

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF POSTAL SERVICE WITNESS TANG
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA, INC.
(MPA/USPS-T35-8-12)

The United States Postal Service hereby files the responses of Witness Tang to the above listed interrogatories, filed on June 15, 2006.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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MPA/USPS-T35-8. Please refer to lines 7 through 8 on page 7 of witness Mayes' testimony (USPS-T-25), where she states, regarding her estimate of the Periodicals non-transportation destination entry cost savings: "The savings estimates generated in Appendix F of library reference USPS-LR-L-88 are calculated relative to Zone 1&2 Periodicals mail processing costs." Assume that a goal of Periodicals Outside County rate design were to reflect in rates the non-transportation destination entry cost savings relative to the mail processing costs of Zones 1-8, not Zones 1 and 2.

- (a) Please confirm that the rate design goal specified above could, in theory, be achieved by using non-transportation destination entry cost savings relative to average Zones 1-8 mail processing costs, rather than relative to Zones 1&2 mail processing costs, in developing destination entry rates and discounts. If not confirmed, please explain fully.
- (b) Please confirm that the rate design goal specified above could, in theory, be accomplished by estimating the average "bulk transfer" costs (which are the non-transportation costs that witness Mayes estimates are avoided by destination entry) by zone, and building these costs into rates individually for each zone. If not confirmed, please explain fully,
- (c) Please confirm that, all else being equal, the option outlined in subpart (a) of this interrogatory would result in lower rate increases for the higher zones than would the option outlined in subpart (b) of this interrogatory. If not confirmed, please explain fully.
- (d) Please confirm that the Standard Mail non-transportation destination entry cost avoidance is calculated relative to all origin-entered Standard Mail, not relative to just Zones 1&2 origin-entered Standard Mail. If not confirmed, please explain fully.

RESPONSE:

- (a) In theory, this could be done.
- (b) This might not be as easily achieved. My understanding is that the number of bulk transfers by zone for Periodicals may not be an easy set of numbers to develop, because unlike, for instance, Parcel Post, which follows a relatively simple and straightforward series of facilities (e.g., from an OSCF to OBMC to DBMC to DSCF to DDU), the routes for some periodicals vary depending on their destination and service performance concerns. Using zones 1-2 to determine destination entry cost savings

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helps, first, by limiting the number of facilities and dock transfers relative to the dropshipped periodicals, and second, by avoiding the need to figure out how many transfers take place for mail from higher zones. Using higher zones to determine destination entry cost savings would change the nature of the zone structure from one that reflects essentially transportation costs, to one that is both transportation and mail processing oriented. While that may not be a negative change, it would appear that if one were to deduct mail processing savings from zone costs, one should include those same costs in the baseline calculation for the zones. All of that is to say that while conceptually this might have some appeal, it is a bit more daunting than a cursory review might suggest.

(c) Not confirmed. With the approach in part (a), the non-transportation destination entry cost savings is taken off of the average cost over all zones, whereas in part (b), there may not be significant differences in the number of transfers for pieces originating from different zones, such as Zone 7 rather than Zone 8.

(d) Confirmed that Standard Mail is not zoned, so the destination entry cost savings are calculated against origin-entry mail costs. Periodicals, however, is zoned, with incentives provided to mail that is entered deeper into the system by virtue of the zoned rate structure. This distinction gives rise to a rate design issue. The origin entry Standard Mail includes mail traveling, hypothetically, 50 miles to 2500 miles, and the resulting rates reflect the spectrum of Standard Mail. Consequently, the discount is appropriately built upon an average for all the mail. However, the same is not the case for Periodicals, which has rates for non-destination mail traveling 50 to 150 miles (zones

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1 and 2). Now if we deduct the cost for mail traveling short distances from a national average cost for mail traveling 50 to 2500 miles, we could get anomalous results.

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MPA/USPS-T35-9. Please refer to your response to MPA/USPS-T35-1(b), where you state, "Any pallet that contains Periodicals mail is subject to the container charge." Please confirm that pallets containing only Periodicals Within County mail would not be subject to the container charge. If not confirmed, please explain fully.

RESPONSE:

Confirmed.

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MPA/USPS-T35-10. Please refer to USPS-LR-L-126, R2006-1 Outside County.xls and your response to MPA/USPS-T35-1(f), where you state:

The vast majority of Periodicals mail is in sacks or pallets. Nevertheless, the container rate is an integral part of Periodicals pricing and all Outside County mailings will be subject to it, including those that are not in sacks or on pallets. We are currently reviewing the other possible containerization methods and how the 85-cent container rate will apply.

