

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

RESPONSES OF U.S. NEWS & WORLD REPORT, L.P.
WITNESS WHITE TO USPS/USNews-T1-1-4
(October 11, 2006)

Pursuant to sections 25 through 27 of the Rules of Practice, U.S. News & World Report, L.P. (U.S. News) hereby provides the responses of witness White (USNews-T-1) to USPS/USNews-T1-1-3, filed September 28, 2006, and USPS/USNews-T1-4, filed October 4, 2006.

Each question is repeated verbatim and followed by the answer.

Respectfully submitted,

s/
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**RESPONSES OF U.S. NEWS WITNESS WHITE TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/USNews-T1-1

Please refer to your testimony at page 6, line 4, where you mention a “somewhat increased incentive to move copies from DSCF to DDDU [sic]” in the Postal Service’s proposal. Please specify what parts of the Postal Service’s proposal create this increased incentive.

RESPONSE

I should have specifically stated that the proposed rates would give most publications a greater incentive to move copies from DSCF to DDU than do current rates. There may be extremely rare cases where that is not true. The proposed rates would introduce dropship editorial discounts that would provide savings of 3.9 cents per pound for editorial weight entered at the DDU rather than DSCF. For advertising pounds, the savings from DDU entry versus SCF entry would rise from 3.5 cents to 3.6 cents. The difference in piece savings would shrink from 1.1 cents to 0.8 cents because of the proposed increase in the DSCF piece discount. Both DDU and DSCF copies would lose eligibility for the current dropship-pallet and co-palletization discounts. If a publication has at least 1.24 ounces (0.077 pounds) of editorial weight per piece, moving DSCF copies to DDU entry would save at least 0.3 cents per piece on editorial weight. Therefore, only a few extremely light publications would not have greater incentives for DDU versus DSCF entry under the proposed rates than they have under current rates.

**RESPONSES OF U.S. NEWS WITNESS WHITE TO
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USPS/USNews-T1-2

Please refer to your testimony at page 12, lines 6-7, where you conclude, based on Exhibit A of witness Schick's testimony in Docket No. C2004-1, that "larger mailers tend to have fewer copies per container than do smaller mailers." Please provide a more specific cite or other data to back up that conclusion.

RESPONSE

This was an inadvertent error that will be corrected in the final version of my testimony. I meant to say that "larger mailstreams tend to have *more* copies per container than do smaller mailstreams." This assertion is based on my observations that pallets contain far more copies than do sacks and that larger mailstreams are able to palletize more copies, meaning that the Tang Twelve is by no means representative of all publications participating in the experimental co-palletization program.

**RESPONSES OF U.S. NEWS WITNESS WHITE TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/USNews-T1-3

Please refer to your testimony at page 13, lines 3-5, where you claim that witness Tang does not know how mailers would mail if they did not co-palletize.

(a) Please confirm that, in order to qualify for the experimental co-palletization discounts now in effect, mailers must provide, upon request, presort reports showing how the pieces would have been prepared prior to co-palletization. See DMM 709.3.2a. If you do not confirm, please explain.

(b) Please confirm that it is possible that witness Tang could, following appropriate procedures, obtain access to this information. If you do not confirm, please explain.

RESPONSE

(a) Partially confirmed. Mailers must provide a report “that profiles mailings before co-palletization, to substantiate that without co-palletization the mail would have been prepared in sacks (e.g. ADC pallets of 250 or more pounds for any individual title, independently presorted version, or selectively bound pool, could not have been made).” See 68 Fed. Reg. 4714 (Jan. 30, 2003). The “before” co-palletization report, however, does not show the only way that the mailing could have been prepared without co-palletization. The purpose of the “before” report is to show which copies could not have been on ADC pallets of 250 or more pounds. That report, coupled with the “after” report that describes the actual mailing, determines which copies are eligible for co-palletization discounts. Therefore, the “before” report must use the same dropship plan as the “after” report showing how the copies were actually dropshipped.

(b) The question is not clear. If “this information” means that witness Tang could obtain the “before” reports for the Tang Twelve, confirmed. Those reports are obviously the source of the “before” information on her spreadsheets.

If “this information” means that Tang could obtain access to information showing how the publications would have been mailed without co-palletization – especially how the mailings would have been containerized – not confirmed. Again, the “before” reports describe how the mailing would have been containerized without co-palletization but with the same dropship plan as the actual mailing.

