

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

DIRECT TESTIMONY OF
ROBERT W. MITCHELL
ON BEHALF OF
TIME WARNER INC.

CONCERNING
PERIODICALS RATES

September 6, 2006

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Direct Testimony
of
Robert W. Mitchell

AUTOBIOGRAPHICAL SKETCH

My name is Robert W. Mitchell. I am a consultant on issues relating to postal rates. From 1992 until my retirement in 2002, I worked as Special Assistant to the Postal Rate Commission and, before that, as Special Assistant to the Chairman. From 1975 to 1992, I was a Cost Systems Analyst, a Planning Officer, an Assistant to the Assistant Postmaster General of Rates and Classifications, Manager of the Primary Rates Branch in the Office of Rates, and a Principal Economist at the United States Postal Service. I have worked on a wide range of rate issues, from costing to rate administration to rate design to regulatory policy. I have represented the Commission and the Postal Service to mailers and various postal groups. I was the Postal Service's witness on Periodicals and Standard mail rates (then second class and third class) in Dockets No. R87-1 and R90-1, and testified on behalf of the Postal Service in four other dockets. I testified on behalf of Time Warner Inc. in Docket No. C2004-1 and on behalf of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc. in Docket No. R2005-1. I have also been a consultant on rates to the nations of Dominica and The Gambia.

Prior to joining the Postal Service, I was an Assistant Professor of Business at the University of Wisconsin-Milwaukee, teaching Economic Theory and Managerial Economics. I have a Bachelor of Science in Mechanical Engineering from the University of Cincinnati and an M. A. in Economics from Case Western Reserve University. While at Case, I passed my written and oral comprehensive

1 examinations for the Ph.D. in Economics, with major areas in Economic Theory,
2 Econometrics, and Industrial Economics.

3 I have written a number of articles and published papers, primarily on
4 economic issues relating to postal rates, including: "Postal Worksharing: Welfare,
5 Technical Efficiency, and Pareto Optimality," in *Emerging Competition In Postal and*
6 *Delivery Services* (1999), and "Preparing the Postal Service's Rate Structures for
7 Competition: A Study of How the United States Postal Service Might Adjust to
8 Increased Competitive Pressure," in *Future Directions in Postal Reform* (2001).
9

1 **I. PURPOSE OF TESTIMONY**

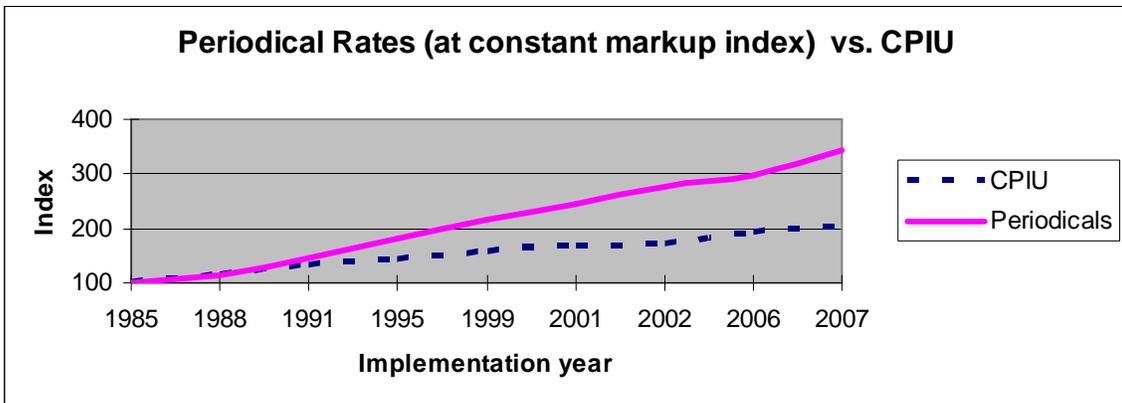
2 The purpose of my testimony is to review the state of the Periodicals
3 subclass, the assessment of the Commission on related issues in the Time Warner
4 et al. Complaint, and the Periodicals rates proposed by the Postal Service, and to
5 recommend an alternative rate structure, with accompanying rates. I have two
6 workpapers, an Excel spreadsheet showing the development of my rates (WP-
7 Mitchell-3F-06.xls) and one providing volumes and cost information
8 (R2006Volumes.xls), both in TW-LR-1. They show all costs for all categories and
9 how those costs are recognized in the rates. I draw on cost and volume estimates
10 developed by witness Stralberg, TW-T-2.

11

1 **II. THE STATE OF PERIODICALS MAIL IS NOT GOOD**

2 Although Congress has always made special provisions for periodicals, with
3 the presumed expectation that the resulting rates will be viewed as low and
4 attractive, and thereby provide an effective way for news, information, and analysis
5 of various kinds to be distributed, concern has existed for some time that the costs
6 of handling and delivering periodicals are not under control and are not well aligned
7 with the hope that an effective, low-cost mailstream for them should exist.

8 In my testimony in the Time Warner Inc. et al. Complaint,¹ I reviewed cost
9 trends since the conclusion of Docket No. R84-1, now over 20 years ago. The
10 following graph is an update of one presented there.



19 The meaning of the CPIU line is clear; the meaning of the Periodicals line is mo in
20 billing determinants, one would be difficult to construct. Linking percentage re
21 complex. No cost index for Periodicals is available, and, given regular changes
22 increases in rates presents difficulties as well, because the markups on Periodicals
23 have varied. As a way around these problems, I constructed a rate index, at a
24 constant markup index. In effect, the rate development process acts as a filter that

¹ Docket No. C2004-1, Complaint of Time Warner Inc., Condé Nast Publications, a Division of Advance Magazine Publishers Inc., Newsweek, Inc., The Reader's Digest Association, Inc., and TV Guide Magazine Group, Inc. Concerning Periodicals Rates (hereinafter Complaint), Direct Testimony of Robert W. Mitchell (TW et al.-T-1), Tr. 793-866.

1 accounts for changes in billing determinants (such as weight, percent advertising,
2 presort levels, and zone distribution), and adjusting to a constant markup index
3 corrects for changes in relative coverage.

4 The interpretation, then, is straightforward. Corrected for mix changes and
5 markup, the rate index for Periodicals has risen to a level of 344 while the CPIU has
6 risen to 203. While some part of this outcome is explained by changes in costing
7 procedures, the actual situation raises more questions. This is because:

- 8 1. Since 1985, the Postal Service has introduced substantial amounts of
9 mechanization and automation, all with presumed high returns on
10 investment, which should have allowed lower Periodicals costs.
- 11 2. During the period, Periodicals mailers have changed the way their mail is
12 prepared, and have done so in ways that should have reduced costs.
13 Two such changes stand out. (a) The proportion of Periodicals volume
14 entered on pallets has increased substantially. With only slight
15 recognition in rates for part of the period, this should have lowered costs.
16 (b) The proportion of Periodicals entered in destination offices (generally
17 referred to as dropshipped) has also increased substantially. Since the
18 rates are designed so that the Postal Service savings from dropshipping is
19 much larger than the reduction in postage, this too should have reduced
20 costs, as developed and shown in my graph.

