

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes,)
2006) Docket No. R2006-1

**RESPONSES OF MPA/ANM WITNESS SANDER GLICK
TO USPS INTERROGATORIES USPS/MPA/ANM-T2-14-35
(October 18, 2006)**

The Magazine Publishers of America, Inc. (“MPA”) and Alliance of Nonprofit Mailers (“ANM”) submit the answers of MPA/ANM witness Sander Glick to USPS interrogatories USPS/MPA/ANM-T2-14 through 35. Each question is stated verbatim and then answered.

Respectfully submitted,

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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.

RESPONSE

(a) Consistency with past Commission recommendations. See, e.g., R2000-1 Op. & Rec. Decis. ¶ 5685.

(b) The costs would not have been incurred on a per-piece or a per-pound basis. Rather, the costs avoided – which are container-handling costs – would have been incurred on a per-container basis. The number of containers are affected by both pounds and pieces.

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.

RESPONSE

(a) Confirmed.

(b) Confirmed.

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.

(h) 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.

(k) 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.

RESPONSE

(a) Not confirmed. The intent of my proposal to utilize an alternative benchmark is to more accurately estimate the nontransportation costs avoided by entering Outside County periodicals at destination facilities. My rate design proposal, however, does provide greater incentives to dropship Outside County periodicals than does the USPS proposal.

(b) Not applicable. Nonetheless, I can confirm that more periodicals probably would be dropshipped under the MPA/ANM proposal than under the USPS proposal.

(c) Like the Postal Service, I lack data on the zone distribution of periodicals that would begin dropshipping under the MPA/ANM proposal. However, the zone distribution of periodicals that would begin dropshipping under the MPA/ANM proposal probably would be similar to that under the USPS proposal. All else being

equal, the change I propose to the benchmark used to estimate the nontransportation cost avoidance would increase the incentive to dropship from all zones by the same absolute amount.

(d)(i) Not confirmed. See my response to subpart (d)(iii) of this interrogatory.

(d)(ii) Confirmed. Also, the unzoned editorial pound rate, the less-than-full passthroughs underlying the proposed editorial pound dropship discounts, and my conservative assumption regarding the number of handlings avoided when periodicals shift from OSCF/OADC entry to destination entry (MPA/ANM-T-2 at 33, footnote 23), cause the estimated TYAR cost to decrease more than TYAR revenue, thus increasing the TYAR contribution of Outside County Periodicals.

(d)(iii) Not confirmed. I chose the benchmark for estimating nontransportation cost avoidances because the vast majority of nondropshipped periodicals are entered at the OSCF or OADC. I do not see why the MPA/ANM proposal would change this. So the benchmark for estimating the nontransportation cost avoidance would likely continue to be OSCF/OADC-entered periodicals.

(e) It is possible but unlikely because the Periodicals Outside County rate schedule is zoned (albeit not fully). Further, the hypothesized outcome seems no more likely under the MPA/ANM proposal than under the USPS proposal, because the MPA/ANM proposal provides more incentive than the USPS proposal to shift from all zones, not just the close-in zones.

(f) Not confirmed. The benchmark approach is used to estimate only the non-transportation cost avoidances. Entering mail in higher zones would not necessarily change the benchmark for estimating the non-transportation cost avoidance, because it relates to entry facility type, not zone. See my response to subpart (d)(iii) of this interrogatory.

(g) Confirmed for all worksharing discounts.

(h) I do not have, and am unaware of, any estimate of the average unit cost of nondropshipped Periodicals.

(i) The existing flat editorial pound rate, the current conservative benchmark used for estimating the nontransportation destination entry cost avoidance, and the containerization profile of nondropshipped periodicals, make the average revenue paid by nondropshipped Periodicals likely to be less than the average cost of nondropshipped Periodicals. The MPA/ANM rate proposal will make progress in rectifying this situation by making nondropshipped Periodicals bear more of their costs.

(j) Periodicals Outside County rates are not designed from the bottom-up by assigning specific costs to specific rate cells. So I cannot answer whether a specific rate covers a specific cost. Further, for the reasons I discussed in response to subpart (d)(ii) of this interrogatory, if the larger discounts I propose result in increased dropshipping, contribution will be increased.

(k) Not confirmed. The rates are already de-averaged (albeit to a limited extent) between dropshipped and non-dropshipped periodicals.

