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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY USPS-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

PERIODICALS CLASSIFICATION CHANGE, 1999

Docket No. MC99-3

DIRECT TESTIMONY
OF
ALTAF H. TAUFIQUE
ON BEHALF OF
UNITED STATES POSTAL SERVICE

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AUTOBIOGRAPHICAL SKETCH

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My name is Altaf H. Taufique. I currently serve as an economist in the office of Pricing at the United States Postal Service. Prior to joining the Postal Service in July 1996, I was employed by the Gulf States Utilities Company (GSU) in Beaumont, Texas, from 1980 to 1994. At GSU, I served as an economic analyst in the Corporate Planning department and was subsequently promoted to Economist, Senior Economist and finally to the position of Director, Economic Analysis and Forecasting. My responsibilities at GSU included the preparation of the official energy, load and short-term revenue forecasts, and the economic forecasts, for the regions served by the Company.

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I have testified before the Public Utility Commission of Texas in Austin and the Federal Energy Regulatory Commission in Washington, D.C. My testimony defended GSU's official energy and load forecasts. I have testified before the Postal Rate Commission in three other proceedings. My rebuttal testimony in Docket No. MC96-3 dealt with the Postal Service's role in the post office box market, and other issues relating to pricing of post office boxes. In Docket No. MC97-5, I rebutted a claim of undue harm to Postal Service competitors due to the proposed packaging service. In Docket No. R97-1 my direct testimony presented the rate proposals for the Periodicals Regular and Within County subclasses, and my rebuttal testimony challenged a proposal to allocate institutional cost based on weighted attributable costs.

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I received a Master's Degree in Economics from Central Missouri State University in Warrensburg, Missouri in 1976, and a Bachelor's degree in

1 Economics & International Relations from Karachi University in Karachi,
2 Pakistan. I have also completed thirty-three credit hours of coursework towards
3 a Ph.D. in Economics at Southern Illinois University. I taught economics at
4 Chadron State College in Chadron, Nebraska between 1978 and 1980. During
5 my employment at GSU in Texas, I taught courses in economics at Lamar
6 University in Port Arthur, Texas.

1 I. PURPOSE OF TESTIMONY

2 The purpose of my testimony is to present the Postal Service's
3 classification proposal providing a remedy for a rate anomaly resulting from
4 Docket No. R97-1, that in some cases leads to lower postage for Periodicals
5 publications when the Regular rate schedule is used instead of the Nonprofit and
6 Classroom rate schedules. Specifically, I propose to add the following statement
7 to DMCS Section 441: "When the postage computed for a particular issue using
8 the Nonprofit or Classroom rate schedule is higher than the postage computed
9 using the Regular rate schedule, that issue is eligible to use the Regular rate
10 schedule. For purposes of this section, the term issue is subject to certain
11 exceptions related to separate mailings of a particular issue, as specified by the
12 Postal Service." I also propose a new footnote to the Regular rate schedule
13 exempting Nonprofit and Classroom publications with less than 10 percent
14 advertising content from the Regular advertising pound rates. The purpose of
15 these DMCS changes is to allow Nonprofit and Classroom mailers to choose one
16 or the other rate schedule for each issue of a publication while maintaining
17 preferred rate status. My testimony also discusses the classification criteria as
18 they apply to these proposed classification changes.

19 II. DESCRIPTION OF THE ANOMALY.

20 A major cause of this rate anomaly is the exceptionally low cost coverage
21 of 101 percent recommended for the Periodicals Regular subclass (PRC Op.,
22 R97-1, Vol. 2, App. G, Schedule 1). The Postal Rate Commission recommended
23 this cost coverage to mitigate the rate increase for the Regular subclass.

1 Consistent with the Revenue Foregone Reform Act (RFRA), which requires the
2 markup for Preferred subclasses to be one-half of the Regular markup, the
3 Commission recommended a cost coverage of seven-tenths of one percent for
4 the Nonprofit subclass. *Id.* These low markups eliminate much of the buffer
5 between the Regular and Nonprofit subclasses so that some piece rates are not
6 substantially different. For example, a Regular automation flat presorted to the 5-
7 Digit level has a per-piece charge of 16.8 cents (before the application of the
8 editorial discount) compared to 16.2 cents for a similar Nonprofit piece. Along the
9 same lines, the rates for all three Carrier Route cells are (without the editorial
10 discount) only 0.9 cents higher in the Regular subclass than in the Nonprofit and
11 Classroom subclasses. The editorial discount for the Regular subclass is .059
12 cents for each percent of editorial content, while the Nonprofit and Classroom
13 categories receive only .044 cents for each percent of editorial content.
14 Therefore, a 100 percent editorial Regular publication saves 1.5 cents more than
15 a comparable Nonprofit or Classroom publication. The discounts for both SCF
16 and Delivery Unit entry for the Regular subclass are likewise higher than their
17 Nonprofit and Classroom counterparts. Exhibit A compares the Regular and
18 Nonprofit/Classroom rates.