21 In view of these developments, along with other cost-reducing efforts, the
22 Postal Service should have been able to support real wage increases equivalent to
23 those averaged in the economy at large and still keep rates (as measured in my
24 graph) from rising faster than the CPIU. This clearly has not occurred, and there is
25 no suggestion in the graph of improvement.

26 It is not as though these matters have not received attention. Pursuant to
27 questions raised before and during Docket No. R97-1, a joint USPS-Periodicals
28 Industry Operations Review Team invested heavily in reviewing operations and
29 developing recommendations for improvement. When some of these were not part
30 of the initial filing in the R2000-1 rate case, mailers worked to identify desirable
31 changes, the Postal Service agreed to implement them, and the Commission

1 recognized them. See PRC Op. R2000-1 (November 13, 2000), pp. 412ff, ¶¶
2 5594ff.

3 In the same docket, the Postal Service was asked to dig down into operations
4 and explain the reasons for the trends observed. It provided two operations
5 witnesses who, instead of providing reasons and solutions, did little more than
6 speculate about all manner of things that mailers might be doing wrong or that the
7 Postal Service cannot seem to handle. The Commission reviewed the material
8 provided and said:

9 The only conclusion is not comfortable: there are many
10 reasons for believing that costs should have decreased; only
11 a few factors that could be associated with increases; and a
12 persistent net upward trend. It is clear that mailers and the
13 Service must aggressively pursue the cost reduction
14 opportunities identified on this record, and explore other
15 aspects of the “operational realities” they face.

16 *Id.*, p. 412, ¶ 5593.

17 The same issues received the attention of the Commission again in Docket
18 No. R2001-1, even though the case was settled without the development of an
19 extensive record. The Commission explained that its “recommendations for the
20 Outside County subclass continue to reflect a strong focus on implementing
21 *structural changes* in Periodicals that may foster cost containment and service
22 improvement,” pointing to the new DADC and pallet discounts.² PRC Op. R2001-1
23 (March 22, 2002), p. 104, ¶ 3164 (*emphasis added*). Of the latter, the Commission
24 said:

25 formal recognition in the rate structure for use of pallets is an
26 entirely new and, for many, a long awaited change in
27 Periodicals. With their links to package preparation and
28 dropshipping, the pallet discounts recommended here may
29 prove to be a watershed development. For now, they hold
30 out the promise that several key practices can be harnessed

² As will be explained further on, these pallet rates, which were viewed by the Commission as hopeful for Periodicals as a subclass, and which cannot be separated from decisions by mailers to co-palletize and dropship, are proposed to be withdrawn in the instant docket.

1 to control costs and improve service for the class as a
2 whole.

3 *Id.*, ¶ 3166.

4 But the Commission's hopefulness was accompanied by concern, for it also
5 observed that “[t]he record . . . does not indicate whether the ambitious cost
6 reduction initiatives spearheaded by Periodicals mailers in the last case are
7 achieving targeted savings.” *Id.*, ¶ 3168. No related discussion occurred in Docket
8 No. R2005-1.
9

1 **III. IN THE COMPLAINT CASE THE COMMISSION CONCLUDED THAT**
2 **IMPROVEMENTS IN PERIODICALS RATE DESIGN ARE POSSIBLE AND**
3 **NECESSARY, AND EXPECTED PROGRESS**

4 The situation facing Periodicals mailers was presented in the Complaint case,
5 along with suggestions for improvement. In its Order reviewing an extensive record,
6 the Commission noted that the case “mark[ed] the latest in a series of cases raising
7 significant concerns about Outside County Periodicals costs and rate design” and
8 went on to say that it was

9 distinguished ... by several unique features. These include
10 the existence of considerably more – and better – data than
11 previously available; the presentation of the most
12 sophisticated Periodicals cost analysis and rate design
13 theories; and the opportunity to devote resources to
14 exploring pressing Periodicals cost and policy issues outside
15 the constraints of an omnibus rate or major classification
16 case.³

17 Citing “[t]he inordinately high rate of Periodicals cost increases over a period of
18 years,” the Commission described the complainants' proposals, which it said it did
19 “not view . . . as radical,” as representing “a more comprehensive approach” than
20 attempts to address these problems in the past. Order No. 1446, p. 15, ¶ 3001, p.
21 45, ¶ 5002, p. 15, ¶ 3002.

22 Most if not all of the changes proposed were in the direction of recognizing
23 costs and of sending more effective signals to mailers. The Commission noted that
24 “[c]ost-based rates and encouraging efficiency in postal operations have been two
25 frequent hallmarks of Commission rate recommendations,” adding:

26 The Commission has recommended – and the Postal
27 Service has adopted – rates that move all classes and
28 subclasses of mail toward more efficient preparation through
29 discounts for presorting, dropshipping, palletizing, and other
30 cost-efficient measures. The Commission continues to
31 support an economically efficient approach that encourages

³ Docket No. C2004-1, Order No. 1446, Order Addressing Complaint of Time Warner Et Al. (issued October 21, 2005), p. 3, ¶ 1010.

1 the optimal use of society's resources to process and deliver
2 mail to its ultimate customers.

3 *Id.*, p. 45, ¶ 5001.

4 After careful review, the Commission found a great deal of merit in the
5 proposals made. Its central conclusions, however, were directed to the future. It
6 found that "progress towards a more cost-based structure is both possible and
7 necessary," that there are "a number of areas where improvements in the
8 Periodicals rate structure may be both possible and warranted," that "major progress
9 [had been made] in identifying and quantifying cost drivers associated with bundles,
10 sacks and pallets," and that "there is room for improvement in the Periodicals rate
11 structure, especially in light of the new insights that the Complainants provide into
12 the costs of bundles, sacks and pallets." *Id.*, p. 4, ¶ 1013, p. 5, ¶ 1014, p. 45, ¶
13 5002, P. 45, ¶ 5003.

14 The Commission was particularly specific on several proposals relating to
15 machinability, presortation, and dropshipping, including them in a list of "many
16 possibilities for positive action that should not cause undue disruption" (*id.*, p. 5, ¶
17 1015) that is summarized in the following three paragraphs.