Have you included container-rate revenue for containers other than sacks and pallets in your TYAR revenue estimate? If so, please explain how you calculated container-rate revenue for containers other than sacks and pallets.

RESPONSE:

My TYAR estimate of container rate revenue includes revenue from containers other than sacks and pallets. My container data can be found in USPS-LR-L-126, sheet "Container." The source of the container data is Table 3 in USPS-LR-L-91, Periodicals Mail Characteristics Study. In that table, the number of containers has been grouped into "pallet" and "sack and other". "Sack and other" includes sacks and the other types of containers, as described in witness Loetscher's response to TW/USPS-T28-7(c-d). The revenue for containers other than sacks and pallets has not been calculated separately. In USPS-LR-L-126, sheet "Container," the total container count (including pallets, sacks, and other types of containers) has been used to derive the aggregate container rate revenue.

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MPA/USPS-T35-11. Please refer to the table you provided in response to MPA/USPS-T35-2(b) and your response to MPA/USPS-T35-2(c), where you state that “the average weight of a Ride-Along piece is 1.45 ounces.”

- (a) Please confirm that the Periodicals Outside County advertising pound revenue per piece (at proposed rates) for 1.45 ounces of advertising with the FY 2005 zone distribution of Ride-Along pieces is 2.9 cents. If not confirmed, please provide the correct figure and underlying calculations.
- (b) Please confirm that the advertising pound revenue (at proposed rates) for 3.3 ounces of advertising with the FY 2005 zone distribution of ride-along pieces is 6.6 cents per piece. If not confirmed, please provide the correct figure and underlying calculations.
- (c) Do you believe that the proposed advertising pound rates cover the weight-related cost of advertising pounds? If not confirmed, please explain fully.

RESPONSE:

- (a) Not confirmed. The table provided in my response to MPA/USPS-T35-2(b) refers to the zone distribution by piece of ride-along pieces, not zone distribution by weight. I do not think the advertising pound rate can be accurately assessed by applying the pound rate to a piece distribution based on average piece weight. Moreover, as I stated in my response to MPA/USPS-T35-2, the rate for ride-along pieces is a piece rate, because these pieces are sometimes unlike what usually qualifies as advertising pounds. Finally, existing concerns from both the mail processing and delivery perspectives (see my response to MPA/USPS-T35-12) further differentiate ride-along pieces from average advertising pounds.
- (b) Please see my response to part (a).
- (c) I do not know. A guiding principle for Periodicals rate design is that costs be covered. Given the Periodicals rate design methodology, we ensure that the revenue covers the overall cost, and the price signals sent by particular rates encourage

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efficiency. Transportation cost is certainly one component of “the weight-related cost,” but not the only component. My understanding is that there is neither weight-related cost specifically developed for advertising pounds, nor a requirement that the proposed advertising pound rates cover the weight-related cost of advertising pounds. In any event, the Periodicals cost coverage is calculated at the subclass level, not at finer subgroup levels such as advertising pounds or editorial pounds.

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MPA/USPS-T35-12. Please refer to lines 12 through 15 on page 9 of witness Taufique's testimony in Docket No. MC2000-1, where he stated:

Second, the only potential additional cost [of Ride-Along pieces] would be caused by the additional weight. Piece-related costs, either in mail processing or delivery, are not expected to change due to the physical requirements discussed under 'Eligibility.'

Do you have any reason to disagree with the quoted statement? If so, please explain your rationale fully.

RESPONSE:

I do have additional information relevant to the quoted statement. In the years since witness Taufique's testimony in Docket No. MC2000-1, we have gained experience with ride-along pieces. It is my understanding that there are operational concerns for ride-along pieces, from both mail processing and delivery perspectives.

Assuming that the host piece is uniformly thick, with the address unobstructed by a ride-along piece, and the piece remains in the same processing category with or without a ride-along, it can include a ride-along piece. It is my understanding that a piece containing a ride-along is more likely to use polywrap. Publications with polywrap tend to be less desirable than bound publications without polywrap, since polywrap reflects light and tends to make addresses difficult to read. From the delivery perspective, I understand that ride-along pieces (e.g. CDs and DVDs) may make the host flats more rigid, particularly when fastened to the center of the flats, making it more difficult to fold the piece for easier delivery.