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Before the

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

UNITED STATES POSTAL RATE COMMISSION

In the Matter of:

POSTAL RATE AND FEE CHANGE

Docket No.

R2000-1

VOLUME 24

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PLACE: Washington, D.C.

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ANN RILEY & ASSOCIATES, LTD.

1025 Connecticut Avenue, N.W., Suite 1014

Washington, D.C. 20036

(202) 842-0034

BEFORE THE
POSTAL RATE COMMISSION

- - - - -X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
- - - - -X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C 20268

Volume XXIV
Monday, July 10, 2000

The above-entitled matter came on for hearing,
pursuant to notice, at 9:31 a.m.

BEFORE:

HON. EDWARD J. GLEIMAN, CHAIRMAN
HON. GEORGE A. OMAS, VICE CHAIRMAN
HON. W.H. "TREY" LeBLANC, COMMISSIONER
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
HON. RUTH GOLDWAY, COMMISSIONER

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P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning. We continue our hearings to receive direct cases of participants other than the Postal Service in Docket R20001.

Does any participant have a matter that they would like to address today?

[No response.]

CHAIRMAN GLEIMAN: I have one comment on a sad note that I'd like to mention, the passing last week of a senior member of the Postal community, David Bunn, a long-time head of the Parcel Shippers Association.

As I understand it -- and if I don't have the facts straight on this, if someone could correct me, I'd appreciate it -- I understand that on Saturday the 15th at 2:00 p.m., there is going to be a memorial service at the Unitarian Church at 6301 River Road in Bethesda.

I know that the family would appreciate those of us who have had dealings with David over the years, being in attendance. He was a good guy and this is a tough loss for the community and for the family.

There are eight witnesses scheduled to appear today. The witnesses are Milani, Jones, Heath, Elliott, O'Brien, Cohen, Stralberg and Glick.

Our first witness that was scheduled for today is

1 Witness Milani. I heard from Mr. Levy a little bit earlier
2 that he was en route, so we will skip and pick up with the
3 next witness that we had scheduled today.

4 Ms. Rush, if you could please call your witness.
5 Your witness is Witness Jones, and I don't believe there was
6 any request for cross examination, and I think probably his
7 appearing over there -- that I know the answer to the
8 question that I was going to ask, which was whether you
9 wanted to do it by motion.

10 Since the witness is here, if I can swear him in,
11 please?

12 MS. RUSH: Thank you, Mr. Chairman.
13 Whereupon,

14 DAVID M. JONES,
15 a witness, having been called for examination, and, having
16 been first duly sworn, was examined and testified as
17 follows:

18 DIRECT EXAMINATION

19 BY MS. RUSH:

20 Q Mr. Jones, I'm handing to you a copy of a document
21 called Direct Testimony of David M. Jones on behalf of the
22 Professional Football Publication Association.

23 I ask you to examine that and tell us whether this
24 is your testimony, prepared by you or under your direction?

25 A Yes, it is.

1 Q And if you were to give this testimony today,
2 would you testimony be the same?

3 A Yes.

4 MS. RUSH: Mr. Chairman, I'm handing two copies of
5 the document to the Reporter, and request that it be
6 admitted into evidence.

7 CHAIRMAN GLEIMAN: Is there an objection?

8 [No response.]

9 CHAIRMAN GLEIMAN: Hearing none, the testimony of
10 Witness Jones will be received into evidence, and two copies
11 have been provided to the Reporter, and they will be
12 transcribed into the record at this point.

13 [Direct Written Testimony of David
14 M. Jones, PFPA-T-1, was received
15 into evidence and transcribed into
16 the record.]

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PFPA T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000)
_____)

Docket No. R2000-1

DIRECT TESTIMONY
OF DAVID M. JONES
ON BEHALF OF THE
PROFESSIONAL FOOTBALL PUBLICATION ASSOCIATION

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Attachments

Attachment A	Readers' Complaints
Attachment B	Spreadsheet of mailer destinations and automation
Attachment C	Editorial

Library References

Library Reference #1	PFFPA member newspapers
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I. Autobiographical sketch

My name is David M. Jones. I am the owner of American Sports Media, which publishes unofficial newspapers for five National Football League teams, based in Rochester, New York. I hold a business and marketing degree from the Rochester Institute of Technology and have been in the sports publication business for about 10 years. Prior to that, my professional background was in advertising sales. I launched my first paper in 1991 as I saw it as an opportunity to start my own business. Since then, the business has grown – and so has my family. My wife and I now have two children, seven and five, who have grown up knowing that Sundays in the fall are “football” Sundays.

I am also a member of the board of directors of the Professional Football Publication Association (PFPA). PFPA represents 22 football publications in the cities of the teams of the National Football League. Most of our publications are privately owned and are not associated formally with the NFL. Rather, they are published by companies whose mission is to provide an independent voice and channel for the benefit of football fans.

II. Purpose of my testimony

I am testifying in this case on behalf of PFPA, which has grave concerns about the periodicals rates proposed in this case. The purpose of my testimony is to help the Postal Rate Commission to understand the harmful impact upon our sports publications if the Postal Service's proposed rates are allowed to go into effect.

III. Rising rates and poor service threaten our industry

PFPA newspapers are generally published on a weekly basis during the football season and monthly during the off-season. They are typically printed on newsprint in a tabloid format. They are characterized by high editorial content and varying degrees of advertising, colorful design and detailed information about players, team strategies, *inside information from the locker rooms* and game critiques.

American Sports Media's holdings are a testament to the high interest in these publications. Our growth has been rapid. We started with one paper then purchased four more. We have subscribers in all states and many international customers. We sell NFL licensed merchandise in our papers and our reporters and photographers have won several awards.

Our newspapers are the following:

Skins Report, circulation 6,000, covering the Washington Redskins;

Shout, circulation 13,000, covering the Buffalo Bills;

Giants Insider, circulation 11,000, covering the New York Giants;

Silver and Black Illustrated, circulation 9,000, covering the Oakland

Raiders; and

Jets Confidential, circulation 9,000, covering the New York Jets.

I have placed a copy of each of our publications on file as PFPA Library Reference No. 1, to provide the Commission with an opportunity to review them.

Like those of most PFPA members, my newspapers are entrepreneurial enterprises designed to reach the community of football fans. During my ten years in this business, I've acquired a keen appreciation for the degree to which newspapers depend upon the Postal Service for the success of their business. In the case of American Sports Media, the Postal Service is our main distribution partner. We rely upon periodicals mail class for at least three quarters of our distribution in all five cities. Newsstand sales account for most of the rest.

My position with PFPA is to head its national advertising and marketing committee. I work with members on techniques to increase revenues and to provide high quality publications. It is through this service that I have begun to explore the growing and costly problems created by poor periodicals mail performance. I am testifying here primarily about my own newspapers' experience of recent years, but I have some familiarity with the distribution patterns and problems of other members within PFPA. I have conducted some research into their mailing profiles and customer satisfaction to prepare for this testimony.

Publishers of PFPA newspapers are exceedingly frustrated by poor mail service. It is always the number one concern of every publisher when we meet to discuss the future of our business. We've tried a variety of solutions, but none have been satisfactory. We are working actively upon alternative distribution channels, such as email, website and faxed newspapers, because the poor

service and rising costs threaten the very existence of our niche in the sports publication industry.

It is important for the Commission to understand the need for timeliness and reasonable rates--how they relate to profitability.

Some readers of our newspapers reside in the metropolitan areas of their favorite NFL teams. But the majority of our readers are in outlying suburbs or exurbs or they may be fans-in-exile, who have moved to another city. Some are migratory. Because football is a fall sport, a significant segment of our readers have moved to warmer resort climates for all or part of the season and they use our newspapers to follow their favorite teams.

During the season, PFPA newspapers are generally published on Mondays. They are designed to reach the readers before the game day, which generally is Sunday. That means the newspapers must be delivered within a six-day window so they will reach the mailbox by at least Saturday. The Postal Service has assured us repeatedly that its service standards should enable this timely delivery to occur.

When the mail is delayed and readers do not receive their newspapers before the game, the newspaper loses most of its value. Readers are not interested in knowing about a team's strategy for a key game when they have already seen the game. They do not care about last week's injuries or coaches' complaints. They want to have the inside information before they see the game. If they have it, their living room conversation will be peppered with observations gleaned from our publications and that will enhance the value and interest of the

paper to them as well as to the potential new subscribers who are sharing the beer and popcorn in front of the television. And of course, we hope that their avid reading of the pregame news also will lead to notice of the many products and services our advertisers wish to offer to football fans.

When the Postal Service lets us down, we have an incomplete pass. Our best editor may quarterback an excellent issue. Our intended receivers may be standing at the mailbox on Friday or Saturday, waiting for the throw. But when the mailbox is empty, the play ends. The receivers leave the field and our defense has to be brought in to field complaints and hope to protect our newspaper from the many competitors for the readers' time, interest and money. Inevitably, we see some of them racking up points on the scoreboard against us.

Every football fan knows you only get four downs to move the ball successfully. If you can't make your distance, you lose possession. You may even look up in the stands and see your fans headed back to the tailgate party, taking their enthusiasm and their wallets with them. Enough of that, and you have a failing franchise on your hands.

That's exactly what happens to PFPA members when the Postal Service permits bad delivery and rising rates to combine like hulking blockers, between us and our intended goal--satisfied readers. It makes the situation all the more painful that we thought these blockers were on our team. Instead, they seem bent on stopping us at the line of scrimmage. Every year, each one of our newspapers loses thousands of renewals solely because of late postal delivery. Every Monday morning our offices are flooded with complaints and cancellations.

To have these mounting service problems buttressed by rate increases in the magnitude of this case makes PFPA members doubt that the Postal Service truly intends to be our distribution partner. The impact of these proposed rates in this environment would be truly harmful to these small, but important publications.

IV. Readers' complaints demonstrate the problem

Long before I realized I might be asked by PFPA to offer testimony on the impact of this rate case, I began keeping a file of unhappy readers. We often find that our newspaper is blamed for the one element of quality publishing that we cannot control--the timely delivery.

As Attachment A to my testimony, I am providing copies of some of the readers' complaints in my electronic mail file for the past year. While I have no first-hand knowledge, of course, of what actual mail service readers may have received, I do have first-hand knowledge of the feedback we get from readers, because their complaints are either initially directed to me or are routed to me by my staff. I or one of my senior staff members attempts to answer them all.

Here is a sample of the sort of mail that has come to my mailbox:

"Currently I have a subscription to Shout. I really love the magazine. The trouble is the delivery. I get the current issue AFTER the game has already been played. ...This is the same problem I had with Shout two years ago, which is why I cancelled that subscription. If you cannot promise me that the issues will start arriving on time, then please cancel my subscription AGAIN, (emphasis by the writer), and refund my money. I hate to do this because, as I said, I really like Shout. But, it's useless to me to read old news. I just don't like it." Yaniv Adir, Atlanta, GA

"To whom it may concern: I am a very disappointed subscriber to the Silver and Black Illustrated. As of today, November 4, 1999, I still have not received my issue of S&BI dated October 31, 1999...According to your own paper, it was sent out October 25. This issue is completely useless now. What good is it after the game it is covering is already completed? Don't tell me I need to pay for extra postage in order to get my paper. This is your responsibility to get my paper to me ON TIME!" Christina Tisone, Canon City, CO

"Dear Skins Report: I have been receiving your magazine for over two years now and have never been more disappointed. I used to get the issue you mailed on Monday on Wednesday or Thursday. Then it started being Friday or Saturday. Now I don't get the issue you mail out on Monday until the following Tuesday or Wednesday. Are you telling me it takes 8-9 days for something to be mailed from Washington to get to my home in North Carolina? This is completely unacceptable. Either you start getting me my magazine before the next game or I will have to cancel my subscriptions." Scott Canipe, Lincolnton, NC

"I did not receive last week's Skins Report. I wanted to read about the Redskins Vs. Bears game BEFORE the game. Let me know what's going on." Tom Dean, Bryan, OH

"Hi, I've been a subscriber now for 4 or 5 years. I've always received my Silver and Black Illustrated on time. Until now...Today's date is Oct 5, 1999, and I have just got and (sic) issue in the mail September 19, 1999. It's somehow not as interesting reading about how we're going to handle Moss and Carter when we just played Seattle. ...I enjoy reading the paper, but not a month late." Johnny Bell, Rodeo, CA

These are just a sampling of reader complaints that I've received in recent months. The ones I have cited are included in my attachment. I have several hundred more, all of about the same tone. The readers believe our newspapers are responsible for the problems, that we somehow are keeping them from getting their newspapers on time. And yet we are, if anything, doing more now

than we ever did to get the papers prepared properly and presented to the Postal Service according to the regulations.

V. PFPA pieces are mailed relatively short distances and are highly automated

Because reader complaints have been a virtual plague these past few years, PFPA has turned increasing attention to finding solutions. After this case was filed and it became apparent that we would pay for bad service with outrageous rate increases, I decided to take a closer look at PFPA mail. I wondered whether there was something about our mail that made it particularly difficult to deliver. Because I am aware that low density mail traveling long distances requires not only transportation costs, but multiple handling in mail processing, I asked members to describe their mailing distances and sortation levels. Also, because we have been urged to provide barcodes on our mail so that the Postal Service's automated sorting equipment could be used instead of costly manual sorting, I wanted to know our degree of automation. Initially, I thought perhaps our mail was traveling unusually long distances, or that we had a high degree of non-automated mail.

I received data from 12 of our 22 members. I believe I would have received more if we had had more time, but from my experience with these publications, the patterns of the others would not be appreciably different.

Here is what I learned about the destinations of our mail

Destinations of PFPA publications

SCF-	18%
Zones 1&2	35%
Zone 3	22%
Zone 4	10%
Zone 5	8%
Zone 6	4%
Zone 7	3%
Zone 8	1%

Indeed, it seems that nearly half of our mail is delivered to close zones. A very small percentage goes beyond zone 4.

Included in these totals are the various drop-shipped editions of the Vikings and my five newspapers, which have several entry points. The other publications use only one entry office.

I also looked at our sortation levels and here is what I learned.

Automation of PFPA Publications

Basic - nonautomation	1%
Basic - automation	6%
3 digit - nonautomation	3%
3 digit- automation	41%
5 digit - nonautomation	1%
5 digit - automation	40%
carrier route	8%

There appears to be a relatively high degree of bar-code usage by our members. I found that 87% of the mail was prepared for automation and that 8%

is carrier route sorted. So only about 5% of our mail should be handled manually in mail processing.

I have provided a spreadsheet summary of our survey results in Attachment B.

I have learned from this case, however, that our efforts at barcoding may have been an unnecessary expense on our part, because it evidently does not help. I understand from testimony in this case that the Postal Service often does not use its automated sorting machines for our mail. I consider this an affront to our publications, because we have undertaken considerable expense to be ready to prepare our mail as we thought the Postal Service desired it.

Our members have made a good faith effort to comply with all rules, regulations and sorting protocols. We have formed a postal committee. We have heard presentations from Postal Service officials on ways we could improve. We have put publication watches on our individual issues. We have automated. We have followed all the rules for certification of our mailing lists. We are, frankly, at a loss to know what we should do next.

The impact of the proposed increase upon our mail will be heavy (Our per piece rate will go from \$.19 to \$.21-.22) I understand from other members that the increase for them is going to be higher than even the Postal Service had estimated.

The impact of higher postage rates will be higher subscription and advertising rates. Our publishers have no other way to recover costs. One way

or the other, we will be handing an uneasy marketplace an increase at a time when we know the dissatisfaction with service is on the increase. And it is through no fault of our own.

Readers have many alternatives. One is to read our content over the Internet. Another is buy the paper on the newsstand. A third--the one we fear most --is to fill their time with something else.

We want to continue to support the interest in football. We want to be an interesting and positive force for our readers. Perhaps it will give the Commission a sense of the importance of this matter to us if it reads an article prepared by our senior editor, Ken Palmer--again, before I learned I might be a witness in this case. I believe it explains our problem as well as any. It is provided as Attachment C.

Conclusion

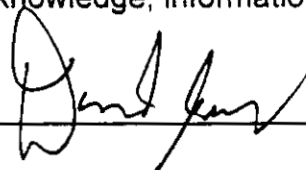
PFPA members occupy an important niche in American culture. Football enthusiasts create a common ground of community interest for six months of each year in ways that bring people together for shared fun and team spirit. Our newspapers enhance that experience and fill a need in the marketplace and in sports culture. But we can fulfill our role only if we are able to achieve timely delivery at a reasonable cost. Obviously, at this juncture, many of our readers are disappointed in us.

We would like a touchdown with the readers every time. We request that the Commission accept the testimony of the experts in this case who are critical

of the periodicals costs. We ask the Commission recommend moderation of the rate increase consistent with the averages of other mail classes, so that we can stay in the game.

DECLARATION

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



5-18-2000

X-WebTV-Signature: 1

ETAsAhR9Sbi00ynhqdsWv4GKD2CDehZAPwIUSboml/wWLo9+3a6+sYs0FVbPQwA= From: bluknghtga1@webtv.net (Yaniv Adir) Date: Mon, 4 Oct 1999 16:30:07 -0400 (EDT) To: asm@frontiernet.net

Subject: Delivery

MIME-Version: 1.0 (WebTV)

Hi,

Currently, I have a subscription to Shout. I really love the magazine. The trouble is the delivery. I get the current issue AFTER the game has already been played. Last week, I got the issue previewing the Philly game, 2 days after the game was over. It's Monday, and I have yet to get the issue with the Bills/Dolphins preview.

This is the same problem I ad with Shout 2 years ago, which is why I cancelled that subscription. If you cannot promise me that the issues will start arriving on time, then please cancel my subscription, AGAIN, and refund my money. I hate to do this because, as I said, I really like Shout. But, it's useless to me to read old news. I just don't like it.

Thank you,
Yaniv Adir
Atlanta, GA

Blue Knights--- "Ride with Pride"

Attachment A PFPA T-1
Email complaints from readers
25 pages

From: "edntor" <edntor@email.msn.com>

To: <asm@frontiernet.net>

Subject: from Jets Confidential subscriber Date: Thu, 21 Oct 1999 16:09:10 -0400

X-Priority: 3

X-MSMail-Priority: Normal

X-MimeOLE: Produced By Microsoft MimeOLE V4.72.3110.3

October 21, 1999

To Whom It May Concern:

I am currently a jet confidential subscriber and need to make you aware of an address change which is listed at the bottom of this message.

Also, I have been receiving my magazine a week late which as I'm sure you know can be quite annoying reading things that I am aware of already. I'm sure you will look into the matter promptly.

Thankyou,

Victoria Scheuing

Old address: 42-36 215th Street
Bayside, NY 11361

NEW ADDRESS: 219-23 75th Avenue
Bayside, NY 11364

From: "John Boyd" <jboyd@rivals.com>
To: <asm@frontiernet.net>
Subject: Fw: Lack of Delivery
Date: Thu, 4 Nov 1999 18:17:29 -0700
MIME-Version: 1.0
X-Priority: 3
X-MSMail-Priority: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2314.1300

nt:</bold> Thursday, November 04, 1999 9:45 AM <bold>Subject:</bold> Lack of Delivery

To whom it may concern: I am a very disappointed subscriber to the Silver and Black Illustrated. As of today, November 4, 1999, I still have not received my issue of S & BI dated October 31, 1999. Volume 11, Issue 12. According to your own paper, it was sent out October 25. This issue is completely useless to me now. What good is it after the game it is covering is already completed? I have gotten very little satisfaction from your customer service department with my complaint. I am requesting an extension on my subscription, with my expiration label now to read 12 10 instead of 12 9. Something needs to be done about this problem. It seems to happen every year about this time. Don't give me the excuse of the Christmas rush. I don't buy it. Don't tell me I need to pay for extra postage in order to get my paper. This is your responsibility to get my paper to me ON TIME! It is not my responsibility to keep calling and see if I am going to receive it before the game is over for the week. As you can see, I am very disappointed with your so-called service. I will be very surprised if I see a response to this complaint. I don't hold out much hope.

Christina Tisone </x-rich>

From: "Canipe, Scott C" <Scott.Canipe@cmcsgr.com> To: "'asm@frontiernet.net'"
<asm@frontiernet.net> Subject: LATE ISSUES
Date: Mon, 8 Nov 1999 06:16:28 -0600
MIME-Version: 1.0

DEAR SKINS REPORT I HAVE BEEN RECEIVING YOUR MAGAZINE FOR OVER TWO YEARS NOW AND HAVE NEVER BEEN MORE DISAPPOINTED. I USED TO GET THE ISSUE YOU MAILED ON MONDAY ON WEDNESDAY OR THURSDAY. THEN IT STARTED BEING FRIDAY OR SATURDAY. NOW I DONT GET THE ISSUE YOU MAIL OUT ON MONDAY UNTIL THE FOLLOWING TUESDAY OR WEDNESDAY!!!! ARE YOU TELLING ME IT TAKES 8-9 DAYS FOR SOMETHING TO BE MAILED FROM WASHINGTON TO GET TO MY HOME IN NORTH CAROLINA?? THIS IS COMPLETELY UNACCEPTABLE. EITHER YOU START GETTING ME MY MAGAZINE BEFORE THE NEXT GAME OR I WILL HAVE TO CANCEL MY SUBSCRIPTION!!!!

THANKS A VERY DISAPPOINTED CUSTOMER: SCOTT CANIPE
SCOTT.CANIPE@CMCSG.COM

From: NLSaxis@aol.com
Date: Tue, 5 Oct 1999 20:10:58 EDT
Subject: late delivery
To: asm@frontiernet.net
MIME-Version: 1.0

I have been suscribed to s&bi off and on for years now but I always seem to get my copy the monday or tuesday after the game featured in that weeks issue. Who can I talk to or write about this? JEFF LA SCOLA
207 SHELDON ST APT 1
EL SEGUNDO CA 90245-3919

pFrom: NLSaxis@aol.com
Date: Mon, 1 Nov 1999 00:33:51 EST
Subject: late delivery II
To: asm@frontiernet.net
MIME-Version: 1.0

Nearly a month ago I contacted you with the problem of receiving my s&b i a day or two after the game it was previewing. I received an e-mail stating that you would contact my post office and find out the problem. Since then the delivery time has gotten a lot WORSE. Today is Sunday the 31st and I have not even seen the issue for the jets game last week. What can be done to fix this?