18 1. The Commission said that "machinability distinctions in piece charges
19 would recognize the additional costs of processing nonmachinable mail."
20 It observed that "[t]hese distinctions exist in other classes and as flats
21 automation progresses they will become more important. They should be
22 seriously considered within the context of changing operations." (*id.*, p. 5,
23 ¶ 1015) It added that "[t]o minimize disruption, the Postal Service should
24 provide Periodicals mailers with notice that pieces that are nonmachinable
25 will become subject to rates that reflect higher processing costs."⁴ (*id.*, p.
26 7, ¶ 1019, item No. 6) Summing up its conclusions, the Commission said:

⁴ The Commission elaborated further on the issue of machinability, saying:

The Commission has long recognized the operational difficulties the Service faces in processing nonmachinable mail. These difficulties and their attendant costs come into sharper focus in an increasingly automated environment. The rate structures for First-Class Mail, Standard Mail, and Package Services mail already contain rate elements for mail that is more costly to process because of physical or other characteristics that prevent machine processing. Periodicals mail is the

1 Mailers should expect the Postal Service to develop
2 additional machinability standards as technology evolves
3 and additional automated equipment is deployed. The
4 Postal Service therefore should look toward a rate
5 structure that recognizes the machinability of Periodicals
6 mail, along the lines suggested by Complainants.

7 *Id.*, p. 34, ¶ 4045.

8 2. Part of the proposal made in the Complaint involved deaveraging the
9 basic presort level into a mixed ADC level and an ADC level. This had
10 already been done in Standard Mail and in First-Class Mail, and was
11 another cost-based proposal. Many small mailers can separate mail for
12 an ADC area, particularly if they are local or regional mailers, and there is
13 certainly something to be gained by not having to process the pieces in an
14 origin office. The Commission concluded that "the proposed adjustments
15 appear to reflect the mail flows, and that these refinements would be an
16 improvement for that reason." *Id.*, p. 36, ¶ 4048.

17 3. An option to dropship Periodicals at BMCs with rate recognition was
18 proposed by the complainants, who explained that BMCs are well
19 positioned to serve broad territories efficiently and that even relatively
20 small mailers might have enough mail to make the use of BMCs practical.
21 Noting that Standard Mail has a BMC discount and that some Periodicals
22 are already entered there, the Commission indicated that it "encourages
23 the Service to investigate the feasibility of incentives for entering
24 Periodicals mail at destination BMC facilities in terms of both internal
25 operations and service considerations." *Id.*, p. 38, ¶ 4054.

26 The Commission went beyond simply commenting on the proposals made, by
27 detailing further steps that it said "should" be taken. It said the Postal Service
28 should: update witness Stralberg's cost analyses; "evaluate the impact of potential
29 rate changes on various categories of Periodicals mail";⁵ "suggest incremental
30 changes that will foster efficient mailer practices without undue disruption" (p. 5, ¶
31 1016); "review each of the rate design features in the context of the current and

only traditional class in which machinability is not explicitly recognized in
the current rate schedule.

Id., p. 33, ¶ 4040.

⁵ In an appendix discussing its suggested "opt-in system," the Commission said: "... it is clear that the Postal Service has the capability of identifying the billing determinants for each of the 29,979 publications and calculating before and after rates postage charges. The Postal Service could begin to create an environment for Periodicals that would encourage more efficient mailing practices by conducting the study required to implement the opt-in system." *Id.*, Appendix C, p. 11, ¶ 20.

1 planned processing and transportation network for Periodicals”; and focus “on
2 quickly incorporating the most promising and least disruptive components” (p. 30, ¶
3 4035).⁶

4 The Commission acknowledged what appeared to be positive signals from
5 the Postal Service during the case:

6 [T]he Postal Service, which opposes the Complaint,
7 “believes that much more can be done to promote efficiency
8 in Periodicals rate design, and is, indeed, considering
9 changes that would move in the direction proposed by
10 Complainants.”

11 *Id.*, Appendix B, p. 7, ¶ 12.

12 In its strongest language, the Commission said that it:

13 urges the Postal Service to proceed forthwith to develop a
14 rate design for Periodicals that better serves the needs of all
15 interested stakeholders and thereafter file a request for a
16 recommended decision with the Commission. It is hoped
17 that this Order will further inform the Postal Service and
18 spark prompt action.

19 *Id.*, ¶ 13.

20 Pointing to “data in USPS-LR-1 show[ing] that the smallest publications
21 witness Tang sampled could experience postage increases as high as 90 percent
22 under the proposed rates” (*id.*, p. 27, ¶ 4025), Order No. 1446 makes it clear that
23 the Commission is not willing to neglect effects on small mailers. But the Order also
24 makes it clear that the Commission expects progress.

25 The Commission suggested three “Alternative Approaches for Improving the
26 Rate Structure”: (1) a “partial recognition” approach; (2) “a ‘piecemeal’ approach of

⁶ The effects of supplemental mailings are another matter that received Commission attention: “There is ample evidence that supplemental mailings are more costly to process than main file mailings. It is also the case that supplemental mailings exhibit characteristics similar to those of low-circulation publications. The Postal Service should examine these mailings to determine the extent to which witness Mitchell’s allegation that they are below cost is true.” The Commission went on to say: “The Postal Service may find it feasible to develop classification language or a partial restructuring of Periodicals rate design to treat these mailings in a different manner than main file mailings.” *Id.*, p. 52, ¶ 5017.

1 gradually making changes over time”; and (3) “an ‘opt-in’ approach.” *Id.*, p. 47, ¶
2 5055, *and generally* pp. 47ff, ¶¶ 5055ff. The first two of these, the Commission
3 said, involve “[m]easured introduction of changes.” *Id.*, p. 47, ¶ 5008.

4 Under the "partial recognition" approach changes would be phased “over two
5 or more proceedings by starting with low bundle/container charges and gradually
6 increasing them case-by-case as experience with impact on mail users is evaluated
7 and taken into consideration.” *Id.*, ¶ 5006. Under the "piecemeal" approach,
8 changes to the rate structure would be introduced "incrementally by first proposing
9 one or more changes per rate case or classification case.” *Id.*, ¶ 5007. As
10 explained further below, the rates that I am proposing in this case represent a
11 combination of these two approaches.
12

1 **IV. TIME WARNER'S RATE PROPOSAL IS FULLY RESPONSIVE TO BOTH**
2 **THE OPPORTUNITIES IDENTIFIED AND THE CONCERNS EXPRESSED**
3 **IN THE COMMISSION'S COMPLAINT CASE ORDER**

4 The effects on mailers that received so much attention in the Complaint were
5 caused primarily by three things: (1) the proposal to zone the editorial pound
6 charge; (2) the extensive use by some mailers of sacks with a small number of
7 pieces, sometimes as low as one or two; and (3) the focus on rates that recognized
8 the costs fully, even though moderation would have been a simple matter. To any
9 extent to which these were infirmities in the proposal in the Complaint case, they are
10 no longer an issue. The rates developed herein do not involve zoning editorial
11 pounds; because of the adoption of the 24-piece rule, effects due to small sacks no
12 longer exist; and significant moderation of the effects on small periodicals is
13 achieved by proposing limited recognition of the costs underlying the new rate
14 elements.

