

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

RECEIVED

JUL 3 3 19 PM '00

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

**RESPONSES OF NEWSPAPER ASSOCIATION OF AMERICA  
WITNESS WILLIAM B. TYE TO INTERROGATORIES OF  
VAL-PAK DIRECT MARKETING SYSTEMS, INC. ET AL. (VP-CW/NAA-T1-1-12)  
July 3, 2000**


The Newspaper Association of America hereby provides the responses of witness William B. Tye to the following interrogatories of Val-Pak Direct Marketing Systems, Inc. *et al.* (VP-CW/NAA-T1-1-12), filed on June 19, 2000. Each interrogatory is stated verbatim and is followed by the response. A declaration is attached.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

Robert J. Brinkmann  
NEWSPAPER ASSOCIATION OF AMERICA  
529 14th Street, N.W.  
Suite 440  
Washington, D.C.  
(202) 638-4792


By:

  
William B. Baker  
E. Joseph Knoll III  
Isaac R. Campbell  
WILEY, REIN & FIELDING  
1776 K Street, N.W.  
Washington, DC 20006-2304  
(202) 719-7255

**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.

July 3, 2000

  
William B. Baker

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-1.

Please refer to your testimony at page 21, lines 18-21, where you state that "[t]he rate proposals conform to a pattern of an enterprise seeking to use rate levels and rate design to shift volume from private enterprise competitors and to finance these rate structures with revenues from mail legally protected from competition."

- a. Please define what you mean by "legally protected from competition" as you use the phrase in your testimony, and provide your understanding of which classes and subclasses of mail are legally protected from competition.
- b. Please explain who are the "private enterprise competitors" to which you refer and from who you allege Postal Service is using rate levels and rate design to shift volume.
- c. Is it your testimony that Standard A ECR is being cross-subsidized by First-Class Mail? Please explain any affirmative answer.
- d. Please refer to page 1 of the Postal Service's Cost and Revenue Analysis for Base Year 1998. In 1998, were Periodicals cross-subsidized by (i) Standard A ECR? (ii) First-Class Mail? Please explain your answers.
- e. If the Postal Service were "seeking to use rate levels and rate design to shift volume from private enterprise competitors and to finance these rate structures with revenues from mail legally protected from competition," would your analysis be more applicable to the rate levels for Periodicals or for Standard A ECR? Please explain your answer.

RESPONSE:

(a) See my response to USPS/NAA-T1-17 (a).

(b) See my response to USPS/NAA-T1-38 (b).

(c) Various definitions of cross-subsidization exist, so it is not clear what you mean by "cross-subsidized." My statement above is not meant to endorse any of the definitions.

(d) According to the FY1998 CRA Analysis, Periodicals in FY1998 had a cost coverage

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

(based on the Postal Service's measure of volume variable costs) of 101.73%. I

have not attempted to make a determination on whether Periodicals were cross-subsidized by other subclasses. See part c.

(e) Periodicals rates are beyond the scope of my testimony. See page 1 of my direct testimony, lines 15-20.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-2.

Please refer to your testimony at pages 26-27, where you state that the effect of reducing ECR's cost coverage "is that the First Class share of non-volume variable costs has increased from the Postal Service's R97-1 proposal of 62 percent to the current proposal of 64 percent."

- a. Is it your testimony that ECR and First-Class Mail are the only subclasses that contribute to institutional costs?
- b. Is it your testimony that the Commission should set rates to ensure that all classes and subclasses of mail should contribute the same share to institutional costs as they did under the Commission's recommended rates in Docket No. R97-1? Please explain any affirmative answer.
- c. Is it your testimony that any increase in the institutional cost burden borne by First-Class Mail is caused solely by ECR? Please explain any answer.

RESPONSE:

(a) No.

(b) No.

(c) No. See my response to USPS/NAA-T1-21 (d).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-3.

Please refer to your testimony at page 34-35, where, following your discussion of Standard A ECR's own-price elasticity, you state that "the Postal Service has now abandoned the only objective justification that the Postal Service relied upon for reducing the cost coverage."

- a. When applying each of the non-cost statutory criteria in § 3622(b) to a class or subclass (where pertinent) to determine the appropriate cost coverage for that class or subclass, must the evidence always be objective? Please explain your answer.
- b. Is it your testimony that own-price elasticity provides the only possible objective justification for reducing ECR's cost coverage? Please explain your answer.
- c. Before finalizing your testimony concerning the ECR cost coverage, did you review Postal Service witness Mayes' testimony at page 39, lines 15-16, where she states "many of the factors considered above would indicate a cost coverage even lower than that actually proposed?" Do you agree with her conclusion? If not, please provide a full explanation why not.