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.

RESPONSE

(a) Confirmed.

(b) Not confirmed. As shown in Table 7 on page 32 of my testimony, the distribution of nondropshipped sacks by entry facility type is similar to the distribution of nondropshipped pallets by entry facility type. Specifically, the vast majority of both are entered at OSCFs and OADCs.

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.

RESPONSE

(a) Confirmed. Note that the cost avoidances are heavily weighted towards the costs avoided by pieces on pallets.

(b) Confirmed.

(c) Possibly, although the answer would depend on other aspects of the rate design. If the rate difference between origin-entered pallets and sacks is less than the corresponding cost difference, which is the case under the MPA/ANM proposal, it may not make sense to provide larger dropship discounts to mailers of sacks. While the MPA/ANM rate design does increase the rate difference between sacks and pallets, it does not reflect the entire cost difference between origin-entered sacks and pallets.

For example, I show on pages 27 to 28 of my direct testimony that the cost difference between a sack and a pallet that are both handled at two non-destination facilities is about 2.8 cents per piece. This figure slightly exceeds the proposed MPA/ANM pallet discount. However, according to the Postal Service's institutional response to MPA/USPS-2, containers that are entered at origin facilities are generally handled at more than two non-destination facilities. For example, 3-digit sacks that are entered at OSCFs or OADCs are handled at an average of nearly three non-destination facilities. Five-digit sacks that are entered at OSCFs or OADCs are handled at an average of about four non-destination facilities (assuming, like USPS assumed in responding to MPA/USPS-2, that these sacks are opened at DDUs).

Further, the 2.8-cent cost difference shown in my testimony completely ignores cost differences resulting from the higher bundle breakage rate for sacked mail. As discussed by McCrery, the benefit of improved bundle integrity (which results from palletization) is significant:

Bundle integrity can have a significant impact on the productivity of any bundle sorting operation. If and when a bundle breaks prematurely, the value of the bundle presort can be partially or completely lost, and the bundle may require distribution in a residual distribution operation. Also, productivity can suffer when, for example, a mailhandler attempts to capture and repair a ruptured bundle within the bundle sorting operation.

MPA/ANM-T-2 at 27 (citing McCrery Direct (USPS-T-42) at 26).

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.

RESPONSE

Below I explain how I estimated the base year volume on 5-digit pallets. My approach to estimating the volume of pieces on 5-Digit pallets appears to slightly overstate the number of pieces on 5-Digit pallets because it applies the 5-Digit pallet proportion derived from Periodicals Outside County flats to total Periodicals Outside County volume. This overstatement is confirmed by TW witness Stralberg's slightly lower estimate (756 million pieces) of the number of pieces on 5-Digit pallets. Given this, Periodicals Outside County revenue is likely to be slightly higher (\$100,000-\$200,000) than estimated in MPA/ANM-LR-1.

Step 1 -- Determine proportion of Periodicals Outside County flats on 5-Digit pallets using data from LR-L-91 Tables, worksheet Table 4.

=SUM(E118,E122,E72,E76,E59,E62,E35)/SUM(G38,G51,G64,G79,G96,G109,G124)

Step 2 – Multiply proportion from Step 1 by Periodicals Outside County Base Year volume (MPA/ANM-LR-1, worksheet "Base Year", cell B56).

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.

RESPONSE

In answering these questions, I assume that subparts (c) and (d) are referring to my response to subpart (a), not my response to subpart (b).

(a) I am proposing a 1.5-cent per-piece 5-Digit pallet discount (relative to pieces on other pallets). I expect that this will result in a higher proportion of Periodicals Outside County pieces being entered on 5-digit pallets in TYAR than TYBR. While I cannot say for sure, it will probably result in a larger number of pieces entered on 5-digit pallets as well as a larger number of 5-digit pallets.

(b) Yes. My projections assume constant mail mix to ensure that the TYAR revenue estimates are based upon the same mail mix as the TYAR cost estimates.

(c)-(d) Assuming constant mail mix, the average number of pieces per 5-digit pallet would be the same Before Rates and After Rates, so the answer would depend on the number of pieces on 5-digit pallets. In reality, the outcome is unclear. The most likely ways to increase the number of pieces on 5-digit pallets are increasing the aggregate amount of co-mailing, increasing the size of individual co-mail pools, and reducing pallet minimums. It is unclear whether the aggregate effect of these changes will be an increase or a decrease in the average size of 5-digit pallets.