Jeff La Scola
El Segundo, CA

Reply-To: <tomdean@montpelierplastics.com> From: "Tom Dean"
<tomdean@montpelierplastics.com> To: "'dave jones'" <asm@frontiernet.net> Subject:
last weeks SKINS REPORT
Date: Mon, 1 Nov 1999 10:02:01 -0000
MIME-Version: 1.0
X-Priority: 3 (Normal)
X-MSMail-Priority: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V4.72.2106.4 Importance: Normal

I did not recieve last weeks Skins report.I wanted read about the Redskins vs Bears
game BEFORE the game.Let me know whats going on. Thank you tom

-----Original Message-----

From: dave jones [mailto:asm@frontiernet.net] Sent: Tuesday, October 05, 1999 1:37
AM
To: tomdean@montpelierplastics.com
Subject: RE: PAST NEWS LETTERS

Just call us at 1-800-932-4557 and tell us what issue you need.

Date: Mon, 15 Nov 1999 07:51:43 -0600

From: "Charles R Marcus" <marcusc@doacs.state.fl.us> X-Accept-Language: en
MIME-Version: 1.0

To: dave jones <asm@frontiernet.net>

Subject: Giants Insider Delivery

Dave:

My Saints issue arrived November 10, and my Eagle II issue arrived November 13. I'm caught up and things are looking up (except with the Giants offense).

I'll do like Ken Palmer suggested and write to the postmaster.

Thanks!

---CRM 11/15

From: go-r8drs@pacbell.net
Date: Tue, 05 Oct 1999 16:49:54 -0700
Reply-To: go-r8drs@pacbell.net
MIME-Version: 1.0
To: asm@frontiernet.net
Subject: Late Paper

Hi,

I've been a subscriber now for 4 or 5 years. I've always received my silver and black illustrated on time. Until now... Today's date is October 5, 1999 and I just got an issue in the mail, SEPTEMBER 19, 1999. It's somehow not as interesting reading about how we're going to handle Moss and Carter when we just played Seattle. The issue I got before this one (and after the Bears game) was a training camp issue. (August 22, 1999) I just was curious on what new and improved changes have happened around there. I enjoy reading the paper but not a month late.

Johnny Bell
200 Harris Ave.
Rodeo, Ca 94572

Date: Wed, 20 Oct 1999 19:07:33 -0400

From: wendy <atvers@warwick.net>

MIME-Version: 1.0

To: asm@frontiernet.net

Subject: Late Jets Confidential again

To whom it may concern.

My name is Steve Tversland 11 Olde Wagon road, Warwick N.Y. 10990 I am very upset that my Jets report cannot be sent on time . It is boring to read about the Colts-Jets scouting report after the fact. If the mailings does not start to arrive at or before game time I will not renew my subscription when it runs out.

Sincerely

Steve Tversland

From: NUTDRAGGER@webtv.net

X-WebTV-Signature: 1

ETAtAhR9RFpGtfjivLHIN9otWoHDgk1DHgIVAKjNuJ0RQbqmb2VU+d++FSuQvoJ/ Date: Mon,
11 Oct 1999 18:37:13 -0400 (EDT) To: asm@frontiernet.net

Subject: your mailing sucks

MIME-Version: 1.0 (WebTV)

i subscribed to skins report for many years even when it was redskin review . my last
issue ive gottn was SEPT 12! its OCT12TH and still no issue! i will never subscribe again
and i will make sure my friends dont either! great doing business with a half ass outfit!!

KEITH

HARTMAN NORFOLK VA.

From: "tkecm" <tkecm@gateway.net>
To: <asm@frontiernet.net>
Subject: UNTIMELY ARRIVAL
Date: Sat, 16 Oct 1999 08:06:39 -0600
MIME-Version: 1.0
X-Priority: 3
X-MSMail-Priority: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V4.72.3110.3

DEAR SHOUT, I AM A ARDENT BILLS FAN LIVING IN SANTA FE, NM. MY PALS BACK IN BUFFALO BOUGHT ME A SUBSCRIPTION TO SHOUT AND I REALLY ENJOY READING IT EACH WEEK. THE ONLY PROBLEM I HAVE IS IT TAKES FOREVER TO GET THE NEWSPAPER. I COULDN'T WAIT TO READ ABOUT THE BILLS VICTORY OVER MIAMI. YOU MAILED THE PAPER ON THE 5TH. I RECEIVED IT ON THE 14TH. WOULD IT BE POSSIBLE TO FOR YOU TO SEND IT OUT FIRST CLASS MAIL? FIRST CLASS WOULD COME IN 4 DAYS INSTEAD OF 9 DAYS. I WOULD GLADLY PAY THE EXTRA POSTAGE. THANKS FOR THIS CONSIDERATION.
SINCERELY, TOM MAYER 29 ESTAMBRE RD SANTA FE, NM 87505

From: "ron lynds" <raiderron@earthlink.net> To: <asm@frontiernet.net>
Subject: tardiness
Date: Wed, 13 Oct 1999 23:20:59 -0700
MIME-Version: 1.0
X-Priority: 3
X-MSMail-Priority: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V4.72.3110.3

hello,

i have been a suscriber since the boys (raiders) have moved back. i really enjoy you mag. what i dont enjoy is not getting it in time. i finally signed up for two years instead of one and the service has left a lot to be desired. over the previous years i may have gotten a couple late total. this year one week i didnt receive any and the next week i received the tardy one on fri. and the current one on sat. it looks like almost the same thing will happen this week. the issue that was supposedly mailed on 10/4 arrived at my house on 10/13 the next issue was mailed yesterday. they dont do as much good when they are that late. i hope that you can fix this problem right away. you have a really good product. i had to cancel my sub. to SI because of the crappy articles. i would hate to have to cancel yours because of poor service. please dont let me down. i would love to hear back from you. and i will write again on a more positive note when i have more time.

sincerely,
Ron Lynds
I

raiderron@earthlink.net

From: "sean daly" <raider7@nts-online.net> To: "dave jones" <asm@frontiernet.net>

Subject: Stil having problem

Date: Fri, 29 Oct 1999 21:51:51 -0500

MIME-Version: 1.0

X-Priority: 3

X-MSMail-Priority: Normal

X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2014.211

I have continued to have the same problem with my subscription. It is friday 10/29 and i still haven't recieved the 10/24 issue or the upcoming 10/31 issue. I also noticed your p.s. regarding express delivery and feel that it should not be a problem to get a magazine to a customer within five mail days. Furthermore, i think if it is a problem it should fall on you to cover delivery cost. I also think a free subscription extension would be a good consideration, in light of the ongoing issue skipping that has occurred. thank you for your time and please respond.

Date: Mon, 04 Oct 1999 18:38:12 -0700
From: Tim Thompson <timtara@ctaz.com>
X-Accept-Language: en
MIME-Version: 1.0
To: asm@frontiernet.net
Subject: Silver & Black Illustrated

I have had a subscription to your magazine for a couple of years. I have always enjoyed the magazine. I recently moved, in the last 6 months, to Arizona from California. Since my move the magazine is always late. For instance I just received today the Gruden/Seattle issue. Is there a reason that they come late? The magazine never comes before the game like they should. Would appreciate a reply.

Sincerely,
Fred Thompson
1235 Avalon Ave.
Lake Havasu, AZ 86404
timtara@ctaz.com

X-WebTV-Signature: 1

ETAtAhUAh6RH3bUqN68UBqGMoLgP2/Rct4MCFGUls4nBCJQm7dF6YbZeSBv5WT0y From: BAKERSBILLS@webtv.net (ROD B)

Date: Sat, 27 Nov 1999 20:28:47 -0800 (PST) To: BuffaloRange@onelist.com

Cc: buffalorange@onelist.com, asm@frontiernet.net Subject: Re: Fwd: Shout magazine..

Dave Jones, Corporate manager of SHOUT responded

MIME-Version: 1.0 (WebTV)

I'm not ragging on Shout just asking if any1 else gets it as late as me , if monday is 1 day late then the next friday would be 5 days late right? Today mine came 1st class and it's the first paper i've got on time in 5 or 6 weeks. I think the stinking mail man is reading it 4 a few days then giving it back.

From: "Gary Kirby" <gk1969@earthlink.net> To: "dave jones" <asm@frontiernet.net>
 Subject: Re:
 Date: Tue, 26 Oct 1999 18:15:22 -0700
 MIME-Version: 1.0
 X-Priority: 3
 X-MSMail-Priority: Normal
 X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2314.1300

Dave , That will work ,but I still don't see why I am not getting them on time ,when I use to. Are you guys doing something different this year? Hopefully this takes care of the problem. Thank you very much. Gary.
 P.S. I still didn't get issue 9 or 11 yet . It shouldn't be this late even sent 4th class, should it?

<paraindent><param>left</param>

</paraindent> ----- Original Message ----- From:
 <<mailto:asm@frontiernet.net>dave jones To:
 <<mailto:gk1969@earthlink.net>gk1969@earthlink.net Sent:
 Tuesday, October 26, 1999 7:41 AM

Gary:

I will cost us about \$15.00 but what if we give you free frist class in an envelope for the rest of season?

Dave

</x-rich>

From: "sean daly" <raider7@nts-online.net> To: <asm@frontiernet.net>,
Subject: Problem with subscription
Date: Tue, 26 Oct 1999 22:14:02 -0500
MIME-Version: 1.0
X-Priority: 3
X-MSMail-Priority: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2014.211

To Whom it may cocern, I have been a subscriber to your magazine for close to three years and during that period i have had several problems with late issues. I have not recieved at all at least four issues and many more have been very late. I called in the past concerning this prblem and feel it should not be that hard to get my magazines ontime and in correct sequence. I enjoy the magazine very much except for the skipping and late issue. Please contact me with your ideas for a solution to this matter.
Thankyou! Sean (806) 359-6580

From: "Smith, Art" <Art.Smith@reichhold.com> To: "'SHOUT'" <asm@frontiernet.net>
Subject: Delivery
Date: Wed, 6 Oct 1999 17:16:29 -0400
MIME-Version: 1.0

SHOUT That is what I want to do. I have been a subscriber for about 5 years now and I love the magazine. The problem is I NEVER KNOW WHEN I WILL GET IT!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!
Usually by Friday night it arrives and I spend a few hours reading it in preparation for the Sunday Game. Last week no paper on Friday or Saturday. I was bummed but at least it was a Monday Night game. No paper on Monday or Tuesday. So I expect that I will now get two week old news and HOPEFULLY this weeks will arrive before the game. Every time this happens I complain and I get told its the mail. I'm sure it is but can't something be done to get it here by the following game? If not then I will have to reconsider my subscription in the future. Its hard to be excited about reading the prediction for the upcoming game that took place 2 days ago!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

Sincerely Arthur C Smith 609 20th St Butner NC 27509 e-mail art.smith@reichhold.com

Date: Thu, 04 Nov 1999 16:08:39 -0500

From: Eric Levitt <elevitt@bellsouth.net> Organization: FUTURE TELECOMMUNICATIONS
MANAGEMENT MIME-Version: 1.0

To: asm@frontiernet.net

Subject: paper delivery

My giantsinsider has been coming very late. I am not getting my issue until the week following the next game. I am still waiting for the saints game. Please advise.
eric levitt 7647 great oak drive lake worth florida 33467.

Reply-To: "drmcclure" <drmcclure@gateway.net> From: "drmcclure"
<drmcclure@gateway.net> To: <asm@frontiernet.net>
Subject: not recieving my shout newspaper Date: Sat, 9 Oct 1999 12:28:46 -0700
MIME-Version: 1.0
X-Priority: 3
X-MSMail-Priority: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V5.00.2615.200

<x-rich> Dear Shout, I am a disappointed subscriber, I have not recieved
my paper in 3 weeks and I know that I paid for a full year subscription. I think I should
be refunded for the missed papers and my subscription checked for my papers in the
future, which I would like to receive.

Thank You!

Don

McClure</x-rich>

Reply-To: "Michael Allen" <skins91@earthlink.net> From: "Michael Allen"
<skins91@earthlink.net> To: <asm@frontiernet.net>
Subject: No skins report
Date: Sat, 6 Nov 1999 23:36:50 -0500
MIME-Version: 1.0
X-Priority: 3
X-MSMail-Priority: Normal
X-MimeOLE: Produced By Microsoft MimeOLE V4.72.3110.3

It is Sat. 11/6 and I haven't received the issue of skins report with the review of the Bears game and the preview of the Bills game. It has been coming on Thursday or Friday. Can you guys wake the postal service up? Thanks: Mike Allen, Gorham,ME.

To: asm@frontiernet.net
Date: Mon, 1 Nov 1999 19:47:54 -0500
Subject: My subscription
MIME-Version: 1.0
X-Juno-Line-Breaks: 0-1,4-5,8-9,11-15
X-Juno-Att: 0
X-Juno-RefParts: 0
From: R J Acquilano <thetaxguy@juno.com>

Giant Insider:

Today is November 1 and I just received the October 24th edition, mailed October 19th. Of course, the stories are now old news and the look ahead to the New Orleans game is worthless.

Before the season started I asked about the program that the previous owners made available so that we can receive the issues in a timely manner.

Well, if you are not able to insure that I receive my issues timely please cancel my subscription and refund the amount for any unused issues

Thank you.

Richard Acquilano
Burlington, NC

From: Honeyg8248@aol.com
Date: Wed, 27 Oct 1999 20:33:53 EDT
Subject: My Poor Subscription Service
To: asm@frontiernet.net
CC: Honeyg8248@aol.com
MIME-Version: 1.0

Attention Silver and Black Illustrated

Dear Sirs:

My service has been delayed since the beginning of the football season. I have called your office on the telephone to complain and the woman who recieved my call told me my magazines are being sent out and the U.S. Post office is the reason for the delay. I have contacted the Post Office several times to track the statas of the delivery of my Silver and Black Illustrated. They have assured me that they do everything they can to expidite my delivery and the issues are not being sent out in a timely manner. I am not at all pleased with this service when my issues arrive a week late every time. I have subscribed to your magazine in past football seasons and this did not occur. I paid for this season am I am deeply disapointed. I wish you could contact me at Honeyg8248@aol.com so you can correspond with me on some form of compansation. I would like to recieve your magazine in the future but if this kind of service where I get the magazie after the game has happend keeps up why should I waste my hard earned money.

Thank You, Joseph Meloro
3992 Waterford Lane
Las Vegas NV 89119
(702) 737-1611
GO RAIDERS!!!!!!

Date: Tue, 09 Nov 1999 21:54:23 -0500
From: Josh Folan <folan.3@osu.edu>
X-Accept-Language: en
MIME-Version: 1.0
To: asm@frontiernet.net
Subject: My subscription

My name is Josh Folan, and I am a subscriber living in Columbus, OH. I didn't receive my issue last week. Kind of defeats the purpose of paying for your newspaper if I get game previews AFTER the game is played.

Any chance I'll be getting that issue, and this week's edition before Sunday's phish fry?

	Scf	1 & 2	3	4	5	6	7	8	basic nonauto	basic flats	3 digit nonauto	3 digit flat-auto	5 digit nonauto	5 digit flats-auto	camer rt basic
Beers	185	3362	2012	983	1011	980	962	22	216	1021		8251		2945	7
Browns News	1255	6759	2381	2167	1125	439	248	618		950		6588		7454	
Browns News		330							330						
Chiefs	114	313	2304	1229	745	204	245	8		1006		2380		1765	
Chiefs			24	5											30
Chiefs	1	7	48	11	10	2	5								
Giant Insider-Buff	26	490	3738	982					1	190		3344		1701	
Giant Insider-Orlando	50	304	2							9		313		34	
Giant Insider-Miami	17	208										168		54	
Giant Insider-LA	8	128	20	1						47		110			
Giant Insider-Charlotte	25	90	31							39		107			
Giant Insider-Atlanta	13	45	21							27		52			
Giant Insider-Dallas	8	27	37	5						38		41			
Giant Insider-Phoenix	55	18								8		67			
Giant Insider-Oakland	14	48						3		44		19			
Giant Insider-Denver	15	7	6	18	1					41		8			
Giant Insider-KC		11	7							18					
Giant Insider-Seattle	3	11	2				1			17					
Giant Insider-NO	1	4	6	4						9		6			
Giant Insider-Memphis	2		9	4						15					
Giant Insider		6	62	97	19	1				133		52			
Jets Confidential-Buff	35	244	4756	489				1	98	238	40	2502		2647	
Jets Confidential-NO	1	7	8	4						20					
Jets Confidential-Memphis	3	1	18	6						20		8			
Jets Confidential-Phoenix	35	7							2	7		33			
Jets Confidential-Seattle	15	15	9	3			1		2	26		15			
Jets Confidential-KC	5	23	26	1					2	53					
Jets Confidential-Atlanta	10	49	4						1	29		33			
Jets Confidential-Denver	28	7	6	25	4				2	42		24			
Jets Confidential-Oakland	28	56	1				2		1	40		44			
Jets Confidential-Dallas	11	28	56	11					3	58		43			
Jets Confidential-Charlotte	31	82	10						3	43		77			
Jets Confidential-LA	11	111	28	9					3	61		95			
Jets Confidential-Orlando	53	212	10						6	9		253		7	
Jets Confidential-Miami	45	262							4			239		64	
Jets Confidential		12	74	150	52	6			11	203		80			
Skins Report-Buff	20	189	2119	902				4	64	257		2398		517	
Skins Report-Charlotte	84	338	109						11	4		501		13	
Skins Report-Dallas	24	119	179	61					7	78		291		9	
Skins Report-Orlando	65	274	12						6	2		343			
Skins Report-LA	14	257	48	9					4	49		269		6	
Skins Report-Denver	30	30	10	102	14				3	69		114			
Skins Report-Oakland	28	105	4					21	1	44		113			
Skins Report-KC	7	67	53	5					3	105		24			
Skins Report-Memphis	16	5	78	35					4	34		68		6	
Skins Report-Atlanta	20	83	14						2	54		61			
Skins Report-Miami	13	81							2			92			
Skins Report-NO	8	24	31	18						42		37			
Skins Report-Seattle	7	28	18	5	1		8		1	47		15			
Skins Report-Phoenix	4								4						
Skins Report		11	150	318	86	8			9	251		313			
Shout!-Buff	921	1034	2405	619				1	1	228		3015		1736	
Shout!-Orlando	154	630	23									682		125	
Shout!-LA	37	386	64	20						41		441		25	
Shout!-Miami	40	318							1	1		223		133	
Shout!-Dallas	27	108	180	16						65		260		6	
Shout!-Charlotte	80	218	51							18		299		34	
Shout!-Oakland	36	179	6					15	1	30		205			
Shout!-Atlanta	34	150	23							60		141		6	
Shout!-Denver	49	36	13	63	19					82		98			
Shout!-Phoenix	134	41								9		146		20	
Shout!-KC	12	75	78	1						68		98			
Shout!-Memphis	22	9	63	35						88		97			

Shout!-Seattle	18	50	27	4	1		9				61		48				
Shout!-NO	10	24	22	15							50		21				
Shout!-		24	372	489	179	183					229		968		52		
Silver & Black-Buff	50	299	1883	446				4			258		2283		181		
Silver & Black-Oakland	528	1173	68					58			16		900		911		
Silver & Black-LA	79	1132	115	89							10		1081		344		
Silver & Black-Denver	112	119	81	222	61						100		440		35		
Silver & Black-Seattle	48	199	130	19	2		27				18		401		6		
Silver & Black-KC	42	242	120	16							110		304		6		
Silver & Black-Dallas	12	78	128	45							77		180		6		
Silver & Black-Orlando	43	184	7								13		201				
Silver & Black-Phoenix	132	59									8		171		12		
Silver & Black-Charlotte	41	98	24								48		115				
Silver & Black-Miami	25	81									1		105				
Silver & Black-Memphis	23	11	49	19							38		68				
Silver & Black-Atlanta	16	59	15								45		45				
Silver & Black-NO	8	34	28	21							60		29				
Silver & Black		26	310	552	213	28					218		880		31		
Packer	2009	12525	6892	3185	6549	2589	2458	133		742	711	562	15060		17956	2122	
Rams	37																
Rams	713	174	353	352	688	148	555	32			999	1336			539		
Rams	15	3	11	3	7	2	3	2		34		12					
Titans	15836	1556	545	260	245	10	38	24		535		3278		1117		13589	
Viking Update	4438	11917	4182	2373	3283	2008	1298	97			870		9883		18851		
Viking Update	133	282	128	44	54	24	10	1		243	337			74			
Viking S.C.T. edition	122	320	45	1							82		351		55		
Viking Flush edition	32	692	104								68		722		38		
Viking Phila edition	62	538	2								12		528		64		
Viking Charit edition	35	179	47								44		217				
Viking Orlando ed	64	331	123	20							13		550		20		
Vikings Columb ed	98	328									22		388		18		
Vikings Chicago ed	68	1095	49								33		910		269		
Vikings Houston ed	24	124	188	18	20						63		285		6		
Viking Denver ed	207	144	53	13							34		284		99		
Viking Saltik ed	51	11	73	164							6		239		54		
Viking Phoenix ed	292	80	5	74							33		299		119		
Viking LA CA ed	28	590									16		551		51		
Viking W. Secr ed	64	320	7								21		364		8		
Viking Prior ed	0			360	1049	259	149	98			336		1434		143		
Viking St Paul auto	4450	11981	3971	815							80		2989		18168		
Viking St Paul nonauto	117	288	121	40	50	26	13	1		241		334		79			
Totals	34087	65415	41875	18070	15478	6917	6028	1141		2604	11315	5565	78519	1270	77327	15748	
	18%	35%	22%	10%	8%	4%	3%	1%	188791	1%	6%	3%	41%	1%	40%	6%	192348

LINE UP

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-Howard Cross
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- 5.....The Biofile: Michael Strahan
- 5.....They Were Giants: Allie Sherman
- 7.....Mail Call

Cover photo by Al Pereira

IMPORTANT NOTICE:

The Giants have a bye next week and so do we. Our next issue will be mailed on Nov. 15. There is no issue on Nov. 8.



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By Ken Palmer

First DOWN

What's faster, ponies or jets?

As senior editor of *The Giant Insider*, I want to inform you of a very major problem which we have on our hands. I think it is necessary for you, a paying consumer of this publication, to understand the current problem we are having with the United States Postal Service.

Communications with disgruntled readers, of which you might be one, are making us fully aware of the fact that there is a serious problem with the delivery of *Giant Insider* to you. I want to take a moment of your time to chronicle how we publish *Giant Insider* and our commitment to you, so that you might be aware of where the true problem lies. I hope for and solicit your help in fixing this problem.