To understand this better, it is important to recognize the four options that mailers have for segments for which ADC pallets of 250 pounds or more cannot be created:

- Option 1: Neither co-palletize nor dropship.
- Option 2: Co-palletize but not dropship. This is rarely done, because current rates provide minimal incentive to co-palletize copies that are not dropshipped.
- Option 3: Dropship but not co-palletize. This is generally not feasible, because printers and other freight consolidators avoid shipping sacks that are not on pallets.
- Option 4: Co-palletize and dropship. This is the only option that makes the copies eligible either for co-palletization or dropship-pallet discounts.

The "before" reports for the co-palletization program are based on Option 3, using the same entry points that the co-palletized mailing actually went to. But these "before" reports describe a hypothetical situation that is unlikely to exist, because of the logistical barriers to dropshipping sacks. If a mailer is unable to use Option 4 for a segment that has less than 250 pounds, it is most likely to pursue Option 1. It is not possible to determine from the "before" reports how a mailing would be containerized with Option 1, but Option 1 generally leads to fewer containers than does Option 3 (because, for example, mixed ADC containers can be used with Option 1 but not Option 3).

There is no way, therefore, for Tang to know what the Tang Twelve would pay for postage without co-palletization under the Postal Service's proposed rates. Using the "before" reports to estimate what those publications would pay exaggerates what their container charges would be without co-palletization and in turn overstates what their incentive to co-palletize would be.

Tang herself has presented evidence demonstrating that the "before" reports for the Tang Twelve are unlikely to represent actual mailings. The number of pieces per sack in the "before" reports for the Tang Twelve publications ranges from a low of 11.8 for Pub1 to a high of 14.9 for Pub12. On August 17, 2006, Tang presented an analysis of 251 Periodicals publications in response to a question from Chairman Omas at an August 10, 2006 hearing. She presented a chart showing the average number of pieces per sack for all 251 publications. Only 23 of these publications averaged fewer pieces per sack than did *any* of the Tang Twelve. In other words, if ranking publications by the number of pieces per sack, the hypothetical "before" mailings of the Tang Twelve all would be in the bottom 10 percent.

It is worth noting that, of the 23 publications among the 251 with 14.9 or fewer pieces per sack, only one was a "Large" mailer and one a "Medium" mailer; the other 21 were "Small" mailers. Nine of the Tang Twelve were "Medium" and three were "Small" mailers. The data presented by Tang for the 251 publications suggest that the number of copies per sack is typically several times the number shown in the "before" reports for the nine "Medium"-sized Tang Twelve publications.

In fact, a U.S. News client recently had four supplemental mailings with seemingly similar characteristics to what the Tang Twelve actually would have had without co-palletization or dropshipping. The client averaged 21,237 pieces

per mailing – versus 20,850 for the Tang Twelve – and the pieces were local-entered at the printing plant to addresses across the country. The mailings averaged more than 63 pieces per container, which is four times greater than any of the Tang Twelve had in the “before” studies.

This discussion of how mailings are or would be containerized absent co-palletization is not mere statistical nitpicking. It reveals a fundamental flaw in Tang’s co-palletization analysis that leads her to the mistaken conclusion that co-palletization incentives would be higher with the Postal Service’s proposed rates than with current rates. At 85 cents per container, the Tang Twelve mailings as described in the “before” reports would face container charges of six cents or more per piece. Those container charges would dwindle to a fraction of a cent per piece in the “after” reports, thus indicating that co-palletization would reduce the proposed container charge by at least five cents per piece and in some cases more than six cents per piece. Those numbers dwarf the current incentives for co-palletization – for example, the maximum 1.1-cent co-palletization discount and the 1.6-cent dropship-pallet discount. But most of the apparent savings are phantom, because they are based on an exaggerated number of before-co-palletization containers. If instead the mailings had averaged 63 pieces per container without co-palletization, the savings on the container rate would have been approximately one cent per piece.

**RESPONSES OF U.S. NEWS WITNESS WHITE TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/USNews-T1-4.

Please refer to your testimony at page 14, lines 14-15, where you refer to “the Postal Service’s weight-based transportation costs.” Please provide references to any testimony by postal witnesses indicating that the transportation costs for Periodicals are incurred on a weight basis.

RESPONSE

What I had in mind would more accurately be described as “the Postal Service’s weight-and-distance-related costs.” For example, Periodicals publishers pay only 20.3 cents per pound for editorial content that the Postal Service transports from the East Coast to the West Coast, while market prices for coast-to-coast ground freight are probably at least \$1 per pound. The Postal Service’s proposed rates, though introducing dropship-editorial discounts, would hardly address that discrepancy, because the zoned editorial rate would rise to only 23.2 cents per pound.