

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

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL
SYSTEMS WITNESS WHITE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/AAPS-T1-1-12)**

The Association of Alternate Postal Systems hereby provides the responses of witness White to the following interrogatories of the United States Postal Service:

USPS/AAPS-T1-1-12.

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

Respectfully submitted,

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CERTIFICATE OF SERVICE

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

Bonnie S. Blair

Bonnie S. Blair

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-1. On page 2 lines 9-11 of your testimony, you state, "we can usually provide effective competition for the Postal Service for heavier weight shared mail packages, in particular."

- a) Define "effective competition."
- b) Is your statement about "effective competition" intended to convey that alternate delivery rates are below the rates that would be charged by the Postal Service?
- c) Provide a chart comparing, for each ounce increment starting at 4 ounces through 16 ounces, USPS proposed Standard Mail (A) postage rates and figures showing the average rate (based on the most accurate and comprehensive information available to you) for carriage of flat-sized articles by alternate delivery. Identify the source of the alternate delivery rates and explain how they were derived.
- d) Is it fair to say that, on average for the alternate delivery industry, rates for pound rated flats (i.e., in excess of 3.3 ounces up to 16 ounces) carried by alternate delivery are below those for equivalent articles sent via Standard Mail (A) ECR flat-rate postage?

Response

(a) I mean a level of competition where we can obtain a fair and appropriate share of the product, based on price, service and related considerations, and where a government monopoly is not exploited.

(b) Sometimes they are, and sometimes they aren't. It depends upon the company and the product. Although I do not know what is contained in the SAI reports commissioned by the Postal Service annually for the past few years, you may find relevant information there.

(c) You have the requested information on the Postal Service's proposed rates, but, unfortunately, I have no information on the "average rate" charged by alternate delivery companies. Although I do not know what is contained in the SAI reports commissioned by the Postal Service annually for the past few years, you may find relevant information there.

(d) No, I cannot confirm that it is fair to say that, because I do not have information available that would either support or refute that statement. As I said, I do not have information on the "average" rate charged by alternate delivery companies. Based upon my knowledge of the industry, however, it is fair to say that rates offered by alternate delivery companies are often but not always below those charged by the Postal Service. You might check your SAI reports for this information.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-2. On page 9 lines 19 lines 19-22 of your testimony, you state: "the shopping guides and the free publications that make up the backbone of the business for most of our members make their delivery choices with reliance almost exclusively on the pound rate, not the piece rate."

- a) What proportion of alternate delivery industry revenue is comprised of carriage of "shopping guides and free publications"?
- b) To what pound and piece rates are you referring in this passage? Identify by rate category and rate.
- c) Does your statement imply that shopping guides and free publications do not consider the prices charged by alternate delivery in making delivery choices? Please explain your response.

Response

(a) I can only make a guess. I would estimate that about two thirds of our industry's revenue is derived from shopping guides and free publications, with the assumption that newspaper TMC products are included in the definition, but it varies widely by company. Although I do not know what is contained in the SAI reports commissioned by the Postal Service annually for the past few years you may find relevant information there.

(b) Primarily the ECR Saturation rate.

(c) Of course they do. Like any customer, they consider price, service quality, the "prestige" of being able to use the mailbox, and other factors.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-3. On page 9 lines 17-19 of your testimony, you state "[o]ver time, where there is no competition, USPS proposed rate increases have been larger than where there is competition."

- a) At the time you drew this conclusion, what mail categories did you understand to be provided where "there is no competition"?
- b) At the time you drew this conclusion, what mail categories did you understand to be provided where "there is competition"?
- c) Over what time period is your statement intended to refer?
- d) For each category in subparts (a) and (b), provide the USPS proposed rate increases to which your statement is intended to refer for the time period identified in (c).

Response

(a) I don't know that I had a precise and complete list in mind, but I certainly was thinking about First-Class mail and the non-saturation portion of Standard A, the address specific material that the Postal Service will not permit us to deliver (unless we pay the postage).

(b) I again did not have a precise or complete list in mind, but I was thinking primarily about ECR saturation mail. I have noticed as well that, now that it has eliminated the competition for the delivery of magazines following the MC95-1 rate changes, the Postal Service is seeking a large rate increase for Periodicals.

(c) Basically, I was thinking about the same time period addressed in detail in Ken Bradstreet's testimony in R97-1, with the addition of the past couple of years. Please see his testimony at pages 9-12.