As you are aware, the majority of NFL games are played on Sunday. We have a staff of reporters and a photographer who cover the game on site. Joe Dretzo, Copy and Layout Editor, and John Johnston, Art Director, anxiously await the outcome of these games in the home publishing office. Once the final gun sounds, the game information is compiled and the statistics are input.

The staff that I previously mentioned works very diligently into the wee hours of Monday morning. Once their work is completed, these final pages are sent by T-1 line to the printer. The printer receives this information at approximately 2:00 a.m. and prepares these final pages along with the pages sent one day earlier for final printing.

At approximately 10:00 a.m. Monday, the issue is completed and the mailing addresses are applied. Once that is completed, issues are sorted, bagged and delivered to the post office by 4:00 p.m. Monday evening.

For your information, all pertinent details as to how the mail is sorted and eventually delivered to you is completed the Friday prior to the game being reported on. This allows us to have the most updated mailing records possible and is completed by our staff and mailed to the printer three days before the actual mailing of *Giant Insider*.

At this point we also pay, in advance, for the postage. There are three classes of mail: 1st Class, 2nd Class (which was reclassified as Periodical Mail more than three years ago, that's when problems began), and Bulk Mail.

Ben Franklin, the first Postmaster General, designed and put into place the postal service that is the basis for today's system. His goal was clear: deliver the mail to the American public in a secure and timely fashion.

As far as we know, that goal has not changed. However, performance in meeting the goal is lacking. At this point I am attempting to make you aware of our commitment to you to provide a product that should be delivered on time — prior to next week's game.

Our goal is to be in your home no later than Friday or Saturday preceding that game, hopefully

sooner. According to the United States Postal Service's service commitment standards, there is no reason *Giant Insider* shouldn't reach your home on time.

However, you and thousands of other readers of not only this publication but other NFL team and collegiate publications, as well as other small weekly publications that use the United States Postal Service (Periodical Mailing), are not receiving the service as promised or paid for.

Many of you call our office. Many of you are disappointed. Many of you accuse us of mail fraud. I promise you, it is our goal to get *Giant Insider* to you on time. The customer service reps whom you might

I am more mad than you can possibly imagine. I really feel sorry for you, the reader, for having to deal with late delivery.

have talked to in the past are not holding back any secret information. They can only do what is possible on our end, such as making sure your mailing address is correct and giving you instructions on how to place a postal watch on your issues at your local post office.

We are all on the same team in this matter. We do NOT want to have to deal with disgruntled subscribers. We DO want you to receive information about the New York Giants on time. Therefore, I am asking for your help.

We have been actively communicating with William J. Henderson, the United States Postmaster General. Mr. Henderson has had a multitude of staff members who have attempted to communicate back to us. One has openly admitted that there is a problem within the United States Postal Service system of delivering Periodical Mail on a timely basis as agreed to when we pay for Periodical Mail service.

However, they refuse to go on record as ever stating that fact. We have been lobbying aggressively for more than a year and will continue to do so, in order to convince the United States Postal Service to begin to deliver *Giant Insider* to you on time as agreed upon.

However, you could be of significant help. Following are the names, addresses, phone numbers and fax numbers of the United States Postmaster General William J. Henderson and Senior Vice President in charge of Marketing, Allen Kane.

We are tired of trying to convince the United States Postal Service that our readers are calling us regarding this problem. We encourage you to contact

them directly to express your complaints about the delivery of *Giant Insider*.

The United States Postal Service is not performing, but we as publishers are. The United States Postal Service has set the standard for how we are to prepare our mail. We follow it to the letter, which includes providing them the issues sorted and prepared with licensed software by the United States Postal Service. We do everything required to meet their scheduling.

Yet, they are the people who fail to comply. Am I mad about this? Maddier than you can possibly imagine. I really feel sorry for you, the reader, for having to deal with late delivery and for having to call our operators and constantly wonder why we are incapable of getting your issues to you.

An obvious, easy answer (which we dislike) is that you upgrade your subscription and pay for 1st Class. The United States Postal Service has their act together on delivering 1st Class mail. However, that will cost you an additional \$5 for the remainder of the 1999 season and I am not going to encourage you to give an additional \$5 to the United States Postal Service because they fail to deliver your issues in a timely fashion in the first place.

Moreover, it does not fix the problem that the United States Postal Service has.

Let's not forget that Benjamin Franklin's original official seal for the Post Office Department pictured "a post horse in speed, with mail bags and rider..." Obviously, Mr. Franklin wanted the American public to receive mail in a speedy and efficient manner.

Franklin had to rely on a rider on horseback. Today, the current administration cannot manage to accomplish the original objective even by using all of its jet aircraft.

I implore you to call them and complain. Let them know you are not happy and you will not be happy until this problem is solved. Thank you in advance for helping us help you.

Now, back to the important things, like cheering on the Giants!

— Ken Palmer

Please contact the following to voice your postal delivery complaints:

William J. Henderson
 United States Postmaster General
 475 L'Enfant Plaza SW, Room 10022
 Washington DC 20260-2400
 (202) 268-2500 • Fax (202) 268-4860

Allen Kane
 Senior Vice President,
 Chief Marketing Officer
 475 L'Enfant Plaza SW, Room 5021
 Washington DC 20260-2400
 (202) 268-6990 • Fax (202) 268-6057

SPECIAL FIRST CLASS UPGRADE OFFER For GIANT INSIDER Subscribers

As a subscriber to *Giant Insider*, much issue is too valuable to you to be delayed or lost in the mail. Upgrade to First Class delivery throughout the rest of the 1999 football season or for a full year with this Special Subscriber Upgrade Offer. Please complete this form and mail to the address below. Or, for fastest upgrading, you can call 1-800-932-4557 to change to your credit card.

☐ First Class Upgrade rest of football season, \$5.00 ☐ Check/Money Order Enclosed ☐ VISA ☐ MasterCard ☐ Discover

☐ First Class Upgrade one full year, \$14.95

Name _____ Card # _____ Exp. _____

Address _____ Apt. # _____

City _____ State _____ Zip _____ Phone () _____

Mail to: Giant Insider, 2604 Elmwood Ave., Suite 342, Rochester, NY 14618 or Fax to: (716) 292-0030



1-800-932-4557

1 CHAIRMAN GLEIMAN: Mr. Jones, have you had an
2 opportunity to review the packet of Designated Written Cross
3 Examination that was provided earlier?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: That being the case, counselor,
10 if you would please provide two copies of the Designated
11 Written Cross Examination of the witness to the Court
12 Reporter, I will direct that it be received into evidence
13 and transcribed into the record.

14 [Designated Written Cross
15 Examination of David M. Jones was
16 received into evidence and
17 transcribed into the record.]

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UNITED STATES OF AMERICA
Before the
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes

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)
)
Docket No. R2000-1

RESPONSE OF PROFESSIONAL FOOTBALL PUBLICATION ASSOCIATION
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
USPS/PFPA T1- 1-6
(June 29,2000)

Pursuant to rules 25 and 26 of the Rules of Practice and Procedure, the Professional Football Publication Association hereby provides responses to the interrogatories of the United States Postal Service, dated June 19, 2000. Each Interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



TONDA F. RUSH

Counsel to

Professional Football Publication Association

King and Ballow
P.O. Box 50301
Arlington, VA 22205
703/241-1480; Fax 703/534-5751

USPS/PFPA T1-1. Please refer to your testimony on page 8 where you state, "Because reader complaints have been a virtual plague these past few years, PFPA has turned increasing attention to finding solutions."

a. Please confirm that Postal Service officials at various levels have worked with your organization in order to improve the service for your publications. If you do not confirm, please explain why.

b. Please confirm that you (or someone on your staff) have provided the Postal Service a list in electronic format of all reader complaints for all the publications listed on page 2 of your testimony in calendar year 1999. If you do not confirm please provide a list of all complaints for these publications for calendar year 1999.

c. Based on the complaint information provided to the Postal Service, please confirm that the total numbers of reader complaints for calendar year 1999 are 197, 295, 241, 371 and 96 respectively for Skins Report, Shout, Giants Insider, Silver and Black Illustrated and Jets Confidential (including complaints from foreign destinations.) If you do not confirm, please explain why and provide your counts of calendar year 1999 complaints by publication.

d. Based on the complaint information provided to the Postal Service, please confirm that the total number of complaints for calendar year 1999 add up to 1200, including 12 complaints for issues that were mailed to foreign subscribers. If you do not confirm, please provide your estimate of the total number of complaints for calendar year 1999.

e. Please confirm that the publications listed at page 2 of your testimony are not sold at the newsstand and that all copies are mailed through the Postal Service. If you do not confirm, please explain why.

f. Please confirm that you mail 31 issues of each of these publications. This was derived based on the assumption that you mail weekly issues during football season (August through January) and monthly issues during off-season. If you do not confirm, then please provide the number of issues mailed for each publication listed on page 2 of your testimony.

RESPONSE:

a. Confirmed. Postal Service officials have spoken to PFPA and have worked with various individual publications to improve service. Some of our publications have participated in "publication watch" services offered by the Postal Service. However, the fixes don't seem to take. Service on one route or for one subscriber may improve temporarily while attention is focused upon that problem, but these seem to be band-aids on a gaping wound. What appears to be needed is a more systemic solution.

b. Not confirmed. The complaints I supplied with my testimony were a sample of those received by our newspapers in 1999. In addition, some complaints have been shared with individual post offices, but not a full list from the year. We no longer have a complete file of all complaints. Some were registered by phone, some by mail and some by electronic mail. It would be impossible for me to estimate how many were received by each of our titles, but the numbers had an enormous impact upon our readership and our newspapers' viability as a time-sensitive product.

c. Not confirmed. Please see my response to USPS/PFPA T1-1(b). I want to note, however, that even if we were to be able to provide an enumerated list, it would not provide the Postal Service with an accurate measurement of service complaints. My experience is that readers complain only after repeated disappointments with service, so each complaint may reflect months of late deliveries.

d. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

e. Not confirmed. All of our publications have some newsstand sales.

f. Not confirmed. Our publications have 24 issues a year.

USPS/PFPA T1-2

a. Based on the circulation of 6,000 for the Skins Report provided by you on page 2 of your testimony and the assumption that you mail 31 issues, please confirm that the total number of Skins Report mailed is 186,000 for calendar year 1999. If you do not confirm, please explain why, and provide your estimate of the number of copies mailed.

b. Based on 197 reader complaints for Skins Report in calendar year 1999 (including 2 complaints from foreign destinations), please confirm that reader complaints are 0.11 percent of total pieces mailed of 186,000. If you do not confirm, please explain why, and provide your estimate of complaints as a percentage of pieces mailed.

c. Also, please confirm that if the number of issues for Skins Report is 25 instead of 31, the mailed pieces reduce to 150,000 and reader complaints as a percent of total pieces mailed increase to 0.13 percent. If you do not confirm, please explain why.

RESPONSES:

a. Not confirmed. Skins Report is published 24 times per year. The approximate total number of copies of Skins Report mailed in 1999 was 6,000 times 24 or 144,000.

b. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

c. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

USPS/PFPA T1-3

a. Based on the circulation of 13,000 for the Shout provided by you on page 2 of your testimony and the assumption that you mail 31 issues, please confirm that the total number of Skins Report mailed is 403,000 for calendar year 1999. If you do not confirm, please explain why, and provide your estimate of the number of copies mailed.

b. Based on 295 reader complaints for Shout in calendar year 1999 (including 4 complaints from foreign destinations), please confirm that reader complaints are 0.07 percent of total pieces mailed of 403,000. If you do not confirm, please explain why, and provide your estimate of the complaints as a percentage of pieces mailed.

c. Also, please confirm that if the number of issues for Shout is 25 instead of 31, the mailed pieces reduce to 325,000 and reader complaints as a percent of total pieces mailed increase to 0.09 percent. If you do not confirm, please explain why.

RESPONSE:

a. Not confirmed. Shout is published 24 times per year. The approximate total number of copies of Shout mailed in 1999 was 10,000 times 24 or 240,000.

b. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

c. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

USPS/PFPA T1-4

a. Based on the circulation of 11,000 for the Giants Insider provided by you on page 2 of your testimony and the assumption that you mail 31 issues, please confirm that the total number of Giants Insider mailed is 341,000 for calendar year 1999. If you do not confirm, please explain why, and provide your estimate of the number of copies mailed.

b. Based on 241 reader complaints for Giants Insider in calendar year 1999 (including 2 complaints from foreign destinations), please confirm that reader complaints are .07 percent of total pieces mailed of 341,000. If you do not confirm, please explain why, and provide your estimate of the complaints as a percentage of pieces mailed.

c. Also, please confirm that if the number of issues for Giants Insider is 25 instead of 31, the mailed pieces reduce to 275,000 and reader complaints as a percent of total pieces mailed increase to 0.09 percent. If you do not confirm, please explain why.

RESPONSE:

a. Not confirmed. Giant is published 24 times per year. The approximate total number of copies of Giant mailed in 1999 was 8,000 times 24 or 192,000.

b. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

c. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

USPS/PFPA T1-5

a. Based on the circulation of 9,000 for the Silver & Black Illustrated provided by you on page 2 of your testimony and the assumption that you mail 31 issues, please confirm that the total number of copies mailed for Silver and Black Illustrated is 279,000 in a calendar year. If you do not confirm, please explain why, and provide your estimate of the number of copies mailed.

b. Based on 371 reader complaints for Silver & Black Illustrated in calendar year 1999 (including 2 complaints from foreign destinations), please confirm that reader complaints are 0.13 percent of total pieces mailed or 279,000. If you do not confirm, please explain why, and provide your estimate of the complaints as a percentage of pieces mailed.

c. Also, please confirm that if the number of issues for Silver and Black Illustrated is 25 instead of 31, the mailed pieces reduce to 225,000 and reader complaints as a percent of total pieces mailed increase to 0.16 percent. If you do not confirm, please explain why.

RESPONSE:

a. Not confirmed. Silver and Black Illustrated is published 24 times per year.

The approximate total number of copies of Silver and Black mailed in 1999 was 8,000 times 24 or 192,000.

b. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c)

c. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c)

USPS/PFPA T1-6

a. Based on the circulation of 9,000 for Jets Confidential provided by you on page 2 of your testimony and the assumption that you mail 31 issues, please confirm that the total number of Jets Confidential mailed is 279,000 for calendar year 1999. If you do not confirm, please explain why, and provide your estimate of the number of copies mailed.

b. Based on 96 reader complaints for Jets Confidential in calendar year 1999 (including 2 complaints from foreign destinations), please confirm that reader complaints are 0.03 percent of total pieces mailed of 279,000. If you do not confirm, please explain why, and provide your estimate of the complaints as a percentage of pieces mailed.

c. Also, please confirm that if the number of issues for Jets Confidential is 25 instead of 31, the mailed pieces reduce to 225,000 and reader complaints as a percent of total pieces mailed increase to 0.05 percent. If you do not confirm, please explain why.

RESPONSE:

a. Not confirmed. Jet Confidential is published 24 times per year. The approximate total number of copies of Jet Confidential mailed in 1999 was 7,000 times 24 or 168,000.

b. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

c. Not confirmed. Please see my responses to USPS/PFPA T1-1(b) and (c).

1 CHAIRMAN GLEIMAN: As I said, I'm not aware that
2 there was any request for oral cross examination. Is there
3 any interest in crossing this witness?

4 [No response.]

5 CHAIRMAN GLEIMAN: Any Additional Designated
6 Written Cross Examination?

7 [No response.]

8 CHAIRMAN GLEIMAN: If not, then, Mr. Jones, I want
9 to thank you for your contributions to our record, and for
10 your appearance here this morning. You are excused.

11 [Witness Jones excused.]

12 CHAIRMAN GLEIMAN: Ms. Rush, we're going to
13 proceed with your next witness.

14 MS. RUSH: Thank you, Mr. Chairman. National
15 Newspaper Association would like to call Max Heath to the
16 witness stand, please.
17 Whereupon,

18 MAX HEATH,
19 a witness, having been called for examination, and, having
20 been first duly sworn, was examined and testified as
21 follows:

22 DIRECT EXAMINATION

23 BY MS. RUSH:

24 Q Mr. Heath, I'm handing you a copy of a document
25 called Direct Testimony of Max Heath on Behalf of the

1 National Newspaper Association, NNA-T-1.

2 Was this testimony prepared by your or under your
3 direction?

4 A That's correct.

5 Q Do you have any corrections to make?

6 A We have two errata for typographical errors: On
7 page 8, at line 14; and page 20 line 16, that will be filed
8 with corrections.

9 Q With these corrections, would your testimony be
10 the same if prepared today?

11 A It would.

12 MS. RUSH: Mr. Chairman, I'm presenting two copies
13 of the corrected testimony to the Reporter, and request that
14 they be admitted into evidence.

15 CHAIRMAN GLEIMAN: Is there any objection?

16 [No response.]

17 CHAIRMAN GLEIMAN: Hearing none, I'll direct
18 counsel to provide two copies of the testimony of Witness
19 Heath to the Court Reporter, and the testimony to be
20 transcribed into the record and received into evidence.

21 [Direct Written Testimony of Max
22 Heath, NNA-T-1, was received into
23 evidence and transcribed into the
24 record.]

25

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

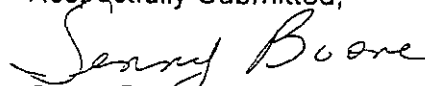
NNA-T-1

Postal Rate and Fee Changes

Docket No. R2000-1

Direct Testimony of Max Heath
On Behalf of the National Newspaper Association
(NNA-T-1)

Respectfully Submitted,



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May 22, 2000

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AUTOBIOGRAPHICAL SKETCH

1 My name is Max Heath. I am vice president/executive editor for Landmark
2 Community Newspapers, Inc. (LCNI), Shelbyville, KY, a division of Landmark
3 Communications, Norfolk, VA. I am responsible for editorial and circulation
4 development and postal issues. I am also involved with recruitment, public
5 relations and press association activities. LCNI has 48 paid weekly and daily
6 newspapers in 12 states with a total of 278,000 paid circulation, 465,000 free
7 newspaper and shopper circulation and 30,000 free specialty publication
8 circulation. We have recently also acquired a group of collegiate sports
9 publications operating in six states with 88,000 circulation.

10 I also am chairman of the National Newspaper Association (NNA) Postal
11 Committee and have served in that capacity for 12 years. I am its representative
12 on the Mailers Technical Advisory Committee (MTAC) and, in that role, have
13 served on a variety of service improvement and cost reduction teams within
14 MTAC, focusing upon the Postal Service's ongoing problems in meeting the
15 needs of periodical mailers. I testified before the Commission in R97-1 for NNA.

16 I am the community newspaper industry's principal trainer on the use of
17 postal services and understanding mail preparation and requirements. I conduct
18 approximately 10 seminars and workshops each year within the industry and
19 serve informally as a consultant to NNA members and others with postal
20 problems.

DIRECT TESTIMONY
OF
MAX HEATH

1 **I. PURPOSE AND SCOPE**

2 My testimony has three purposes:

3 1. I will explain NNA's ongoing concern about the accuracy of Revenue,
4 Piece and Weight reports with respect to in-county mail volumes.

5

6 2. I hope to add to the Commission's understanding of community
7 newspapers' use of exceptional dispatch. With NNA witness Elliott, I will provide
8 the information needed for the Commission to recommend extending the DDU
9 entry discount to these small volumes of critical mail. I will explain why changes
10 made to assist exceptional dispatch mailers in R97-1 have not been adequate to
11 meet the need. In relation to the need for the Exceptional Dispatch discount, I will
12 discuss the mail processing practices of the Postal Service with relation to
13 newspaper mail.

14

15 3. I will generally discuss the impact of the Postal Service's proposed
16 rates upon newspapers, particularly in light of continued service problems.

2 **II. The Accuracy Of The Volume Figures Produced In FY 98 And FY99**
3 **Must Be Treated Skeptically By The Commission.**

4 In R97-1, I presented NNA's concerns with the accuracy of the Revenue,
5 Piece, and Weight Report with respect to In-County volumes. As we regarded a
6 period of 10 years in which the piece totals of our subclass appeared to decline
7 from 1.738 billion in 1986 to 877 million, in 1996, we were concerned.

8 The Commission recognized our problem by adjusting the reported RPW
9 volumes for in-county mail and urged the Postal Service to work with us to
10 resolve our questions.

11 I have been part of two meetings with the Postal Service's RPW staff
12 since R97-1. We have asked questions about the methodology of compiling the
13 volume totals; particularly focusing upon the rural post offices where we believe
14 much of our members' mail is entered. We offered our views that weekly
15 newspaper circulation is increasing and that the eligible mail for the in-county
16 mailstream also should be growing.

17 It is unclear to me whether our meetings have resulted in any
18 improvements in the RPW system. However, they did result in a demand by the
19 Postal Service for NNA to present counter trends or other information to prove
20 the use of in-county mail is not in decline, essentially shifting the burden of proof
21 to us.

22 Creating statistically-valid studies on a matter as sweeping as nationwide
23 mail practices is a costly enterprise for a small association like NNA, but I
24 persuaded our board of directors in 1998 to undertake just such a study. We

2 conducted a fund-raising campaign to gather enough resources to perform the
3 study. Project Performance Corporation was retained to carry out the study, in
4 which we looked at mailing data from a wide sample of newspapers, both weekly
5 and daily, NNA members and non-members, to see whether their use of in-
6 county appeared to be increasing or decreasing.

7 Gathering the data from busy publishers who are inundated with survey
8 requests on a daily basis (including many who are not NNA members) proved to
9 be as great a challenge as we feared it might. But, because of widespread
10 industry concern about the trends in newspaper mail, high rates, and declining
11 service, we got a better response than we expected.

12 Witness Elliott of Project Performance Corporation appears in this case as
13 an NNA witness to attest to the results, which indicate that newspaper mail has
14 grown over a time when the Postal Service shows major volume declines in in-
15 county mail. From our results, it appears that newspaper mail may constitute half
16 of the in-county mailstream.

17 I am not a statistician. Nor am I knowledgeable about all types of
18 publications that may use in-county mail. But I have been involved in NNA's
19 postal affairs since 1986. During that time, I have never seen another organized
20 group appearing to defend in-county mail, nor have I encountered any other type
21 of publication group that claims to be heavy users of the mail. I believe that if
22 there were another industry group with a strong usage pattern in this subclass,
23 another voice would have been heard in all of these years. Therefore, I think it is

2 reasonable to assume that newspapers, and in particular, weekly newspapers,
3 drive this mail subclass. For our volumes to have grown while the subclass total
4 was dramatically declining, other publications would have had to have been
5 abandoning the mailstream at a rapid clip. Nothing I know of Periodical trends
6 explains a decline of this magnitude.