Note that the Postal Service's container-handling costs for these pallets are limited by the fact that they are entered at the DSCF almost ninety percent of the time (see page 29 of my direct testimony) and, when entered at the DSCF, they generally require only a crossdock to the delivery unit.

(e) I am not aware of an estimate of the average number of pounds per 5-digit pallet, but the average number of pieces per 5-digit pallet is approximately 1,079. I calculated this figure by dividing the number of pieces on 5-digit pallets (TW-LR-1, R2006 Volumes__53270.xls, worksheet "Pieces", cell L27) by the number of 5-digit pallets (TW-LR-1, R2006 Volumes__53270.xls, worksheet "Containers", cell J19).

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?

RESPONSE

(a) To some extent, because the Postal Service's approach uses a 5-digit rate category (as I do), rather than a Basic rate category, as the benchmark for determining the Carrier Route cost avoidance. On pages 15 and 16 of my testimony I explain why 5-digit automation flats provide a more appropriate benchmark than 5-digit nonautomation flats.

(b) No, because I do not believe that automation flats are the most likely type of mail to convert to the 5-digit nonautomation rate category, but I do believe that automation flats are the most likely flats to convert to Carrier Route. I discuss why I believe this to be the case on pages 15 and 16 of my testimony. Further, the reasoning I discuss on these pages of my testimony clearly would not apply to determining the benchmark for the 5-digit nonautomation rate.

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.

RESPONSE

(a) On those lines of my testimony, I stated:

Although the USPS rate design would modestly increase worksharing incentives, the percentage rate increase faced by many mailers who engage in efficient practices (such as co-mailing and co-palletization) would be similar to or higher than if they had not engaged in these practices at all.

I did not describe this as a “perverse result” because it would be unfair; rather I described it in this manner because it suggests that the discounts offered for commingling and dropshipping periodicals only increased modestly. Given the Postal Service’s agreement that “progress towards a more cost-based structure is both possible and necessary to increase efficiencies in the Periodicals rates” (MPA/USPS-T35-6), that discounts related to palletization and dropshipping (as evidenced by the introduction of editorial pound dropship discounts and a container charge) were a focus

of the Postal Service proposal, and that current discounts related to palletization and dropshipping do not pass through all of the cost savings from performing these activities, I would have expected much larger increases in the postage discounts offered for commingling and dropshipping periodicals.

(b) Confirmed.

(c) The hypothetical in subpart (b) does not appear to be the same one discussed in subpart (c) because subpart (b) refers to a fixed amount being added to rates while subpart (c) discusses a fixed amount being added to costs. Regardless, I do not think your questions can be answered in the abstract. Further, I do not think your hypothetical is applicable to my “perverse result” observation because neither the current nor the USPS-proposed rates fully reflect the USPS cost savings that results from co-mailing and co-palletization.

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.

RESPONSE

(a) The existing set of Periodicals Outside County rates were developed by raising all rates by 5.4 percent and rounding, and were not based upon any cost studies. So I cannot identify the requested cost differential.

(b) Confirmed. For example, see my response to subpart (a) of this interrogatory.

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.

RESPONSE

Not confirmed. Although the impact of the Ride-Along proposal on revenue did take into account the Standard Mail revenue foregone, Taufique gave the following explanation in Docket No. MC2000-1 of how the Ride-Along rate was set:

Given the current advertising pound rate schedule for Regular Rate Periodicals, an additional 3.3 ounces mailed to Zone 8 would require additional postage of 10.2 cents. It is safe to assume that not all “Ride-Along” pieces will weigh 3.3 ounces nor will they all be mailed to Zone 8. The physical requirements for the “Ride-Along” piece have been purposely drafted to attempt ensure that the inclusion of a “Ride-Along” piece does not result in any additional mail processing or delivery costs. Therefore, the 10-cent per-copy rate should comfortably cover any additional cost due to incremental weight, and also provide contribution that comfortably exceeds the contribution deemed reasonable for the Periodicals subclass.

Docket No. MC2000-1, USPS-T-1 (Taufique Direct) at 5.

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.

