

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

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**POSTAL RATE AND FEE CHANGES, 2006**

**DOCKET NO. R2006-1**

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**RESPONSES OF WITNESS GLICK TO INTERROGATORIES OF  
THE UNITED STATES POSTAL SERVICE  
USPS/POSTCOM-T1-2-6**

The Association for Postal Commerce and the Mailing and Fulfillment Service Association (herein collectively "PostCom") hereby provide the responses of Witness Glick to Postal Service interrogatories USPS/POSTCOM-T1- 2-6, filed September 27, 2006 (as numbered by an errata filed on October 4, 2006).

The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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**USPS/POSTCOM-T1-2.** Please refer to your testimony at page 3, line 3 and footnote 3, where you state that “larger dropship discounts will encourage palletization” and refer the reader to USPS-LR-L-88 which notes that a larger proportion of destination-entered pounds are entered on pallets than are origin-entered pounds.

(a) Please explain the causal link between larger dropship discounts and increased palletization.

(b) Please compare the relative impacts of the size of a mailing and the size of a dropship discount on adoption of palletization.

**RESPONSE:**

(a) The causal link is that pallets of mail are dropshipped, but sacks generally are not for cost reasons. Thus, in most instances, destination entry rates can only be accessed for non-local mailings if the mailings are palletized. Larger destination entry discounts thus provide further encouragement to palletize and dropship the mailing.

(b) My understanding is that the percentage of a mailing that can be palletized by itself is generally driven by the size of the mailing, the weight of each piece, its geographic distribution (e.g., local, regional, national), and the presort parameters used to prepare the mailing.

Some mailings can be fully palletized on their own using required pallet minimums. Others cannot. For mailings that cannot, the level of palletization can be increased by changing presort parameters or by merging the mailing with others – through co-binding, co-mailing, or co-palletization. Increasing dropship discounts or introducing pallet discounts will encourage mailers to perform these activities.

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I believe that most palletized Standard Mail pieces are palletized on their own and thus most palletization is due to the size of the mailing. However, larger dropship discounts and/or pallet discounts will cause mailers that cannot palletize on their own to explore ways to move mail from sacks onto pallets.

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**USPS/POSTCOM-T1-3.** Please refer to footnote 2 on page 3 of your testimony where you note that “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.”

(a) Please confirm that it is your understanding that the END initiative is expected to increase the number of DBMC-equivalent facilities to which mailers would dropship in order to qualify for DBMC discounts. If not confirmed, please explain.

(b) Please confirm that it is your testimony that requiring mailers to enter Standard Mail at a larger number of facilities in order to qualify for DBMC discounts would be expected to reduce postal transportation costs. If not confirmed, please explain.

(c) Please confirm that it is your understanding that the END initiative is expected to decrease the number of DSCF-equivalent facilities to which mailers would be expected to dropship in order to qualify for DSCF discounts. If not confirmed, please explain.

(d) If your response to part (c) is affirmative, please confirm that, by the logic expressed in your footnote 2, the impact of the smaller number of DSCFs to which mailers could qualify for DSCF rates would be expected to increase USPS transportation costs. If you do not confirm, please explain.

(e) If your response to part (d) is affirmative, please express your thoughts regarding the propriety of a decrease in the DSCF dropship incentives.

**RESPONSE:**

(a) Confirmed.

(b) Confirmed that this should reduce USPS and increase mailer transportation costs for DBMC-entered pieces.

(c) That is my general understanding. However, according to witness Bozzo (USPS-T-12), the consolidation process is moving at a slower-than-expected pace.

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“I am informed that the AMP facility consolidation process has been advancing more slowly than was originally indicated in Docket No. N2006-1, with several of the FY 2006 AMP studies having been concluded without action and few of the remaining studies in final review or implementation stages of the process. This would tend to further limit the effects of the facility consolidation over the current Base Year to Test Year time horizon.”

Response to POIR No. 10, Question 6.

- (d) Not confirmed. My understanding is that the vast majority of DSCF-entered Standard Mail is dropshipped into larger plants, which seem likely to still be around in the future network. So the consolidation may not have much effect on the Postal Service's cost for transporting DSCF-entered Standard Mail.
- Also, see my response to subpart (c).

- (e) Not applicable.

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**USPS/POSTCOM-T1-4.** Please refer to Postcom-LR-1, worksheet “Proposed Rates” which is based on a similar worksheet in USPS-LR-L-36 sponsored by witness Kiefer.

(a) Please identify all differences between the input assumptions in your worksheet and the corresponding worksheet in USPS-LR-L-36. For the purposes of this question, the input assumptions include the figures in the box entitled “Commercial Rate Inputs”, the figures in column F headed “Differential”, and the figures in cells R18 to U20 that pertain to destination entry discounts.

(b) Please identify all rate elements on the worksheet that differ between your worksheet and the corresponding worksheet in USPS-LR-L-36.

**RESPONSE:**

(a) I changed the \$0.739 in cells D9 through F9 to \$0.754 and the passthroughs in cells S19 and T19 to 100%.

(b) All of the pound rates and the origin and DSCF piece rates for piece-rated pieces differ between the two worksheets.

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**USPS/POSTCOM-T1-5.** Please refer Postcom-LR-1, worksheet “Proposed Rates”.

(a) Please confirm that the destination entry cost savings that you use are estimated on a per-pound basis and are therefore assumed to vary with the weight of the piece.

(b) Please confirm that you estimated the destination entry discounts for all minimum-per-piece rated pieces (i.e., those weighing less than 3.3 ounces) by multiplying your proposed discounts per pound by 3.3/16. If you do not confirm, please explain how you obtained the destination entry discounts for these pieces.

(c) Please confirm that using the methodology described in part (b) of this question, all drop-shipped pieces that weigh less than 3.3 ounces will receive a discount that passes through more than 100% of the destination entry cost savings based on the weight of the piece. Please explain fully any failure to confirm.

(d) Please confirm that using the methodology described in part (b) of this question, a one-ounce piece would receive a drop ship discount that is 3.3 times the discount that the piece would have received – and a two-ounce piece would receive a drop ship discount that is 1.65 times the discount that the piece would have received – if the savings were passed through in proportion to the piece’s weight (as is the case for pieces weighing over 3.3 ounces). Please explain fully any failure to confirm.

**RESPONSE:**

(a)-(d) Confirmed. See my response to USPS/POSTCOM-T1-1 for a discussion of why the Postal Service’s “minimum-per-piece rate design” in Standard Mail requires calculating costs avoided for piece-rated pieces using the breakpoint weight, which results in higher effective passthroughs for lightweight pieces.

Further, if dropship discounts for piece-rated pieces were estimated at the piece’s weight (rather than the breakpoint weight), the rate for a dropshipped 3.3-ounce piece (all else being equal) would be lower than the rate for a dropshipped 2-ounce piece, a somewhat curious result.

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**USPS/POSTCOM-T1-6.** Please refer Postcom-LR-1, worksheet “Proposed Rates.”

(a) Please confirm that your proposed changes to witness Kiefer’s destination entry discounts are intended to apply to Nonprofit Regular pieces as well as commercial Regular pieces. If you do not confirm, please explain why Nonprofit Regular pieces should have different destination entry discounts.

(b) Please explain whether you verified that your proposed destination entry discounts, when applied to Nonprofit Regular volumes, would produce rates that were in compliance with the requirements of 39 U.S.C. § 3626(a)(6)(A)

**RESPONSE:**

(a)-(b) This is outside of the scope of my analysis.