7 It is surprising to me that the Postal Service has taken so little interest in
8 determining the reasons for this decline. As its inattention to the mail processing
9 needs of newspapers becomes increasingly obvious to me, I wonder whether the
10 Postal Service believes that carrying this mail—its longest-standing commercial
11 product—is no longer critical to universal service.

12 I remain skeptical about the accuracy of RPW. I understand from
13 testimony in this case that only 25 post offices out of more than 26,000 non-
14 automated offices are asked to submit volume data, which must then be “blown
15 up” to produce totals. To a non-statistician like myself, 25 out of 26,000 looks
16 pretty anemic. I also understand the panel of post offices used to produce the
17 base year is infrequently refreshed, making it difficult to capture volumes that
18 may have appeared in the mid-term years.

19 I believe there remains substantial reason to question the manner in which
20 rural post office data is collected. Since our data show the opposite trend, I am
21 recommending that the Commission adjust the volume data for within county to
22 the highest supportable number. Furthermore, I believe the questions about
23 RPW must be resolved and I urge the Commission to insist upon improvements
24 in the RPW data collection system.

III. NNA Proposes Extending the DDU Discount Rate to Exceptional

2 Dispatch Mail, with Appropriate Limitations

3 In R97-1, NNA asked the Commission to recommend a discount
4 equivalent to the DDU rate for periodicals volumes utilizing exceptional dispatch.
5 In this case, I am renewing my request, suggesting some limitations that may
6 resolve misgivings about this proposal, and offering additional information that
7 may help the Commission to evaluate the need for this discount.

8 The Commission heard testimony in R97-1 from me and from Patsy
9 Speights, publisher of the Prentiss (MS) Headlight. We explained that current
10 exceptional dispatch mail was being carried by mailers at their own expense,
11 without compensation through a discount for bypassed transportation and mail
12 processing functions.

13 The Commission did not recommend the discount, but urged the Postal
14 Service to work with NNA to improve options for Plant Verified Drop Shipping
15 (PVDS). It also agreed to the Postal Service's request to lower the additional
16 entry fee from \$85 to \$50, to assist community newspapers in overcoming entry
17 barriers to achieving DDU discounts.

18 In this case, I offer further information to explain how exceptional dispatch
19 works today and why the prescriptions suggested in R97-1 have not achieved the
20 improvements the Commission may have hoped for. I explain why exceptional
21 dispatch provides both the mailers and the Postal Service with important
22 protections and why a DDU discount would add no new costs to the system, but
23 would also open no new risks for the Postal Service. I further explain that in
24 today's periodicals processing environment, it behooves both the Postal Service

2 and the newspaper industry to attract more short-haul mail into exceptional
3 dispatch.

4 In response to the Postal Service's past resistance to NNA's proposal, I
5 suggest that the Commission recommend allowing a DDU discount for
6 exceptional dispatch type mail when these conditions are met:

- 7 a. Exceptional dispatch is authorized by the postmaster to meet time-
8 sensitivity needs
- 9 b. The distance of the haul from entry office to destination office is no
10 greater than 100 miles
- 11 c. The piece volumes from issue to issue do not vary more than 2%,
12 unless a new application is filed and granted.

13 I believe these limitations will protect the Postal Service from any abuses
14 of the system that it may have feared in the past. They will still provide
15 community newspapers with a comfortable margin for distribution flexibility. They
16 will also extend an important discount that may help to move some newspaper
17 mail out of processing plants, where the Postal Service has demonstrated a
18 deficiency of ability to handle our mail efficiently.

19 **A. Exceptional Dispatch is for Small Volumes and Short Distances**

20 It is important for the Commission to understand how important
21 exceptional dispatch is, and how exceptional dispatch is successfully used today
22 to assist both mailers and the Postal Service in achieving reliable service. The
23 Domestic Mail Manual in Section D210 authorizes postmasters to permit
24 publishers to deliver copies of a time-sensitive Periodicals publication from the

2 post office of original or additional entry to other post offices. DMM D210.3.1.
3 Exceptional dispatch is permitted only for short haul distances, and neither
4 Centralized Postage Payment nor plant-verified drop shipment may be used in
5 these cases. DMM210.3.2-3.

6 Under exceptional dispatch, a publisher maintains entry privileges and
7 deposit accounts in an entry post office. Mailing statements and marked copies
8 are filed in that office. But small volumes of mail that require special attention in
9 order to achieve timely delivery will not be dropped at the entry office's dock with
10 the main volume of each issue. Instead, as the publisher (or printer) drops the
11 main mailing off at the entry office, he or she drives small bundles or sacks to
12 another office in the area, usually a very small rural office, where it first enters the
13 mailstream. This work is done at the publisher's expense and is not
14 compensated at all, except by the reward of allowing the Postal Service to meet
15 its service standards. The pieces entered in this manner are claimed on the
16 postage statement at the entry office and postage deductions from the deposit
17 account are made at the entry office.

18 Often, the drop is made on a split second schedule that permits the mail to
19 arrive at the carrier just in time for delivery.

20 In some cases, the drop is made in the afternoon for delivery the following
21 day. But even in those cases, the publisher could not take the time to stop in
22 each additional entry office, file the statement and the marked copy, wait for
23 verification and have the postage statement scrutinized so that the proper

postage can be deducted. In the real world, the mail is dropped at one time
2 and the financial settlements are made at another.

3 The Postal Service has resisted the extension of the logical DDU discount
4 to this mail, largely on the grounds that the mail is not verified. But I believe the
5 risk it fears is virtually non-existent.

6 The Postal Service has long recognized the realities of newspaper mail
7 by not requiring a mailing-by-mailing verification. In fact, the mail of each of
8 Landmark's community newspapers is verified only once a year. This practice
9 works for us, and it works for the Postal Service. It saves time for us and gives us
10 back valuable minutes that are essential to meeting demanding weekly
11 deadlines. The Postal Service is protected from abuse by the mailer by
12 requirements in the DMM that exceptional dispatch is granted only on
13 authorization of the postmaster. It additionally requires that if the pieces
14 qualifying for exceptional dispatch vary by more than 2 percent, an amended
15 application must be filed with the postmaster. DMM D201.3.5. This protection
16 avoids potential problems of a publisher's possibly adding a great many pieces to
17 the dropped container without claiming the additional postage back at the entry
18 office. If the system is abused, authorization is withdrawn.

19 It is important for the Commission to recognize that NNA is not requesting
20 anything new from the Postal Service in an operational sense. Exceptional
21 dispatch is being done today. It works fine today, with ample protection for the
22 Postal Service. It is used by time-sensitive publications only for short-haul
23 distances because publishers simply must have that option in today's
24

2 environment of troubled service. The testimony in this case further persuades me
3 of its critical importance to newspapers in the mailstream.

4 **B. Exceptional Dispatch Mail Relieves the Postal Services of**
5 **Processing And Transportation Costs**

6 The testimony presented in this case confirms what I have observed in my
7 MTAC work. The Postal Service has not met its obligation to handle newspaper
8 mail efficiently, effectively, and in a timely fashion.

9 In mail processing, in particular, I believe several factors are creating
10 particular problems for newspaper mail.

11 **1. The Postal Service Has Refused Thus Far To Equip Its FSM**
12 **1000s With Optical Character Readers**

13 The FSM 1000 was touted by the Postal Service as the answer to all the
14 flat mail that was unmanageable in the FSM 881. Newspaper mail, in fact, can be
15 handled on the FSM 1000. However, that machine was not equipped with OCRs
16 from the beginning, which in my view was a mistake. Bar code readers were
17 added later, but for most of their history, the FSM 1000s have required keying of
18 addresses. I understand the Postal Service may be considering retrofits of the
19 1000s to help to solve this problem.

20 **2. Even When Barcoded, the Full Automation of Newspapers**
21 **Eludes the Postal Service**

22 I have jumped on the bandwagon, and I am urging others to join me in the
23 use of automation. I have written in Publishers' Auxiliary, the leading training
24 newspaper for newspaper publishers interested in better mail delivery, articles

2 urging our industry to begin barcoding. I have had great success in that
3 endeavor. My own company is more than halfway to its goal of achieving fully-
4 bar-coded newspaper mail. My visits around the country indicate other
5 publications are making progress on this front as well. That is no small hurdle for
6 a publication with weekly deadlines and little down time, because it requires
7 software and printer conversions.

8 I have been chagrined to learn that so much of my effort has been wasted.
9 The Postal Service continues to use expensive manual labor to sort a lot of
10 barcoded periodicals. Furthermore, it seems to want to blame mailers in this case
11 for its uncontrolled mail processing costs. It does not take a statistician to note
12 that if low-productivity and high-cost manual labor is used to sort newspapers
13 that should have been and could have been on automated sorters, our costs will
14 rise.

15 **3. Low-Density Mail Continues To Be A Problem For The Postal**
16 **Service**

17 When small volumes of low-density mail must travel through mail
18 processing, problems are sure to follow. In my observation of the Postal
19 Service's handling practices, every time a mail piece has to be brought into a
20 facility, handled and sent out again, there is an additional opportunity for delay
21 and unnecessary cost.

22 In the early days of my career, newspaper mail was trucked by the Postal
23 Service from entry offices to area facilities on more direct routes than are now
24 used. Now, newspaper mail often leaves the county of entry and travels

2 hundreds of miles to an Area Distribution Center to be worked before it comes
3 slowly back home to an office perhaps only a short distance from the original
4 entry. This roundabout path has been made necessary by the establishment of
5 new transportation and sorting hubs built to take advantage of the machines. But
6 the new path has done nothing for newspapers but to slow them down.

7 All three of these elements lead to my conclusion that the Commission
8 would be wise to give publishers every possible incentive to bypass mail
9 processing and to truck their own mail short distances. It is no longer just a
10 question of meeting readers' needs for timely delivery. It is now a question of
11 bypassing a badly designed system that is not well equipped for our mail.

12 **C. Attempts To Force Publishers Into Additional Entry Have Not**
13 **Worked In The Past, But Publishers Continue To Save The**
14 **Postal Service Money By Bypassing Steps That Are Not**
15 **Compensated With Work-Sharing Discounts**

16 Witness Elliot testifies for NNA on the similarity between exceptional
17 dispatch mail and additional entry mail. He explains how the avoided costs of
18 each of these types of mail are virtually identical. The main difference between
19 them is that the Postal Service extends compensation to the publishers for
20 additional entry, in recognition of their time and expense in short-hauls of mail. It
21 does not recognize the identical contribution by exceptional dispatch. Oddly, the
22 Postal Service grants the SCF discount for exceptional dispatch mail, (DMM
23 D210.3.4). But rather than extend that same logic to the DDU rate, the Postal
24 Service has persisted in demanding that small newspapers either apply for

2 additional entry in order to qualify for the discount or enter into Plant Verified
3 Drop Shopping Agreements, which lead down the same path.

4 But the additional entry path merely puts unneeded hurdles in the way of a
5 small publisher, without providing any essential protection for the Postal Service.

6 **1. Additional Entry Applications Require Payment of a Fee**

7 Even at \$50 per office, the additional entry fee is a barrier for a community
8 newspaper. Many of these newspapers have a total circulation of 2,000-3,000
9 copies per week. In order to earn a 2¢ discount on each copy, a newspaper
10 would have to enter 48 copies at each office each week, just to recover the entry
11 fee. In my experience, many newspapers will haul as few as 10-15 copies to a
12 distant office because some small town nearby simply does not receive adequate
13 service without the extra haul.

14 **2. Deposit Accounts, Mailing Statements, And Marked Copies**
15 **Are Required**

16 In order to use additional entry, the publisher would have to create a
17 deposit account in each office and to file a mailing statement and a marked copy
18 at each office with each mailing. While these requirements may not seem
19 burdensome to the Postal Service, to a small town publisher the additional hours
20 in filling out and filing forms, measuring advertising and news on multiple copies,
21 writing extra checks and reconciling additional accounts adds up to a significant
22 amount of time. That time, and the lost opportunities in advertising or subscriber
23 revenue, must be measured by the publisher and added to the entry fee in order
24 to justify the expense of additional entry.

3. PVDS Is Not The Answer

2 The Postal Service has suggested that additional entries would be
3 permitted, without the additional deposit accounts and statement filings, if Plant
4 Verified Drop Shipping were used. Since the DMM prohibits PVDS in exceptional
5 dispatch, this approach is simply one more route to getting these small volumes
6 into the additional entry channels. However, in R97-1, we explained that one
7 problem with PVDS is that so few rural postmasters understand it. The
8 Commission attempted in R97-1 to help newspapers by urging the Postal Service
9 to improve its training in PVDS.

10 Since R97-1, I have seen not a single new effort by the Postal Service in
11 this area. The rural post offices with which I deal are still as unaware of and
12 disinterested in PVDS as ever.

13 It's important, however, for the Commission to understand that one reason
14 for this disinterest may be lack of demand by publishers. Even if PVDS were
15 universally available, it would not be practical for most small newspapers. On
16 short deadlines, it is a near impossibility to stop the production and delivery
17 process to allow for PVDS clerks to do their work. The split second schedules--
18 ones with which our publishers and the postmasters are familiar--have little
19 tolerance for an additional step, which may slow down the mailing process by
20 several hours and cause the delivery window to be missed. The Postal Service
21 has done a good job of recognizing this need in the field and I believe the system
22 works well in that respect, but I cannot see any reason why the publisher's
23 contribution to cost-avoidance should remain unrecognized.

D. NNA Proposes DDU Rate For Mail Delivered Within A 100 Mile

2 Radius Of Entry Office, Under Same Rules As Apply In Existing DMM
3 Regs

4 I believe the Postal Service's major reservation about the discount for
5 exceptional dispatch is an unproven possibility that it could be abused by larger
6 mailers and used somehow as an end-run around additional entry. Indeed, the
7 DMM articulates that fear by specifying that exceptional dispatch may not be
8 used to circumvent additional entry. DMM D210.3.2.

9 In my work with MTAC and with my own national publications, I believe
10 the Postal Service's fears are unfounded. Exceptional dispatch makes economic
11 sense only when the distances are short and the volumes of mail stable enough
12 to remain within the 2 percent limitation of DMM210.3.5. Moreover, the
13 postmaster has to grant the initial usage, so the Postal Service remains fully in
14 control of this process. However, in light of the history of this issue, I am
15 suggesting that the Commission recommend the discount for exceptional
16 dispatch *mail delivered within a 100-mile radius of the entry office*. It appears to
17 me that suggesting this limitation in the context of the rate and urging the Postal
18 Service to adopt it as part of the Domestic Mail Manual regulations would be
19 sufficient to accomplish the necessary goals and that no classification changes
20 are needed. It is apparent to me, however, that unless the Commission
21 recommends this discount, it will not occur from the Postal Service's action
22 alone.

2 IV. The Impact Of The Proposed Rates Upon In County And Regular Rate
3 Mail Will Be Severe And It Will Drive More Volume Out Of The Mailstream

4
5 A. The Postal Service's Estimates Of The Percentage Increases For
6 Periodicals Are Understated

7 The Postal Service in its filing has requested an average rate increase of
8 6.4%, a figure that is surprising enough in an era of low inflation. The announced
9 average increases for regular rate periodicals were 13.5% and for in-county
10 8.5%.

11 However, the true impact of the proposed rates upon newspapers within
12 Landmark Communications newspapers ranges from 9.8 percent for in-county
13 mail to 16.2 percent for regular rate mail. Our high editorial products are
14 particularly disadvantaged. I can see the dramatic impact upon, in particular, our
15 collegiate sports publications, which tend to have high editorial content. This is a
16 short list of the increases that I calculate for parts of this group within Landmark:

- 17
18 Cat's Pause, University of Kentucky, 16.5%
19 Osceola, Florida State University, 15.6%
20 Gator Bait, University of Florida, 15.4%
21 Inside Indiana, Indiana University, 15.2%
22 Carolina Blue, University of North Carolina, 14.8%
23 Huskers Illustrated, University of Nebraska, 13.2%

24
25

2 Increases of this magnitude, particularly so soon on the heels of the increases
3 from R97-1, can have no effect but to drive mail out of the mailstream that would
4 otherwise be there. I believe that the benefit of the rising newspaper circulations
5 discussed in Witness Elliott's testimony (NNA T-2) will be lost to the Postal
6 Service if increases of this magnitude continue to emerge from the Postal
7 Service.

8 **1. Newspapers Cannot Recover the Costs From Their Own**
9 **Customers**

10 Newspapers cannot increase rates in times of low inflation. Neither
11 subscribers nor advertisers will tolerate the increases—up to four or five times
12 the rate of inflation—that would have to be passed on to them in order for our
13 newspapers to recover costs. The inevitable result of attempting to pass along
14 these monumental increases would be a loss of business for newspapers, which
15 in turn will lead to a dampening effect upon the Postal Service. The fact that, in
16 our view, newspapers' actual mailstream usage may not have fallen off as much
17 as it might have is the simple fact that circulations are growing at a healthy clip.
18 But that does not mean an increase in the 10-15% range can be tolerated.

19 **2. The Inevitable Result Will Be Fewer Newspapers in the**
20 **Mailstream than the Postal Service Should Enjoy in a**
21 **Healthy Economy**

22 As witness Elliott testifies here and I have testified in both this case and
23 R97-1, weekly newspaper circulations show healthy growth. In a normal cost
24 environment for the Postal Service, the result should be steady increases in mail

2 volume. But these rates will deprive the Postal Service of the benefit of the
3 circulation growth.

4 There are two likely results from this sort of impact. Since many
5 newspapers will not be able to manage a full passthrough, one result is to reduce
6 profitability to our companies. The other, and a sad one for a devoted print guy
7 like myself, is that the Internet will pick up more business from us. In fact, our
8 collegiate papers are actively pursuing an Internet strategy, offering the Internet
9 issues for now in conjunction with the printed paper. On the first day of offering
10 by the Cat's Pause in Kentucky, we sold 10 subscriptions. Other Landmark
11 community papers are also online, and I believe many readers are going to
12 decide in time they would rather read it there than to deal with the other problems
13 that come with mail delivery. A certain amount of this diversion is inevitable for
14 the Postal Service, but in this case, it seems to me as if some parts of the Postal
15 Service are standing at the loading docks, trying to wave us off.

16 **B. Signals In This Case Are Unfriendly To Newspapers**

17 **1. Service Remains A Major Problem, But It Is Clear To Me That**
18 **Postal Service Efforts To Address This Problem Are Not At The**
19 **Root Of Cost Trends**

20 I testified in R97-1 about the severe decline in reliable service. At the time,
21 NNA was beginning work through my MTAC position on the National Periodicals
22 Service Improvement Team, where commitment to improve service without
23 creating new cost was the first order of business. Postal Service employees
24 such as Paul Vogel and Tony Dobush have made a genuine and wholehearted

2 effort to achieve the mission of this team. We were heartened during our work to
3 learn that Postmaster General Bill Henderson considers newspapers and
4 magazines to be the "anchor stores" in his vision of the postal mall of the future.

5 Process management teams, such as those in the DV Daniels plant in
6 New Jersey and some Chicago area plants have demonstrated the techniques
7 for lowering cost and improving periodicals service. I am persuaded it can be
8 done, and the Commission should not encourage inefficient management by
9 requiring mailers to pay for failures to undertake these sensible approaches to
10 service improvement.

11 Witnesses O'Tormey and Unger offered testimony in this case that
12 achieving periodicals' service expectations was one reason for the rising mail
13 processing costs. I do not believe their testimony is credible on this point for the
14 following reasons:

15 I have worked with newspapers in the mailstream since 1985. During that
16 time, our expectations for the Postal Service to achieve service standards have
17 been unchanged. We are not asking for miraculous delivery, or heroic efforts, or
18 for all facilities to be disrupted if we miss our entry times. All we have ever asked
19 for is the meeting of the service standards. No reader should receive the paper a
20 week late. No reader should receive two or three issues in a clump. No reader
21 should have to forego an opportunity to keep up with hometown news just
22 because she goes to Florida to escape the snow in Indiana. But all of that has
23 happened repeatedly during my years of NNA and MTAC service.

2 While some of the actions taken by the Service Improvement Team have helped
3 in some circumstances, the only action that will cure these persistent problems
4 over time is the application of process management tools. I associate my
5 testimony on this point with that of witness O'Brien for Time-Warner. I agree with
6 his assessments of the service matter and I hope the Commission will look with
7 skepticism upon any suggestion that demands for on-time service are at the root
8 of the rising costs in this case.

9 **2. Skin Sacks Are Not A Root Cause Of Rising Costs**

10 The Postal Service has implied in this case that increasing numbers of
11 "skin sacks," or sacks that hold fewer than the minimum number of pieces are a
12 culprit in rising costs.

13 Because I have been a proponent of some limited use of skin sacks over
14 the years, I feel called upon to respond to this point. I am persuaded from a
15 review of my own company--which is one that I can fairly reliably require to follow
16 my advice--that skin sacks are not on the increase.

17 Newspaper mailers use skin sacks for only one reason: the Postal Service
18 cannot move the issue through the facilities and to its intended destinations in
19 time to meet its standards. It has had persistent difficulties with low density, small
20 volume mailings where the mailer has not essentially already done the work: that
21 is, pieces that are not sorted to 3-digit or 5-digit bundles or containers.

22 Newspapers sometimes must resort to a skin sack to keep from losing readers.

23 However, to the extent that was true in 1998, it was equally true in 1996,
24 1993 and every other base year of a rate case in my memory. I have reviewed

2 Landmark's practices in this area and I find a) skin sacks have not increased and
3 b) we use them only as a last resort.

4 I have another reason to be skeptical of the skin sack argument.

5 I have also become fairly knowledgeable about mailing software. I
6 encourage our publications to use products I am familiar with, but for many
7 reasons, the array of software options continues to dazzle me. Most of them
8 have one interesting characteristic that tends to defeat the skin sack argument:
9 they will not produce a skin sack.

10 A few programs used by newspapers have an alternative table that a
11 circulation manager may opt to use, which will permit a skin sack to be generated
12 and a tag to be created. Most do not. Therefore, circulation managers do not
13 create the skin sacks. They suffer with the delivery problems instead.

14 I have not done an extensive review of all the software used by NNA
15 members, but I have visited many plants and conducted many seminars. I am
16 confident that, despite the fact that I have personally encouraged use of skin
17 sacks in chronic cases of bad delivery, most of my advisees have not done it
18 because the complexities of the software make it too difficult.

