

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
TO MAGAZINE PUBLISHERS OF AMERICA, INC., AND ALLIANCE
OF NONPROFIT MAILERS WITNESS GLICK (USPS/MPA/ANM-T2-14-35)
(October 4, 2006)

Pursuant to Rules 25 through 27 of the Commission's Rules of Practice and Procedure, the United States Postal Service hereby directs the following interrogatories to Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers witness Glick: USPS/MPA/ANM-T2-14-35.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/MPA/ANM-T2-14 Please refer to page 30, line 11, of your testimony where you note that you propose the discount be passed through 50 percent to the piece side and 50 percent to the pound side.

- (a) Please explain the reason for doing so.
- (b) Please explain whether the costs avoided would have been incurred on a per-piece or a per-pound basis.

USPS/MPA/ANM-T2-15 Please refer to pages 31 and 32 of your testimony, and in particular lines 1 to 6 of page 31, where you propose that the destination entry cost avoidances be calculated by reference to the costs of entering Periodicals at Origin ADCs and SCFs.

- (a) Please confirm that the proposed cost avoidance change described in your testimony is limited to nontransportation cost savings only. If you do not confirm, please provide the reference to the transportation cost savings proposal.
- (b) Please confirm that the cost avoidance methodology employed by both the Postal Service and in your testimony involves estimating the cost of performing certain activities, then assuming that those activities are avoided by virtue of dropshipping. If you do not confirm, please provide an alternative explanation of the methodology, emphasizing the estimates made and to what they are compared.

USPS/MPA/ANM-T2-16

- (a) Please confirm that the intent of your proposal to utilize an alternative benchmark against which to measure destination entry cost avoidances is to provide larger incentives for mailers to dropship. If you do not confirm, please explain the intent of your proposal.
- (b) If you confirm part (a), please also confirm that if there is a higher discount for dropship activity, some mail will shift from higher zones to destination entry. If you do not confirm, please explain fully.
- (c) If you confirm part (b), please identify the source of the volume that would be expected to shift. Please identify which zones the volume will shift from.
- (d) Please confirm that:
 - (i) under your proposed methodology for setting the benchmark for destination entry discounts, the benchmark will shift if mail adopts

destination entry (i.e., the distribution of mail in the higher zones may not remain the same).

(ii) if mail shifts from higher zones to destination entry as a result of your proposal, the revenue estimated for TYAR will be lower than projected.

(iii) under your methodology, the benchmark against which the destination entry cost avoidances are calculated will change over time as more mail adopts destination entry. If you do not confirm, please explain.

(e) Referring to your response to part (c) above, please explain if it is possible that, as a result of the increased adoption of dropship as a result of your proposal, the remaining nondropshipped mail distribution will contain a higher percentage of mail at further zones (i.e., that the mail in closer-in zones will be most likely to convert to dropship). If it is not possible, please explain why not.

(f) Please confirm that if the mail converting from higher zones to destination entry comes from the lower to mid-range zones, leaving the volume in the highest zones intact, the benchmark against which dropship cost avoidances are calculated would continue to increase. If you do not confirm, please explain.

(g) Please confirm that the destination entry discounts are incorporated into the rate design for Periodicals as decreases in the rates that the mailer would otherwise have paid. If you do not confirm, please explain.

(f) Please provide your estimate of the average unit cost of nondropshipped Periodicals.

(i) Is it your understanding that the average revenue paid by nondropshipped Periodicals is more than, less than, or equivalent to the average unit cost of nondropshipped Periodicals?

(j) Is it your understanding that the rate from which the larger destination entry discounts you have proposed will be subtracted adequately covers the cost of the activities associated with handling that mail? Please provide the basis for your response.

(i) Please confirm that the result of your proposal to increase the dropship discounts for Periodicals will result in a de-averaging of the costs and rates for Periodicals depending on the mailers' decision to dropship or not.

USPS/MPA/ANM-T2-17 Please refer to Table 7 on page 32 of your testimony.

(a) Please confirm that the data provided in Table 13 of the response to TW/USPS-T28-7 indicate that a higher proportion of sacks (relative to total sacks) are entered at the OSCF, OADC, and OBMC than the proportion of pallets entered at those upstream facilities (relative to total pallets). If you do not confirm, please provide data indicating that this is not the case.