15 Accordingly, the approaches suggested by the Commission in Order No.
16 1446 have now become viable. The rate schedule that I am proposing: does
17 include container-based charges that reflect what we have learned about the role of
18 bundles, sacks, and pallets in driving costs; does recognize the importance of
19 machinability; does reward BMC dropship; does not propose zoning the editorial
20 pound charge; and does include substantial tempering in consideration of possible
21 impacts on small publications. Recognizing only a portion of the costs should bring
22 about changes in mail makeup that will be a foundation for further improvements in
23 future cases.

24 Because the rates developed here follow traditional rate design procedures,
25 including all those common to Periodicals, they will be found easy to follow. The
26 costs and cost differences relevant to ratesetting are displayed clearly and a

1 decision is made on how the rates should reflect them.⁷ Thirty-five percent of the
2 revenue is obtained from the pound charges.⁸ The differences in the zoned pound
3 rates are a direct reflection of transportation costs, and include neither a markup nor
4 non-transportation cost differences.⁹

5 Several aspects of the Postal Service proposal are adopted, specifically: the
6 per-piece editorial discount; the fee levels; the discounts for high-density and
7 saturation pieces; and the Ride-Along rate. Limited adjustments are made in the
8 rates for automation letters. The unzoned editorial pound rate is retained and set at
9 83.2 percent of the zones 1-2 pound rate for advertising matter, equivalent to that
10 proposed by the Postal Service. The editorial pound rates for matter dropshipped to
11 a destination ADC or closer are, similarly, set at 83.2 percent of the corresponding
12 advertising rate, approximately equal to the relationship proposed by the Postal
13 Service.¹⁰

⁷ My workpapers contain a presort tree on the 'Inputs' sheet showing all costs and rate relationships associated with the piece charges. The costs for bundles and containers are also shown. The spreadsheet makes it easy to adjust all passthroughs and all degrees of cost recognition, and to see the effects on the rates.

⁸ For some years, 40 percent of the revenue has been obtained from the pound charges. In the Complaint, based on reasoning provided by witness Stralberg that the Commission referred to as "reasonable" (p. 28, ¶ 4029), it was proposed to decrease this proportion to 30 percent, because of pound-related costs covered in the container and bundle charges. In this docket, the Postal Service proposes a proportion of approximately 38 percent. The proposal of 35 percent herein recognizes that the rates proposed reflect only a portion of the container and bundle charges (as proposed, the container and bundle charges account for 10.4 percent of total revenue, a portion of which is pound related).

⁹ Note that the rates resulting from this application are favorable to both high-zone mailers and editorial matter. The pound rate for advertising entered at the DSCF increases 6.54 percent while the corresponding pound rate for zone 8 *decreases* 10.42 percent. The unzoned editorial pound rate increases only 4.93 percent.

¹⁰ The rates I develop for the advertising pounds of Science of Agriculture (SoA) publications, zones 1-2 and closer, are set at 75 percent of the corresponding rate for the advertising pounds of non-SoA publications, a Congressional preference required by P.L. 103-123. I see no basis for extending this preference to editorial pounds (as proposed by the Postal Service), which already receive a preferred rate. Witness Tang reasons that such an extension is needed to be "*consistent* with the introduction of destination entry rates for other [editorial] pounds" (the latter being part of the Postal Service proposal). USPS-T-35 at 10, ll. 12-13, emphasis added. However, since the pound rates for the editorial pounds of SoA publications are *identical* to those for the editorial pounds of non-SoA publications, they are 100 percent consistent currently and under the rates I develop. To the contrary, I see the SoA editorial rates of Tang to be *inconsistent*, whether looked at in terms of levels, percentage changes, or dropship incentives.

1 My rate schedule, shown on the last page of my testimony as Exhibit A, is
2 similar in format to the schedule introduced in the Complaint case. Also, the
3 schedule is available in electronic form on the last sheet of my workpaper WP-
4 Mitchell-3F-06.xls. As in the Complaint case, Time Warner will make available to
5 any Periodicals mailer upon request an analytical tool for helping to determine the
6 effects of the proposed rates on the mailer's publications and is prepared to provide
7 technical assistance in performing the analysis, available on a confidential basis.

8 In order to provide the Commission with the tools necessary to make
9 adjustments in the proposed rates (e.g., by setting different passthrough levels), if it
10 so determines, I have also designed my spreadsheets to make it easy to change
11 any rate element and to see what the effects of the change would be on all other
12 elements in the schedule.¹¹

13 All of the costs I use, which are shown clearly in my workpapers, are
14 developed by witness Stralberg, TW-T-2.¹² Stralberg's testimony demonstrates that

¹¹ In terms of category definitions, they are in one case the same and in other cases more disaggregated than those used by witness Tang. Specifically, both Tang and I show a carrier route category, though with a different cost. My cost reflects Stralberg's improvements to the Postal Service models. On the other hand, for a category like 3-digit non-automation, Tang shows one cost while I show costs disaggregated according to machinability. Similarly, Tang shows one cost for basic presort while I show costs disaggregated into mixed ADC and ADC. For any set of categories, then, whether aggregated or disaggregated, Stralberg's costs can be used, and I recommend them.

¹² The rates I propose were developed on a TYBR basis, using the PRC costs provided in the D Report of witness Waterbury, USPS-LR-L-95, as modified in her response to MPA/USPS-T35-21(a), and produce a cost coverage of 101 percent. Since TYAR values of the fees and the Ride-Along revenue are recognized (both adjusted to TYBR volume levels), the TYAR value of coverage should be approximately 101 percent. The rates are shown in Exhibit A, on the last page of my testimony.

Sufficient data are not available at this time to create a complete set of billing determinants for Nonprofit and Classroom Periodicals. It is known from past exercises, however, that the cost coverage on the Outside County subclass declines by about 0.6 percentage points when the 5-percent discount to which they are entitled under § 3626(a)(4) of the Act is given. (For Outside County Periodicals, witness Tang shows a cost coverage before the 5-percent discount of 107.0 percent and after the 5-percent discount of 106.4 percent, yielding a difference of exactly 0.6 percentage points. USPS-T-35, p. 3, l. 8 and p. 2, l. 9, respectively. See also Docket No. R2000-1, PRC-LR-14, file PRC-2Reg+.xls, sheet G, cells F61 and F62, showing a difference of 0.53 percentage points.) I recommend that the revenue from the financial effects of the new rates be estimated by using the figure of 0.6 percentage points. Taking this approach provides an estimate that is at least as close as any that could be developed from other assumptions about the Nonprofit and Classroom billing determinants. The changes being proposed are important. The lack of exact data for Nonprofit and Classroom Periodicals should not be allowed to forestall all possibility of progress for the much larger population of regular-rate Outside County Periodicals.