19 **3. When Pushed, The Postal Service Sometimes Wants To Solve**
20 **A Problem By Redefining It**

21 I have been involved in postal affairs long enough to remember the Postal
22 Service's wanting to lower service standards so it claim to meet them.

23

24

2 In this case, it proposes to solve another mailing problem by eliminating it. I am
3 referring to the proposal to eliminate the subclasses for nonprofit and classroom
4 mail to solve the problem of what it calls "rate anomalies."

5 NNA has not taken a position on legislation proposed to eliminate the
6 subclasses and I do not have an opinion on the options of nonprofit mailers to
7 support or oppose this option. I observe, however, that some of the problems in
8 capturing accurate volumes and costs for small volume mail that these
9 subclasses have faced are shared by in-county mail.

10 The Postal Service's approach to solving these problems in this case has
11 sent an inevitable signal to some that the price of complaining is annihilation. It is
12 simply too close to home for me to notice this salvo being fired without wondering
13 if in county is next.

14 Finally, putting the substance of the proposal aside, I find the postal
15 Service's new legislative approach to postal rate-setting perplexing. It seems an
16 attempt to place an issue now properly before the PRC in the hands of another
17 decision-making body with little predictability on a favorable outcome since
18 legislation can often take years. I hope this is not a new trend in postal rate
19 requests.

20 **4. The Mail Processing Cost Trend Is Alarming**

21 NNA is a member of the Periodicals Coalition and supports testimony of
22 witnesses Glick, Stralberg, O'Brien and Cohen, who have observed a variety of
23 areas where costs in the test year should be recalculated. I support their
24 recommendations.

2 I want to add a couple of observations about newspapers and mail processing
3 that may assist the Commission.

4 First, I have already mentioned my disappointment that the Postal Service
5 did not add Optical Character Readers to FSM 1000s when the machines were
6 developed. I believed at the time that decision was short-sighted and my belief
7 has proven correct. However, I have taken a lead in encouraging use of
8 barcodes and, despite the fact that the Postal Service has failed to take
9 advantage of our contribution, I will continue to do so. I believe our industry has
10 done what it could to meet the Postal Service halfway. Furthermore, I understand
11 the OCR retrofit will occur shortly and I believe it will make a substantial
12 difference.

13 Second, I have supported the Postal Service's decision that Line of Travel
14 sequencing is necessary for Periodicals mail. Although much of our mail is carrier
15 route sorted and walk sequenced and I will continue to recommend walk
16 sequencing for our newspapers, the LOT requirement will create an additional
17 cost and burden for some NNA members. I believe our industry is willing to
18 undertake the responsibility if it will help to reduce costs further.

19 Finally, I have supported the carrier routes sacks changes proposed by
20 the Postal Service, as well as the L001 changes described by witness Cohen and
21 others. While many of those changes will not affect community newspapers
22 much, there will be some incidental impact. It is one I believe our industry is
23 willing to bear, if it is necessary to improve mail processing and reduce cost.

2 However, I want to note that once again, these changes are in the direction of
3 impacting mailer behavior, and not in impacting postal processing behavior.
4 Because I have become a disciple of the process management approach taken
5 by the various MTAC industry/Postal Service teams, I believe changes in Postal
6 Service behavior can and must be made in order to avoid continuing devastating
7 impact upon mailers in this and future rate cases.

8 **V. CONCLUSION**

9 Commission should reject much of USPS's justification of costs in this
10 case and produce rates that are in line with system averages for Periodicals. It
11 should make adjustments in volume totals for in-county mail in recognition of
12 serious and abiding questions about the accuracy of RPW. (Volumes appeared
13 to increase slightly in FY '98 to 923 million, but had fallen again in FY '99 to 893
14 million.) It should grant DDU entry rates for Exceptional Dispatch, with the
15 limitations suggested by NNA, both to recognize the publishers' contributions and
16 to assist the Postal Service in diverting mail away from the troubled periodicals
17 processing environment. It should use its pricing signals to encourage USPS to
18 use process management tools that reduce cost. It should accept the testimony
19 of the various Periodicals witnesses in this case to recognize changes in
20 Periodicals costs that will occur before the test year.

21 This case may prove to be a watershed case for the relationship between
22 newspapers and the Postal Service. Anchor stores or not, newspapers will not be
23 able to serve their own customers if their delivery partner, the Postal Service,
24 cannot serve them.

DECLARATION

I, Max Heath, declare under penalty of perjury that the foregoing testimony is true and accurate to the best of my knowledge, information, and belief.

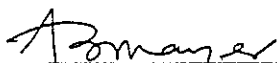


Max Heath

Dated: 5-22-00

Certificate of Service

I hereby certify that I have on this 22 day of May, 2000, served the foregoing document in accordance with the Commission's Rules of Practice.



Alexis Baden-Mayer

1 CHAIRMAN GLEIMAN: Mr. Heath, have you had an
2 opportunity to examine the packet of Designated Written
3 Cross Examination that was made available earlier?

4 THE WITNESS: Yes, sir, I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, sir.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if I could ask you to please provide two copies of the
11 Designated Written Cross Examination to the Court Reporter,
12 I will direct that it be entered into evidence and
13 transcribed into the record.

14 [Designated Written Cross
15 Examination of Max Heath was
16 received into evidence and
17 transcribed into the record.]

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OFFICE OF THE SECRETARY
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF THE NATIONAL NEWSPAPER ASSOCIATION TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
(USPS/NNA-T1-1-4)

(June 27, 2000)

The National Newspaper Association (NNA) hereby provides the responses of witness Heath to the following interrogatories of the United States Postal Service, which were filed on June 13, 2000: USPS/NNA-T1-1-4.

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

Respectfully submitted,

NATIONAL NEWSPAPER ASSOCIATION

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Counsel to the National
Newspaper Association

USPS/NNA T1-1 Please refer to your testimony on pages 14 (lines 23 & 24) & 16 (lines 2 & 3) where you state, "But rather than extend that same logic to the DDU rate, the Postal Service has persisted in demanding that small newspapers either apply for additional entry or enter into Plant Verified Drop Shopping (sic) Agreements, which lead down the same path."

a. How do additional entry and PVDS lead down the same path? Please specify and explain fully the differences and similarities between (sic) PVDS, additional entry and exceptional dispatch from your perspective as a mailer.

b. Please confirm that under a PVDS agreement, an additional entry (which requires a fee when opened) is only required at the post office where classification, rate eligibility, preparation and presort are verified if that office is not also the periodicals original entry point (DMM P750.1).

c. Please confirm that a PVDS agreement does not require a mailer to establish a deposit account in each of the offices of destination entry or to provide marked copies and mailing statements at each of the destination entry offices.

d. Please confirm that under PVDS postage is paid at the post office where the copies are presented for verification (DMM P750.1.2(b))

RESPONSE:

a. The primary similarity among PVDS, additional entry and exceptional dispatch is that all three processes avoid costly transportation and processing steps within USPS. The primary difference between them is that the mailer is compensated for the work-sharing under PVDS and additional entry, but not for an identical amount of work in exceptional dispatch.

b. I assume the placement of "only" in this sentence is intended to imply that additional entry is required only where classification, rate eligibility, preparation and presort are verified. If that is correct, I cannot confirm the statement. I am not familiar with all of the Postal Service's practices in applying PVDS, but I am aware that for small newspapers, PVDS is not a practical option

due to time constraints in the publication and mailing process, and also because of lack of knowledge and equipment in many post offices for handling PVDS.

c. I have not reviewed all of the Postal Service's PVDS agreements and therefore am unable to confirm the statement.

d. In the situations with which I am familiar, I believe PVDS postage is paid at the post office where PVDS verification occurs, but most NNA members neither use PVDS nor do they have their mail verified with each mailing, whether or not they use PVDS. My work with many periodicals mailers--both newspapers and magazines--indicates that the Postal Service simply does not verify the piece or weight totals with each mailing in the great majority of circumstances when small publications have virtually the same mailing patterns from issue to issue.

USPS/NNA T1-2 Please refer to your testimony on Page 16, line 19 where you indicate, "little tolerance for an additional step."

a. Please confirm that "additional step" is verification of mail. If not please explain what is meant by "additional step."

b. Please confirm that logistically the only difference between exceptional dispatch and PVDS agreement is that with PVDS mail is verified by the Postal Service either at the origin DMU or the origin post office rather than after deposit at each exceptional dispatch office. Please explain any negative answer completely.

c. Please confirm that using PVDS would allow the mailer to obtain work-sharing dropship discounts with mail verification prior to dispatch entry offices as compared with exceptional dispatch (which places added administrative duties on postal personnel at each accepting office per Postal Handbook DM 701-section 2-8.7.6)

RESPONSE:

a. Not confirmed. I meant more than the simple act of verification, if the question means simply weighing a paper and confirming the presort status of the mail. PVDS is a time consuming process, involving precise scheduling and interaction with a USPS clerk, which may bog down the mailing enough to create deadline problems. Also many small post offices are not equipped to verify mail, nor do they have the expertise or staffing levels for doing so. The Postal Service's previous vows to improve the expertise and staffing knowledge have produced no change in the areas where our members mail. Also, most small newspapers do not have their own printing presses, but are scheduled for printing when their suppliers have the time to get them onto the press. These are among the reasons why PVDS is unrealistic for small newspaper mailers.

b. I am not sure I understand the question because PVDS is not permitted with exceptional dispatch nor do I have access to all of the Postal

Service's PVDS agreements. I have no way of knowing the variety of methods used to perform verification in PVDS, but I can confirm that within my knowledge, PVDS mail is verified by the Postal Service before the mail is accepted.

c. I cannot confirm the statement. I do not have a copy of the handbook referenced here, nor do I have any knowledge of "added administrative duties on postal personnel." I do know that many small post offices encourage exceptional dispatch as a method of correcting the problems of poor delivery of newspapers. In fact, I've known of postmasters who extended the DU rate even when it was not authorized because it made so much logical sense to them.

USPS/NNA-T1-3 Please refer to your testimony on page 8, lines 3-4, where you state, "In R97-1, NNA asked the Commission to recommend a discount equivalent to the DDU rate for periodicals volumes utilizing exceptional dispatch."

a. What is your estimate of periodicals volume that currently utilizes exceptional dispatch? What additional volume would use exceptional dispatch if your proposal is adopted. Please explain and document your estimates completely, showing all calculations. If you do not know the answers, please propose a method that would allow the Commission to estimate the volume.

b. How much of the exceptional dispatch volume identified in part (a) would take advantage of the DDU rate for periodicals volume utilizing exceptional dispatch.

c. What is your estimate of periodicals revenue that utilizes exceptional dispatch? Please explain and document your estimate completely, showing all calculations. If you do not know the answer, please propose a method that would allow the Commission to estimate the revenue.

d. How much of the exceptional dispatch revenue identified in part (c) would be lost because of any DDU rate for periodicals volumes utilizing exceptional dispatch.

e. How much of the revenue identified in parts (c) and (d) is in the In-County subclass?

f. What percentage of In-County revenue utilizes exceptional dispatch?

RESPONSE:

a. I do not have an estimate of the present use or projected use of exceptional dispatch since I do not have access to all periodicals' mailing records, but I assume that these figures are available to the Postal Service and can be produced if needed by the Commission. In my conversations with newspaper mailers, I regularly encounter the need for greater use of exceptional dispatch, but also I find some reluctance from mailers to shoulder additional cost without compensation, as well as incredulity that the Postal Service would expect a mailer to do his own hauling to get decent service in an adjacent area, but

would not compensate the labor. I do believe that within the broad scheme of periodicals mail volume, the likely impact upon postal revenues of extending the DU rate is minuscule. In some circumstances, like the several experimental cases recently proposed by the Postal Service, the only way to predict impact is to put a rate in place and to see how the market responds. If the Commission were to recommend a DU discount for exceptional dispatch and the discount were accepted by the USPS Board of Governors, I believe there would be ample opportunity for the Postal Service to recover from any incidental negative impact within a two year time frame if it intends to propose another rate increase for 2003, as I have been advised.

b. Please see my response to USPS/NNA T1-3(a).

c. Please see my response to USPS/NNA T1-3(a).

d. Please see my response to USPS/NNA T1-3(a).

e. Please see my response to USPS/NNA T1-3(a). I would point out that the Postal Service has testified in this case that it has no idea what mail comprises the In-County subclass. If the Postal Service does not know, I think it would be a safe assumption that the answer to that question is unknowable as a practical matter and that the only way to test the impact is to allow the DU rate for exceptional dispatch and to see how the market responds.

f. Please see my response to USPS/NNA T1-3(e).

USPS/NNA T1-4 Please refer to your testimony on page 8, lines 3-4 where you state, "In R97-1, NNA asked the Commission to recommend a discount equivalent to the DDU rate for periodicals volumes utilizing exceptional dispatch."

- a. How much of the volume identified in response to part (a) of USPS/NNA-T1-3 is in the In-County subclass?
- b. What percent of In-County volume utilizes exceptional dispatch?
- c. What is the average circulation of periodicals that use exceptional dispatch?
- d. Is it your testimony that all periodicals subclasses should be allowed to claim DDU discount when they use exceptional dispatch? Please explain completely.
- e. Do you believe that any DDU discount for exceptional dispatch volume should be limited to in-county publications? Please explain completely.
- f. Do you believe that any DDU discount for exceptional dispatch volume should be limited to publications with relatively small circulation?
- g. If your response to part (f) is affirmative, what circulation limit would you propose for the publications eligible for a DDU discount when they use exceptional dispatch?
- h. What percent of In-County revenue utilizes exceptional dispatch?

RESPONSE:

- a. Please see my responses to USPS/NNA T1-3(a) and (e).
- b. Please see my responses to USPS/NNA T1-3(a) and (e).
- c. Please see my responses to USPS/NNA T1-3(a) and (e).
- d. Inasmuch as the Postal Service proposes to wipe out two periodicals subclasses in this case, I assume the appropriate reference would be to "both" periodicals subclasses in the after-rates environment. I see no reason to distinguish regular rate from in-county rate periodicals for these purposes since small newspapers use both subclasses. Furthermore, I do not believe the impact

upon the Postal Service in extending the DU discount to both subclasses would be great given the logistics and expenses of exceptional dispatch and given the Postal Service's apparent belief that PVDS works well for mailers.

e. I should clarify that my references to DDU rate and to DU rate are synonymous. For reasons not clear to me, the DDU label refers generally to Standard A mail, while DU refers to periodicals, but in both cases, they involve mail drops to the delivery unit. I do not believe the DDU discount for exceptional dispatch should be limited to in-county publications. Many exceptional dispatch mailings are those that reach outside the county of entry and into an adjacent county where mailings would otherwise require a circuitous and time-consuming haul to an ADC or SCF before being returned to the region for delivery.

f. I believe the Commission may recommend such a limitation if it so chooses, but I believe the limitation I have already proposed in my testimony is adequate to protect the Postal Service from negative impact. However, I would point out that the Commission may wish to limit the exceptional dispatch volumes eligible for DU discounts to mail destined for Zones 1-2, rather than to elect to use the mileage limitation I proposed. The Zone 1-2 limitation may prove more practical for mailers and USPS.

g. I have not examined the question from the viewpoint of circulation limitations and am not competent to answer for the wide variety of publications that may use periodicals mail. But I see no logical reason to limit this discount on a circulation basis, however, because it's clear to me that for large publications, exceptional dispatch is not useful. Exceptional dispatch is realistic only for short

haul mail and is necessary only for periodicals with tight time constraints. These natural market forces would limit the use of exceptional dispatch to periodicals that must have it and are able to arrange for the transportation necessary to carry mail only short distances.

h. This question repeats USPS/NNA T1-3(f). Please see my response to that question.

DECLARATION

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

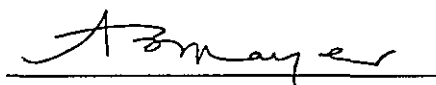
A handwritten signature in cursive script that reads "Max Heath". The signature is written in black ink and includes a long horizontal flourish extending to the right.

Max Heath

Dated: June 27, 00

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, appearing to read "A. Baden-Mayer", is written over a horizontal line.

Alexis Baden-Mayer

June 27, 2000

OFFICE OF THE SECRETARY
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF THE NATIONAL NEWSPAPER ASSOCIATION TO
INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
(USPS/NNA-T1-5-23)

(June 29, 2000)

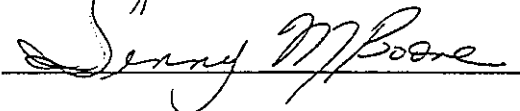
The National Newspaper Association (NNA) hereby provides the responses of witness Heath to the following interrogatories of the United States Postal Service, which were filed on June 14, 2000 (USPS/NNA-T1-5-23).

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

Respectfully submitted,

NATIONAL NEWSPAPER ASSOCIATION

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Counsel to the National Newspaper
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USPS/NNA T1-5. Please refer to page 5 of your testimony at lines 9-10 where you state that the Postal Rate Commission "...urged the Postal Service to work with us to resolve our questions."

- a. Please confirm that NNA has met jointly with the Postal Service since the close of Docket No. R97-1 to explore and attempt resolution of differences raised by NNA between NNA survey information and the Postal Service volumes for In-County mail. If you are unable to confirm, please explain fully.
- b. Please confirm that the Postal Service initiated the resolution efforts referenced in part (a). If you are unable to confirm, please explain fully and provide copies of any written documentation supporting your view.
- c. Please confirm that in the joint NNA and Postal Service meeting referenced in part (a), the Postal Service proffered its willingness to undertake and establish an In-County specific trial balance account and segment In-County and outside county on its postage statements (Forms 3541) for the purpose of resolving real or perceived differences. If you are unable to confirm, please explain fully.
- d. Please confirm that the Postal Service indicated in its response to NNA/USPS T5-44 that its proactive efforts directed toward the establishment of an In-County trial balance account known as AIC 224 have commenced and the framework for the new account is complete.
- e. Please confirm that as a result of the joint NNA and Postal Service meeting referenced in part (a), the Postal Service has provided information useful to NNA. If you are unable to confirm, please explain fully.
- f. Please confirm that as a result of the joint NNA and Postal Service meeting referenced in part (a), NNA has had an opportunity to check offices identified by the Postal Service for which In-County volume shows an appreciable decrease, and that NNA has had an opportunity to learn more about why there might be a decline in In-County mail.
- g. Please confirm that despite the Postal Service's efforts during the joint NNA and Postal Service meeting referenced in part (a) to resolve the issues raised by NNA in its R97-1 testimony, NNA failed to share with the Postal Service its survey data upon which your R97-1 testimony was based. If you are unable to confirm, please explain fully.

RESPONSE:

a. Not confirmed. There have been no meetings between NNA and USPS since the completion of the study referenced in my testimony. NNA offered a meeting and was told the discussion should continue inside the rate case. However, there were several meetings prior to NNA's decision to begin the study.

b. Not confirmed. Please see my response to part (a). However, I agree that the Postal Service met willingly with NNA, both at its initiative and possibly at my urging through my work in MTAC.

c. Confirmed in part. I believe that offer occurred prior to NNA's decision to undertake the study.

d. Confirmed in part. I understand the account code has been established. I am not certain what the "framework" for the account is, but I don't know whether it has been fully implemented.

e. Confirmed in part. Useful information has been provided. However, the specific meeting apparently suggested in part (a) did not occur, to my knowledge.

f. Not confirmed. NNA was supplied a list of offices with volume declines, but upon checking, I learned that these offices were those who were on the PERMIT system. The substantial volumes that would be reported out from the statistical sampling system apparently produce no similar reports. Since the latter set of offices are the ones where we have the greatest concern, the list was of little use. As to the opportunity to learn more about why there might be a decline, my view is that the Postal Service has no idea why there is an apparent decline and it is unable to offer any useful information on that point.

g. Confirmed, if the reference is to meetings conducted before NNA began its volume study. Because the survey apparently referenced in this question is not the one used in my testimony. The information to which I believe this question is directed was not gathered for purposes of validating or invalidating the Postal Service's volume trends but for other purposes. Pursuing further discussion about it would have lent nothing of substance to the resolution of the volume problem. I'm not sure what the reference to "failed" means, as NNA is under no obligation to share its internal data with the Postal Service outside the context of a rate case.

USPS/NNA T1-6. Please refer to page 5 of your testimony at lines 20-21 where you state that the Postal Service has "shifted the burden of proof to us [NNA]." Please provide copies of any written support you have for this statement.

RESPONSE:

Our discussions with the Postal Service have been oral. I have no correspondence or memos that document those meetings. But I would point out that the Postal Service's insistence upon mining an old survey referenced in USPS/NNA T1-5 (g) is one manifestation of the Postal Service's apparent and erroneous belief that I have an obligation to disprove the Postal Service's data, rather than the Postal Service's having an obligation to prove the data are correct.

USPS/NNA T1-7 Please refer to page 5 of your testimony at lines 17-18 where you state that "[I]t is unclear to me whether our meetings have resulted in any improvements in the RPW [S]ystem."

- a. Please confirm that you are unaware of any resultant improvements in the RPW System.
- b. If you confirm part (a), please explain what results would indicate to you an improvement in the RPW System.
- c. Would an upward or downward change in volume constitute in your opinion an improvement? Please explain fully.

RESPONSE:

a. Confirmed. As far as I can tell, the data reported in the base year of this case come from the same system we relied upon in R97-1. If there are changes that will result in improvements, they are not yet evident.

b. More frequent updating of the panel of rural post offices sampled, increased conversion of rural offices to PERMIT and larger samples taken of the offices are among the improvements that would increase the reliability of the study, as I understand the system. I'm sure there are others the Postal Service could identify itself.

c. I have no opinion on whether changes upward or downward would necessarily demonstrate an improved system.

USPS/NNA T1-8. Please refer to page 5 of your testimony at lines 22-24 where you state that you "persuaded" the board of directors to undertake a "costly" and "statistically-valid" survey.

- a. Please identify each member of the board of directors by their positions held on the board and any firm(s) or business(es) they own, operate, work for or otherwise represent.
- b. Are you also a member of the board?
- c. How costly was the survey? Please provide an approximate cost for the survey.
- d. Please explain or define your understanding of what a "statistically-valid" survey or study is.
- e. Is the study referenced in your testimony and performed by Project Performance Corporation (PPC) a "statistically-valid" study (i) in your opinion, (ii) in NNA's opinion or (iii) in PPC's opinion. Please explain fully.

RESPONSE:

- a. A list of the current NNA board of directors is attached. NNA does not maintain data on all businesses or interests maintained by its directors.
- b. No.
- c. Approximately \$75,000
- d. I understand a statistically-valid study to be one that involves random sampling of a relevant population and accurate measurement of error in the reporting from the sample.
- e. Yes, in all cases.