(d) Please see Ken Bradstreet's testimony in R97-1, upon which I relied for my conclusion as to cases prior to this one.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-4. On page 10 line 1 of your testimony, you state that the “typical publication weighs between 3 and 6 ounces.” On lines 3-4, you state “[w]ith one or more regular inserts, the combined weight of the publication and its inserts is in the 4 to 10 ounce range, and often higher.”

- a) Is the “typical publication” in this passage intended to refer to publications carried by alternate delivery or by the Postal Service or both?
- b) Is it fair to conclude from your statements that the typical flat-sized article carried by alternate delivery is in the 4 to 10 ounce range?
- c) What figure, in your opinion, best represents the average weight (with inserts) of a flat-sized article carried by alternate delivery? Use the best and most accurate and comprehensive source(s) of information available to you, and identify the sources and show the derivation of the final result.
- d) Provide a chart showing, for each ounce increment from 3 ounces to 16 ounces, the percentage of flat-sized volume in each ounce increment carried by alternate delivery as a proportion of the total flat-sized volume carried by alternate delivery in this weight range, i.e., 3 oz. to 16 oz. Use the best and most comprehensive information available to you, and identify the source(s) of your information.

Response

(a) Alternate delivery.

(b) Depending upon what you mean by “article,” the answer is probably “yes.” That is, the 4-10 ounce “piece,” like a shared mail set, can be said to contain a number of “articles.”

(c) I don’t have that information. Based upon my experience in the industry, however, I would say that the typical piece (if piece means a set containing inserts) weighs roughly 7-9 ounces, but the average weight for any particular company varies by the market. Although I do not know what is contained in the SAI reports commissioned by the Postal Service annually for the past few years, you may find relevant information there.

(d) I do not have the information necessary to respond to this question. Although I do not know what is contained in the SAI reports commissioned by the Postal Service annually for the past few years, you may find relevant information there.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-5. On page 10 lines 7 to 8 of your testimony, you state, “[t]he cost of weight determines, to a large extent, the cost of handling preprinted inserts.”

- a) To what does the term of “cost of weight” refer?
- b) To what does the term “cost of handling preprinted inserts” refer?
- c) Is your statement intended to convey that the cost to the alternate (i.e., non-USPS) delivery agent to handle incremental weight determines, to a large extent, the price of inserts? If not, please explain your response.
- d) Which is the more commonly used determinant of the price of carriage of a flat-sized piece by alternate delivery – number of pages, or weight? Please explain.
- e) Explain how prices for inserts are quoted to customers of alternate delivery.
- f) Are prices quoted in terms of pages of an insert?
- g) Do alternate delivery providers typically assess a pound rate on inserts?
- h) Do alternate delivery providers typically use a combined piece and pound rate structure for inserts?

Response

- (a) The cost of handling the weight of the product.
- (b) The cost of all of the steps that we, or the Postal Service, go through to deliver a product.
- (c) No. It is intended to convey that weight drives costs. I haven't there addressed pricing, although weight is also a driver of prices.
- (d) I don't know which is more common, although I would guess that weight and/or bulk of the item are the most common determinants of price. Page count might also used, but page count is frequently a proxy for weight and bulk. Although I do not know what is contained in the SAI reports commissioned by the Postal Service annually for the past few years, you may find relevant information there.
- (e) It will differ from company to company. In the case of my company, they are based on quantity, weight and dimensions.
- (f) It's possible, but I don't know of any companies that price strictly on the basis of pages.
- (g) I'm not sure what's typical, although I would guess that a strict pound rate is far less common than alternatives.
- (h) I don't believe so.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-6. On page 10 lines 14-15 of your testimony, you state that "the fact remains that we must compete with the Postal Service's lowest rate."

- a. Is your statement intended to convey that the customers that perceive there to be a choice between ECR saturation rates and alternate delivery are those that make use of DDU ECR saturation rates? Please explain.
- b. Do you believe that postal customers that enter mail upstream from destination delivery units also perceive there to be a choice between ECR postage and alternate delivery? Please explain.
- c. Identify, based on parameters of subclass, rate category, weight, and content, the customer base you believe has a choice between delivery by USPS and alternate delivery.

Response

(a) I don't intend to convey the thought that *all* customers that perceive that choice use the DDU rate, but many and probably most of our potential customers would likely use that rate.