RESPONSE

Increasing the discount provided for Carrier Route presort will encourage smaller mailings to be merged into larger mailings. As I pointed out (citing USPS witness McCrery) in footnote 5 of my testimony, while Carrier Route presort may not have value in the FSS environment, merging multiple small mailings into large mailings still will:

Although Carrier Route presort may not have value for some locations in the future flat sequencing environment, McCrery Direct (USPS-T-42) at 22, having a large number of pieces per ZIP Code still will. 11 Tr. 2865-66 (response of USPS witness McCrery to MPA/USPS-T42-5(b)-(c)). In other words, FSS may change the *method* of preparing large mailings (e.g., from preparing these mailings in Carrier Route bundles to preparing them in much larger 5-Digit groupings) without reducing the *costs* that these mailings avoid for the USPS.

In other words, co-mailing (which is currently being encouraged by the Carrier Route discount and other discounts) will continue to produce low-cost mailings (although containerized differently once the mailings have been merged) in the FSS environment. When the new preparation is determined, co-mailing will be encouraged through the discount offered for the new preparation (rather than by the Carrier Route

discount). In addition, carrier route bundles will continue to have value in the FSS environment since not all facilities will utilize FSS processing.

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.

RESPONSE

This was meant as a desirable goal in terms of limiting impact, not in terms of efficiency. However, this outcome could also be viewed as desirable in terms of efficiency. The Postal Service's proposed automation discounts for Periodicals Outside County flats are all based upon passthroughs that significantly exceed 100 percent of avoided costs. While the Postal Service's cost models may understate the automation cost avoidance, excess passthroughs in presort discounts send the wrong pricing signals to maximize efficiency, i.e., they encourage mailers to barcode pieces even though mailing them without a barcode would have minimized combined costs.

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.

RESPONSE

I assume that “a greater increase” in the second sentence should be “a greater decrease.” However, I do not think that looking at the percentage change in a particular rate is the correct way to analyze the extent to which a particular mailing practice is encouraged. A better approach is to compare the postage discount offered for performing the particular practice.

The MPA/ANM proposal provides less discount for DDU entry (relative to DSCF entry) than does the Postal Service’s proposal. This is true on both the piece side and the pound side. Having said that, I believe that neither the MPA/ANM nor the USPS DDU-DSCF rate differential will have much effect on the entry of Periodicals Outside County mail. Under either proposal, I do not expect much Periodicals Outside County mail will be entered at the DDU.

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?

RESPONSE

As mentioned in my response to USPS/MPA-ANM-T2-27, I do not think that the DDU-DSCF rate differential in the MPA/ANM proposal or the USPS proposal will have much effect on where Periodicals Outside County pieces are entered. So I think the MPA/ANM proposal is compatible.

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.

RESPONSE

Confirmed. The rate increases for mailers that choose to change behavior would almost certainly be lower.

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.

RESPONSE

No, and I was not lamenting the nonuniformity of the rate increases that the MPA/ANM proposal would produce.

The entire sentence from which you quote reads, “Although our rate proposal will not produce uniform rate increases for all publications, the largest increases under our proposal are dramatically less than the increases the Commission was concerned about in C2004-1.” The point of the sentence was that, while the percentage rate increases produced by the MPA/ANM proposal would have some within-subclass variation, the *maximum* rate increase for any publication would be limited.

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.

RESPONSE

Confirmed that the benchmark should represent the mail with the characteristics most like the workshared mail, but only if you are referring to important cost-causing characteristics that are unaffected by the activity of worksharing. Which important cost causing characteristics are affected by the activity of worksharing, however, relates back to what mail converts to worksharing. As I discuss on pages 13 to 16 of my testimony, the most likely mail to convert to Carrier Route presortation is non-carrier route automation flats.

Further, the “likeness” test that your interrogatory suggests for determining the appropriate benchmark would also indicate that 5-digit automation flats should be the benchmark for estimating the Carrier Route cost avoidance. The presence of a barcode is not an important cost causing characteristic for Carrier Route flats because most of these flats are not sorted on machines. If a barcode were an important cost-causing characteristic, the barcoding of Carrier Route flats presumably would be mandatory, or at least encouraged by the availability of a barcoding discount.

On the other hand, address hygiene requirements (which are more similar for Automation and Carrier Route pieces) are likely to be an important cost-causing

characteristic for Carrier Route pieces. Otherwise, an address hygiene requirement for Carrier Route pieces would be superfluous.

