

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

**TRIAL BRIEF OF
THE NATIONAL NEWSPAPER ASSOCIATION**

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I. Introduction and synopsis

The National Newspaper Association (NNA) is a part of the Periodicals Mailers coalition; a group that has joined together during this case to address urgent concerns about periodicals costs. NNA individually addresses two other particular needs of newspapers. First, it offers evidence that an apparent decline of in-county mail volumes reported by the Postal Service's statistical systems over the past 12 years is unexplained by measurable changes in mailer behavior. NNA argues that volumes may be under-estimated. Second, NNA describes a mail-processing environment for the handling of newspapers that may be best characterized as neglectful. It shows that the best practices for newspaper handling have not been followed. It argues that the Commission should take a step that NNA has sought in the past by encouraging exceptional dispatch of newspapers-- short haul transportation by mailers for better service--through extension of the Delivery Unit discount to the mail pieces. To that end, NNA argues that the Postal Service's apparent concerns about passing along the fair value of this work-sharing by mailers are out of proportion to the risk and explains that the verification step that the Postal Service apparently believes to be essential does not occur on a regular basis now for newspapers with static mail patterns, with or without exceptional dispatch. Overall, the need to assist newspaper mailers and their subscribers in finding new ways to bypass mail processing is now demonstrably in the interest of both the mailers and the Postal Service.

II. NNA joins the Periodicals Coalition in urging immediate recognition of decreased periodical costs in the Test Year.

A. Why NNA is part of the Coalition

The fact that mail processing costs alone have increased at twice the rate of the costs of all mail and of postal wage rates (TW-T1 Exhibit 1) is sufficient reason for Periodicals mailers to jointly urge the Commission's attention to possible remedies. But the joint concern of each of the Periodicals Mailers with maintaining a postal system that serves the interests of the American public in the educational and cultural value of the mail also brings these mailers together in common voice. For R-2000-1, divisions of viewpoint about rate structure, worksharing discounts or other matters that may have driven periodicals mailers apart in the past have been set aside with a unique and profound sense of urgency about the future of the Postal Service with its newspaper, magazine and newsletter customers.

B. Impact of the proposed periodical rate increase on newspapers is severe.

The Periodicals Coalition explains in detail the periodicals' mailer assessments of the actual impact of the proposed rates. Although the Postal Service says the increase for regular rate periodicals is 12.7 percent and for in-county mail is 8.5 percent, a string of witnesses have attested to increases in ranges from 14 to 21.8 percent. MPA T1 at 34-35; CRPA T1 at 2; NNA T1-18.

For newspapers, the impacts are far beyond those predicted by the Postal Service. Furthermore, they would occur in an environment of serious service problems. Despite the Commission's previous attention to declining periodicals service performance, (see, e.g., Opinion and Recommended Decision, Docket No. R97-1, Vol. 1 at V-530, para. 5809), mailers in this case indicate continued problems. NNA T1 at 20-22; PFPA T1 *passim*.) That complaints continue is no surprise, because the Postal Service clearly has not figured out a means of addressing them in an ongoing and systematic fashion. For example, it doesn't reward its management for improving periodical service. It tracks and compensates rising scores only in First Class overnight, First Class 2 and 3-day delivery and Priority Mail. ANM/USPS T9-44. Nor does it even measure periodical service. Cross-examination of USPS Witness Dennis Unger, Tr. 21/8236. And, although mailers have identified best practices in some mail facilities that control costs but improve service, it is apparent the Postal Service has just now begun to put meaningful corrections into place. The Postal Service compounds the problems by implying that improved service is responsible for rising mail processing costs USPS ST-43 at 5-7, but nothing in this case indicates that service has improved nor that changes in service have any nexus to rising costs.

While in the past poor service performance has been a factor in the Commission's scrutiny of value of service in the setting of appropriate cost coverage, PRC Op.R97-1, at 532-533, the Commission also is required to consider the effect of rate increases upon mailers. 39 U.S.C. 3622 (4). Service

problems figure into this impact analysis as well. Where declining service is coupled with rising rates—and particularly where rates outstrip inflationary trends—a mailer is not likely to have much success in passing along the new costs to customers. Witness Heath attests that his newspapers' ability to recover these new costs will be severely constrained and that the net result will be damaging both to newspapers and to the Postal Service. NNA T1 at 19. Given the Commission's past commitment to newspapers' and magazines' important role "binding the nation together," PRC Op. R97-1 at 533, para. 5818, and the negative impact of the steep increases proposed in this case, NNA will ask the Commission to preserve the policy of requiring the lowest possible cost coverage for Periodicals.