(b) Sometimes, and those customers would typically be weighing the rate for SCF entry against alternate delivery costs.

(c) Anyone sending saturation Standard A material in theory has a choice between alternate delivery and USPS delivery, but as a practical matter, in the absence of a national alternate delivery network (for this type of material), the typical customer base would be choosing between alternate delivery and Standard A ECR entered at a DDU or SCF. Again in theory, ECR mailers at any weight level could choose alternate delivery, but we really can't compete for the lighter weights unless the piece can be delivered as part of a heavier weight set. We would also be a logical alternative to those mailing product samples, which typically weigh several ounces or more, especially those subject to the surcharge, and to those seeking delivery of phone books and similar saturation directories that would otherwise be mailed at the Bound Printed matter rate. Although I do not know what is contained in the SAI reports commissioned by the Postal Service annually for the past few years, you may find relevant information there.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-7. On page 12 line 14 of your testimony, you state that "the market is no less competitive now than it was in 1997"

- a) Identify the parameters of the market to which you are referring in terms of weight, content, size, point of entry and market coverage (e.g., saturation).
- b) Identify all of the facts and the sources of these facts that you considered before or at the time you drew this conclusion.

Response

(a) I was referring to the market for material that can be mailed at the ECR saturation rate with DDU or SCF entry weighing five ounces and above. Of course, if the pound rate is lowered, this market will become less competitive, as the market for lighter weight pieces became less competitive after the reclassification case.

(b) My statement isn't based upon "facts" that can be listed. It is based upon my years of experience running an alternate delivery company that competes with the Postal Service.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-8. On page 18 line 1 of your testimony, is your reference to R94-1 intended to be to Docket No. R84-1? If not, please explain.

Response

Yes.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-9. On page 18 lines 21-22 of your testimony, you state “[t]he fact is that the pound rate at the levels relevant to us hasn’t risen in years and, under this proposal, would go down.”

- a) Identify the parameters of the “levels” to which your statement refers in terms of weight, content, size, point of entry and market coverage (e.g., saturation).
- b) Identify, by category, all of the pound rates that are “relevant” to the alternate delivery industry.
- c) Identify, by category, all of the pound rates that are not “relevant” to the alternate delivery industry.

Response

- (a) I am referring to the rate applied to saturation ECR material at 5-6 ounces and above, entered at the DDU.
- b) I don’t discuss relevant pound rates; I discuss relevant levels, and by that I meant weight levels of pieces for which there is effective competition—mostly 5-6 ounces and above. We have already been driven out of the light weight market.
- (c) See my response to part (b).

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-10. Please refer to page 3 lines 13 to 21 of your testimony. You state:

[w]ith magazines embodying the bulk of deliveries for new alternate delivery companies springing to life, the Postal Service proposal under Mr. Runyon in the MC95-1 [case] punched relentlessly where it hurt the most when it proposed very large reductions in postage for the mass circulation magazines that were most susceptible to diversion to alternate delivery. Although the Rate Commission rejected the Postal Service's reclassification proposal for periodicals, it gave the Postal Service half a loaf by reducing the postage rates for the most densely delivered magazines. That half loaf was enough to threaten many of our businesses.

- a) Is it your testimony that the Commission's recommended rates for Periodicals in Docket No. MC95-1 "threatened" alternate delivery?
- b) In what way was alternate delivery "threatened"?
- c) Would AAPS members prefer that Periodicals rates be set higher than they are currently for "the most densely delivered magazines"? If not confirmed, please explain.
- d) Does AAPS believe that the Commission should consider the effect on alternate delivery when evaluating criterion (b)(4) with respect to the proposed rates for Periodicals Mail in this docket? Why or why not? Please explain your response.
- e) Does AAPS support a higher or lower cost coverage for Periodicals Mail in this docket than proposed by the Postal Service? Please explain your response.
- f) Does AAPS support higher or lower rates for carrier route Periodicals Mail in this docket than proposed by the Postal Service? Please explain your response.
- g) What consequence would a higher markup on Periodicals than proposed by the USPS have on alternate delivery?
- h) What consequence would higher carrier route Periodicals rates than proposed by the USPS have on alternate delivery?

Response

(a) Yes. They more than threatened the alternate delivery of periodicals, they effectively terminated it.