USPS/NNA T1-9. Please refer to page 6 of your testimony at lines 3-4 where you state that Project Performance Corporation was "retained" and "we looked at mailing data". Please describe fully the roles of PPC, witness Elliott and you in each of the design, development, implementation and analysis phases of the study. If necessary, please obtain information from the identified participants and/or redirect for supplemental responses portions of this interrogatory to witness Elliott or NNA as an institution.

RESPONSE:

PPC contracted with NNA to create a stratified sample of newspapers from NNA's database of member and non-member newspapers. It distributed survey forms to selected members, collected responses, analyzed results and produced a final written report. Witness Elliott's role, as I understand it, began midway through the project. He was involved only with the analytical phase. My role was to consult with NNA's Postal Committee about the need for the survey, to propose its conduct to the NNA Board of Directors, to assist in fund-raising to pay for the study and to assist PPC in creating the survey questions. At the conclusion of the report, I assisted the NNA staff in preparing an announcement of the results.

USPS/NNA T1-10. Please refer to page 6 of your testimony at line 11 where you state that "...we got a better response than we expected." What specific response rate or response rate range did you expect? Please explain your expectations regarding accuracy and precision.

RESPONSE:

I did not create a target range for responses, but I always approach surveys with caution because I know how busy publishers are and how many requests for survey participation they receive. Because of their roles as community leaders and opinion molders, publishers are constant survey targets. It always surprises me, but pleases me as well, when they take the time to assist NNA in gathering information.

USPS/NNA T1-11. Please confirm that the Postal Service estimates for In-County mail for the FY1998 period are based on a total panel size of over 2,200 offices for the combined non-automated and automated office segments. If you are unable to confirm, please explain fully.

RESPONSE:

As I understand testimony of USPS witness Hunter, I understand this statement to be true, but I have no independent knowledge of the size of the panel. However, it may be important to note that my focus is primarily upon the non-automated office segments, in which the population size is only 25.

USPS/NNA T1-12. Please refer to page 6 of your testimony at lines 13-15 where you state that witness Elliott indicates that newspaper mail has grown while In-County volume has declined.

- a. Please confirm that this statement by itself is not a contradiction, that is, newspaper growth and declining In-County volume are not mutually exclusive events.
- b. Please confirm that this statement alone does not in any way determine or confirm the presence, level or direction of any bias in the RPW In-County volumes.
- c. If you are unable to confirm part (a) or part (b), please explain fully.

RESPONSE:

a. Confirmed. Newspaper growth in itself says nothing about mail use, but the NNA study indicates that In-County mail use is also growing. In fact, it is my experience that when newspaper mail overall grows, so does in-county use.

b. Not confirmed. I have not said that NNA believes the RPW volumes are necessarily wrong, nor that there is no other explanation for the divergent trends of rising newspaper use, but falling overall volumes. But given the limited information we have about In-County users, there are only two reasonable inferences that come to my mind to explain the divergent trends. Either non-newspaper users are entering much less In-County mail, or the RPW data are understating actual pieces.

- c. Please see my response to USPS/NNA T1-12(b).

USPS/ NNA T1-13. Please refer to page 7 of your testimony at lines 2-3 where you state that "weekly newspapers" drive this mail subclass. Please reconcile the statement with the daily and weekly circulation subtotals shown in Table 2 of witness Elliott's testimony.

I do not see a conflict between Table 2, which states newspaper circulations and says nothing about mail usage, with my statement.

USPS/NNA T1-14. Please refer to page 3 of Appendix A in USPS LR-I-230/R2000-1 and to your testimony on page 7.

- a. Please define the term "rural" as it applies in an RPW context to segmentation of the universe of non-zero In-County volume reporting offices.
- b. Please identify that source for your assertion that only 25 offices out of 26,000 non-automated offices are sampled for the Periodicals mail category; to the extent that such materials are not part of the Postal Service direct case or were not elicited via discovery, please provide copies of all such material.
- c. Please provide your understanding of any differences between the terms non-automated office, non-zero Periodicals office and non-zero In-County Periodicals office.

RESPONSE:

a. Since the Postal Service has repeatedly refused to respond to NNA's questions about how it determines what population or revenue size qualifies an office for PERMIT or, conversely, disqualifies the offices in the sampled panel, I have no way of knowing how my understanding of rural intersects with the Postal Service's RPW reports. It is simply my observation from working with many small newspapers that the post offices in which they enter mail tend to be in small communities and tend not to be on the PERMIT system.

b. See Tr. 2/907 and NNA/USPS T5-31, Tr.2/791-792.

c. I understand a non-automated office to be one that is not on the PERMIT system; a non-zero Periodicals office to be one with some Periodicals revenue in 1996 when the panel used in this case was formed and a non-zero In-County Periodicals office to be one with some In-County revenue in 1996 when the panel in this case was formed.

USPS/NNA T1-15. Please refer to page 15 of your testimony at lines 8-9 in which you state that "[m]any of these newspapers have a total circulation of 2000-3000 copies per week."

- a. Please provide the number of these many newspapers.
- b. Please disaggregate the count from part (a) into daily and weekly papers consistent with the Table 1 categories reported in NNA witness Elliott's testimony.

RESPONSE:

a. In the version of the NNA database used to construct the sample for the NNA study, there are 61 companies publishing daily papers with circulations per issue of 2,000-3,000 and 1,083 companies publishing weekly papers with circulations per issue of 2,000-3,000.

b. See part (a).

USPS/NNA T1-16. Please refer to page 15 of your testimony at lines 8-9 in which you state that "[m]any of these newspapers have a total circulation of 2000-3000 copies per week."

- a. Please confirm that your use of the term "copies" is consistent with your use of the term circulation throughout your testimony. If you are unable to confirm, please explain fully.
- b. Please confirm that your use of the term "copies" is consistent with witness Elliott's circulation numbers provided in Tables 1-3 of his testimony. If you are unable to confirm, please explain why.

RESPONSE:

a. It is, but to be more clear, I want to explain that circulations are customarily stated by newspapers as either an annualized total or a point in time total of numbers of subscribers for each issue. So a circulation of 2,000 would mean for a weekly newspaper, for example, that there are 2,000 subscribers who have paid to receive each week's issue.

- b. Confirmed.

USPS/NNA T1-17. Please refer to page 5 of your testimony at lines 8-10. Please provide your best understanding of what problem the Commission identified and what action it took in response. Please provide citations to where the adjustment was made and otherwise explain fully the adjustment you reference.

RESPONSE:

Please see PRC Op.R97-1 at 546.

USPS/NNA T1-18. Please refer to page 5 of your testimony at line 6 where you refer to "piece totals" (pieces) and to page 15 of your testimony at lines 8-9 where you refer to "copies."

- a. Please confirm that Postal Service reports piece-based volumes, and provide your understanding of the distinction between "pieces" and "copies."
- b. Please confirm that all references to volumes by you and witness Elliott in your testimonies in this docket are piece-based and not copy-based. If you are unable to confirm, please identify and list all copy-based references shown in either testimony.
- c. Please confirm that all references to volumes by you and witness Elliott in your testimonies pertaining to prior year surveys are piece-based and not copy-based. If you are unable to confirm, please identify and list all copy-based references shown in either testimony.

RESPONSE:

a. My understanding is that the Postal Service tabulates piece in volume reports. In virtually all circumstances, a newspaper executive's understanding of "pieces" and "copies" would make those words synonymous. The only exception would be firm bundles that have multiple "copies" in a single postal "piece," but in my experience that practice is minimal by newspapers, who mostly are mailing to households where only one copy is desired.

b. Not confirmed. Please see my response to subpart (a). But the distinction is insignificant to the subclass.

c. Not confirmed. Please see my response to subpart (b).

USPS/NNA T1-19. Please define the term "circulation" as used throughout your and witness Elliott's testimonies. *If possible, please compare and contrast your definition(s) to the terms "copies" and "pieces" as used by the Postal Service on Postage Statements and as used in the DMM pertaining to Periodicals mailing requirements.*

RESPONSE:

Please see my response to USPS/NNA T1-18(a). In virtually every circumstance that comes to mind, a copy and a piece would be synonymous in the contexts referenced here. It may also be useful to add that I believe most respondents to the survey retrieved their data on mailed copies from postage statements and, in those cases, reported to us in "pieces" and not "copies." The distinction is so small as to be meaningless, however, and was not important to our results.

USPS/NNA T1-20. Please refer to page 26 of your testimony at lines 11-14 where you state that "[i]t [the Commission] should make adjustments..." to In-County Volumes, "...in recognition of serious and abiding questions about the accuracy of RPW. (Volumes appeared to increase slightly in FY'98 to 923 million, but had fallen again in FY '99 to 893 million.)"

- a. Please explain fully how a slight increase in one year followed by a decrease the next year raises "serious and abiding questions" about the accuracy of the estimates for either or both years.
- b. How would your answer to part (a) differ if instead a slight decrease in one year was followed by a slight increase?

RESPONSE:

a. This question infers that a 30 million piece decline in a time of apparently growing newspaper use of in-county is "slight," but in any event, it is not the data point of any single year that is the focus of my concern. Rather it is the apparent trend of decline, the lack of explanation for reasons why and the evidence that newspapers are increasing their use of the subclass that raises serious and abiding questions, in my view.

b. It wouldn't.

USPS/NNA T1-21. Please refer to page 26 of your testimony at lines 11-14 where you state that "[i]t [the Commission] should make adjustments" to In-County Volumes "...in recognition of serious and abiding questions about the accuracy of RPW. (Volumes appeared to increase slightly in FY'98 to 923 million but had fallen again in FY '99 to 893 million.") Please confirm that the FY 1998 volume rounded to the nearest million is 924 million pieces and not 923 million pieces and that the FY 1998 volume represents a decline of approximately 23 million pieces from the FY 1997 volume as you have stated, but rather a decrease. If you are unable to confirm, please explain fully.

RESPONSE:

Confirmed that the 1997 volume was 947 million and that the 1998 volume was 924 million as rounded. The total in 1996 was 878 million, however, and in my testimony it was the rise from 1996 to 1997 to which I meant to refer. It is interesting to me that the increases in volume appears to have happened after the panel was reconstructed, if I understand the proper sequence of events.

USPS/NNA T1-22. Please refer to page 7 of your testimony at lines 7-8 where you determine that the Postal Service has "...little interest in determining the reasons for this decline." Please explain this statement in the context of the Postal Service's ongoing efforts to improve its estimates of In-County volumes notwithstanding the small size of this subclass. Please include in your explanation your test for what demonstrates on the Postal Service's part "sufficient interest" in the underlying reasons behind the apparent decline in volumes for the subclass.

RESPONSE:

This question asks me to assume the truth of its assertion, which I cannot do. In my view, the Postal Service has taken only one action in response to NNA's requests and that is to establish a financial accounting code--something that should have been done years ago. Beyond that, the response has been largely defensive of the current system, as well as manifestly evident of the Postal Service's belief revealed in this question: that the "small size of the subclass" makes neither a high degree of accuracy nor any degree of interest in the loss of this business a very high priority. Inasmuch as the question does not attribute the term "sufficient interest," I cannot define it. It is not my term.

USPS/NNA T1-23. Please refer to page 7 of your testimony at lines 16-18 where you "...understand the panel of post offices used to produce the base year is infrequently refreshed, making it difficult to capture volumes that may have appeared in the mid-term years."

- a. Please identify the basis in the Postal Service's direct case (including discovery) for your characterization of the panel as "infrequently refreshed." Please provide copies of any other supporting documentation.
- b. How often would you deem it suitable to update a panel? What information would you require to make this determination? What information might a survey practitioner require? Please explain fully.
- c. Please provide your understanding of the combined ratio estimator used in the BRPW to construct estimates of In-County volumes as described in Section 5 of USPS/LR-I-26/R200-1 and in response to NNA/USPS T5-36(k).
- d.
 - (i) Please identify all materials supporting your opinion that there has been difficulty capturing volumes in mid-term years; provide copies of any that are not part of the Postal Service direct case.
 - (ii) Please explain fully your understanding of how the difficulty referenced in subpart (i) affects BRPW results for FY 1998.
 - (iii) Please provide any computations you or others have used to quantify in absolute or relative terms any supposed missed volumes.

RESPONSE:

- a. See Tr. 2/909.
- b. The panel should be updated as often as is necessary to capture changes in the subclass. Given the apparently rapid decline in volumes, it would appear the Postal Service believes the subclass is changing dramatically. "What information....a survey practitioner" might require is outside my field and I am not competent to respond.
- c. It is outside my field.
- d.
 - (i) My understanding is that the latest survey of offices to determine non-zero In-County revenues was the base year in R97-1 or possibly earlier. Revenues that did not appear during that year or that have appeared since would presumably not be captured in the survey. See Tr. 2/909.
 - (ii) Please see my response to part (i).
 - (iii) It is not my role in this case to calculate missing volumes, nor would I have any fathomable access to the data for so doing, particularly given the Postal

Service's policies with regard to individual post office data. The burden of providing accurate volume data belongs to the Postal Service, not to NNA.

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DECLARATION

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

A handwritten signature in cursive script that reads "Max Heath". The signature is written in dark ink and includes a long horizontal flourish extending to the right.

Max Heath

June 29, 2000

1 CHAIRMAN GLEIMAN: Is there any Additional
2 Designated Written Cross Examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross examination. Two parties have requested cross
6 examination of this witness, Advo, Inc., and the United
7 States Postal Service.

8 Is there any other party that wishes to cross
9 examine?

10 [No response.]

11 CHAIRMAN GLEIMAN: If not, then does Advo have
12 cross examination?

13 [No response.]

14 CHAIRMAN GLEIMAN: Apparently, Advo -- we either
15 got the papers mixed up, or Advo has decided that it's going
16 to stick with the written record at this point.

17 That brings us to the Postal Service. Mr.
18 Hollies?

19 CROSS EXAMINATION

20 BY MR. HOLLIES:

21 Q Good morning, Mr. Heath. I'm Ken Hollies on
22 behalf of the Postal Service, and I do have a few questions
23 for you.

24 Do you have your interrogatory responses with you?

25 A I do.

1 Q Okay, could you turn to the first one of those
2 from the Postal Service?

3 T-1-1?

4 That's the one. Part (c) asks you to confirm that
5 under a plant-verified drop ship agreement, also known as
6 PVDS, no deposit account at each destination office --
7 destination entry office is necessary.

8 Your answer then states, quote:

9 "I have not reviewed all of the Postal Service's
10 PVDS agreements, and therefore am unable to confirm the
11 statement." End quote.

12 Why would you need to review all PVDS agreements
13 in order to answer that question?

14 A Well, it's not certain my mind what might be
15 happening out there in the field, because from some of my
16 experience, about any arrangement that could happen, does
17 happen somewhere along the line.

18 So, I realized the rules, I believe, do call for
19 it as you outline there, but I'm not sure what goes on in
20 the field.

21 Q The rules do call for -- what was that?

22 A I think that the rules do indicate in the Manual,
23 I believe, the DMM, that it would work as you outlined
24 there, but I have no way of knowing for sure, how it's
25 actually carried out in the field.

1 Again, I find widely varying practices occurring
2 with in the Postal Service on the issues very similar to
3 this all the time.

4 Q Did you review the DMM section cited in Part (b)
5 of that interrogatory when preparing your response?

6 A I knew what it said because I work with it a lot.
7 I don't know that I looked at it at the time.

8 Q You seem to have some understanding of how PVDS
9 works for a mailer. On at least a surface level, that is
10 reflected, I believe, in your response to Part (a) of this
11 interrogatory.

12 Have you ever learned the Postal Service's
13 operational procedures lying behind PVDS?

14 A Have I ever learned them, did you say?

15 Q Are you familiar with them?

16 A In a general sort of way, yes.

17 Q Would you think that how the Postal Service
18 operationally handles PVDS mailings is pertinent to the
19 Commission's understanding of a proposal for a discount such
20 as you apparently support?

21 A Well, I could presume that would be a fair
22 statement.

23 Q Interrogatory USPS/NNA-T-2, also inquires about
24 the Postal Service's operational treatment of PVDS.

25 In particular, Part (b) asks if you appreciate

1 that a major distinction between PVDS and exceptional
2 dispatch is when and where a mailing is verified.

3 Your response states, in part, quote:

4 "I am not sure I understand the question, because
5 PVDS is not permitted with exceptional dispatch." End
6 quote.

7 Can you tell me where the Postal Service has
8 asserted that PVDS is permitted with exceptional dispatch?

9 A Well, now, I'm not sure that we're saying that it
10 is.

11 Q What is it that you don't understand about the
12 question?

13 [Pause.]

14 A Well, as I say, there are many practices that are
15 either mal-applied or misapplied or winked at. I just don't
16 know for sure what really goes on out there in the world of
17 plant-verified drop shipment.

18 The only thing that we're trying to assert is that
19 we're doing the same work avoidance with exceptional
20 dispatch and getting no discount recognized for it.

21 Q The focus of this question is not the mailer's
22 activity, but the Postal Service's activity when it receives
23 mail entered via exceptional dispatch, as opposed to PVDS.

24 Part (b) asks you to confirm a difference in the
25 operations of the Postal Service, and your response says,

1 "I'm not sure I understand," and then you state something I
2 think we agree on, PVDS is not permitted with exceptional
3 dispatch.

4 Can you confirm Part (b) of the second Postal
5 Service interrogatory to you?

6 A Can I confirm that PVDS is not permitted with
7 exceptional dispatch?

8 Q Well, that would be a start, yes.

9 A According to the manual, I believe you'd be
10 correct.

11 Q Okay, can you confirm Part (b) of the
12 interrogatory?

13 MS. RUSH: Mr. Chairman, if I can jump in here, I
14 believe the written response confirms the part of this
15 interrogatory the Postal Service is trying to have
16 confirmed, and that's that PVDS mail is verified by the
17 Postal Service before the mail is accepted.

18 I'm not quite sure what the point of the question.
19 If counsel could be a little clearer?

20 CHAIRMAN GLEIMAN: I'm glad you spoke up. I'm a
21 little bit confused. You're asking him to verify his
22 answer, or verify the Part (b) of the interrogatory, your
23 question? I don't understand.

24 MR. HOLLIES: I'm asking if he can confirm the
25 substance of the question, which he did not do. He claimed

1 he could not, because he didn't understand.

2 He said, quote, "I am not sure I understand the
3 question, because PVDS is not permitted with exceptional
4 dispatch."

5 Now, we've established that they're not permitted,
6 and I'm asking if that means that he can confirm this
7 interrogatory question, which was the initial request.

8 MS. RUSH: Mr. Chairman, I would assert that the
9 witness has effectively confirmed the question. He has
10 simply said he can't necessarily review all of these PVDS
11 agreements and know what's going on out there.

12 CHAIRMAN GLEIMAN: Now that we understand what it
13 is that Postal Service counsel is asking, let him try to
14 frame the question one more time to the witness and see if
15 there is a response from the witness.

16 BY MR. HOLLIES:

17 Q Can you confirm that under PVDS, mail is verified
18 prior to its receipt at the delivery unit, whereas with
19 exceptional dispatch, it is verified after receipt at the
20 delivery unit?

21 A Well, I think I can confirm in my mind that under
22 the MMP-750, that it does require that PVDS mail be verified
23 prior to dispatch.

24 I'm not sure that I can confirm the second part of
25 what you said about the exceptional dispatch being confirmed

1 at the other end.

2 Q Why can you not confirm that?

3 A I'm not sure that I know that that happens. I'm
4 not sure that I believe it does, or that the rules require
5 it to happen, that exceptional dispatch is confirmed at the
6 other end.

7 Q Okay, all right.

8 [Pause.]

9 In the response to Number 2, your answer goes on
10 to repeat that you don't have access to all of the PVDS drop
11 ship agreements, and that therefore you have, quote, "no way
12 of knowing the variety of methods used to perform
13 verification."

14 I believe that's what you were just telling me.
15 Is it your testimony that mail verification procedures
16 described in PVDS agreements countermand the regulations
17 found in the DMM?

18 A I certainly think it's possible. I had a
19 Postmaster one time in a two in Kentucky who just said drive
20 around the town square and wave at me, and I'll consider you
21 plant-verified.

22 [Laughter.]

23 BY MR. HOLLIES:

24 Q And I take it that you conclude that's a violation
25 of DMM procedures?

1 A I agree it would be, yes, sir.

2 Q Interrogatories 3 and 4 of the Postal Service to
3 you asked whether you could quantify volume and revenue
4 impacts of your proposed destination entry discount for
5 periodicals volume entered via exceptional dispatch.

6 And you were unable to provide the Commission with
7 that information. I light of this, and because the
8 Commission might reasonably be concerned about the financial
9 impact of such a discount, I would like to explore with you,
10 some possible ways to limit the scope, and thus the
11 potential financial impact of such a discount:

12 You identify three in your testimony at page 9.
13 Do you recall what they are?

14 A Yes. Let me just review them for certainty,
15 though.

16 Of course, the authorization by the Postmaster,
17 which is in the current regulations; the distance of the
18 haul, which we said is a distance no greater than 100 miles.
19 After giving that some thought, we've amended that in the
20 interrogatory to suggest that an easy way to have an
21 ascertainment on that would be to limit it to Zones 1 and 2
22 territories, rather than trying to figure out exactly what
23 100 miles is.

24 And then that the piece volumes do not vary by
25 more than two percent, as is in the current regulation.

1 Q And do you think these would be reasonable
2 limitations?

3 A Yes, sir, it is my belief that exceptional
4 dispatch is primarily used by small-circulation,
5 small-volume, local-entered publications.

6 And, you know, I don't believe the Postal Service
7 has ever refuted that fact, and we're not talking about
8 great quantities here, and they're not taken very far.

9 We believe that these conditions would protect the
10 Postal Service and create a good situation for small
11 publishers that need to avoid entering and having mail
12 hauled to a hub to be returned into its adjoining counties
13 or some parts of its in-county market.

14 Q From your response, I take you have some idea of
15 the volumes that would be involved, perhaps not based on a
16 quantified study, but could you share your understanding
17 with us?

18 A Well, the average NNA member is, you know, under
19 5,000 circulation, I believe, and the majority of its mail
20 circulation is entered at its home Post Office, its office
21 of original entry.

22 In some cases, transportation is such that mail
23 goes out to the Post Offices within the county without the
24 necessity of an exceptional dispatch.