1 some of the most significant deficiencies in the Postal Service's rate design result
2 from errors in its cost analysis. He provides a comprehensive analysis and
3 demonstration of those errors, and gives careful consideration to determining the
4 best approaches to correcting them. Whatever other action the Commission
5 decides to take in this case with respect to, in its words, "areas where improvements
6 in the Periodicals rate structure may be both possible and warranted" (Order No.
7 1446, p. 5, ¶ 1014), it should at the least take cognizance of the serious errors in the
8 Postal Service's cost analysis, in particular in witness Miller's mail flow model, some
9 of which have been documented by Stralberg repeatedly over a series of cases.
10

1 **V. THE POSTAL SERVICE'S PROPOSED PERIODICALS RATES ARE**
2 **UNRESPONSIVE TO THE COMMISSION'S FINDINGS IN ORDER NO.**
3 **1446 AND MAY BE A STEP BACKWARD**

4 Although the Postal Service *does* propose a container charge, its proposal is
5 anything but responsive to the situation being faced by Periodicals mailers and to
6 the Commission's Order in the Complaint proceeding. As reviewed above, the
7 Commission said the proposals of the Complaint were not radical, were part of a
8 comprehensive approach to dealing with troubling developments, that progress is
9 both "possible and necessary," and that it hoped its order would "spark prompt
10 action."

11 The Postal Service does not appear to have taken these findings seriously.
12 Its Periodicals rate proposal does not represent progress toward a more cost-based
13 rate structure. It has paid little attention to the steps advocated by the complainants
14 that the Commission said "have considerable potential." Order No. 1446, p. 5, ¶
15 1015. In contrast to proposals being made in First Class and Standard Mail, it has
16 not clarified mailing standards for Periodicals flats and has not dealt well with the
17 matter of non-machinability. Important cost drivers are not proposed to be
18 recognized. The *basic* presort tier has not been deaveraged into mixed ADC and
19 ADC. The question of a DBMC dropship discount has not been addressed, even
20 though it is clear that BMCs serve wide areas and might be effective options for
21 mailers, including small ones.¹³ The possibility that supplemental mailings might be
22 a cause of higher than average costs, which might warrant recognition in rates, has
23 not been explored. An improved database to help evaluate the effects of rates on
24 specific categories of publications has not been developed.¹⁴ The cost studies

¹³ If the names or the roles of any of these facilities are being changed as a result of any network realignment activities, it should be a simple matter for the Postal Service to specify the names and locations of the facilities to perform equivalent functions.

¹⁴ In response to a question from the Chairman during her hearing, witness Tang conceded that in order to assess the effects of the rates proposed in this docket she had relied on an FY 2003 sample of the mailing profiles of 251 publications that she had used in the Complaint case, a sample that preceded the 24-piece rule by several years. Tr. 1884-86. Therefore, the utility of the sample is

1 underlying elements of the Complaint proposal have not been updated or
2 improved.¹⁵

3 None of this means that the Postal Service proposal does not involve
4 changes of some magnitude and importance. The response of the Postal Service to
5 the Commission's conclusion that "progress . . . is both possible and necessary"
6 (Order No. 1446, p. 6, ¶ 1019) is found in the testimony of witness Tang, USPS-T-
7 35. A pallet discount of 0.5 cents (per piece), a dropship pallet discount of 1.6 cents
8 (per piece), and a co-palletization discount of as much as 1.1 cents (per piece) are
9 all being withdrawn. As the Commission observed in its Order in the Complaint
10 case: "One way the Service has responded to these problems is by encouraging
11 mailers to improve bundle preparation and by providing them with an incentive, in
12 the form of dropshipping discounts, to enter publications as close as possible to
13 their final destination."¹⁶ Order No. 1446, p. 15, ¶ 3001. Mailers have invested
14 around these discounts and given increased attention to co-palletization and
15 dropshipping. Since pallets normally contain a considerable number of pieces, the

severely limited. Since, as witness Stralberg testified in the Complaint case, the "use of low-volume sacks (skin sacks), often containing just a single bundle, is by far the predominant reason why some publications would see very high postage increases" under the rates proposed in that case (Docket No. C2004-1, Tr. 5/1541), and since skin sacks are generally no longer permitted, mailing profiles from 2003, when skin sacks were extensively used by small publications, are almost useless for assessing the impact of rates proposed in this case.

Tang apparently did not grasp this point until it was forced upon her attention well into the discovery phase of this docket. In response to two interrogatories from Magazine Publishers of America (MPA), Tang provided estimates of the effects of her proposed rates on the incentives for palletization and dropshipping for specific publications. Original responses to MPA/USPS-T35-13 (filed July 14, 2006) and 17 (filed August 3, 2006) (available in Commission's docket file). When the implausibility of her results moved MPA in a subsequent interrogatory to challenge her to explain "whether the source [of her data] takes into account the effect of the May 11 rule requiring 24 pieces in most sacks" and to identify "any other reasons why the source may overstate the number of containers . . . in the "after" [rates] scenario," Tang replied that the data "do not reflect the 24-piece rule, since the mailings were prior to the rule change" and withdrew her previous responses, stating: "I no longer believe I have data that would allow me to calculate percentage increases in the incentives for particular publications." Response to MPA/USPS-T35-28 (Tr. 1716); see also revised responses to MPA/USPS-T35-13 and 17 (Tr. 1700-01, 1704-06).

¹⁵ For a discussion of the extent to which it is possible to update and improve these studies using data available on the record of this docket, see the testimony of witness Stralberg, TW-T-2.

¹⁶ The Commission also said that it "continues to support the goal of encouraging dropshipping. The goal is to give some measure of recognition to cost differences while maintaining an appropriate recognition of editorial content." Order No. 1446, p. 41, ¶ 4061.

1 number of dollars at issue in this withdrawal is not insubstantial. When discounts
2 this large are withdrawn, some new accommodation is needed, and it should take
3 the form of an improvement.

4 The accommodation proposed by Tang is a new container charge.
5 Approvingly quoting the Commission's expression of faith in the possibility of
6 "progress towards a more cost-based structure," Tang states: "To achieve this
7 progress, the Postal Service now proposes a flat rate of 85 cents to be applied to
8 each sack or pallet containing Periodicals mail," which, she explains, "would replace
9 the co-palletization experiment discounts, along with the pallet discounts on the
10 piece side of the rate chart, both regular and destination-entry." USPS-T-35 at 4, ll.
11 21-23, 2-4. Tang declares that the container charge will produce three benefits: (1)
12 "more efficient containerization," as in changing from sacks to pallets; (2) "better use
13 of existing containers," since "[t]he more pieces placed in a container, the lower the
14 container charge per piece"; and (3) "replac[ing] the co-palletization discounts." *Id.*
15 at 6, ll. 9-13.