(b) As stated in my testimony, the rate reduction for densely distributed magazines caused both of the national periodical alternate delivery companies to end their involvement in the distribution of periodicals, which was a serious threat to the financial well being of a number of alternate delivery companies.

(c) As a general matter, we would of course always "prefer" that postage rates for material for which we compete be higher, rather than lower. That statement would undoubtedly apply to every business in a competitive market, including the Postal Service. But the fact that we would prefer rates to be higher doesn't *necessarily* mean that they should be higher, and I would also note that, with respect to periodicals in particular, the rate was raised in R97-1 and a large increase is proposed here, and I don't see anyone taking steps to resurrect alternate delivery of

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

periodicals. It may be, therefore, that the concept is dead, at least for a good while. As I said in my testimony, credibility of alternate delivery is crucial, and I'm afraid that we've lost credibility when it comes to periodicals. I'm also afraid that potential market entrants are discouraged because they see how easy it would be for the Postal Service to repeat the 1995 experience, especially if postal "reform" is passed. The costs of setting up this type of selective delivery business are quite high.

(d) The Commission should consider every criterion with respect to every rate, because, as I understand it, that's what the law requires. However, since there really is no competition at this time for periodical delivery, and none appears to be on the horizon, I'm not sure that this criterion is particularly relevant any longer with respect to periodicals.

(e) AAPS takes no position in this docket on any rate other than ECR rates. See also my response to part (c).

(f) See my response to part (e).

(g) It depends upon how high. As I explained in response to subpart (c), now that there are no viable national competitors to the Postal Service for the delivery of periodicals, it seems unlikely that within any reasonable range of markups there would be any effect at all on alternate delivery. If the markup were to go to 100%, would a competitor appear? I don't know. Perhaps that question could be directed to Time Warner, which founded Publishers Express.

(h) My answer would be the same as my answer to part (g).

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-11. On page 22 lines 17-19 of your testimony, you state, "[t]o its credit, the Commission recognized this important concept in evaluating the Postal Service's proposals in recent rate cases, and, as a result, has tempered the First-Class increases and rejected USPS attempts to impose either small or negative rate increases on Third Class/Standard ECR saturation mailers."

- a) For First-Class, identify the rates, rate categories, rate increase percentages (USPS proposed vs. PRC recommended), and rate cases to which your statement refers.
- b) For Third Class/Standard ECR saturation, identify the rates, rate categories, rate increase percentages (USPS proposed vs. PRC recommended), and rate cases to which your statement refers.

Response

(a) My statement is not based upon an analysis of specific First-Class rate requests and decisions but on my impression that the Commission, by recommending higher Standard A rates than requested, has spared First-Class mailers some costs. I am sure that you have ready access to the details of what was proposed and recommended for every rate category in prior cases.

(b) I am certainly referring to R97-1, in which the Postal Service's request for a reduction in the pound rate was rejected by the Commission, and to MC95-1, where the recommended minimum pound rate (55.2 cents) was considerably higher than the requested rate (39.9 cents). As for prior cases, it is again my general understanding that that the Commission has recommended higher rates for what is now saturation ECR than were recommended by the Postal Service. You would have ready access to that information and I'm sure you can show that I'm wrong, if I am.

**RESPONSE OF ASSOCIATION OF ALTERNATE POSTAL SYSTEMS WITNESS WHITE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE**

USPS/AAPS-T1-12. You refer to the “disproportionately low burden now being borne by Standard ECR” on page 22 line 21 of your testimony.

- a) To what subclass figure(s) is your statement regarding “low burden” intended to refer?
- b) Does your statement apply to the percentage cost coverage of ECR?
- c) Does your statement apply to the unit contribution of Standard Mail ECR?
- d) Confirm that your statement that the cost coverage is “disproportionately low” suggests that other subclasses are shouldering a “burden” that should be borne by Standard Mail ECR. If confirmed, identify all subclasses that are shouldering such a burden.

Response

- (a) I'm not sure that I understand the question. I think that the answer is that my statement refers to the institutional cost responsibility of ECR mail.
- (b) Yes, but it applies more to the per-piece contribution.
- (c) Yes.
- (d) Confirmed. Without analyzing every class of mail, which I have neither the time nor the expertise to do, I cannot tell you where the burden falls. It appears that First-Class mailers and OCA believe that First-Class mail shoulders too heavy a burden, compared with Standard A mail.