

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

EXPERIMENTAL PERIODICALS
CO-PALLETIZATION DROPSHIP DISCOUNTS FOR
HIGH EDITORIAL PUBLICATIONS, 2004

Docket No. MC2004-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS ALTAF H. TAUFIQUE TO INTERROGATORIES OF
AMERICAN BUSINESS MEDIA (ABM/USPS-T1-1-2, 4-5, 7-20)

The United States Postal Service hereby files the response of witness Altaf H.

Taufique to the following interrogatories of American Business Media:

ABM/USPS-T1-1-2, 4-5, 7-20, filed on March 24, 2004.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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ABM/USPS-T1-1. When did the Postal Service first consider the filing of a co-pallet discount that would benefit high editorial content publications?

RESPONSE:

The genesis of this idea was laid out in my testimony (USPS-T-38) in Docket No.

R2001-1. Here is what I stated regarding the editorial dropship discounts proposed in

Docket No. R2001-1, on pages 5 and 6 of my testimony.

The Postal Service is proposing a new dropshipment rate for mail entered at the destinating ADC. Furthermore, in order to provide further incentives for entering the mail at the destinating ADC, SCF and DU, the Postal Service is proposing separate editorial dropship pound rates for the destinating ADC, SCF and DU. These discounts would be limited to mail entered at the destination facility. The editorial pound rate for Zones 1 & 2 through Zone 8 remains a uniform un-zoned rate. This treatment of the editorial pound rate provides the appropriate balance between economics and social policy objectives alluded to in the Commission's Opinion in Docket No. R90-1 (pages V-118 to V-120). The concerns about both dissemination of information and providing the correct price-signals to mailers are addressed by this proposal.

The history of cost increases in Periodicals is well known. The Postal Service, and the mailers have provided various explanations for these increases. The Commission in its Docket No. R2000-1 Opinion and Recommended Decision has discussed this issue in detail without reaching any definitive conclusion. (PRC Op., Vol. 1, at V-407-412).

From a rate design perspective, I believe that the proposed increased incentive for dropshipment, combined with a per-piece pallet discount (to be discussed later), would help mitigate further cost increases. First, as is true for most worksharing, the additional work performed by the mailers (at a lower cost than if performed by the Postal Service) may lead to a reduction in reported volume-variable costs and lower overall combined cost. For example, bypassing postal facilities and entering closer to the destination may lower Periodicals processing costs. Second, as mailers prepare the mail for downstream entry, preparation is likely to improve. A relatively high degree of palletization, and finer degree of presort can be expected. Larger destination entry discounts would provide further incentive for smaller and medium mailers to combine their mailings or versions to achieve the volumes necessary to justify the transportation for deeper downstream entry. Even mailers who may not be able to dropship their mail would nonetheless benefit from the cost savings for all Periodicals. I believe that a more efficient classification which recognizes the traditional role of Periodicals and their editorial content best serves the long-term needs of the Periodicals mailers and readers.

This discussion sets forth general principles behind proposals in Docket No. R2001-1, and the proposed discounts in this docket. The proposal for a small experiment in this

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docket is much more limited than the proposed change in Docket No. R2001-1,
however. Also, see my response to ABM/USPS-T1-2.

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ABM/USPS-T1-2. (a) Was the Postal Service's consideration leading to the filing initiating this docket prompted, in whole or in part, by a request from outside the Postal Service? (b) If so, please describe the circumstances.

Response:

- a) Yes.
- b) Please see my testimony, USPS-T-1, p. 6.

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ABM/USPS-T1-4. Please describe in detail, provide all documents related to, and provide the results of any study, investigation or other effort made by or on behalf of the Postal Service to determine the number of Periodicals (by title and annual pieces) that would be likely to avail themselves of the proposed rates.

RESPONSE:

I expect that most publications likely to avail themselves of the proposed rates are printed by CADMUS Communications. I am attaching a database provided by CADMUS of publications it prints that are exclusively in sacks. All of them meet the criterion of 15 percent or less advertising. Not all of them meet the 9 ounce or more copy weight requirement, but the information is presented for various weight cutoffs of 8, 10, and 12 ounces.