16 It is far from self-evident that these alleged benefits would turn out to be
17 benefits in fact. For example, more pieces per container is not invariably a benefit.
18 If the container rate were to cause mailers of 5-digit pallets to merge them into larger
19 3-digit pallets in order to reduce the container charges, it would be a step
20 backwards. Yet this is a very real signal contained in the Postal Service proposal.

21 Nor is it clear in what sense, or for whom, "replac[ing] the co-palletization
22 discounts" necessarily will constitute a "benefit." Tang's explanation of this
23 contention is that "[t]he co-palletization experiments have shown that, even with
24 substantial limitations, co-palletization is desirable and possible for many
25 customers" and that the Postal Service "believes it is now appropriate to lift these
26 limitations and encourage all Periodicals to share pallets or sacks as appropriate."
27 USPS-T-35 at 6, ll. 13-17. But that is hardly what she is proposing. Even if one

1 puts aside the question of whether a uniform container charge could possibly
2 "encourage all Periodicals to share pallets or sacks as appropriate" when the costs
3 of handling pallets and sacks vary with entry point and container makeup, Tang's
4 explanation still appears less than candid. For particular mailings, the relationship
5 between the container charge and the co-palletization discount can be studied, and
6 the mailer can easily come out behind.

7 It might be argued that any container charge that is below the cost of
8 handling the containers is a step in the right direction, and will bring some benefit,
9 even if the uniformity of the container charge appears perverse in view of the
10 differences in the costs of handling the containers based on their entry point and
11 makeup, and as long as one is prepared to ignore secondary effects of the resulting
12 changes in container usage, such as a reduction in the quality of bundle makeup
13 and an increase in associated bundle sorting costs. But more should be expected
14 of ratemaking than a step of this kind. It is possible to design container charges that
15 provide benefits that are more balanced and that recognize secondary responses.
16 Indeed, I propose such rates in this testimony.

17 Witness Tang provides an example of the benefits of her proposed container
18 charge that is instructive, not so much because it shows that a few mailers might
19 come out ahead as because it shows some of the ways in which the change
20 proposed is not likely to be an unmixed blessing. In addition to squandering better
21 opportunities, it would produce some perverse and undesirable effects.

22 Tang's example focuses on an average pallet of 1642 pieces and an average
23 sack of 42 pieces.¹⁷ In effect, she assumes that 39 sacks convert themselves into 1
24 pallet that is then dropshipped. Under current rates, this mail would receive a
25 discount of 1.6 cents per piece, which amounts to \$26.27 (1642 pieces * 1.6
26 cents/pc). Under the rates she proposes, Tang points out, the mailer would receive

¹⁷ USPS-T-35 at 5 ll. 21 to 6 ll. 8.

1 a discount of \$32.30 (38 eliminated containers * 85 cents). She does not mention
2 that the *current* discount might otherwise have been expected to increase in this
3 case, or that the 85-cent container charge provides no incentive to dropship the new
4 pallet (the mailer would receive the same \$32.30 discount whether it is entered at an
5 origin or a destination facility). She also does not mention that if the sacks
6 contained more than one publication, thereby being eligible for the existing co-pallet
7 discount of an additional 1.1 cents per piece, the \$32.30 discount received under
8 her proposed rates would be a *reduction* from the current discount of \$44.33.

9 This example, of course, is of Tang's own devising and has been carefully
10 limited from the start to exclude inconvenient consequences. It does not concern
11 itself with the potential effects of changing from more to fewer sacks or from more to
12 fewer pallets. It does not ask whether sacks converting to pallets are likely to be
13 average sacks and are likely to convert into average pallets (they are not). When
14 these possibilities are introduced, her conclusions may have to flip from positive to
15 negative, and mailers whom she believed would come out ahead may come out
16 behind instead.

17 It is possible to make some assumptions and explore the situation underlying
18 her example. Assume: (1) that all 39 sacks are 3-digit sacks that would normally be
19 entered at an origin SCF; (2) that an opportunity exists to create a new 3-digit pallet
20 that, if not dropshipped, would be entered at the same origin SCF; and (3) that the
21 new pallet is in fact dropshipped to a destination SCF. The costs of handling sacks
22 and pallets must be recognized in order to evaluate the alternatives available.¹⁸
23 The costs show that each sack, when entered at the origin SCF, would cost \$4.96 to
24 handle; the pallet, when entered at an origin SCF, would cost \$59.22 to handle; and
25 the same pallet, when entered at a destination SCF, would cost \$16.53 to handle.

¹⁸ These costs are developed by witness Stralberg and are shown in my workpapers, sheet 'Inputs.'

1 Here are some of the ways that these facts could play out in the mailing that Tang
2 uses as her example.

3 1. If the mailer combines 2 of the sacks, which may be more likely than the
4 creation of a pallet, and enters the new sack at the origin SCF, the Postal
5 Service will save \$4.96 and the mailer's postage will decline 85 cents.
6 The incentive to save the Postal Service \$4.96 should be much larger
7 than 85 cents, a passthrough of only 17.1% of the Postal Service savings.

8 2. If the mailer combines the 39 sacks into one pallet and enters the pallet at
9 the same origin facility, the Postal Service will save \$134.22 ($39 * 4.96 -$
10 59.22) and the mailer's postage will decline \$32.30. Again, despite the
11 Postal Service's interest in having these sacks converted into a pallet, the
12 incentive to do so is paltry.

13 3. Suppose the mailer dropships the new pallet, by transporting it from the
14 origin SCF to the destination SCF. The Postal Service will save \$42.69
15 ($59.22 - 16.53$) and the mailer will save nothing. The container charge
16 provides no incentive to dropship. There are existing incentives to
17 dropship, of course, but the Postal Service does not propose to change
18 them, and they are not relevant to the purpose of Tang's example. What
19 is relevant is that the proposed container charge adds nothing to the
20 existing incentives to dropship this mailing.

21 4. The preceding item addressed only the transportation of the pallet from
22 origin to destination SCF. If we combine that step with the antecedent
23 step of assembling the 39 sacks into one pallet, the two collectively will
24 save the Postal Service \$176.91, and the mailer will save \$32.20, the
25 same \$32.30 saved in item 2 when the pallet was entered the origin SCF.
26 Witness Tang is correct that if the mailer happens to arrive at this final
27 position (which is now questionable, given the bewildering array of
28 choices), the \$32.30 he would receive under the proposed rates is
29 preferable to the \$24.63 he would receive under the current rates (unless
30 he is receiving \$42.69 under the current rates for co-palletizing), but even
31 in this rather contrived eventuality, much more should be expected. The
32 costs associated with both container usage and dropshipping are crucial
33 factors in driving overall Periodicals costs, yet even in the Postal Service's
34 own carefully limited example of the desirability of its proposed container
35 charge it passes through to the mailer a munificent 18.3% of its savings.