25 More often, though, for the subscribers,

1 especially for county-line newspapers and so forth that are
2 in the adjoining county, there is a hub problem that causes
3 them to take some minor portion of their mail -- need to
4 take some minor portion of their mail to an associate office
5 or offices, sometimes in-county, probably a little more
6 frequently even in an adjoining county, in order to get time
7 of the delivery of that information to satisfy their news
8 and advertising customers.

9 My suspicion is, my best guess is, if you're
10 looking for it, I guess, is that it would probably be maybe
11 at the most, ten percent, 20 percent at the highest;
12 probably ten to 20 percent of a total mail circulation of a
13 paper that would average under 5,000.

14 Q In response to Part (f) of Interrogatory 4 from
15 the Postal Service, which is where you identify that Zones 1
16 and 2 might be a better alternative to the 100-mile limit,
17 you recognize still another possible limitation on a
18 destination entry discount for mail entered via exceptional
19 dispatch.

20 Do you recall what that is?

21 A Beyond Zones 1 and 2?

22 Q Well, I believe that if you refer to the question
23 itself --

24 A Oh, relative to small circulation? Well, I think,
25 like anything else, there's always going to be an exception

1 that could occur.

2 I know that there have been a few papers that are
3 regional in scope that are still community newspapers.
4 There are even some papers that are regional in scope that
5 probably get more into the class of a metro newspaper.

6 I believe there might be some papers that
7 occasionally would want to take advantage of this privilege
8 because they rely on mail circulation in rural parts of
9 states like Nebraska or someplace, which comes to mind from
10 a couple that I can think of.

11 So, you know, I don't believe that it should be
12 limited to very small publications or in-county
13 publications, but I believe that it's predominant use would
14 be by very small publications and in-county publications.

15 Q So, if I may characterize and see if you'll agree
16 with me, you wouldn't personally support a circulation
17 limit, although maybe you can see that it could be a
18 reasonable limit?

19 A Well, I'd rather not concede that it would be a
20 reasonable limit; I'm just asserting that it would be used
21 primarily by small-circulation publications.

22 About 95 percent of its use, I believe, would be
23 by very small publications of under 5-10,000.

24 Q Are you aware that the DMCS, the Domestic Mail
25 Classification Schedule, applies a sortation requirement on

1 periodicals pieces entered at destination entry discounts?

2 To put that in different verbiage, there's a
3 carrier route sortation requirement for within-county and
4 outside-county. The citations I could give you would be to
5 the DMCS as we've proposed it, as opposed to what now
6 exists.

7 But are you aware that those destination entry
8 discounts do require carrier route sortation?

9 A On reflection, I think I would agree with that.

10 Q And would that seem fair and appropriate for
11 pieces entered via exceptional dispatch at a delivery unit
12 discount?

13 A Well, generally speaking, our members would not be
14 interested in taking small quantities of, say, five-digit
15 mail to a destination Post Office.

16 Generally speaking, there would be
17 carrier-route-sorted mail that would be -- that we're
18 talking about in this instance, so I think that that is a
19 concession that we'd be willing to make.

20 Q Thank you.

21 Are you a statistician?

22 A No, I'm not.

23 Q Do you have any background in statistics?

24 A No, I don't. I'm mathematically challenged and
25 proud of it.

1 [Laughter.]

2 THE WITNESS: I'm an editor by background.

3 BY MR. HOLLIES:

4 Q Interrogatory 5 from the Postal Service, 5(a) in
5 particular, inquired regarding meetings between NNA and the
6 Postal Service subsequent to the R97-1 case.

7 And when asked to confirm that any such meeting
8 took place, your response was: Not confirmed.

9 Is that still your response?

10 A Well, since the completion of the study that we
11 did.

12 Q But was that the question?

13 A Well, it says between -- raised between NNA survey
14 information and the Postal Service volumes, indicating to me
15 that it was designed to mean since the NNA survey.

16 Q Could you turn to Number 5, please?

17 A I have it here.

18 Q All right, what does Part A say?

19 A Please confirm the NNA has met jointly with the
20 Postal Service since the close of Docket R97-1 to explore an
21 attempt resolution of differences raised by NNA between
22 NNA's survey information and the Postal Service volumes.

23 Q And so was there a meeting subsequent to Docket
24 R97-1?

25 A If you exclude the between NNA survey information

1 from the question, there were, I believe, two meetings.

2 Q Well, you provided some information in your
3 testimony in the last docket, last rate case; did you not?

4 A I believe that's correct.

5 Q And are you telling me that that was not a survey?

6 A Well, the Postal Service tried to challenge it as
7 not being a survey, but we thought it was a pretty good
8 survey.

9 Q You thought that. All right, if you could answer
10 the question in assuming that that survey was the subject of
11 the question, what would your answer be?

12 A We could say that there have been two meetings.

13 Q Thank you. Could you provide your understanding
14 of what occurred at those meetings?

15 A Well, mostly the Postal Service was indignant and
16 defensive about their in-county numbers. And we tried to
17 ask a few questions, didn't get too many answers.

18 Q Well, I was given to understand that two
19 individuals at the meeting didn't mesh particularly well,
20 but that that was not a widely shared perspective. But
21 would you differ with me on that?

22 A Well, did you say anything that was any different
23 than what I just said?

24 [Laughter.]

25 BY MR. HOLLIES:

1 Q I think we can move on. Would you agree that as a
2 result of the joint meeting, NNA requested and the Postal
3 Service agreed to provide a list of same site offices
4 showing a sizable decline in in-county volume?

5 A There was a list provided. It turns out that that
6 was permit offices and it was really of no value to us since
7 we were more interested in what was going on at the very
8 small number of panel offices that represented the
9 non-permitted offices.

10 Q But you would agreed that you got a listing of
11 perhaps 353 offices identified by Post Office name, city and
12 zip code, and that they represented about 20 percent of all
13 PERMIT System offices showing a decline of 10 or more in
14 in-county volume between FY '97 and '98?

15 A We did get that list, it just wasn't of much value
16 to us in retrospect, after we examined it.

17 MR. HOLLIES: I have a cross-examination exhibit
18 which I would like to distribute at this time. In light of
19 the fact I expected it to be the second such exhibit, it is
20 marked as USPS/NNA-T1-XE-2. I don't plant to use the first
21 in light of the last exchange we just had. My counsel can
22 distribute copies, there are approximately 20 total. So,
23 others who may find them of interest could see them as well.

24 CHAIRMAN GLEIMAN: For purposes of clarity in the
25 transcript, I think we will change it to Exhibit Number 1.

1 That way, folks won't be routing around looking for Exhibit
2 Number 1 later on. So, I will just -- the court reporter
3 will make the appropriate change.

4 [Cross-Examination Exhibit No.
5 USPS/NNA-T1-XE-1 was marked for
6 identification.]

7 MR. HOLLIES: Okay. Each page is marked.

8 CHAIRMAN GLEIMAN: I think he can handle that.

9 MR. HOLLIES: Okay.

10 BY MR. HOLLIES:

11 Q Mr. Heath, have you had a chance to look this
12 over?

13 A Yes, sir, I have.

14 Q Would you agree that this cross-examination
15 exhibit appears to be copies of three pieces of
16 correspondence sent to counsel for NNA by the Postal
17 Service?

18 A I agree that it is.

19 Q And is there not an attachment to the letter
20 marked January 27 -- dated January 27, 1999?

21 A Yes, there is.

22 Q Might that be the list of the 353 offices?

23 A I believe it is. Yeah, and our greatest concern
24 was with the non-permitted offices, where we know these
25 numbers probably have to be correct since they are permitted

1 offices. But the smaller offices, where we believe our
2 members enter the majority of their mail, we believe are
3 non-permitted offices.

4 Q Well, are there smaller offices in the permit
5 offices, PERMIT System offices?

6 A Primarily, they seem to be pretty good size
7 offices for the most part. At least almost all cases,
8 almost SCF level or above in some cases.

9 Q So you would not agree that there are a number of
10 small offices in the PERMIT System grouping you were given?

11 A Not under my definition of small, no, sir. Not
12 relatively speaking of the 29,000 offices in the Postal
13 Service that those offices would represent, small offices
14 for the most part.

15 Q Okay. We will get back to that. Could you please
16 read the second paragraph of the 1/27/99 letter?

17 A "We are disappointed that NNA cannot provide to
18 the Postal Service the survey data on which Mr. Heath's R97
19 testimony was based. The Postal Service staff responsible
20 for our volume system has been anxious to compare it
21 directly with our PERMIT data and perhaps resolve the
22 specific issues raised by NNA's testimony."

23 Q Does that paragraph convey to you the Postal
24 Service's interest in comparing your data to the Postal
25 Service's data to see if something could be learned from

1 that?

2 MS. RUSH: Mr. Chairman, I think it is appropriate
3 for me to jump in here at this point and say that none of
4 this correspondence has been authenticated. Mr. Heath is
5 not copied or named. It is not written by him. We are
6 happy to have him respond to what he knows firsthand. But I
7 think getting him to effectively adopt this as his testimony
8 by having him read it is going to be a little misleading on
9 the record.

10 CHAIRMAN GLEIMAN: I don't think that his reading
11 the letter at the request of Postal Service counsel
12 indicates that he is adopting it, and I appreciate the point
13 you have raised about the authentication of the letters. We
14 are going to let counsel proceed at this point.

15 MS. RUSH: Thank you, Mr. Chairman.

16 MR. HOLLIES: Mr. Chairman, I did discuss this
17 with counsel in advance and I do not have any plans of
18 seeking admission into evidence of this correspondence.
19 This is purely for discussion purposes.

20 BY MR. HOLLIES:

21 Q Did we get an answer to that last question, Mr.
22 Heath?

23 A I am not sure we did. I read the paragraph, and
24 would you mind repeating the question?

25 Q The question was whether you understood that that

1 point conveys an interest on the part of the Postal Service
2 in comparing your data, that which you presented in your
3 R97-1 testimony, with that which was available to the Postal
4 Service as way of trying to learn more about the situation?

5 A I guess as a general statement, I could agree with
6 that.

7 Q So, did NNA follow-up at all with the list of
8 PERMIT System offices and the information included on that
9 list, to your knowledge?

10 A We did spend considerable time trying to look at
11 those and determine if we could get any information from
12 certain offices about what might be going on at those
13 offices, I believe. But, again, once we realized they were
14 all permitted offices, I don't believe we understood
15 initially that they were -- nor does this letter
16 necessarily, I believe, verify for sure that it was all
17 permit offices. And so, since our problem has been mainly
18 with the non-permitted offices, we just didn't consider it
19 to be as valuable as we had hoped.

20 Q So, are you saying that you began to check and
21 then stopped when you found out they were PERMIT System
22 offices, or did you complete some of the checks?

23 A Well, we completed some of the checks, I believe.

24 Q And what did you learn from those checks?

25 A We had a hard time getting anybody really to

1 understand what was going on out there. The call that we
2 made, people couldn't explain, they couldn't come up with
3 any information about why the volumes might be shifting that
4 much. It was only, at the best, a wild guess.

5 Q Did you get a chance to scan through or read the
6 April 30 and May 26 letters? I am not going to ask you to
7 read them out loud?

8 A April 30th and May 26th letters.

9 Q They are in the pages 9, 10 and 11 of the
10 cross-examination exhibit.

11 A I am not sure I am aware of the letters that you
12 are speaking of.

13 Q Okay, so you haven't seen them before?

14 A I don't think so, no.

15 Again, I am not sure which letters you are
16 speaking of but if you are talking about letters that
17 proposed the survey or talked about raising funds for the
18 survey, I participated in those letters. I am not sure
19 which letters you are referring to.

20 Q Well, I believe the April 30 letter provides the
21 information about which you were just speaking, that is,
22 that the list of offices was not -- excuse me, that a list
23 of offices was PERMIT system offices, right?

24 A Well --

25 MS. RUSH: Could we just clarify that we are still

1 on the cross examination exhibit? I think the witness may
2 not have the page.

3 MR. HOLLIES: Page 9, paragraph 2. I'm sorry,
4 paragraph 1.

5 CHAIRMAN GLEIMAN: Counsel, do you want to
6 approach the witness and maybe help him out with all the
7 paper that flies around here?

8 THE WITNESS: Oh, I see. I'm sorry, yes. All
9 right.

10 I have never seen that letter, no -- and no, I am
11 not familiar with those two letters.

12 BY MR. HOLLIES:

13 Q Could you read the last sentence of the first
14 paragraph of the April 30 letter?

15 A The last sentence -- I believe it's, "He may be
16 reached at the address below."

17 Which paragraph?

18 Q Paragraph 1. Does it not read, "After discussing
19 your question with Postal Service personnel responsible for
20 compiling the report I can confirm that the information we
21 provided comprises PERMIT data alone."

22 A That's correct, yes.

23 Q Okay. So you couldn't disagree with the
24 characterization of this being a vehicle by which NNA was
25 informed they were actually all PERMIT system offices?

1 A Yes, I couldn't under that proof there.

2 Q And so in the interval between January 27 of '99
3 and April 30 of '99 you followed up on some of the data but
4 were really unable to learn anything constructive, is that
5 your testimony?

6 A I believe that would be correct.

7 MR. HOLLIES: Mr. Chairman, I am not, as I said,
8 going to move for the admission of these letters into the
9 evidentiary record, but I would ask that they be transcribed
10 in the transcript.

11 CHAIRMAN GLEIMAN: Counsel?

12 MS. RUSH: We have no objection to the
13 transcription as long as it is understood that they are not
14 record evidence.

15 CHAIRMAN GLEIMAN: They are not going to be in
16 evidence. We are just going to transcribe what I decided
17 was going to be called "Cross Examination Exhibit Number 1"
18 into the record.

19 It is not -- n-o-t -- entered into evidence.

20 [Cross-Examination Exhibit
21 USPS/NNA-T1-XE-1 was transcribed
22 into the record.]

23

24

25



January 27, 1999

Tonda F. Rush, Esq.
King & Ballow
P.O. Box 50301
Arlington, VA 22205

Dear Tonda:

Please find enclosed the listing that you requested, of post offices that reported a drop in within-county volume from FY 1997 to FY 1998. The post offices are identified by name and ZIP code, so that you should be able to locate and analyze the changes in mailing habits of your organization's mailers utilizing each post office.

We are disappointed that NNA cannot provide to the Postal Service the survey data on which Mr. Heath's R97-1 testimony was based; the Postal Service staff responsible for our volume systems has been anxious to compare it directly with our PERMIT data and perhaps resolve the specific issues raised by NNA's testimony.

We consider that our steps in establishing an AIC account specific to within-county mail will further enhance the accuracy of our estimates, as will the segmentation of within-county and outside-county mail on the Postal Service's new postage statements (PS Forms 3541). We are hopeful that the information we are providing to you herein, along with our previous discussions regarding the Postal Service's methodology for computing within-county mail volume, will assist NNA in learning more about its members' behavior. When you have completed your study, we would be very interested in your findings.

Sincerely,

A handwritten signature in cursive script, appearing to read "Anne Reynolds".

Anne Reynolds
Attorney
National Litigation

CBCIS OFFICES REPORTING DROP IN IN-COUNTY VOLUME
10% OR MORE - SAME OFFICE COMPARISON - FY98 VS. FY97

13:38 Monday, January 25, 1999 1

(UNINFLATED VOLUME)

TYPE	SAMESITE	NAME	DIFF
CBCIS	Y	SAN JUAN PR 00936	-354,456
CBCIS	Y	HOLYOKE MA 01040	-6,928
CBCIS	Y	NATICK MA 01760	-50,671
CBCIS	Y	CHELMSFORD MA 01824	-22,976
CBCIS	Y	BEVERLY MA 01915	-58,996
CBCIS	Y	NASHUA NH 03061	-121,759
CBCIS	Y	PETERBOROUGH NH 03458	-20,434
CBCIS	Y	HANOVER NH 03755	-8,476
CBCIS	Y	NORTH HAVERHILL NH 03774	-3,751
CBCIS	Y	PORTLAND ME 04101	-22,425
CBCIS	Y	BANGOR ME 04401	-22,732
CBCIS	Y	BRATTLEBORO VT 05301	-21,753
CBCIS	Y	BURLINGTON VT 05401	-7,385
CBCIS	Y	MONTPELIER VT 05602	-224
CBCIS	Y	HARTFORD CT 06101	-401,845
CBCIS	Y	NEW HAVEN CT 06511	-11,596
CBCIS	Y	CLIFTON NJ 07015	-24,962
CBCIS	Y	UNION NJ 07083	-132,307
CBCIS	Y	ELIZABETH NJ 07207	-253,646
CBCIS	Y	JERSEY CITY NJ 07303	-1,499
CBCIS	Y	ENGLEWOOD NJ 07631	-15
CBCIS	Y	RED BANK NJ 07701	-27,902
CBCIS	Y	ASBURY PARK NJ 07712	-15,807
CBCIS	Y	HACKETTSTOWN NJ 07840	-8,920
CBCIS	Y	SUMMIT NJ 07901	-5,444
CBCIS	Y	CHERRY HILL NJ 08034	-3,861
CBCIS	Y	BELLMAWR NJ 08099	-344,412
CBCIS	Y	VINELAND NJ 08360	-162,853
CBCIS	Y	PRINCETON NJ 08540	-102,306
CBCIS	Y	TRENTON NJ 08650	-46,131
CBCIS	Y	TOMS RIVER NJ 08753	-3,519
CBCIS	Y	EAST BRUNSWICK NJ 08816	-191
CBCIS	Y	PISCATAWAY NJ 08854	-130,108
CBCIS	Y	NEW BRUNSWICK NJ 08901	-28,988
CBCIS	Y	NEW YORK NY 10199	-1,026,666
CBCIS	Y	FRANKLIN SQUARE NY 11010	-5,024
CBCIS	Y	JAMAICA NY 11431	-157,733
CBCIS	Y	GLEN COVE NY 11542	-24,295
CBCIS	Y	LAWRENCE NY 11559	-60,334
CBCIS	Y	LYNBROOK NY 11563	-73,136
CBCIS	Y	VALLEY STREAM NY 11580	-59,403
CBCIS	Y	LINDENHURST NY 11757	-702
CBCIS	Y	PATCHOGUE NY 11772	-23,381
CBCIS	Y	PORT JEFFERSON S NY 11776	-28,233
CBCIS	Y	RONKONKOMA NY 11779	-92,343
CBCIS	Y	ALBANY NY 12288	-185,347
CBCIS	Y	SARATOGA SPRINGS NY 12866	-850
CBCIS	Y	PLATTSBURGH NY 12901	-4,919
CBCIS	Y	AUBURN NY 13021	-282
CBCIS	Y	ROME NY 13440	-12,514
CBCIS	Y	ONEONTA NY 13820	-98,882
CBCIS	Y	LEWISTON NY 14092	-442
CBCIS	Y	OLEAN NY 14760	-907

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CBCIS OFFICES REPORTING DROP IN IN-COUNTY VOLUME
10% OR MORE - SAME OFFICE COMPARISON - FY98 VS. FY97

13:38 Monday, January 25, 1999 2

(UNINFLATED VOLUME)

TYPE	SAMESITE	NAME	DIFF
CBCIS	Y	HORNELL NY 14843	-8,006
CBCIS	Y	ITHACA NY 14850	-141,104
CBCIS	Y	ELMIRA NY 14901	-3,683
CBCIS	Y	JOHNSTOWN PA 15901	-7,502
CBCIS	Y	ERIE PA 16515	-118,950
CBCIS	Y	HANOVER PA 17331	-3,258
CBCIS	Y	POTTSVILLE PA 17901	-17,481
CBCIS	Y	BETHLEHEM PA 18016	-15,911
CBCIS	Y	SCRANTON PA 18505	-85,705
CBCIS	Y	PITTSBURGH PA 18640	-36,786
CBCIS	Y	WILKES-BARRE PA 18701	-256,311
CBCIS	Y	BRYN MAWR PA 19010	-4,804
CBCIS	Y	MEDIA PA 19063	-54,203
CBCIS	Y	WEST CHESTER PA 19380	-15,586
CBCIS	Y	READING PA 19612	-10,486
CBCIS	Y	WILMINGTON DE 19850	-55,772
CBCIS	Y	WASHINGTON DC 20066	-1,045,781
CBCIS	Y	HAGERSTOWN MD 21740	-4,993
CBCIS	Y	SALISBURY MD 21801	-7,604
CBCIS	Y	CENTREVILLE VA 22020	-23
CBCIS	Y	FALLS CHURCH VA 22046	-11,273
CBCIS	Y	LEESBURG VA 22075	-1,723
CBCIS	Y	MERRIFIELD VA 22081	-3,119
CBCIS	Y	VIENNA VA 22180	-26,619
CBCIS	Y	ARLINGTON VA 22210	-11,101
CBCIS	Y	SUFFOLK VA 23434	-5,685
CBCIS	Y	HAMPTON VA 23670	-9,362
CBCIS	Y	ROANOKE VA 24022	-83,392
CBCIS	Y	STAUNTON VA 24401	-28,451
CBCIS	Y	PARKERSBURG WV 26101	-3,214
CBCIS	Y	CLARKSBURG WV 26301	-7,281
CBCIS	Y	MORGANTOWN WV 26505	-6,725
CBCIS	Y	RURAL HALL NC 27045	-8,861
CBCIS	Y	RALEIGH NC 27613	-410,317
CBCIS	Y	GREENVILLE NC 27834	-10,246
CBCIS	Y	SHELBY NC 28150	-57,146
CBCIS	Y	HICKORY NC 28603	-45,065
CBCIS	Y	ASHEVILLE NC 28810	-62,049
CBCIS	Y	WEST COLUMBIA SC 29169	-28,567
CBCIS	Y	CHARLESTON SC 29423	-155,138
CBCIS	Y	ANDERSON SC 29621	-53,820
CBCIS	Y	HILTON HEAD ISLA SC 29928	-2,036
CBCIS	Y	DECATUR GA 30030	-107,771
CBCIS	Y	NORCROSS GA 30071	-24,533
CBCIS	Y	FAYETTEVILLE GA 30214	-185,169
CBCIS	Y	MACON GA 31213	-49,249
CBCIS	Y	VALDOSTA GA 31603	-21,273
CBCIS	Y	PANAMA CITY FL 32401	-21,727
CBCIS	Y	FORT WALTON BEAC FL 32548	-17,053
CBCIS	Y	ORLANDO FL 32862	-69,249
CBCIS	Y	MELBOURNE FL 32901	-6,338
CBCIS	Y	COCOA FL 32922	-71,022
CBCIS	Y	BOCA RATON FL 33431	-5,135