(b) Please refer to your testimony at pages 31 to 32 where you propose to alter the benchmark for measuring cost avoidance for destination entry such that it would “better match the entry profile of Zones 1-8 containers.” If your response to part (a) above is affirmative, please confirm that by your logic of considering benchmarks, the dropship discounts for sacks should be larger than the dropship discounts for pallets given that nondropshipped sacks are more likely than nondropshipped pallets to be entered further upstream. Please explain fully.

USPS/MPA/ANM-T2-18

(a) Please confirm that the cost avoidance methodology for developing nontransportation destination entry discounts for Periodicals involves a weighting of the costs avoided by pieces in sacks and the costs avoided by pieces on pallets. If you do not confirm, please explain.

(b) Please confirm that, in the development of the estimates of the cost avoided by dropshipping, on a per-piece basis pieces in sacks incur higher costs and therefore, higher cost avoided than do pieces on pallets. If you do not confirm, please explain.

(c) Given that the cost avoided by pieces in sacks, on a per-piece basis, is higher, should pieces in sacks be given a higher destination entry discount than pieces on pallets? Please explain.

USPS/MPA/ANM-T2-19 Please refer to MPA-ANM-LR-1.xls, worksheet “5-Digit Pallet”, which presents the base year and test year piece volumes on 5-digit pallets. Please explain fully and show step-by-step how the figure 765,065,184 in cell C6 was derived. Please provide exact source references, including appropriate references to USPS-LR-L-91, if needed.

USPS/MPA/ANM-T2-20 Please refer to MPA-ANM-LR-1.xls, worksheet “RR TYAR”, cell B58, worksheet “NP TYAR”, cell B57, and worksheet “CR TYAR”, cell B39, where the test year after-rates pieces on 5-digit pallets were calculated by applying the volume forecast ratios.

(a) Given the proposed 4.2-cent 5-digit-pallet per piece discount, do you expect mailers to prepare more 5-digit pallets? Please explain.

(b) Please confirm that, by applying the volume forecast ratios, the mail pieces on after-rates 5-digit pallets would be smaller than that of the before-rates. If you do not confirm, please explain.

(c) Please state whether these pieces would be on more, the same, or fewer 5-digit pallets, and explain your rationale fully.

(d) Please state whether there would be more or fewer pallets and explain your rationale fully. Are those going to be smaller and lighter 5-digit pallets or bigger and heavier pallets?

(e) How many pieces and pounds are there on an average 5-digit pallet? Please show your calculation and/or references.

USPS/MPA/ANM-T2-21 Please refer to the Commission's Opinion in Docket No. R97-1, which stated on page 525, ¶ 5792: "The Postal Service's proposal references all per-piece rates (and implied discounts) to the rate for basic presort pieces, whereas the Commission's prevailing approach develops discounts based on costs avoided by each additional level of worksharing." Please also refer to your testimony, page 14, lines 6 to 17 and footnote 5, where you challenge the Postal Service's approach of using 5-digit non-automation flats as the benchmark. Instead, you advocate using "5-digit automation flats as the benchmark from which to measure the Carrier Route cost avoidance."

(a) Do you agree that the Postal Service's current methodology agrees with the Commission's recommended approach in Docket No. R97-1?

(b) Are you suggesting that this approach be altered, so that 3-digit automation flats are used as the benchmark from which to measure the five-digit non-automation cost avoidance?

USPS/MPA/ANM-T2-22 Please refer to your testimony at page 2, lines 22-25 where you declare the percentage rate increase faced by mailers who "engage in efficient practices" to be a "perverse result".

(a) Is it your testimony that fairness is measurable only in terms of the relative percentage increase? Please explain.

(b) Please confirm that for any two pieces of mail paying different rates, if a fixed amount is added to the rates paid by both pieces of mail, the mail at the lower rate will have a larger percentage increase than the mail at the higher rate. If you do not confirm, please explain.

