail Spreadsheets, WP-MM-11, Column [J]. My proposed rates were derived from a per-piece and per-pound rate construction manifested in a three-part structure that resulted in one rate for the first pound, a separate lower rate for additional weight up to 7 pounds and the same lower rate for additional weight over 7 pounds.

In previous dockets, large rate increases potentially affecting the first pound rate were mitigated by increasing the heavier pound rates. For example, in Docket R2001-1, Witness Kiefer “mitigated large first pound rate increases by shifting some of the increase from the first pound to the second through seventh pounds and, to a lesser extent, to heavier rate cells.”

In this case, I found that if I had allowed the preliminary rate elements to flow through without adjustment, they would have resulted in unacceptably large increases in the first pound rate cells of Basic Presort and 5-Digit Presort. To mitigate this rate impact, I increased passthroughs of Basic Presort and 5-Digit Presort cost savings to over 100 percent and applied a lower mark-up to non-

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weight related non-transportation costs. I then offset the potential revenue loss by applying a slightly higher markup for the weight-related costs. These adjustments resulted in a rate structure of \$2.09 for the first pound and \$0.38 for additional pounds.

b. Not applicable.

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**AMZ/USPS-T38-5.**

Please refer to your testimony at page 16, lines 7-9.

- a. Please define the term “standard ... rate-development approach to rate development” as used here in your testimony.
- b. Would you agree that the per-piece and single per-pound rated approach which you use for Media Mail and Library Mail has not been a “standard” approach for these two subclasses at any time since 1978? If you do not agree, please explain when the per-piece and single per-pound approach which you use was the “standard” approach for Media Mail and Library Mail.

**RESPONSE:**

- a&b. I described my rate-development approach as “standard” to signify that I used the same rate-development methodology as in Docket Nos. R2001-1 and R2000-1. The only difference was in the way I mitigated the rate impact, as described in my response to AMZ/USPS-T38-4(a).

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**AMZ/USPS-T38-6.**

Please refer to USPS-LR-L-41, Media Mail and Library Spreadsheets, tab Adjusted Rate (WP-MM-12), and in particular refer to columns E to G and columns M to O.

- a. Please explain all changes in rate design you made that resulted in a reduction in rates in some individual rate cells of up to **6.1** percent (e.g., the 7-lb., 5-digit Presort Library rate in column N), while other rate cells experienced increases as high as **44.4** percent (e.g., the 1-lb., 5-digit Presort Media Mail rate in column F).
- b. Please confirm that the proposed rate changes for Media Mail range from **-5.3** percent to **+44.4** percent, and from lowest to highest, your proposed changes in rates for Media Mail span a total range of **49.7** percent. If you do not confirm, please provide the correct range.
- c. Please confirm that the rate changes for Library Mail range from **-6.1** percent to **+44.2** percent, and from lowest to highest your proposed changes in rates for Library Mail span a total range of **50.3** percent. If you do not confirm, please provide the correct range.
- d. Please explain your rationale for proposing such wide-ranging changes,

RESPONSE:

- a. The rate changes result primarily from changes in costs. My rate design attempts to mitigate rate impact, as I explain in my answer to AMZ/USPS-T38-4(a), to the extent practicable.
- b. Confirmed.
- c. Confirmed.
- d. Please see my response to part (a).

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**AMZ/USPS-T38-7.**

Please refer to your testimony at page 15, lines 21-22, where you state that “the Postal Service proposes no fundamental changes to the Media Mail or Library Mail rate designs.” ]

- a. Please explain why you believe that proposed changes in rates that range from a reduction of 5-6 percent to an increase of 44 percent do not represent “fundamental changes to the Media Mail or Library Mail rate designs.”
- b. Within the limits of the law requiring rates for Media Mail and Library Mail to be unzoned, please describe what you would consider to constitute a fundamental change in rate design for Media Mail, and provide at least one example that, in your opinion, would represent a fundamental change to Media Mail rate design.

RESPONSE:

- a. The range of rate changes is not an indicator of whether “fundamental changes to the Media Mail or Library Mail rate designs” were made. My approach mitigates what would have been even greater increases based purely on cost changes.
- b. Hypothetically speaking within the limits of the law requiring rates for Media Mail and Library Mail to be un-zoned, eliminating presort discounts would be an example of a fundamental change in Media Mail rate design.

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**AMZ/USPS-T38-8.**

Please refer to USPS-LR-L-41, Media Mail and Library Spreadsheets, tab Adjusted Rates (WP-MM-12).

- a. Please explain which data in your Media Mail workbooks you reviewed to study the impact on mailers of lighter weight pieces (*e.g.*, under 1 pound, and between 1 and 2 pounds), whose rates would increase by 19 to 44 percent under your proposed rates.
- b. Before finalizing your proposed rate changes for Media Mail and Library Mail, did you review the criteria in Section 3622(b) of the Postal Reorganization Act? If so, please explain the rationale which enabled you to determine that your proposed rates comply with subsection (b)(1), fairness and equity for users of Media Mail.
- c. Is it your opinion that rate changes of 31.4 to 44.4 percent for 1-pound Media Mail pieces comply with criterion (b)(4) regarding the effect of rate increases on mailers? If so, please explain the rationale which enabled you to determine that your proposed rate increases will not have an undue effect on those users of Media Mail who send light-weight (*i.e.*, under 1 pound) pieces.

