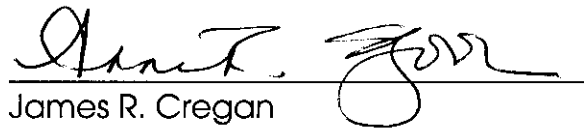


incorporate transportation costs. The revisions can be found on page 4 (at Table 2), page 32 (at line 9), and page 34 (at Table 3). The revisions appear in **boldface type** in the attachment to this notice, for ease of reference. The attached corrected pages replace the original pages 4, 32 and 34, filed as part of MPA-T-1 on May 22, 2000.

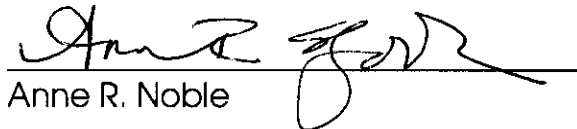
Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with the Commission's Rules of Practice.



Anne R. Noble

Washington DC
May 31, 2000

1 methodologies. This review continued in a cooperative manner after the field
 2 effort was completed. In this section, I review a number of methodological
 3 changes proposed by the Postal Service in its direct case that were encouraged
 4 by this cooperative effort. I also explain the need for further improvements in
 5 mail processing cost attribution and distribution methodologies based on
 6 operational considerations and propose appropriate interim solutions pending
 7 further data collection. My testimony supports and incorporates the distribution
 8 of mail processing costs to classes and subclasses presented by Time Warner
 9 witness Stralberg (TW-T-1) and discussed by witness Glick (MPA-T-2). Further,
 10 in this section I discuss the Postal Service's proposed city carrier street time
 11 attribution methodology and witnesses Crowder's (ADVO-T-1) and Hay's (MPA-
 12 T-4) analysis of the new method. As witnesses Crowder and Hay will describe in
 13 their testimonies, witness Raymond's carrier street time study is defective, and
 14 the Commission should not accept it. Finally, I discuss several methodological
 15 improvements MPA witness Nelson (MPA-T-3) makes to transportation costing
 16 methodology and adjustments to rural carrier costs presented by witness Glick.
 17 In total, the costing methodology changes I propose and advocate reduce Base
 18 Year Periodicals costs (without piggybacks) by **\$293** million.

19 **Table 2.**
 20 **Periodicals Cost Attribution**
 21 **and Distribution Improvements**
 22 **Without Piggybacks**
 23 **(in millions of dollars, BY)**

Mail Processing	\$127
City Carriers	\$57
Rural Carriers	\$13
Purchased Transportation	\$96
Total	\$293

24 In Section IV, I estimate Test Year After Rates (TYAR) costs based upon
 25 the aforementioned cost reduction programs, the more accurate variability

1 the Postal Service's own description of highway transportation operating
2 practices and, consequently, significantly overstates the true variability of these
3 costs. Witness Nelson demonstrates that this incorrect model specification is a
4 principal contributing factor to the rapid increase in the transportation costs
5 attributed to periodicals in recent years.

6 Correcting witness Bradley's highway models leads to a significant
7 decrease in the variability of these costs. The revised model is included in
8 witness Nelson's testimony and leads to a decrease in Periodicals Base Year
9 costs of **\$88** million.

10 ***The Postal Service's Distribution Of Costs For Amtrak Roadrillers Is***
11 ***Incorrect***

12 There is a new type of transportation cost in this case, namely the use of
13 "roadrillers" as part of the Amtrak rail service. Movement of mail by roadrillers
14 is not part of the current TRACS sampling system, so the Postal Service has no
15 data on the precise composition of mail moving by this mode of transportation.

16 To distribute these costs to classes and subclasses, the Postal Service
17 uses the distribution key for the portion of Amtrak that is sampled by TRACS.
18 However, as discussed by witness Nelson, roadrailer service is more likely to be
19 analogous to inter-SCF highway transportation with respect to the types of
20 movements for which it is used. Witness Nelson proposes to remove roadrillers
21 costs from the pool of accrued Amtrak costs and distribute it to classes and
22 subclasses using the inter-SCF distribution key. His proposal reduces
23 Periodicals Base Year costs by \$3 million.

24 ***The Distribution of Costs for Empty Equipment Movements Via Rail Ignores***
25 ***the Use Of Rail To Transport Equipment Of All Types***

26 As discussed by witness Nelson, the Postal Service transports empty
27 equipment for many modes of transportation, including highway transportation,
28 via rail. The method proposed by the Postal Service incorrectly distributes the
29 costs of empty equipment shipments solely on the basis of volumes moving on
30 freight rail and Amtrak. Witness Nelson corrects the distribution of these costs,

1

Table 3. TYAR Costs by Subclass (in Thousands of Dollars)

Class	Subclass	USPS Attributable Cost	MPA Attributable Cost
First-Class	Letters & Parcels	\$13,437,357	\$12,736,859
First-Class	Presort Letters & Parcels	\$5,019,464	\$4,640,108
First-Class	Private Postcards	\$539,919	\$525,446
First-Class	Presort Private Postcards	\$168,958	\$156,354
Priority Mail	All	\$3,064,062	\$2,717,012
Express Mail	All	\$480,984	\$431,882
Mailgrams	All	\$1,000	\$946
Periodicals	Within County	\$81,397	\$64,702
Periodicals	Regular Rate	\$1,981,587	\$1,540,886
Periodicals	Nonprofit	\$388,570	\$314,758
Periodicals	Classroom	\$14,034	\$11,379
Standard (A)	Enhanced Carrier Route	\$2,471,864	\$2,129,116
Standard (A)	Regular	\$6,823,933	\$6,020,826
Standard (A)	Nonprofit ECR	\$208,577	\$184,929
Standard (A)	Nonprofit Regular	\$1,320,611	\$1,191,723
Standard (B)	Parcels Zone Rate	\$1,052,158	\$775,284
Standard (B)	Bound Printed Matter	\$479,204	\$372,617
Standard (B)	Special Standard	\$301,195	\$243,092
Standard (B)	Library Rate	\$47,444	\$36,609
Free Mail	All	\$40,348	\$30,974
International Mail	All	\$1,429,916	\$1,386,645
Special Services	All	\$1,539,113	\$1,456,111

2 V. RATE CONSIDERATIONS

3 A. Overall Rate Increase

4 The Postal Service in this case has proposed a rate increase for
5 periodicals that, by its own admission, is at least twice the overall average rate
6 increase of 6.4 percent. As stated by witnesses Mayes and Taufique, the
7 average rate increase proposed for outside county periodicals is 12.7 percent.
8 USPS-T-32 at 32; USPS-T-38 at 6.

9 In fact, however, the situation faced by periodicals mailers is even worse
10 than described in the Postal Service's direct case. The rate increase that outside
11 county periodicals mailers are facing is, in fact, much higher than stated by the
12 Postal Service, averaging 15 percent for Periodicals providing input to MPA and
13 American Business Media. Attachment A contains a coded list of magazines
14 responding to MPA's most recent postal survey and the rate increase each will