

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

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POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

REVISED RESPONSES OF POSTAL SERVICE WITNESS TANG  
TO INTERROGATORIES OF THE MCGRAW-HILL COMPANIES, INC.  
(MH/USPS-T35-7, 11) (ERRATA)

The United States Postal Service hereby files the revised responses of witness Tang to the above listed interrogatories, filed on July 12, 2006. The revisions correct pagination errors and do not change the substance of the responses.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS TANG  
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**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 crossdocking 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.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed.

(c) The non-transportation cost referred to in witness Daniel's testimony is the total cost of Periodicals less the transportation cost. This non-transportation cost includes mail-processing, delivery, and other cost segments, excluding cost segment(s) relating to transportation. The non-transportation or bulk transfer operations cost that is provided

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by witness Mayes is a very small portion of the costs discussed in the testimony of witness Daniel. We maintain that these costs are container related, whereas the Postal Rate Commission deems them to be more pound related than piece related. Please see PRC Op., R2000-1, page 437, paragraph 5684. In Docket No. R2000-1, the Postal Service proposed a 70/30 split of these costs between pieces/pounds for a different reason altogether (please see PRC Op., R2000-1, page 436, paragraph 5681). The Postal Rate Commission rejected that change and maintained the 50/50 split of these costs between pieces and pounds. (Please see PRC Op., R2000-1, page 437, paragraph 5685).

(d) All else being equal, if more than 50 percent of the non-transportation costs were allocated to the piece side, the per-piece dropship discounts would be larger and the per-pound dropship discounts would be smaller.

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**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

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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.

RESPONSE:

(a) Confirmed.

(b) The current unzoned editorial pound rate is \$0.203, about 78 percent of the current Zones 1&2 advertising pound rate of \$0.261. I can confirm that the proposed rate for non-dropshipped editorial pounds is about 83.2 percent of the proposed Zones 1&2 advertising pound rate. The term "average" comes from the Outside County Periodicals rate design workbook, worksheet "Pound Data\_Ed.", cell C8. It represents the proposed non-dropshipped editorial pound rate, to which the \$0.013 deduction adjustment ("Pound Data\_Ed" cell C45) has been applied.

(c) Not confirmed. On the pound side, other than the 14.3 percent increase for non-dropship editorial pounds, the proposed double-digit rate changes that are more than 14.3 percent include: a 24.1 percent decrease for DDU editorial pounds, a 43.4 percent

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decrease for DDU Science of Agriculture editorial pounds, a 29.1 percent decrease for DSCF Science of Agriculture editorial pounds, and a 22.7 percent decrease for DADC Science of Agriculture editorial pounds. On the piece side, the proposed double-digit rate changes that are more than 14.3 percent include a 16.0 percent increase for Basic Automation Flat, a 17.4 percent increase for Carrier Route High Density, a 37.5 percent increase for the DSCF entry discount, a 50 percent increase for the DADC-entry discount, and an 18.3 percent increase for ride-along pieces.

(d) I sum up the test-year-after-rates revenue and volume in worksheets "RR TYAR", "NP TYAR", and "CR TYAR", and divide the total advertising pound revenue (\$439,864,166) by advertising pounds (1,569,469,593) to derive the weighted-average revenue per advertising pound of \$0.282. The total piece revenue (\$1,452,280,853) divided by total pieces (8,049,954,276) gives the weighted-average revenue per piece of \$0.180. By the same token, in worksheet "Test Year BR with 24pc Adjustm't", the total advertising pound revenue (\$423,122,874) divided by advertising pounds (1,616,749,608) yields the test-year-before-rates revenue per advertising pound of \$0.262; the total piece revenue (\$1,331,944,540) divided by volume (8,332,198,836) yields test-year-before-rates revenue per piece of \$0.160.

(i-ii) Based on the figures above, the weighted-average percentage increase for advertising pounds is 7.6 percent; the weighted-average percentage increase for piece rates is 12.8 percent.

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(e-f) Using the same methodology, the weighted-average percentage increase for editorial pounds is 2.2 percent (test-year-after-rates revenue per editorial pound of \$0.207 vs. test-year-before-rates revenue per editorial pound of \$0.203). The Postal Service believes that the ECSI value has been sufficiently recognized by the proposal and does not plan on making further reduction in the editorial pound rate.

(g) The rate differentials refer to cells C14-C16 in worksheet "Pound Data\_Ed." The costs subject to passthroughs are shown in worksheet "Pound Data\_Adv." Please see my response to MPA/USPS-T35-22 for the details of how the costs have been applied to develop the advertising pound rates.