C. The Postal Service has failed to provide honest, efficient and economical management for the handling of periodicals in general and, in particular, for newspapers.

Efficient mail processing of newspapers is a challenge that the Postal Service has not yet met in consistent and committed fashion. Despite the fact that the Postal Service recognizes that automation productivity is greater than manual and mechanized productivity, ANM/USPS-ST43-1, its failure to maintain an appropriate automated sorting capacity and to efficiently dedicate a greater share of its automated sorting capacity to newspapers has deprived mailers of the benefit of the wise capital investment.

For example, an FSM 1000 machine is the only one upon which a newspaper can be processed. But even with the machine in full deployment, its

application to newspaper processing falls short of mailer needs. Witness Heath testifies that one manifestation of this deficiency is the lack of Optical Character Readers on FSM 1000s, a technological tool that enables the machine to scan addresses that are not barcoded by mailers. NNA T1 at 12. But no FSM 1000 machine currently has an Optical Character Reader. Tr. 5/1776. However, USPS has slotted \$15 million for the installation of these readers. Capital Investment Plan FY 1998-2002, FY 2000 Update, Tr. 2/131. When that retrofitting is fully deployed, and with the full deployment of FSM 1000s, see ANM/USPS T9-21, Tr. 2/163, the Postal Service should have the means to come to grips with some of the periodicals processing costs. Along with the Periodicals Mailers, NNA believes recognition of the improved capacity of these machines for periodicals processing is appropriate.

Complicating the picture for newspapers, however, is the fact that newspapers must compete with many other mail classes and subclasses to claim time on an FSM 1000. Newspapers must also compete with mail that could just as well be sorted on an FSM 881, but which is shuffled to the FSM 1000 as an "extra" 881 machine. DMA/USPS T10-22 Tr. 7/1632; ANM/USPS ST 43-3. The Postal Service indicates that despite its awareness that automation improves the cost picture immensely for periodicals, the automation machines may not be used for periodicals. In fact, many factors may cause a manager to choose not to use the available FSM 1000 time for the processing of periodicals. NNA/USPS T10-15, Tr. 5/1785. In incoming secondary operations, in particular, where

newspapers may be most in need of efficient handling, automated sorting occurs only about 60 percent of the time. DFC/USPS T10-10 (p) Tr. 7/1608.

The Postal Service claims insufficient processing capacity has existed in the past to permit periodicals to benefit from its massive investments in automation. Testimony of Dennis Unger, page 9, lines 2-3; ANM/USPS ST42-6. But in this same case, it insists that no more FSM 1000s are needed and that capacity is sufficient to meet the needs of the flat mail base. NNA/USPS T10-8, Tr. 7/1780. It further admits that during the base year, the Postal Service brought in extra employees to prepare for a rise in mail volume that did not materialize. Postcom/USPS ST 43-3, Tr. 21/8170. Although the Postal Service insists that it never defers flat mail to workers who are otherwise idle and in need of activity to keep them busy, NNA/USPS T10-15, Tr. 7/1785, newspaper mailers have good reason to suspect that it is easier for the Postal Service to simply move newspaper mail to an under-utilized but costly manual processing operation than to provide the best and most efficient processing.

A welcome indication that the situation may improve for newspapers may come with the advent of the AFSM 100 machines, which will improve the capacity for flats processing overall, and may relieve some of the pressure on the FSM 1000s. The testimony of witnesses Buc and Cohen, who chart possible reductions in periodicals costs by an additional \$28 million from the AFSM 100s over Postal Service estimates in the Test Year, DMA T1 at 19-23; MPA T1 at 17, is critical to newspapers in this case. The adjustment of proposed rates to take

into account these anticipated changes, as well as others charted by the Periodicals witnesses is needed.