(c) If, in the hypothetical posed in part (b), the fixed amount of cost incurred by both pieces of mail is independent of their worksharing activity, is it your testimony that the mailer with the lower initial rate should be

given less of the fixed amount originally added to both rates in order to prevent a “perverse result” and obtain fair rates? Please explain.

USPS/MPA/ANM-T2-23 Please refer to your testimony at page 3, lines 1 to 3, where you note that the Postal Service proposes to increase the differential between 5-Digit Automation and Carrier Route Basic by 4.5 percent.

(a) Please identify the change in the cost differential associated with those discounts.

(b) Please confirm that rate differences may be the result of factors other than cost differences. If you do not confirm, please explain.

USPS/MPA/ANM-T2-24 Please refer to your testimony at page 3, lines 16 to 17, where you propose an increase in the Ride-Along rate that is “in line with the subclass average”. Please confirm that when Ride-Along was established, the rate was set with reference to the revenue potentially forgone to the Postal Service had the advertising piece been sent as a Standard Mail item, rather than with reference to Periodicals rates or costs. If you do not confirm, please explain.

USPS/MPA/ANM-T2-25 Please refer to your testimony at page 5, lines 11 to 12, where you note that your proposed rate design “reduces automation discounts to provide additional incentive to achieve Carrier Route presortation through co-mailing”. Please explain how increasing Carrier Route presorting will aid in transitioning to a rate structure for FSS where Carrier Route presorting has no value.

USPS/MPA/ANM-T2-26 Please refer to your testimony at page 6, lines 20 to 21, where you note that your proposal will reduce the rate increase that mailers of nonautomation flats will face. Please explain why this is a desirable goal, framing your response in terms of mail processing efficiency.

USPS/MPA/ANM-T2-27 Please refer to Table 1 on page 8 of your testimony where you show that your proposed rates decrease the editorial pound rate for destination delivery unit mail by 27 percent, a greater increase than the Postal Service proposes. Please explain why this result is a desirable goal, framing your response in terms of mail processing efficiency within an FSS environment.

USPS/MPA-ANM-T2-28 Please refer to your testimony at page 8 where you propose to increase the DDU entry rate for advertising pounds by more than the Postal Service proposes. Is this proposal compatible with Postal Service plans to introduce FSS by the test year?

USPS/MPA/ANM-T2-29 Please refer to your testimony at page 10, lines 11 to 12, where you state that “none of the publications would receive increases of

more than 10.5 percent above the average.” Please confirm that these increases would reflect unchanged behavior by the mailer.

USPS/MPA/ANM-T2-30 Please refer to your testimony at page 10, lines 6 to 7, where you seem to lament that your rate proposal “will not produce uniform rate increases for all publications.” Is it your understanding that uniform rate increases for all publications is a desirable goal? If so, please provide the basis for that understanding.

USPS/MPA/ANM-T2-31 Please refer to your testimony at pages 13 to 14 where you state that the benchmark should represent the category of mail most likely to convert to worksharing. Please confirm that the benchmark should also represent the mail with the characteristics most like the workshared mail, but for the characteristics changed by the activity of worksharing. If you do not confirm, please explain.

USPS/MPA/ANM-T2-32 Please refer to your testimony at page 26, lines 8 to 15. If, as you note at lines 5 to 6 of the same page, “only a small portion (about 10-20 percent) of sacks are entered at the destination facility”, are not those pieces already being charged higher rates associated with their lower adoption of dropship opportunities and higher zone transportation? If you do not confirm, please explain.

USPS/MPA/ANM-T2-33 Please refer to your footnote 7. Please provide the percentage of bundle breakage for Carrier Route flats, and the source of your estimate.

USPS/MPA/ANM-T2-34 Please refer to your testimony at page 4, line 21, to page 5, line 3, and footnote 1 on page 5, where you describe how you calculated the DSCF advertising pound rate. Please show your calculation step by step, and explain how the inputs were derived or where the inputs came from. Please also explain in the same fashion how you derive the DDU and DADC advertising pound rates.

USPS/MPA/ANM-T2-35 Please refer to MPA-ANM-LR-1, worksheet “rate design input”, cell C15. Please confirm that you adjusted the proportion of revenue from piece rates from the 62.5 percent proposed by witness Tang to 63 percent. If you do not confirm, please explain.