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.

RESPONSE

Pieces that are not dropshipped pay higher rates because they are not dropshipped. However, dropship discounts reflect the cost savings from avoiding postal transportation and container handlings at origin facilities. The discounts do not reflect the greater costs of handling sacks, rather than pallets, at origin facilities.

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.

RESPONSE

Approximately 9.5 percent of Carrier Route flats receive incoming secondary sorts due to bundle breakage. I calculated this by dividing the total number of Carrier Route pieces that are finalized to Carrier Route in any flat sorting operation (MPA/ANM-LR-2, worksheet "Manual IS Calc") by 10,000.

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.

RESPONSE

The equations that I use to calculate advertising pound rates in MPA/ANM-LR-1, worksheet "Pound Data_Adv" are more complicated than necessary because I chose only to correct errors on USPS-LR-L-126, worksheet "Pound Data_Adv," rather than to also simplify the equations used by the Postal Service. In this response, I explain a simplified version of the approach I used in MPA/ANM-LR-1.

Today, I am also filing (as MPA/ANM-LR-6) a modified version of my Periodicals Outside County rate design spreadsheet. The only difference between MPA/ANM-LR-1 and MPA/ANM-LR-6 is that the latter contains simplified formulae in cells E56 to E58 of worksheet "Pound Data_Adv." These simplified formulae (which are mathematically equivalent to the formulae in MPA/ANM-LR-1) parallel the approach explained below. Also, please note that the resulting rates in MPA/ANM-LR-6 are exactly the same as those generated by MPA/ANM-LR-1.

The general approach I use to determine advertising pound rates is as follows:

1. Allocate distance-related transportation costs to all "zones" other than DDU and DSCF. The distance-related transportation costs per pound are derived in cells D58 to D65 of worksheet "Pound Data_Adv."

2. Allocate non-distance related transportation costs to all “zones” other than DDU. The non-distance related transportation cost per pound (2.9 cents) is calculated in cell C43 of worksheet “Pound Data_Adv.”
3. Subtract the per-pound portion (50%) of the nontransportation destination entry cost avoidances (which are calculated in cells E47 to E49) from the transportation costs by zone calculated in Steps 1 and 2 above.
4. Add the \$0.227 “Add-On Dollars Per Pound” (calculated in cell F73) to generate advertising pound rates that generate the advertising pound revenue requirement.
5. Round to the nearest tenth of a cent (cell D78).

The general formula for determining the ad pound rate can be written:

Ad Pound Rate = Round(Transportation Cost Per Pound minus Per-Pound Portion of Nontransportation Cost Avoidance plus Add-On Dollars Per Pound,3)

DDU Advertising Pound Rate From MPA/ANM-LR-1 = 18.4 cents

- No transportation costs
- 4.3 cent per pound nontransportation cost avoidance (cell E47)
- DDU Ad Pound Rate = 0 – 4.3 cents + 22.7 cents = 18.4 cents (cell D78)

DSCF Advertising Pound Rate From MPA/ANM-LR-1 = 23.0 cents

- No distance-related transportation costs
- 2.9 cents per pound of non-distance-related transportation costs (cell C43).
- 2.7 cents per pound nontransportation cost avoidance (cell E48)
- DSCF Ad Pound Rate = 2.9 cents – 2.7 cents + 22.7 cents = ~22.9 cents, which rounds to 23.0 cents (cell D79)

DADC Advertising Pound Rate From MPA/ANM-LR-1 = 25.4 cents

- 1.2 cents per pound distance-related transportation costs (cell D58).
- 2.9 cents per pound of non-distance-related transportation costs (cell C43).
- 1.5 cents per pound nontransportation cost avoidance (cell E48)
- DSCF Ad Pound Rate = (1.2 cents + 2.9 cents) – 1.5 cents + 22.7 cents = ~25.3 cents, which rounds to 25.4 cents (cell D80)

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.

RESPONSE

Confirmed in part. While 62.5 percent is the value in the referenced cell in witness Tang’s rate design spreadsheet (USPS-LR-L-126), the actual proportion of revenue obtained from piece rates (including the container charge, whose revenue is used to offset the revenue required from piece rates) is 63 percent. I accepted witness Tang’s actual results.