Other than the actual numbers from this particular printer, our informal discussions with a variety of printers led us to estimate the 20 million pieces that we think will make use of the proposed discounts.

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ABM/USPS-T1-5. Please describe in detail, provide all documents related to, and provide the results of any study, investigation or other effort made by or on behalf of the Postal Service to determine the nonpostal costs to the mailer of participating in the proposed experiment, including but not limited to (1) transportation costs, (2) administrative and other costs incurred and passed on by printers and/or consolidators for performing the co-palletizing, arranging for shipping and preparing paperwork, and (3) internal costs (to the publisher).

RESPONSE:

The Postal Service did no study or investigation to determine the non-postal cost incurred by mailers to prepare or transport co-palletized mail or the cost incurred in preparing documentation for co-palletization. The proposed discounts are based on cost savings that accrue to the Postal Service, not on the costs incurred by the mailers.

However, discussions with CADMUS led us to believe that their costs of co-palletizing and dropshipping would be offset by the proposed discounts, when added to the existing Periodicals incentives for palletization and dropshipping.

The only nonpostal cost estimate of which I am personally aware is that the transportation costs for moving mail to a consolidator and dropshipping can be on average \$5 to \$6 per 100 pounds.

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ABM/USPS-T1-7. Please explain why this proposal is limited to high-editorial content publications and how you arrived at the 15% cutoff.

Response

Please see my response to TW/USPS-T1-2(b).

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ABM/USPS-T1-8. Are there publications with more than 15% advertising content that would benefit more from the proposal here than from the existing co-pallet discount? If your answer is anything but an unqualified “no,” please explain why these publications have been excluded.

Response

Yes. Our purpose was not to exclude publications that have advertising content of more than 15 percent, but these publications do have the existing co-palletization discounts available. We are interested in conducting a limited experiment to gauge the impact of the proposed discounts on publications for which the behavior change is most likely (or publications that are least likely to use the current co-palletization discounts). Also, please see my response to TW/USPS-T1-2(b).

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ABM/USPS-T1-9. Please explain why this proposal is limited to publications weighing at least nine ounces. Are there publications weighing less than nine ounces that would benefit more from the proposal here than from the existing co-pallet discount? If your answer is anything but an unqualified “no,” please explain why these publications have been excluded.

Response

Yes. Please see my response to TW/USPS-T1-2(a) and (c).

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ABM/USPS-T1-10. Please explain why this proposal is limited to publications weighing (sic) circulation of 75,000 or less. Are there publications with circulation in excess of 75,000 that would benefit more from the proposal here than from the existing co-pallet discount? ? If your answer is anything but an unqualified “no,” please explain why these publications have been excluded.

Response

I am assuming that this question refers to the circulation limit and not to the copy weight ceiling. Please see my response to TW/USPS-T1-2(a) and (c). Also, I am not aware of many publications that would be eligible based on advertising content and copy weight, but whose circulation exceeds 75,000.

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ABM/USPS-T1-11. Please identify the “one printer/consolidator” referred to at page 2, line 14.

Response

Objection filed.

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ABM/USPS-T1-12. Is it your testimony that, during AP 9 of FY 2003, only one printer in the country was co-palletizing and drop shipping Periodicals that could not otherwise be palletized? If your answer is yes, identify that printer. If your answer is no, please explain what you mean by the statement that only one printer/consolidator “participated.”

Response

No. I am referring to participation in the experiment.

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ABM/USPS-T1-13. Please identify the printers/consolidators that were participating in the existing co-palletization program (a) as of the end of FY 2003 and (b) now.

Response

Objection filed.

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ABM/USPS-T1-14. How many printers/consolidators do you expect will participate in the proposed experiment during its two-year life?

Response

Initially, I expect one printer and one consolidator to participate. Some publications that are eligible may use the consolidators that are already co-palletizing with the current discounts. I cannot forecast the number of printers/consolidators that will participate during the two-year life of the experiment. A key reason to conduct this experiment is to collect the relevant data regarding participation.

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ABM/USPS-T1-15. Are there any printers that are participating in the existing co-palletization experiment that you expect *will not* participate in the proposed experiment? If so, please explain why in your view they will not.

