

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

POSTAL RATE AND FEE CHANGES, 2006

DOCKET NO. R2006-1

**RESPONSE OF WITNESS PURSLEY TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE
USPS/POSTCOM-T2-2 - 6**

The Association for Postal Commerce and the Mailing and Fulfillment Service Association (herein collectively "PostCom") hereby provide the responses of Witness Pursley to Postal Service interrogatories USPS/POSTCOM-T2- 2-6, filed October 3, 2006.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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USPS/POSTCOM-T2-2. Please refer to your testimony at page 2, lines 19 to 21, where you claim that destination entry discounts must keep pace with increases in mailer costs.

a. Please confirm that destination entry discounts must be based on avoidance of costs incurred by the Postal Service. Please provide a full explanation of any failure to confirm.

b. Please explain why, if the costs of mailers performing worksharing activities have risen faster than the costs of the Postal Service performing such activities, the Postal Service should increase the incentive for mailers to perform the work, rather than performing the tasks itself, as the low cost provider?

RESPONSE:

a. Not confirmed. Historically, the Postal Service has proposed, and the Postal Rate Commission has authorized, destination entry discounts based on avoidance of costs incurred. However, this need not necessarily be the only factors that must or should influence the setting of these discounts.

b. I dispute the premise of this question, because I do not believe that the Postal Service is the low cost provider of transportation services. That said, the operational and rate eligibility decisions that the Postal Service independently makes can and do influence mailers' and mail service providers' costs of performing worksharing activities such as presortation and drop entry. Therefore, in recommending the worksharing discounts, I believe the Commission should consider the extent to which the Postal Service's operational decisions effectively raise its workshare partners' costs.

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USPS/POSTCOM-T2-3. Please refer to your testimony at page 3 where, at line 8 you identify the proposed passthroughs of 87 percent, 85 percent and 85 percent, and at line 18 where you note that the passthroughs recommended by the PRC in Docket No. R2000-1 ranged from 82 percent to 84 percent. Please also refer to line 20 where you note that in Docket No. R2001-1, the Postal Service proposed passthroughs of 85 percent. Please confirm that the passthroughs proposed in this docket of 87 percent, 85 percent and 85 percent are consistent with or higher than those proposed or recommended in Docket Nos. R2000-1, R2001-1, and R2005-1.

RESPONSE:

Confirmed. However, I also observe that the discounts that were recommended as a result of the R2001-1 and R2005-1 cases were the result of settlements in these cases.

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USPS/POSTCOM-T2-4. Please refer to your testimony at page 5, lines 7 through 10, where you state that a mailer's decision to drop ship is based on whether the mail is palletized and whether the cost of drop shipping exceeds postage savings.

- a. Please confirm that, according to Table 8 of Appendix C of USPS-LR-L-88, more than half of Standard Mail in sacks is entered at a destination facility.
- b. Please confirm that a mailer's decision to transport mail on pallets may depend on the following considerations:
 - i. the volume of mail destinating to one geographic area;
 - ii. the production process in the mailer's/printer's plant
- c. Please confirm that if the cost of drop shipping exceeds the postage savings, it would be inefficient for the mailer to continue dropshipping.
- d. If your response to part (c) is affirmative, please confirm that under such circumstances, mailers may continue to dropship for service performance reasons.

RESPONSE:

a. Not confirmed. According to Table 8 of Appendix C of USPS-LR-L-88, labeled "Breakout of Base Year Standard Mail Pounds by Container Type and By Facility", 48.7% of sacked mail pounds is drop shipped.

b. Confirmed, although other considerations also enter into the mailers' decision (e.g., freight cost).

(c – d) I can confirm that there are circumstances where if the cost of drop shipping exceeds the postage savings, the mailer may continue to dropship for service performance reasons. I cannot confirm that such a decision would necessarily be inefficient.

