

POSTCOM-T-1

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

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**DIRECT TESTIMONY
OF SANDER A. GLICK
ON BEHALF OF
THE ASSOCIATION FOR POSTAL COMMERCE AND
THE MAILING AND FULFILLMENT SERVICE ASSOCIATION**

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Direct Testimony

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I. Autobiographical Sketch

My name is Sander A. Glick. I am a Vice-President and co-founder of SLS Consulting, Inc., a Washington, D.C. consulting firm specializing in postal economics. I have testified before the Postal Rate Commission in two previous cases.

In Docket No. R97-1, I testified on behalf of the Magazine Publishers of America (MPA). In Docket No. R2000-1, I submitted direct testimony on behalf of the Association of Postal Commerce, the Recording Industry Association of America, and the Magazine Publishers of America on multiple topics. I also submitted rebuttal testimony in that case on behalf of the Parcel Shippers Association.

I have also participated on multiple Mailers' Technical Advisory Committee (MTAC) work groups, including the Package Integrity Work Group and the Presort Optimization Work Group.

I attended the Maxwell School of Citizenship and Public Affairs at Syracuse University, where I received a Masters of Public Administration in 1994, and Carleton College, where I received a Bachelors Degree, magna cum laude, in Physics in 1993.

II. Purpose and Scope

The purpose of my testimony is to present the proposal of PostCom and the Mailing and Fulfillment Service Association (hereinafter, collectively "PostCom") regarding the rate and classification for Standard Mail Regular destination entry rates.

1 USPS witness Kiefer (USPS-T-36) proposes basing the Standard Mail Destination Bulk
2 Mail Center (DBMC) discount on an 87 percent passthrough of the corresponding cost
3 avoidance and basing the Destination Section Center Facility (DSCF) discount on an 85
4 percent passthrough. PostCom witness Pursley provides compelling reasons for basing
5 these discounts on full passthroughs of the destination cost avoidance. See PostCom-
6 T-2. I develop Standard Regular rates for letters and flats that pass through 100
7 percent of the destination entry cost avoidances and generate the same amount of
8 revenue as the Postal Service's proposed rates.¹ POSTCOM-LR-1, which contains
9 modified worksheets from USPS-LR-L-36, details my calculations

10 **A. Reasons for Full Passthroughs of Standard Regular Dropship**
11 **Discounts for Letters and Flats**

12 In her testimony, PostCom witness Pursley explains that the amount of work
13 (hence, costs) required to qualify for destination entry rates has increased over the last
14 few years and may increase more as the USPS moves forward with its Evolutionary
15 Network Development (END) initiative.

16 The Postal Service itself appears to recognize that the END initiative may affect
17 mailer costs and dropship patterns, stating, "the Postal Service is reviewing the current
18 dropship rate structure to determine if it appropriately supports the mailer entry in the
19 future network environment." Institutional Response to PSA/USPS-T42-1(d). The
20 Postal Service, however, has not reflected these potential additional mailer costs (and

¹ The rates I propose actually generate about \$7 million more in revenue than those proposed by the Postal Service. See POSTCOM-LR-1.

1 the resulting USPS cost savings)² in its Standard Mail rate design proposal. Tr. 5/1114-
2 1115.

3 Perhaps more importantly, larger dropship discounts will encourage palletization,
4 a major USPS goal.³ In addition to reducing container handling costs at destination
5 facilities, the increased palletization will improve bundle integrity and reduce USPS
6 costs for handling broken bundles. In his testimony, USPS witness McCrery confirms
7 the benefits of moving mail out of sacks and onto pallets and describes the Postal
8 Service's significant efforts to reduce the use of sacks through increased palletization:

9 The Postal Service is aggressively exploring options for postal and
10 customer preparation of bundles and parcels in order to reduce the
11 dependency on sacks. One option is to maximize the amount of mail
12 prepared on destination pallets by optimizing the presort rules and
13 adjusting the pallet preparation minimums....Based on the cost associated
14 with sorting, transporting, and dumping sacks, as well as the impact to the
15 contents (e.g., bundle breakage) any decrease in sack utilization is
16 expected to produce significant benefits.

17
18 USPS-T-42 at 28-29.

19
20 Full passthroughs of destination entry discounts provide yet another mechanism
21 for reducing depending on sacks by "maximiz[ing] the amount of mail prepared on
22 destination pallets."

23 PostCom is not asking that the Postal Service attempt to estimate the exact
24 impact of END on destination entry cost avoidances or pass through more than 100
25 percent of the measured cost savings. However, given the additional work required to
26 qualify for destination entry rates and significant savings from increased palletization

² For example, requiring mailers to enter Standard Mail at a larger number of facilities to qualify for DBMC rates would be expected to at least reduce USPS transportation costs.

³ USPS data support this conclusion. USPS-LR-L-88, Appendix C, Table 6 shows that 87 percent of destination-entered pounds are entered on pallets while only 49 percent of origin-entered pounds are entered on pallets.

1 that are not reflected in the Standard Mail rate design, it seems appropriate to at least
2 pass through the measured cost savings from dropshipping.

3 **B. Proposed Rate Design**

4 As shown in Table 1 below, passing through 100 percent of the destination entry
5 cost avoidances increases DBMC dropship discounts (relative to the USPS proposal) by
6 0.4 cents per piece and 2.1 cents per pound and the DSCF dropship discounts by 0.7
7 cents per piece and 3.0 cents per pound.

8 **Table 1. Standard Regular Destination Entry Discounts**

Entry Point	Cost Savings (\$ per pc/ \$ per lb)	USPS Proposal		PostCom Proposal		Difference (\$ per pc/ \$ per lb)
		Passthrough %	Discount (\$ per pc/ \$ per lb)	Passthrough %	Discount (\$ per pc/ \$ per lb)	
	[1]	[2]	[3]	[4]	[5]	[6]=[5]-[3]
Piece-rated						
DBMC	\$0.0323	85	\$0.028	100	\$0.032	\$0.004
DSCF	\$0.0408	87	\$0.034	100	\$0.041	\$0.007
Pound-rated						
DBMC	\$0.157	85	\$0.136	100	\$0.157	\$0.021
DSCF	\$0.198	87	\$0.168	100	\$0.198	\$0.030

9
10 [1],[2],[3] USPS-LR-L-36, WP-STDREG-26

11 [5]=[1]*[4] rounded to nearest 0.1 cents

12
13 POSTCOM-LR-1 shows how I develop rates for Standard Regular letters and
14 flats that pass through 100 percent of the destination entry cost avoidances and
15 generate the same (actually slightly more) revenue than the Postal Service's proposed
16 rates. To achieve revenue neutrality, I offset the leakage from the higher destination
17 entry discounts by increasing the pound rate for origin-entered pieces. No other
18 changes to the Postal Service's proposed discounts are made.

19 Despite the significant increases in dropship incentives under the PostCom
20 proposal, I would note that its "pushup" effect (relative to the Postal Service's proposal)

- 1 on origin-entered pieces will be modest – 0.4 cents per piece for piece-rated pieces and
- 2 1.5 cents per pound for pound-rated pieces.