III. Exceptional dispatch with a DU discount is part of a solution to an inattentive processing environment.

The problems in mail processing of newspapers, as one component in periodicals and flat mail processing overall, are coming into clear focus in this case. Against this background, the need for all economically justified and potentially effective solutions should be apparent. The record in R2000-1 will simply add to the body of evidence already amassed before the Commission on the need for financial incentives for short-haul, time sensitive publications to bypass transportation and mail processing operations by using exceptional dispatch.

Witness Heath testifies about the reasons newspapers use exceptional dispatch. He further explains that the practice is in place today, albeit uncompensated, because publishers must have a mechanism for saving their readership from the effects of costly and inadequate delivery. NNA T1 at 11. But he notes that the Postal Service has resisted the discount in the past and has instead insisted that newspapers participate in Plant Verified Drop Shipping or additional entry applications if they want to claim worksharing compensation. NNA T1 at 14-16, possibly because of unwarranted concerns that mailers would use this privilege to avoid paying proper postage. NNA T1 at 17.

Heath points out that the Postal Service's apparent concern that newspaper mail might be entered, carried and delivered without proper

verification of its weight and volume is unfounded. Newspapers today are rarely verified on a mailing-by-mailing basis, even if they do not use exceptional dispatch. NNA T1 at 11. There is no indication that having permitted newspapers with relatively static patterns to mail without constant verification has been abused. Furthermore, the Postal Service has systems in place to avoid cheating. For example, mailers may suffer loss of privileges for abuse. NNA/USPS T5-14; Tr. 2/780. Volumes are always captured either in PERMIT or the nonautomated panel, regardless of whether entry occurs through an original office, an additional office or PVDS--or whether the mail is further transported through exceptional dispatch. NNA/USPS T5-15, Tr. 2/782. And the PERMIT system itself has safeguards against erroneous data entry. UPS/USPS T5-19, Tr. 2/829.

The Postal Service admits that work-sharing discounts have contributed to its productivity, and credit the phasing in of these discounts with its healthy Total Factor Productivity Scores in the 1980s. ANM/USPS T9-61, Tr. 2/217. One might think that with the falling productivity scores of the '90's, the value of work-sharing discounts would be evident. The Postal Service's resistance to granting the discount is inconsistent with demonstrable evidence that mailers will provide useful economies to the postal system when offered the incentive to do so.

IV. In-county mail rates are higher than appropriate because of questionable volume data.

A. The concern expressed in R97-1 about the accuracy of USPS volume reports persists.

Since 1986, in-county periodicals volume totals charted by the Postal Service appear to be in a downward plunge. The total annual piece count has shrunk from 1,737,956 in 1986 to 947,047 in 1997, Tr. 2/772, and further to 923,865 in FY1998. UPS/USPS T5-2, Tr. 2/806. Finding no real-world explanation for this apparent decline, NNA has expressed concern about the Postal Service's inability to explain the trend either. In 1997, NNA raised questions about the reliability of in-county volume data. The Commission recognized concerns with the data:

"The questions raised on the record concerning the volume for Within County are not new. In Docket No. R94-1, the Postal Service made a major adjustment to Within County costs after its case had been filed. Subsequently, motion practice related to volume issues culminated in NNA's withdrawal of a motion based on an apparent understanding that NNA and the Service would work jointly on the volume question after that case. There is no indication that this occurred." PRC Op.R97-1 at 546, para 5852.

The Commission in that case made an adjustment in in-county volumes in recognition of a brief apparent rise in volumes and it urged NNA and the Postal Service to continue working together toward a solution. Id. Since that time, little has changed, despite NNA's attempts to find the root of the problem.

B. Nothing has changed, meager sampling of rural post offices continues.

The record in the case will show that a sizeable portion of in-county mail is evidently entered into non-PERMIT offices, perhaps as much as 45 percent. Tr. 2/914. It is not clear how much of the volume has migrated into PERMIT since the Postal Service began to automate its volume statistics. But it does appear that adjustments have been made over the years to bring the volume totals produced by the Bulk Revenue Piece and Weight system into reconciliation with other systems. NNA/USPS T5-5, Tr. 2/ 773. Whether the totals reported at the beginning of this long decline were reliable or not is an answer apparently lost to history. Tr. 2/899, Tr. 2/937 However, it is clear that the Postal Service does not find it worthwhile to commit many resources to updating the system. The panel of offices that produced the volume data in this case, for example, has not been updated since 1996 and before that, it seems to have been updated only sporadically. Tr. 2/909. ¹

In County mail volumes are derived in part from a panel of post offices using the PERMIT system, which is an automated counting system that captures mailing statement volume data with certainty NNA/USPS T5-12, Tr. 2/779, and partly from a supplemental stratified sample of non-automated post offices. NNA/USPS T5-1, Tr. 2/770.