36 The treatment of co-pallets in this example deserves special note, and not
37 just because witness Tang emphasizes that the container charge is intended to
38 replace the co-pallet discounts. Under the analysis presented above, dropshipped
39 co-pallets save the Postal Service \$176.91(as do single-pub pallets). Under the

1 current rates they receive a discount of \$42.69 and under Tang's rates they would
2 receive a discount of \$32.30. Obviously, no one would expect co-palletizers to be
3 happy about this. But the practical effects of this change run much deeper.

4 In the last five years particularly, co-palletization has been a prominent issue
5 in the mailing industry. Printers are investing in systems to create co-pallets. The
6 objective is an inherently attractive one – a pallet with a substantial quantity of mail
7 that can be handled at a low cost by both the mailer and the Postal Service. But the
8 costs of co-palletizing have not been found low, which is not altogether surprising in
9 this still early stage of its development. These costs will undoubtedly decline over
10 time, resulting in gains in overall efficiency. But for that to occur, co-pallets need to
11 be given every reasonable opportunity to develop. This means recognizing their
12 costs. As Tang's example illustrates, that will not happen under the proposed rates.
13 In fact, it may well happen to a lesser degree than under the current rates.

14 Tang's example confirms that the schedule of rates proposed by the Postal
15 Service is a poor one to present to mailers who must make operating decisions.
16 The rate relationships do not make sense, and a mailer could not be faulted for
17 wondering why the signals lead where they do.

18 I believe a much fairer, more cost-based schedule of Periodicals rates is
19 possible, with much improved signals, and, as an added benefit, much more
20 appropriate support for co-palletization efforts.

21

1 **VI. DEVELOPMENT OF RATES PROPOSED IN THIS TESTIMONY**

2 The rates proposed in this testimony for the Outside County subclass are
3 directed at weaknesses in the existing rates and in those proposed by the Postal
4 Service. Attention centers on improvements the Commission has already noted
5 should receive consideration. Generally, though moderated in this proposal, the
6 costs of the mail are recognized in the rates, consistent with accepted rate design
7 principles.

8 The approach taken here is comprehensive in that it recognizes the full set of
9 cost drivers that are now understood and for which costs are available. A number of
10 objectives, which are disparate in character and not all of which can be transformed
11 into a variable suitable for maximization, are reflected in this proposal. These
12 objectives are:

- 13 1. To recognize mail preparation "and its effect upon reducing costs to the
14 Postal Service," in accordance with factor (b)(6) of section 3622 of the
15 Act.
- 16 2. To recognize the major cost drivers of the Periodicals subclass, as now
17 understood and as acknowledged by the Commission.
- 18 3. To apply to the Periodicals rate structure improvements that have already
19 become part of other subclasses.
- 20 4. To recognize the importance of machinability to controlling Periodicals
21 costs and creating a more efficient Periodicals mailstream.
- 22 5. To provide signals to mailers that would be expected to bring about
23 decisions that will improve national efficiency and the effectiveness of the
24 Postal Service.
- 25 6. To provide a comprehensive set of dropship signals.
- 26 7. To preserve existing discounts for presortation and automation
27 compatibility.
- 28 8. To continue all current recognition of editorial matter.
- 29 9. To move at a measured pace toward a more cost-based Periodicals rate
30 design.

1 Three important steps are taken to limit disproportionate effects on what have
2 traditionally been called small mailers, while still providing them with incentives to
3 improve mail preparation and reduce overall costs. These steps are:

- 4 1. The unzoned editorial pound rate is retained. In Docket No. C2004-1, the
5 Commission found that this rate structure “effectively fosters the public
6 policies of the Act.” Order No. 1446, p. 41, ¶ 4059. Also, changing to a
7 zoned editorial pound rate would cause significant increases in the rates
8 for some publications, particularly higher-zone publications¹⁹ of significant
9 weight that have little or no advertising content. The proposal to zone the
10 editorial pounds was responsible for a significant part of the high rate
11 increases caused by the proposal in the Complaint.²⁰
- 12 2. Only 60 percent of the bundle and container costs are proposed to be
13 reflected in the associated charges. As mailers adjust their use of
14 bundles and containers toward more efficient levels, it should be possible
15 to increase these proportions. The resulting incentives would be muted at
16 this point, but should be adequate to bring about improvements. This
17 proposal is consistent with the “partial recognition” alternative suggested
18 by the Commission. *Id.*, p. 47, ¶¶ 5055-56. Also, setting passthroughs at
19 this level appears prudent, pending further study of the costs by the Postal
20 Service. As noted above, the Commission said in its Order that the Postal
21 Service “should” undertake this work, but it has not yet done so. *Id.*, p. 5,
22 ¶ 1016.
- 23 3. The container charges associated with origin entry have been averaged
24 over three categories. Specifically, costs are shown in my workpapers for
25 containers entered at origin SCFs, origin ADCs, and origin BMCs.
26 However, since mailers using an origin SCF may tend to be small mailers,
27 or mailers who are not well positioned to shift to a higher-level facility, a
28 weighted average of the three costs is treated as one category.²¹ In the
29 rate schedule, all three entry points are shown, but all have the same rate.
30 It is beyond question that the Postal Service is better off receiving
31 mailings at an ADC or a BMC, from which it can proceed to process the
32 mail expeditiously. It is also clear that many mailers have reasonable

¹⁹ A higher-zone publication in this context refers to one with a greater-than-average proportion going to the higher zones. According to the Base Year billing determinants, 2.2 percent of pieces go to zone 8 and 6.4 percent go to zones 6-8, based on weight. The average haul of all publications is estimated to be 263 miles, a figure heavily influenced by dropshipping, local printing, and the presence of local and regional publications.

²⁰ In Order No. 1446, the Commission noted that witness Stralberg had analyzed the effect of zoning the editorial pound charge in his surrebuttal testimony and that “[h]is analysis of the ABM publications shows that most would receive smaller percentage postage increases if the flat editorial pound charge is substituted for the zoned charges. The percentage increase is halved for some publications when the flat editorial pound charge is used. . . . The results are similar for publications in witness Tang’s sample.” Order No. 1446, p. 42, ¶ 4065 (internal citations omitted).

²¹ Just as for the bundle and container costs, further study of these costs is needed.

1 options on where to enter their mail, and a rate difference would be
2 expected to bring about efficient changes. Separate rates for the three
3 entry points should be considered in the future.