RESPONSE

Printers participating in the existing experiment who also have publications that meet the criteria in the proposed experiment would likely use both sets of discounts. The proposal facilitates their participation by allowing mail receiving either the per-piece or the per-editorial-pound discounts to be prepared on the same pallets.

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ABM/USPS-T1-16. With reference to the 10 cent reduction identified at page 4, line 17 of USPS-T-1, which is calculated on the basis of an assumed weight of 9 ounces and an assumed advertising content of 75%, please provide the average weight, average advertising content and average postage saving for the pieces actually qualifying for the present co-pallet discount. You may use (and should identify) any representative time period.

RESPONSE

The data needed to perform the requested calculations are not available. The example in my testimony is based on the assumptions reflected in the interrogatory.

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ABM/USPS-T1-17. With reference to your testimony at page 5, lies [sic] 8-9, concerning incentives for mailers to prepare their mail in an “efficient fashion,” please identify those incentives and, for each, explain how mailers that do not avail themselves of the incentive prepare their mail in an inefficient manner.

RESPONSE

I am sure that the counsel for American Business Media is not accusing me of 8-9 lies on Page 5 of my testimony. Rather he is referring to lines 8-9 on page 5 of my testimony. The incentives for efficient preparation are the two discounts for preparing mail on pallets as well as the various dropship discounts for destination Delivery Unit (DDU), Sectional Center Facility (SCF) and Area Distribution Center. Also for publications with advertising content, zoned advertising pound rate provides an incentive for dropshipment. My reference to mail preparation in an “efficient fashion” refers to mail preparation that lowers the costs imposed on the Postal Service, rather than the efficiency of the mailer’s operations. Generally, palletization and dropshipment of mail are considered efficient from the Postal Service’s perspective because they tend to lower Postal Service costs.

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ABM/USPS-T1-18. Assume that a mailer closes copy on a weekly (and therefore time value) publication late Friday, has it printed on Saturday, and—in order to assure the Monday delivery that readers expect--has it sacked, where possible, in 5-digit sacks and air freights many of the sacks at its own expense to entry points near the readers. Has that mailer prepared its mail in an “inefficient fashion.” Please explain your answer.

RESPONSE

Given the nature of the magazine, this mailer has done its best to enter the mail closer to destination. Sacks are generally more expensive for the Postal Service to handle, not just in transition cross-docking, but also at the destination facility. This mail has an inefficient component to its preparation (from the perspective of costs imposed on the Postal Service), but our proposal does not seek to move this type of mail (time sensitive weekly publications) from sacks onto pallets. The target publications for the proposed discounts are monthly or less frequent publications with substantial editorial content.

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ABM/USPS-T1-19. At page 6, lines 204, you describe the approach made by a printer interested in co-palletizing heavily editorial publications. Please describe in detail, provide all documents related to, and provide the results of any investigation or other effort made by or on behalf of the Postal Service to determine the number of printers that would be likely to participate in the proposed experiment.

RESPONSE

I assume that the question refers to lines 2-4 on page 6 of my testimony. We know of one printer with substantial eligible volume that is likely to participate in the proposed experiment. See my response to ABM/USPS-T1-4 for the documentation we have. We are aware of other printers that may have publications that meet the criteria, based on discussions with various printers. The purpose of this experiment is to gauge such response.

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ABM/USPS-T1-20. How many ADCs are there in Southern California?

RESPONSE:

There are nine ADCs in the state of California. Four are arguably in Southern California.

900, 901 ADC LOS ANGELES CA 900
902-908, 910-918 ADC TWIN VALLEY CA 90197
919-921. ADC SAN DIEGO CA 920
922-928, 930-935 ADC SEQUOIA CA 90198
936-939, 942, 945-948, 950-953, 956-960 [FCM only] ADC SIERRA CA 940
936-939, 945-948, 950, 951. [PER, STD, and BPM only] ADC OAKLAND CA 945
940, 941, 943, 944, 949, 954, 955. ADC PENINSULA CA 941
942, 952, 953, 956-960 [PER, STD, and BPM only] ADC SACRAMENTO CA 956
962-966. AMF SFO APO/FPO CA 962

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

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