19 A combination of relatively small differences in piece rates and a relatively
20 large difference in the editorial discount produces the anomaly. For example, a
21 mailer with 100 percent editorial content and most pieces sorted to the 5-Digit
22 automation level will pay only 0.6 cents more on the per-piece rate (before the
23 application of the editorial discount) by shifting to the Regular category, but would

1 save 1.5 cents/piece on the editorial discount because of the shift. Most Nonprofit
2 and Classroom mailers have relatively high editorial content, compared with their
3 Regular counterparts. Thus, even though every single per-piece/pound rate
4 (except the advertising pound rates, which by design are exactly the same) in the
5 Nonprofit/Classroom rate schedules is lower than the corresponding
6 piece/pound-rate in the Regular rate schedule, some of the discounted rates are
7 lower for the Regular subclass than the Nonprofit or Classroom subclass. Given
8 these circumstances, a wide variety of mailers that provide finely presorted mail
9 (mainly 5-Digit automation and Carrier Route) to the Postal Service may find it
10 beneficial to use the Regular rate schedule rather than the preferred Nonprofit or
11 Classroom rate schedule.

12 The Postal Service did not intend this rate relationship. Only under very
13 unusual circumstances would an anomaly such as this have existed under the
14 proposals filed by the Postal Service for Regular and Nonprofit Periodicals in
15 Docket No. R97-1. Nor do I believe that the Postal Rate Commission intended
16 such an anomaly with its recommended rates in Docket No. R97-1. The Postal
17 Service does hope to propose in the next omnibus rate case Nonprofit and
18 Classroom rates that are uniformly lower than Regular rates.

19 III. DESCRIPTION OF THE PROPOSAL.

20 Nonprofit and Classroom publications are already eligible for Regular rates
21 should they apply to be Regular publications, and submit their mailing using
22 Regular mailing statements. However, Nonprofit and Classroom publications may
23 wish to retain their Nonprofit or Classroom status. Until new Periodicals rates can

1 be proposed in the next omnibus rate case, I therefore propose a classification
2 change to allow the Nonprofit and Classroom mailers to use the Regular rate
3 schedule, on an issue by issue basis, without losing their preferred status.

4 The proposal would not, however, permit splitting of mailings, with both
5 the preferred and Regular rate schedules used simultaneously to calculate the
6 postage for parts of a single issue¹. Also, zoned advertising pound rates would
7 not apply when preferred mailers choose to use the Regular rate schedule and
8 have no more than 10 percent advertising content. A note to that effect is
9 proposed to be added to the Regular rate schedule.

¹ Under current practice, however, it is my understanding that certain preferred rate Periodicals may have a supplemental mailing of a relatively small number of copies of an issue some time after the bulk of the copies of that issue have been sent. For example, a periodical that mails a new issue each month may, at approximately the mid-point of the monthly cycle, enter another mailing of copies of the current issue to new subscribers who were not included in the original mailing of the issue. By regulation, the Postal Service intends to allow such mailers to continue this practice, and to enter the supplemental mailing at whichever rate schedule is less expensive for that mailing, regardless of the rate schedule used for earlier copies of that issue. This is the purpose of the proposed DMCS language that "[f]or purposes of this section, the term issue is subject to certain exceptions related to separate mailings of a particular issue, as specified by the Postal Service." To ensure that mailers are not tempted to abuse this flexibility in order to split the original distribution of the issue into separate mailings entered under different rate schedules, however, postal regulations are anticipated to require that copies of any issue must be entered using the same rate schedule applied to all other copies of the same issue mailed on the same day or during the preceding nine days. Only on mailings of the same issue entered after such a ten-day hiatus would mailers be extended the opportunity to switch to a different rate schedule, if switching would reduce their postage. Of course, consistent with the focus of the overall proposal on an issue-by-issue selection, once copies of the next issue are prepared for entry, the mailer is once again at liberty to calculate postage for the new issue using the preferred or the Regular rate schedule.