RESPONSE:

(a) No, but objective evidence is helpful.

(b) No. The point of the statement is that own-price elasticity is the only objective evidence witness Mayes provides and she retracted it.

(c) Yes, I did review that testimony. I am not sure exactly what she means by "many of the factors considered." But I do not agree with her conclusion. See my direct testimony at pages 23-42.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-4.

Please refer to your testimony at page 3, lines 4-5, where you state that "[t]he only reason given by the Postal Service for reducing the cost coverage for ECR Mail is that it is 'high' and ought to come down."

- a. Identify all testimony by Postal Service witnesses on which you rely to support your statement that the Service is reducing the cost coverage for Standard A ECR solely because the cost coverage is high and ought to come down.
- b. Please identify all other classes or subclasses (other than Standard A ECR) that lack access to the collection system, receive (solely) surface transportation, have no free forwarding, and are subject to deferred delivery, and have cost coverages at or above 200 percent.
- c. Please identify all classes or subclasses that have a cost coverage at or above 200 percent, and have an own-price elasticity of demand that is comparable (or higher) to that of Standard A ECR mail.

RESPONSE:

(a) See footnote 44 of my direct testimony, page 24.

(b) I am not aware of any other subclasses with all of the features you describe.

(c) According to the Postal Service's proposals, Express Mail has an own-price elasticity of -1.57 (Musgrave Testimony (USPS-T-8) at page 41), a TYBR cost coverage of 213.9%, and a TYAR cost coverage of 222.2%, using the Postal Service's cost methodology (Mayes Testimony (USPS-T-32), Exhibit USPS-32A, revised 4-21-00).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-5.

Please refer to your testimony at page 3, lines 8-9, where you observe that "ECR mail pays a much more modest [unit] contribution to overhead than First Class mail."

- a. Is it your testimony that ECR mail should pay a unit contribution that is identical, or almost identical to that of First-Class Mail? If your answer is affirmative, please explain how application of the non-cost statutory criteria in § 3622(b) supports your answer.
- b. At the end of your comparison between First-Class and ECR unit contributions, you state (p. 42) that consideration of unit contributions "can facilitate comparisons among similar subclasses."
  - (i) Please define the term "similar subclasses" as you use it here.
  - (ii) Are First-Class and ECR "similar subclasses"?
  - (iii) Are Standard A Regular and Standard A ECR similar subclasses?
  - (iv) Are Standard A Regular and First-Class similar subclasses?
  - (v) Please explain what, in your view, makes two subclasses similar.
- c. Identify any authority on which you rely from Commission opinions that support having identical or nearly-identical unit contributions from ECR mail and First-Class Mail.
- d. Do you believe that the unit contribution made by Standard A Regular is inadequate vis-a-vis that of (i) ECR and (ii) First-Class Mail? Please explain any negative answer.
- e. Please explain fully why your testimony does not include any discussion concerning the respective contributions of Standard A Regular along with those of ECR and First-Class Mail.
- f. Would you support or oppose an increase in the unit cost contribution and coverage for Standard A Regular?

RESPONSE:

(a) No.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

(b) (i)-(v) What I had in mind were the same similarities the Commission employed when it compared unit contributions of First Class and ECR. See my response to USPS/NAA-T1-50.

(c) Not applicable.

(d-f) Optimal rates for Standard A Regular mail are outside of the scope of my testimony. See my response to USPS/NAA-T1-29 (c). As noted in my testimony at pages 27-29, however, the 5-digit Regular Automation rate in Standard A Regular is relevant because of its rate relationship with ECR Basic Mail.



RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-6.

Please refer to your testimony at page 42, lines 2-5, where you observe that "[i]t is important to consider unit contributions. First, they highlight the actual contribution being made by the average piece.... Second, unlike cost coverage percentages, unit contributions are not distorted by the differing degrees of worksharing among the various subclasses."