4 In regard to the piece handling costs, however, no attenuation is
5 recommended. They are recognized fully for machinable and non-machinable
6 pieces, and for their automation variants, including deaveraging the basic category
7 into mixed ADC and ADC categories, as has been done in other subclasses. There
8 are several reasons for such full recognition. (a) The costs and cost differences for
9 machinable flats and automation flats have been recognized in considerable degree
10 for some time. Reducing this recognition would be a step backwards and would be
11 unfair to mailers who have invested in equipment and software to achieve various
12 degrees of presortation. (b) The time has come to recognize the additional costs of
13 being non-machinable. Many mailers have already made adjustments to achieve
14 machinable status and many others have opportunities to do so. Changes in this
15 area are possible, and appropriate signals should be sent. This development has
16 long been expected, and should not be a source of significant surprise or disruption.
17 However, if the Commission finds that non-machinable pieces should be favored,
18 and that part of their costs should be carried by other mailers, separate passthrough
19 cells are built into my spreadsheet so that such changes are easy to make (although
20 I do not recommend making them). (c) Many mailers have been investing in co-
21 mailing capabilities. Co-mailing is inherently efficient, in the sense of bringing about
22 lowest combined costs, and it would be wrong to reduce the associated recognition
23 in rates. (d) A separate rate is proposed for firm bundles. These pieces require
24 individual handling. Since they pay only one charge for multiple copies, they should
25 be well-positioned to accommodate a charge that recognizes the costs caused.

26 The issue of recognizing non-machinability received particular attention by
27 the Commission in the Complaint docket, which concluded that there are

1 many possibilities for positive action that should not cause
2 undue disruption. For example, the proposed machinability
3 distinctions in piece charges would recognize the additional
4 costs of processing nonmachinable mail. These distinctions
5 exist in other classes and as flats automation progresses
6 they will become more important. They should be seriously
7 considered within the context of changing operations.

8
9 Periodicals mail is the only traditional class in which
10 machinability is not explicitly recognized in the current rate
11 schedule.

12 Order No. 1446, p. 5, ¶ 1015, p. 33, ¶ 4040.

13 Moreover, in expounding its notion of a "piecemeal approach [that] would
14 introduce reform to the rate structure incrementally by first proposing one or more
15 changes per rate case or classification case" (*id.*, p. 47, ¶ 5007), the Commission
16 gave recognition of the costs of non-machinability as a central example:.

17 [T]he Postal Service could begin by announcing its intention
18 to impose surcharges for nonmachinable periodicals at
19 some future date while taking immediate action to
20 deaverage the basic presort rate into its component parts.
21 This approach would allow mailers time to adjust practices,
22 and could lead to additional cooperative efforts to develop
23 efficient mail processing practices.

24
25 *Id.*

26 The proposal here to recognize machinability, including the deaveraging of
27 the basic presort tier into a mixed ADC tier and an ADC tier, is consistent with the
28 direction advocated by the Commission. It should also be noted that the revenue
29 received from non-machinable pieces is used to help hold down the rates for other
30 mailers. The rates for non-machinability also support the Postal Service automation
31 program, making the low costs of machinable mail available at correspondingly low
32 rates, so that mailers wishing to avail themselves of this facility may do so on
33 favorable terms. At the same time, mailers of non-machinable pieces can decide
34 whether it is in their best interest to so avail themselves of the same service.

1 Taken together, these rates represent a significant improvement in
2 Periodicals rates that holds promise for improving the lot of Periodicals mailers,
3 making the subclass more efficient, improving the relation of Periodicals rates to
4 those of other subclasses, and allowing the strengths of the Postal Service to be
5 used more effectively. They are responsive to the recommendations and concerns
6 outlined by the Commission in the Complaint case. The effects on small mailers are
7 limited. Significant opportunities for adjustment exist.

EXHIBIT A

Proposed Rate Schedule – Outside County Periodicals

PERIODICALS RATES

Per Piece		Per Bundle		Per Sack		Per Pallet		Per Pound	
Bundle Level	Container Level	Bundle Level	Sack Level	Pallet Level	Distance (Zone)	Entry Point	Entry Point	From Entry Point	
Piece Description	Bundle Level	Entry Point	Entry Point	Entry Point	Entry Point	Entry Point	Entry Point	Entry Point	
Bundle/ Piece	Container/ Bundle	Sack/ Entry Pt.	Pallet/ Entry Pt.	Entry Pt.	Entry Pt.	Entry Pt.	Entry Pt.	Entry Pt.	
\$/Pc	\$/Bundle	\$/Sack	\$/Pallet	\$/Pallet	\$/Pallet	\$/Pallet	\$/Pallet	\$/Pallet	\$/Pound
Mx ADC	Mx ADC	Mx ADC							
Non	MADC	OSCF						ADV.	
Mach	ADC	OADC						DDU	0.173
Auto-Non	3-D/SCF							DSCF	0.228
Auto-Mach	5-D							DADC	0.237
Auto-Ltr	Firm							Z 1&2	0.256
ADC	ADC	ADC	ADC	ADC				Zone 3	0.272
Non	ADC	OSCF		OSCF	27.64			Zone-4	0.315
Mach	3D/SCF	OADC		OADC	27.64			Zone-5	0.380
Auto-Non	5-D	OBMC		OBMC	27.64			Zone-6	0.449
Auto-Mach	CR	DBMC		DBMC	19.30			Zone-7	0.532
Auto-Ltr	Firm	DADC		DADC	13.20			Zone-8	0.602
SCF/3-D	3-D/SCF	3-D/SCF							
Non	3-D/SCF	OSCF		3-D/SCF					
Mach	5-D	OADC		OSCF	34.13			Editorial	
Auto-Non	CR	OBMC		OADC	34.13			DDU	0.144
Auto-Mach	Firm	DBMC		OBMC	34.13			DSCF	0.190
Auto-Ltr		DADC		DBMC	21.40			DADC	0.197
5-D	5-D/CR	DSCF		DADC	18.10			Z1-2 up	0.213
Non	5-D			DSCF	9.90				
Mach	CR								
Auto-Non	Firm								
Auto-Mach		5-D/CR		5-D				SoA	
Auto-Ltr		OSCF		OSCF	40.02			DDU	0.13
		OADC		OADC	40.02			DSCF	0.171
		OBMC		OBMC	40.02			DADC	0.178
CR Basic		DBMC		DBMC	26.00			Z 1&2	0.192
High-D		DADC		DADC	23.00				
Sat		DSCF		DSCF	11.90				
Firm		DDU		DDU	1.70				

Per piece editorial discount, cents times editorial percent 8.9
 Per-piece charge for qualified Ride-Along pieces, cents 15.5