¹ It is interesting to note that in the year after the most recent updating, the volume totals turned upward for a year before resuming a decline. NNA/USPS T5-5, Tr. 2/773.)

There were 2,025 PERMIT offices in FY 1998, but 26,184 nonautomated post offices. The panel for measuring volume from the nonautomated post offices received data from only 25 offices, which were then blown up to represent the full population of 26,184 nonautomated offices. NNA/USPS T5-31, Tr. 2/791-3, 2/907. The reason for the small sample is not explained by the BRPW witness, who says only that there was a "constraint" on the program. Tr. 2/940.

C. NNA has contributed to knowledge of the subclass and cast further doubt upon the data.

NNA Witness Heath explains the steps NNA has taken to find either a reason for the decline in volumes or an explanation for a statistical anomaly that makes rising volumes look like a decline. He asserts that NNA has explained its view that weekly newspapers are the primary driver of the class, NNA T1 at 7, and his understanding that weekly newspaper circulation has increased since 1986. NNA T1 at 5. He also explains how NNA came to the decision that a study of newspaper use of the mail was necessary. Id.

Project Performance Corporation conducted the study itself for NNA. The results and conclusions are explained in the testimony of NNA Witness Elliott. Elliott explains that the survey shows that the use of in-county mail by newspapers has been strong and is even increasing. NNA T2 at 7.

Witness Heath emphasizes the difficulty of asking a small association to carry out a study of this magnitude. NNA T1 at 5-6. He does not offer it as a snapshot of all periodicals mail, or even of all in-county mail, although he

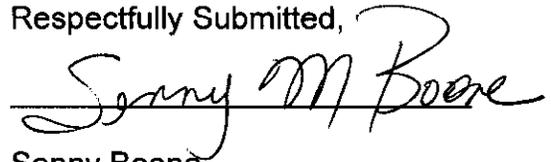
believes newspaper mail may account for half the in-county mailstream. NNA T1 at 6. The study is of value to the Commission in demonstrating skepticism that volumes could have fallen as steeply as the Postal Service believes. Witness Heath does not propose a statistical solution to the problem, inasmuch as he has no access to mailer data that would help him to better arrive at a correct volume count. He notes, however, the Postal Service has neither responded to a desire for a better data collecting system nor the need to understand why the decline is occurring, if it is. He asks the Commission to adjust the volumes to the highest supportable number and to continue to press the Postal Service for a better response to the problem. NNA T1 at 7.

V. Conclusion

In this case, NNA raises issues that are not new to the relationship of newspapers in the mail. As the Postal Service has grown and become more automated, and as the variety of products in the mailstream has diversified, problems in this time-honored relationship may not be surprising. However, the fact that problems may be expected is no reason to avoid rational solutions, if solutions are to be found. NNA believes that specific corrections may be taken in this case to moderate the impact of rising processing costs. It believes the time has come to actively encourage newspaper mailers through an increased discount to avoid processing if possible. Finally, it seeks the Commission's continued concern about a statistical system that reports declining volumes when

NNA's information shows the major drivers of the subclass are increasing their reliance upon in-county mail.

Respectfully Submitted,

A handwritten signature in black ink that reads "Senny M. Boone". The signature is written in a cursive style with a horizontal line drawn through the middle of the name.

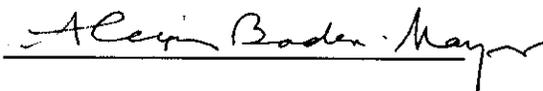
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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

A handwritten signature in cursive script that reads "Alexis Baden-Mayer". The signature is written in black ink and is positioned above a horizontal line.

Alexis Baden-Mayer

June 29, 2000