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USPS/POSTCOM-T2-5. Please refer to your testimony at pages 5-6, where you state that your proposed passthroughs will increase the differential between DBMC and DSCF entry rates to provide incentive for mailers to bring mail closer to the ultimate destination.

a. Please confirm that, according to Table 8 of Appendix C of USPS-LR-L-88, 50 percent of Standard Mail on pallets is already entered at the DSCF, and 8 percent of Standard Mail on pallets is entered at the DDU.

b. Please confirm that the same table shows that 29 percent of Standard Mail in sacks is already entered at the DSCF, and 19 percent of Standard Mail in sacks is entered at the DDU.

c. Please identify the source of the mail that will shift from origin entry to destination entry as a result of the incentives your proposed rate design would offer.

RESPONSE:

a. Not confirmed. According to Table 8 of Appendix C of USPS-LR-L-88, labeled "Breakout of Base Year Standard Mail Pounds by Container Type and By Facility", 54.8% of Standard Mail pounds on pallets is entered at the DSCF and 9.8% of Standard Mail pounds on pallets is entered at the DDU.

b. Not confirmed. According to Table 8 of Appendix C of USPS-LR-L-88, labelled "Breakout of Base Year Standard Mail Pounds by Container Type and By Facility", 27.3% of Standard Mail pounds in sacks is entered at the DSCF and 18.0% of Standard Mail pounds in sacks is entered at the DDU.

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c. The same table shows mail that is being entered at the originating facilities. With a greater discount, some of this mail will be entered at a destinating facility. Due to rising transportation costs (e.g. fuel prices and USPS operational changes), deeper drop entry discounts would ensure that mail currently being drop entered does not revert back to origin entry.

Also, qualifying pallets may become cost effective to enter closer to destination.

For example, SCF pallets currently drop entered at a BMC may shift to SCF entry.

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USPS/POSTCOM-T2-6. Please refer to page 8 of your testimony at lines 3

through 8.

a. Please confirm that any particular mailing job for a Periodicals publication will have a fixed, or nearly fixed, number of pieces destinating to any given 5-Digit ZIP Code. If not confirmed, please explain.

b. Please confirm that the ability to create a pallet of mail to any given 5-Digit ZIP Code destination will depend on the number of pieces destinating within that ZIP Code. If not confirmed, please explain.

c. Please confirm that efficient use of the floor space on a given truck transporting mail to a given destination will be based on the number of pallets that can fit on the truck, and the volume of mail on each pallet. If not confirmed, please explain.

d. In light of your responses to parts (a) through (c), please explain how deeper destination entry discounts can:

i. Affect any of the responses to (a) through (c); and

ii. Increase the number of pieces entered for any given 5-Digit ZIP Code.

RESPONSE:

a. My testimony applies to Standard Mail. However, an individual mailing has a set number of pieces going to a specific ZIP code. In an effort to achieve more pieces to a specific ZIP code, the mailing can be co-mailed or co-palletized.

b. Not confirmed. The ability to create a pallet depends on weight, not pieces. Mailers are required to have a minimum of 250 pounds to create a pallet based on DMM rules (100 pounds if drop entered). Co-mailing or co-palletizing will facilitate more weight to a 5 digit ZIP code. Also, combining

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ZIP codes allows preparation of different pallet levels (e.g. 3 digit or SCF) that can also be drop entered.

c. Not confirmed. Commonly, mail service providers and consolidators combine multiple titles and different classes of mail to multiple USPS destinations per truck. Floor space utilization (known as "cube utilization" in the transportation industry) is merely one component of the optimization process.

d. Deeper drop ship discounts will drive behavioral change. An individual mailing, with a fixed number of pieces, may not have enough weight to produce a pallet to a given ZIP code (or 3 digit or SCF) and may not be drop shipped as a result. In order to gain postage savings (and improved delivery service), the mailer can elect to co-mail or co-palletize to move their pieces from sacks to pallets and enjoy the benefits of drop shipping.

Deeper drop entry discounts will also enhance the cost benefit analysis and increase the amount of mail that is drop entered and palletized. Mailing jobs and destinations that are not cost effective under the current rate structure, can become cost effective with greater discounts. Combining mail (through co-mailing or co-palletization) to increase the weight to a given ZIP code (or multiple ZIP codes) increases the amount of mail that is palletized and also creates heavier, more efficient pallets which enhances cube utilization.