- a. Did you also prepare a comparison of Standard A Regular unit contributions to those of First-Class Mail and Standard A ECR? If so, please provide the data to complete the chart on page 41 of your testimony. If not, please explain why not.
- b. In its *Opinion & Recommended Decision* in Docket No. R97-1 (¶ 5553), the Commission stated that it was "satisfied on the basis of this review that ECR will provide adequate unit contribution to institutional costs." The Commission identified a unit contribution of 7.6 cents. *Id.* At page 41 of your testimony, you calculate a TYAR unit contribution of 7.7 cents (using PRC methodology). Is it your testimony that the Commission should recommend ECR rates with an even higher unit contribution than would result from the Postal Service's proposed rates? Please explain your answer.
- c. At page 54 of your testimony, you recommend that ECR's unit contribution "equal or exceed the unit contribution of commercial ECR mail at R97-1 levels." Would not this standard be met if the Postal Service's proposed cost coverage for ECR is recommended by the Commission? Please explain your answer.
- d. As between mail that is highly workshared and mail that is less highly workshared, would you agree that the less highly workshared mail causes the Postal Service to incur more costs for labor and facilities than the highly workshared mail? Please explain any negative response.
- e. In your opinion, should the Postal Service attempt to make any mark-up, or operating profit, on the extra labor and facilities required to process less highly workshared mail? Please explain your answer.

RESPONSE:

(a) No. See my response to USPS/NAA-T1-29 (c).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

- (b) Yes. In my direct testimony at page 54, lines 1-4, I recommended that “The real contribution per piece, after adjusting for attributable costs using the Commission’s approved methodology, equals or exceeds the unit contribution of commercial ECR mail at R97-1 levels *and that the cost coverage or markup indices do not decline in absolute or relative terms.*” (italics added) See also my response to USPS/NAA-T1-26 (a-b).
- (c) No. You have quoted only part of my recommendation. As stated in part b, the full quote is, “The *real* contribution per piece, after adjusting for attributable costs using the Commission’s approved methodology, equals or exceeds the unit contribution of commercial ECR mail at R97-1 levels *and that the cost coverage or markup indices do not decline in absolute or relative terms*” (italics added). The italicized portion of my recommendation is not met by the Postal Service’s proposed rates. See my response to USPS/NAA-T1-26 (a-b).
- (d) Yes, all other things equal. See also my response to USPS/NAA-T1-37 (a).
- (e) See the example in my response to USPS/NAA-T1-30 (b). If avoided costs are thought of as “extra labor and facilities required to process less highly workshared mail,” and all else is equal between two mail pieces, examples generally assume that the markup is on all the costs of the less workshared mail. This is mathematically equivalent to starting with the markup of the more workshared mail and adding back in the extra labor and facilities at no markup, if the Commission’s general goal of matching rate differences with cost differences is achieved.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-7.

Please refer to your testimony at page 3, lines 6-8, where you mention the "generally accepted principle that heavily work-shared subclasses will have high cost coverages precisely because of the cost avoidance from worksharing."

- a. Is it your opinion that, given two pieces of mail from the same class, one of which is more highly workshared, the more highly workshared mailpiece should also have a higher unit contribution? Please explain your answer.
- b. In your view, are the Standard A ECR and Standard A Regular unit contributions identical or comparable? Please explain your answer, and state whether you believe the current and proposed respective unit contributions of these two subclasses are appropriate vis-a-vis each other.

RESPONSE:

- (a) No. If the applicable avoided costs from worksharing are correctly calculated and if passthroughs are set to 100 percent, and all else is equal, then the unit contributions would be equal.
- (b) See my response to VP-CW/NAA-T1-5 (d).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-8.

Please refer to your testimony at pages 42-43, where you state that "the Postal Service is again inappropriately targeting private competitors by lowering the cost coverage for ECR mail as well as the pound rate."

- a. Is it your testimony that the Postal Service targeted private competitors by proposing to lower the cost coverage for ECR mail in Docket No. R97-1? Please explain any affirmative answer.
- b. Your testimony (p. 42, ll. 9-11) quotes the *Opinion & Recommended Decision* in Docket No. R97-1 as stating that the "evidence suggests that the Postal Service has targeted the ECR subclass for special consideration for competitive reasons." Please confirm that in Docket No. R97-1, the Postal Service requested a cost coverage for Standard A ECR of 228 percent, and the Commission recommended a cost coverage of 203 percent. If you do not confirm, please explain.
- c. In your opinion, what effect did the Commission's observation that "the Postal Service has targeted the ECR subclass for special consideration for competitive reasons" have on its decision to reduce the ECR cost coverage by 25 points in Docket No. R97-1?

RESPONSE:

- (a) The Postal Service in Docket No. R97-1 explicitly gave competition as a rationale for its commercial ECR rate proposals. See e.g. witness Moeller testimony in Docket No. R97-1 (USPS-T-36) at page 26, lines 3-7, and the citation in my direct testimony on page 42, lines 9-11.
- (b) The 228 percent and the 203 percent were figures used by the Postal Service and the Commission, respectively, but they reflect different costing methodologies.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

- (c) See part b. regarding the 25 percentage points. I cannot speak for the Commission but it clearly declined to reduce the pound rate due partly to competitive reasons (PRC Opinion, paragraph 5425).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-9.