RESPONSE:

- a. I reviewed all the data in my Media Mail workbooks before finalizing the Media Mail proposed rates. The size of a rate change must be considered in context. Given my evaluation of cost changes, the cost coverage proposed by witness O'Hara, and the rate changes, I determined that the proposal as a whole was appropriate.
- b. Yes. I have reviewed the pricing criteria in section 3622(b). It is my understanding that the pricing criteria are applied in witness O'Hara's determination of the appropriate cost coverage for each subclass. In lines 4 to 7 of his testimony, witness O'Hara stated, "The 18 percent increases will clearly have some adverse effect on current users of Media and Library Mail rate (criterion 4), but the rate increases reflect cost increases and the revenue they generate provides only a small margin above costs."
- c. Please see my response to AMZ/USPS-T38-8(b).

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**AMZ/USPS-T38-9.**

In order to isolate and help understand the impact of your methodological change in rate design, please provide rates for Media Mail using the three-part rate structure which exists today, and which has been in existence since 1975 for Media Mail. Such rates should achieve the same coverage and revenues as your proposed rates.

RESPONSE:

Please see my response to AMZ/USPS-T38-4(a).

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**AMZ/USPS-T38-10.**

Please refer to your testimony at page 7, lines 17-19, and explain the procedure that you used to allocate total volume variable costs of BPM between Nonpresort costs and Presorted mail costs.

RESPONSE:

Please refer to Library Reference USPS-LR-L-42, Bound Printed Matter Spreadsheets, WP-BPM-9.

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**AMZ/USPS-T38-11.**

When a mailer sends a book or catalog at BPM rates, can a CD or DVD be included as part of the mailing (i) if the jacket holding the CD or DVD is bound permanently into the book or catalog, or (ii) if the CD or DVD is not attached in any way to the book or catalog, but relates to the book or catalog? Please explain under what circumstances, if any, a CD or DVD can be included as part of a BPM mailpiece.

**RESPONSE:**

I am unaware of any proposed changes to current eligibility requirements for Bound Printed Matter. Please refer to DMM sections 163.4.0(b), 363.2.4.3(b), or 463.2.4.3(b) as applicable.

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**AMZ/USPS-T38-12.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-21, which shows percentage increases ranging from **4.4** to **18.2** percent. What is the average rate increase for all Single Piece (Nonpresort) BPM? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for all Single Piece (Nonpresort) BPM would be to divide the Single Piece TYAR Revenue (see line [aa] in WP-BPM-27) by total Single Piece Volume (see item [Ba] in WP-BPM-26).

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**AMZ/USPS-T38-13.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-22, which shows percentage increases ranging from **11.9** to **26.8** percent. What is the average rate increase for all Basic Presort BPM? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for all Basic Presort BPM would be to divide the Basic Presort TYAR Revenue by total Basic Presort Volume (see item [Fa] in WP-BPM-26). However, I am unable to perform this calculation because TYAR revenue was not separately calculated by presort level. Please refer to WP-BPM-27.

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**AMZ/USPS-T38-14.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-23, which shows percentage increases ranging from **8.3** to **23.0** percent. What is the average rate increase for all Basic Presort BPM entered at a Destination Bulk Mail Center/Auxiliary Service Facility ("DBMC/ASF")? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for Basic Presort BPM entered at DBMC/ASF would be to divide the Basic Presort TYAR Revenue by Basic Presort Volume entered at DBMC/ASF. However, I am unable to perform this calculation because TYAR revenue was not separately calculated by presort level. Please refer to WP-BPM-26 and WP-BPM-27.

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**AMZ/USPS-T38-15.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-24, which shows percentage increases ranging from **12.2** to **28.3** percent. What is the average rate increase for all Carrier Route Presort BPM? Please show how you compute the average rate increase, including the volume to which the average rate increase is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for all Carrier Route Presort BPM would be to divide the Carrier Route Presort TYAR Revenue by total Carrier Route Presort Volume (see item [Ja] in WP-BPM-26). However, I am unable to perform this calculation because TYAR revenue was not calculated separately by presort level. Please refer to WP-BPM-27.

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**AMZ/USPS-T38-16.**

Please refer to USPS-LR-L-41, BRM Spreadsheets, tab Rate Comparisons, WP-BPM-25, which shows percentage increases ranging from **11.3** to **25.2** percent. What is the average rate increase for all Carrier Route Presort BPM entered at DBMC/ASF? Please show how you compute the average rate increase, including the volume over which the average is applicable.

RESPONSE:

Please note that I have not performed this calculation in USPS-LR-L-41, BPM Spreadsheets. One way of calculating the average rate increase for Carrier Route Presort BPM entered at DBMC/ASF would be to divide the Carrier Route Presort TYAR Revenue by Carrier Route Presort Volume entered at DBMC/ASF. However, I am unable to perform this calculation because TYAR revenue and Volume were not calculated separately by presort level. Please refer to WP-BPM-26 and WP-BPM-27.