1 REVENUE AND COST IMPACT.

2 The revenue loss as a result of this classification change would be minimal
3 for the reason stated earlier in my testimony. Even without the classification
4 change, all Nonprofit and Classroom mailers are already qualified as Periodicals
5 mailers and with minimum effort and paperwork can shift to become Regular
6 mailers. Informing the Postal Service of a decision to become a Regular
7 publication and using the Regular mailing statement are the only requirements to
8 qualify for these rates.

9 However, a revenue impact does exist when compared to test year
10 revenues estimated by the Commission in Docket No. R97-1. A reasonable
11 ceiling for such a revenue impact is estimated to be approximately \$5 million.
12 This ceiling assumes that all Nonprofit and Classroom pieces that qualify for 5-
13 Digit automation and Carrier Route rates would choose to shift to Regular rates
14 because the mailers find the Regular rates to be lower than the preferred rates. It
15 is unlikely that all of these pieces would find Regular rates lower, especially
16 heavier pieces with lower editorial content. Hence the \$5 million estimate can
17 safely be a reasonable ceiling.

18 I also do not believe my proposal will have a significant impact upon
19 Postal Service costs, nor the allocation of those costs to subclasses. The costing
20 methodology distributes mail processing and carrier in-office costs for Periodicals
21 based upon the publication's status – Classroom, Nonprofit or Regular. Since
22 the preferred status of those mailers who choose to use Regular rates will not be
23 affected, the allocation of these costs is not expected to change. Costs for city

1 carrier street-time and rural carriers are distributed to the Periodicals subclasses
2 based on the distribution of pieces between subclasses from the Revenue,
3 Pieces and Weight system; for commercial transportation, they are allocated
4 based on the distribution of weight. The allocation of these costs is not expected
5 to change since the reporting of revenues, pieces and weights to subclasses will
6 not be affected. Mail will be entered as Classroom or Nonprofit, regardless of the
7 rate schedule used for the particular issue.

8 V. CLASSIFICATION CRITERIA

9 Section 3623(c) of title 39 U.S.C. requires the Commission to make its
10 decision on establishing a new classification in accordance with the following
11 factors:

- 12 1. the establishment and maintenance of a fair and equitable
13 classification system for all mail;
- 14
15 2. the relative value to the people of the kinds of mail matter entered into
16 the postal system and the desirability and justification for special
17 classifications and services of mail;
- 18
19 3. the importance of providing classifications with extremely high degrees
20 of reliability and speed of delivery;
- 21
22 4. the importance of providing classifications which do not require an
23 extremely high degree of reliability and speed of delivery;
- 24
25 5. the desirability of special classifications from the point of view of both
26 the user and of the Postal Service; and
- 27
28 6. such other factors as the Commission may deem appropriate.

29
30 The proposed classification change meets criterion number one which
31 requires the establishment and maintenance of a fair and equitable classification
32 system for all mail. In the current context, fairness and equity suggest that this

1 rate anomaly should not require the Nonprofit and Classroom mailers to either
2 pay higher postage than Regular mailers or lose their preferred status. This
3 proposed classification change is also consistent with criteria 2 and 5, by
4 maintaining the special Nonprofit and Classroom classifications, rather than
5 pushing Nonprofit and Classroom mailers into the Regular subclass.

COMPARISON OF REGULAR RATE WITH NONPROFIT/CLASSROOM RATES

	Regular Rate	Nonprofit/ Classroom	Difference
Nonadvertising (lbs.)	16.1	15.6	0.5
Advertising (lbs.)			
Del Office	15.5	15.5	0
SCF	17.8	17.8	0
1&2	21.5	21.5	0
Zone 3	22.9	22.9	0
Zone 4	26.3	26.3	0
Zone 5	31.6	31.6	0
Zone 6	37.1	37.1	0
Zone 7	43.8	43.8	0
Zone 8	49.5	49.5	0
Piece Rates			
Basic	29.4	25.1	4.3
Automation Letters	23.2	18.9	4.3
Basic Automation Flats	24.8	20.5	4.3
3-Digit	25.3	20.8	4.5
3-Digit Automation Letters	20.6	16.1	4.5
3-Digit Automation Flats	21.4	18.4	3
5-Digit	19.7	18.3	1.4
5-Digit Automation Letters	16.2	14.8	1.4
5-Digit Automation Flats	16.8	16.2	0.6
Carrier Route (Basic)	12.2	11.3	0.9
High Density	10.3	9.4	0.9
Saturation	8.5	7.6	0.9
Discounts			
SCF Entry Discount	-0.7	-0.4	-0.3
DDU Entry Discount	-1.3	-0.7	-0.6
Editorial Content percent Discd	-5.9	-4.4	-1.5