Please refer to your testimony at page 30, lines 16-17, where you state that "[t]he failure even to consider adjusting cost coverages to eliminate the passthrough anomalies is a serious omission." Is it your testimony that avoiding the diversion of ECR basic letters into the automation rate category should take precedence over the establishment of cost coverages in accordance with the statutory criteria of 39 U.S.C. § 3622(b)? Please explain your answer fully.

RESPONSE:

No. "Simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services" (Mayes Testimony (USPS-T-32), page 3) which provide "the logic that understandable and rational relationships exist between various postal rates" (Mayes Testimony (USPS-T-32), page 11) is one of the statutory criteria. So taking it into consideration cannot logically accord it precedence over the statutory criteria.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TOLLEY TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-10.

Please refer to your testimony at page 45, lines 4-6, where you state that "Witness Tolley estimates that fully 16.43% of the volume increase in ECR occurs as a result of past decisions to allow the ECR pound rate to decline in real terms, while rates of private enterprise competitors have gone up."

- a. Would it be fair to say that the 16.43 percent figure cited in your testimony actually reflected the change in Standard A ECR volume — over a 5 year period — that was attributable to increases in newspaper rates for advertising and inserts? Please explain any negative answer.
- b. Would you agree that the average increase in Standard A ECR volume over the five-year period addressed by Dr. Tolley was less than 2 percent a year? Please explain fully any disagreement.

RESPONSE:

(a) See my responses to USPS/NAA-T1-32 (c) and USPS/NAA-T1-52.

(b) The 2 percent per year figure is an apparent reference to the 9.67% "total change in volume over the last five years" figure cited in witness Tolley's testimony (USPS-T-6) at 132. However, the 2 percent per year figure is not the issue. The real issue is the combined effect of increases in the price of newspaper advertising and decreases in real ECR rates, including the pound rate. See my response to USPS/NAA-T1-52.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-11.

Please refer to your testimony at page 45, lines 17-18, where you state that "Witness Tolley's testimony shows that the shift in volume from the private sector to ECR has been significant."

- a. Please define and explain your threshold of what constitutes a significant shift in volume.
- b. Is it your testimony that an annual shift in volume of less than 2 percent is significant?
- c. Please provide all information at your disposal concerning the volume of inserts carried by (i) newspapers who are members of NAA, or (ii) newspapers generally over the past four years, and indicate the source.
- d. Please provide all studies, reports or other evidence on which you rely to support your assertion that the increase in Standard A ECR volume over the past five years represented diversion in volume from the private sector. Please explain your answer, and provide copies of any documentation you relied for your assertion.
- e. Several witnesses in this docket (e.g., witness Smith, AISOP-T-1, witness Merriman, SMC-T-2) have testified that owners of small businesses, farms, etc., cannot afford advertising in alternative media, including but not limited to newspapers. In your opinion, how much of the historical increases in ECR volume came from small business which cannot afford advertising in alternative media? Please explain your answer.

RESPONSE:

- (a) See my response to USPS/NAA-T1-52.
- (b) See my response to VP-CW/NAA-T1-10 (b).
- (c) I do not have the requested information. I am advised that NAA is seeking to determine whether it has information responsive to this request.
- (d) See my response to USPS/NAA-T1-32 and USPS/NAA-T1-52.
- (e) They did not provide any quantitative data, nor do I have any of my own.



RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO  
INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT PROMOTIONS

VP-CW/NAA-T1-12.

Please refer to your testimony at page 52, lines 17-18, where you state that "[p]rotecting monopoly customers would require that the Postal Service move toward increasing the contribution from competitive classes such as ECR."

- a. Would you also consider Standard A Regular to be a "competitive class?" Please explain any negative answer.
- b. Would your observation quoted above not apply equally to Standard A Regular?
- c. Is it not true that for the same amount of increase in rate (e.g., 0.1 cents per piece) an increase to Standard A Regular would have a greater impact than an equivalent increase to the Standard A ECR unit contribution?

RESPONSE:

(a-b) My understanding is that at least part of Standard A Regular is subject to the Private Express Statutes. I have not attempted to determine how competitive the market for Standard A Regular is.

(c) It is not clear what you mean by "greater impact."

## DECLARATION

I, William B. Tye, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

William B. Tye  
WILLIAM B. TYE

Dated: July 3, 2000