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CBCIS OFFICES REPORTING DROP IN IN-COUNTY VOLUME
10% OR MORE - SAME OFFICE COMPARISON - FY98 VS. FY97

13:38 Monday, January 25, 1999 3

(UNINFLATED VOLUME)

TYPE	SAMESITE	NAME	DIFF
CBCIS	Y	ZEPHYRHILLS FL 33540	-9,807
CBCIS	Y	PLANT CITY FL 33566	-60,794
CBCIS	Y	SAINT PETERSBURG FL 33730	-40,994
CBCIS	Y	LAKELAND FL 33805	-53,808
CBCIS	Y	SEBRING FL 33870	-1,843
CBCIS	Y	WINTER HAVEN FL 33880	-7,765
CBCIS	Y	PUNTA GORDA FL 33950	-120
CBCIS	Y	VENICE FL 34285	-5,455
CBCIS	Y	OCALA FL 34478	-54,732
CBCIS	Y	NEW PORT RICHEY FL 34653	-21,380
CBCIS	Y	FT PIERCE FL 34981	-1,371
CBCIS	Y	HUNTSVILLE AL 35813	-78,045
CBCIS	Y	ANNISTON AL 36201	-27,136
CBCIS	Y	AUBURN AL 36830	-23,252
CBCIS	Y	GALLATIN TN 37066	-126,728
CBCIS	Y	MCMINNVILLE TN 37110	-5,967
CBCIS	Y	CLEVELAND TN 37311	-22,342
CBCIS	Y	TULLAHOMA TN 37388	-22,070
CBCIS	Y	MORRISTOWN TN 37813	-14,427
CBCIS	Y	MEMPHIS TN 38101	-355,497
CBCIS	Y	DANVILLE KY 40422	-14,816
CBCIS	Y	RICHMOND KY 40475	-2,246
CBCIS	Y	PIKEVILLE KY 41501	-14,576
CBCIS	Y	CAVE CITY KY 42127	-21,004
CBCIS	Y	GLASGOW KY 42141	-7,181
CBCIS	Y	HENDERSON KY 42420	-7,049
CBCIS	Y	ELIZABETHTOWN KY 42701	-60,088
CBCIS	Y	DELAWARE OH 43015	-2,245
CBCIS	Y	NEWARK OH 43055	-19,850
CBCIS	Y	WESTERVILLE OH 43081	-12,691
CBCIS	Y	ZANESVILLE OH 43701	-20,397
CBCIS	Y	CAMBRIDGE OH 43725	-23,727
CBCIS	Y	BEREA OH 44017	-11,162
CBCIS	Y	LORAIN OH 44052	-21,494
CBCIS	Y	MEDINA OH 44256	-22,848
CBCIS	Y	MANSFIELD OH 44901	-25,682
CBCIS	Y	GREENFIELD OH 45123	-7,754
CBCIS	Y	CINCINNATI OH 45234	-800,165
CBCIS	Y	DAYTON OH 45401	-184,979
CBCIS	Y	ATHENS OH 45701	-4,559
CBCIS	Y	MARIETTA OH 45750	-7,811
CBCIS	Y	FINDLAY OH 45840	-26,693
CBCIS	Y	LEBANON IN 46052	-7,709
CBCIS	Y	CROWN POINT IN 46307	-38,860
CBCIS	Y	EAST CHICAGO IN 46312	-4,874
CBCIS	Y	MICHIGAN CITY IN 46360	-10,837
CBCIS	Y	GARY IN 46401	-83,620
CBCIS	Y	MISHAWAKA IN 46544	-27,296
CBCIS	Y	NORTH WEBSTER IN 46555	-1,029
CBCIS	Y	NOTRE DAME IN 46556	-18,436
CBCIS	Y	BERNE IN 46711	-38,012
CBCIS	Y	HUNTINGTON IN 46750	-773
CBCIS	Y	NEW ALBANY IN 47150	-2,492

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CBCIS OFFICES REPORTING DROP IN IN-COUNTY VOLUME
10% OR MORE - SAME OFFICE COMPARISON - FY98 VS. FY97

13:38 Monday, January 25, 1999 4

(UNINFLATED VOLUME)

TYPE	SAMESITE	NAME	DIFF
CBCIS	Y	COLUMBUS IN 47201	-2,382
CBCIS	Y	MUNCIE IN 47302	-7,837
CBCIS	Y	RICHMOND IN 47374	-8,035
CBCIS	Y	WASHINGTON IN 47501	-12,635
CBCIS	Y	TERRE HAUTE IN 47808	-7,666
CBCIS	Y	BIRMINGHAM MI 48012	-207,579
CBCIS	Y	PORT HURON MI 48060	-4,549
CBCIS	Y	ANN ARBOR MI 48108	-20,898
CBCIS	Y	BRIGHTON MI 48116	-318,401
CBCIS	Y	ROCHESTER MI 48308	-151,569
CBCIS	Y	FARMINGTON MI 48335	-6,204
CBCIS	Y	HOWELL MI 48843	-220,081
CBCIS	Y	LANSING MI 48924	-21,406
CBCIS	Y	BATTLE CREEK MI 49016	-103
CBCIS	Y	HASTINGS MI 49058	-11,669
CBCIS	Y	SAINT JOSEPH MI 49085	-10,698
CBCIS	Y	HOLLAND MI 49423	-7,489
CBCIS	Y	LUDINGTON MI 49431	-4,423
CBCIS	Y	MUSKEGON MI 49440	-1,985
CBCIS	Y	CADILLAC MI 49601	-166,434
CBCIS	Y	HOUGHTON MI 49931	-7,968
CBCIS	Y	ATLANTIC IA 50022	-15,145
CBCIS	Y	PELLA IA 50219	-9,000
CBCIS	Y	DES MOINES IA 50318	-154,253
CBCIS	Y	LE MARS IA 51031	-26,053
CBCIS	Y	DUBUQUE IA 52001	-35,754
CBCIS	Y	MARION IA 52302	-14,688
CBCIS	Y	FORT MADISON IA 52627	-1,664
CBCIS	Y	BETTENDORF IA 52722	-7,946
CBCIS	Y	DAVENPORT IA 52802	-26,621
CBCIS	Y	WEST BEND WI 53095	-5,047
CBCIS	Y	MONROE WI 53566	-3,023
CBCIS	Y	SUN PRAIRIE WI 53590	-14,982
CBCIS	Y	SHAWANO WI 54166	-66,533
CBCIS	Y	RHINELANDER WI 54501	-8,102
CBCIS	Y	CHIPPEWA FALLS WI 54729	-24,498
CBCIS	Y	OSHKOSH WI 54901	-3,663
CBCIS	Y	APPLETON WI 54911	-12,795
CBCIS	Y	RED WING MN 55066	-8,673
CBCIS	Y	HOPKINS MN 55343	-19,533
CBCIS	Y	GRAND RAPIDS MN 55744	-3,622
CBCIS	Y	MANKATO MN 56001	-20,374
CBCIS	Y	WASECA MN 56093	-142,317
CBCIS	Y	DETROIT LAKES MN 56501	-27,574
CBCIS	Y	FERGUS FALLS MN 56537	-72,265
CBCIS	Y	MOORHEAD MN 56560	-4,045
CBCIS	Y	BROOKINGS SD 57006	-4,202
CBCIS	Y	GRAND FORKS ND 58201	-20,334
CBCIS	Y	BUTTE MT 59701	-1,601
CBCIS	Y	GLENVIEW IL 60025	-95,847
CBCIS	Y	MCHENRY IL 60050	-35,228
CBCIS	Y	DE KALB IL 60115	-7,584
CBCIS	Y	ELGIN IL 60120	-67,853

USPS/NUVA-TI-XE-1 P.5

CBCIS OFFICES REPORTING DROP IN IN-COUNTY VOLUME
10% OR MORE - SAME OFFICE COMPARISON - FY98 VS. FY97

13:38 Monday, January 25, 1999 5

(UNINFLATED VOLUME)

TYPE	SAMESITE	NAME	DIFF
CBCIS	Y	GLEN ELLYN IL 60137	-1,251,421
CBCIS	Y	VILLA PARK IL 60181	-32,107
CBCIS	Y	WEST CHICAGO IL 60185	-26,483
CBCIS	Y	WHEATON IL 60187	-5,592
CBCIS	Y	CAROL STREAM IL 60188	-39,372
CBCIS	Y	OAK PARK IL 60301	-432,145
CBCIS	Y	TINLEY PARK IL 60477	-9,074
CBCIS	Y	BEDFORD PARK IL 60499	-77,053
CBCIS	Y	AURORA IL 60507	-14,762
CBCIS	Y	NAPERVILLE IL 60540	-29,619
CBCIS	Y	BOURBONNAIS IL 60914	-34,233
CBCIS	Y	DIXON IL 61021	-8,110
CBCIS	Y	ROCKFORD IL 61125	-78,879
CBCIS	Y	BLOOMINGTON IL 61701	-112,940
CBCIS	Y	CHAMPAIGN IL 61821	-140,806
CBCIS	Y	SPARTA IL 62286	-15,787
CBCIS	Y	CARBONDALE IL 62901	-2,029
CBCIS	Y	HAZELWOOD MO 63042	-277
CBCIS	Y	SAINT LOUIS MO 63155	-1,413,433
CBCIS	Y	CAPE GIRARDEAU MO 63701	-13,685
CBCIS	Y	POPLAR BLUFF MO 63901	-23,245
CBCIS	Y	BLUE SPRINGS MO 64015	-8,394
CBCIS	Y	INDEPENDENCE MO 64050	-40,799
CBCIS	Y	LEES SUMMIT MO 64063	-41,425
CBCIS	Y	LINN MO 65051	-6,673
CBCIS	Y	COLUMBIA MO 65201	-19,579
CBCIS	Y	MEXICO MO 65265	-19,233
CBCIS	Y	ROLLA MO 65401	-6,100
CBCIS	Y	LAWRENCE KS 66044	-21,707
CBCIS	Y	LINCOLN NE 68501	-130,991
CBCIS	Y	GRETNALA 70053	-91,219
CBCIS	Y	KENNERLA 70062	-4,025
CBCIS	Y	NEW ORLEANSLA 70113	-70,625
CBCIS	Y	HAMMONDLA 70401	-2,270
CBCIS	Y	LAFAYETTELA 70501	-17,834
CBCIS	Y	LAKE CHARLESLA 70601	-32,064
CBCIS	Y	BOSSIER CITYLA 71111	-75,976
CBCIS	Y	WEST MONROELA 71291	-49,950
CBCIS	Y	EL DORADOAR 71730	-7,636
CBCIS	Y	SEARCYAR 72143	-13,715
CBCIS	Y	SPRINGDALEAR 72764	-10,388
CBCIS	Y	ARDMOREOK 73401	-27,413
CBCIS	Y	BARTLESVILLEOK 74003	-34,989
CBCIS	Y	SHAWNEEOK 74801	-40,561
CBCIS	Y	GRAND PRAIRIETX 75051	-8,225
CBCIS	Y	LEWISVILLETX 75067	-10,521
CBCIS	Y	BIG SANDYTX 75755	-2,509
CBCIS	Y	PALESTINETX 75801	-6,192
CBCIS	Y	LUFKINTX 75901	-20,525
CBCIS	Y	WACOTX 76702	-32,020
CBCIS	Y	HOUSTONTX 77201	-2,158,748
CBCIS	Y	SUGAR LANDTX 77478	-14,072
CBCIS	Y	PASADENATX 77501	-28,986

USPS/NOVA-TI-XC-P.6
9-1-98

10996

CBCIS OFFICES REPORTING DROP IN IN-COUNTY VOLUME
10% OR MORE - SAME OFFICE COMPARISON - FY98 VS. FY97

13:38 Monday, January 25, 1999 6

(UNINFLATED VOLUME)

TYPE	SAMESITE	NAME	DIFF
CBCIS	Y	GALVESTON TX 77550	-1,733
CBCIS	Y	PEARLAND TX 77581	-41,810
CBCIS	Y	BRYAN TX 77801	-17,501
CBCIS	Y	COLLEGE STA TX 77840	-1,764
CBCIS	Y	MCALLEN TX 78501	-35,228
CBCIS	Y	AMARILLO TX 79120	-206,146
CBCIS	Y	ABILENE TX 79604	-19,482
CBCIS	Y	EL PASO TX 79910	-47,505
CBCIS	Y	AURORA CO 80017	-56,057
CBCIS	Y	WESTMINSTER CO 80030	-40,244
CBCIS	Y	WHEAT RIDGE CO 80033	-6,964
CBCIS	Y	ENGLEWOOD CO 80110	-34,680
CBCIS	Y	LITTLETON CO 80126	-101,827
CBCIS	Y	DENVER CO 80266	-198,624
CBCIS	Y	GOLDEN CO 80401	-30,268
CBCIS	Y	TWIN FALLS ID 83301	-472
CBCIS	Y	RUPERT ID 83350	-464
CBCIS	Y	IDAHO FALLS ID 83401	-6,556
CBCIS	Y	REXBURG ID 83440	-89,472
CBCIS	Y	COEUR D ALENE ID 83814	-7,265
CBCIS	Y	HAYDEN ID 83835	-14,563
CBCIS	Y	MOSCOW ID 83843	-816
CBCIS	Y	PROVO UT 84605	-2,271
CBCIS	Y	MESA AZ 85201	-15,798
CBCIS	Y	CASA GRANDE AZ 85222	-4,434
CBCIS	Y	GREEN VALLEY AZ 85614	-6,910
CBCIS	Y	SIERRA VISTA AZ 85635	-3,046
CBCIS	Y	BULLHEAD CITY AZ 86442	-14,916
CBCIS	Y	FARMINGTON NM 87401	-1,613
CBCIS	Y	SANTA FE NM 87501	-2,135
CBCIS	Y	LAS CRUCES NM 88001	-29,573
CBCIS	Y	SPARKS NV 89431	-2,916
CBCIS	Y	RENO NV 89510	-5,085
CBCIS	Y	CULVER CITY CA 90230	-13,255
CBCIS	Y	MALIBU CA 90265	-984
CBCIS	Y	REDONDO BEACH CA 90277	-2,042
CBCIS	Y	VENICE CA 90291	-138
CBCIS	Y	LA HABRA CA 90631	-5,253
CBCIS	Y	NORWALK CA 90650	-1,680
CBCIS	Y	BELLFLOWER CA 90706	-3,315
CBCIS	Y	LAKEWOOD CA 90714	-848
CBCIS	Y	LOS ALAMITOS CA 90720	-171,950
CBCIS	Y	LONG BEACH CA 90809	-165,891
CBCIS	Y	TARZANA CA 91356	-403
CBCIS	Y	BURBANK CA 91505	-40,338
CBCIS	Y	CORONA CA 91720	-24,399
CBCIS	Y	SAN GABRIEL CA 91776	-21,184
CBCIS	Y	CHULA VISTA CA 91910	-7,004
CBCIS	Y	LA JOLLA CA 92037	-11,150
CBCIS	Y	POWAY CA 92064	-4,917
CBCIS	Y	SAN DIEGO CA 92199	-3,961,288
CBCIS	Y	FONTANA CA 92335	-33,325
CBCIS	Y	EL TORO CA 92630	-800

USPS/NNM-TI-XC-1 P.7

CBCIS OFFICES REPORTING DROP IN IN-COUNTY VOLUME
10% OR MORE - SAME OFFICE COMPARISON - FY98 VS. FY97

13:38 Monday, January 25, 1999 7

(UNINFLATED VOLUME)

TYPE	SAMESITE	NAME	DIFF
CBCIS	Y	HUNTINGTON BEACH CA 92647	-8,411
CBCIS	Y	ORANGE CA 92667	-32,107
CBCIS	Y	TUSTIN CA 92680	-19,170
CBCIS	Y	WESTMINSTER CA 92683	-15,359
CBCIS	Y	OXNARD CA 93030	-3,011
CBCIS	Y	LOS ALTOS CA 94022	-10,166
CBCIS	Y	MOUNTAIN VIEW CA 94042	-12,220
CBCIS	Y	REDWOOD CITY CA 94063	-23,858
CBCIS	Y	S SAN FRANCISCO CA 94080	-11,398
CBCIS	Y	SAN MATEO CA 94402	-2,578
CBCIS	Y	ALAMEDA CA 94501	-1,512
CBCIS	Y	ANTIOCH CA 94509	-8,193
CBCIS	Y	CONCORD CA 94520	-10,426
CBCIS	Y	SAN RAMON CA 94583	-4,017
CBCIS	Y	RICHMOND CA 94802	-5,154
CBCIS	Y	MORGAN HILL CA 95037	-4,829
CBCIS	Y	SAN JOSE CA 95101	-202,513
CBCIS	Y	STOCKTON CA 95213	-29,211
CBCIS	Y	ELK GROVE CA 95624	-139,352
CBCIS	Y	FOLSOM CA 95630	-7,326
CBCIS	Y	WEST SACRAMENTO CA 95691	-63,108
CBCIS	Y	WEST SACRAMENTO CA 95799	-409,924
CBCIS	Y	GRASS VALLEY CA 95945	-978
CBCIS	Y	BOTHELL WA 98011	-3,437
CBCIS	Y	EDMONDS WA 98020	-5,497
CBCIS	Y	ISSAQUAH WA 98027	-11,748
CBCIS	Y	WOODINVILLE WA 98072	-1,147
CBCIS	Y	SEATTLE WA 98109	-2,035,046
CBCIS	Y	OLYMPIA WA 98501	-10,727
CBCIS	Y	PULLMAN WA 99163	-2,461
CBCIS	Y	SPOKANE WA 99210	-533,811
CBCIS	Y	WALLA WALLA WA 99362	-28,661
CBCIS	Y	FAIRBANKS AK 99709	-5,526
CBCIS	Y	JUNEAU AK 99803	-24,261
CBCIS	Y	KETCHIKAN AK 99901	-712

USPS/NOVA-71-KC-8.8



April 30, 1999

Tonda F. Rush, Esq.
King & Ballow
P.O. Box 50301
Arlington, VA 22205

Dear Tonda:

This responds to the questions that you posed last week, regarding information which the Postal Service provided to NNA in January. In response to a request from NNA, the Postal Service had prepared a listing of offices that reported significant within-county volume changes. Last week, you asked whether that listing included only offices on the PERMIT system, or whether non-automated offices were also represented. After discussing your question with Postal Service personnel responsible for compiling the report, I can confirm that the information we provided comprises PERMIT data alone.

You additionally stated, if the January listing were drawn exclusively from PERMIT offices, NNA now wishes to obtain similar information for non-PERMIT offices, so that NNA might explore a similarity in trends between "large" and "small" offices. At this time, the Postal Service is unable to provide this additional information to you, but because the materiel supplied in January does include data on both large and small offices (an office's automation on the PERMIT system is dictated by its total revenue, rather than its within-county revenue), NNA should be able to make a meaningful comparison using the data provided.

The Postal Service appreciates having had the opportunity to share information with NNA regarding changes in within-county volume. At this time, our plan is to turn towards upcoming Commission initiatives, and we expect that further opportunities to explore these issues may arise in such a context.

As a personnel note, I will be out of the office for the next several months, and ask that you direct future correspondence on this matter to Kenneth Hollies,

Attorney, International and Ratemaking Law. He may be reached at the address below, and at 202-268-3083.

Sincerely,

A handwritten signature in black ink, appearing to read 'Anne Reynolds', with a stylized flourish at the end.

Anne Reynolds
Attorney
International and Ratemaking Law

ATTORNEY
LAW DEPARTMENT



He is Hunter

May 26, 1999

Ms. Tonda Rush, Esq.
King and Ballow
P.O. Box 50301
Arlington, VA 22205

Dear Ms. Rush:

This responds to your May 10, 1999 letter directed jointly to Ms. Anne Reynolds and me regarding the efforts of the National Newspaper Association (NNA) and the United States Postal Service to explore volumes for within-county mail.

We are gratified that NNA appreciates the considerable time and effort devoted by postal personnel since the close of Docket No. R97-1 to resolving your questions, and that information provided by the Postal Service has answered many of them. While we would have preferred also to learn more about data in the possession of NNA regarding this issue, we hope that the RPW data we have provided will enable NNA to "continu[e] to examine this issue with its Postal Committee and its mailers to explore possible reasons for the apparent volume decline", as indicated in your letter. We also appreciate that, as you also indicate, the list of "offices where volumes showed an appreciable decrease" should enable you to spot check those offices and determine why specific publications enter less mail in this subclass; we look forward to an opportunity to review your findings when and if they become available.

Meanwhile, as indicated in our April 30 letter to you, we are compelled to turn our resources to other matters requiring attention.

Thank you for the opportunity to work with NNA to resolve matters of joint concern. When you have more information to share, please feel free to contact me again on this issue.

Sincerely,

Kenneth N. Hollies
Kenneth N. Hollies
International and Ratemaking Law

475 L'ENFANT PLAZA W., RM. 6514
WASHINGTON, DC 20260-1137
202-268-3083
FAX: 202-268-5402

USPS/NNA-71-XE-1, p. 11

1 BY MR. HOLLIES:

2 Q Turning back to Interrogatory 5 of the Postal
3 Service to you, Part (d), Part (d) asked you to confirm that
4 the Postal Service has provided information in this
5 docket -- it was actually in the form of a response to
6 Interrogatory NNA/USPS-T5-44 -- that establishment of an
7 in-county trial balance account denominated AIC224 has begun
8 and, quote, "The framework for the new account is complete."

9 Your response to this interrogatory was only a
10 partial confirmation. You comment, "I am not certain what
11 the" -- inner quote -- "'framework'" -- end inner quote --
12 " for the account is, but I don't know whether it has been
13 fully implemented."

14 Do you have that in front of you?

15 I take it from your use of the word "framework"
16 you did reference the interrogatory response, the T-544
17 interrogatory response? Or you did review it in preparing
18 your response?

19 A I can't recall for sure but I didn't know what the
20 word "framework" meant. I would just say that although we
21 did -- let me just say that we did gladly greet the decision
22 at our second meeting, I believe, with the Postal Service
23 about this AIC, however, you know, we're here today because
24 there's been no results that have actually been brought
25 forward yet from that usage, as to the best of our

1 knowledge, and so we are still in contention about the in
2 county volumes.

3 Perhaps this will lead to some improvement in the
4 future but as of where we stand today, I don't believe we
5 have seen any results.

6 Q Well, in the interest of expediting this on a
7 fairly limited point, I would submit to you that the word
8 "framework" as used in the response is adequately defined
9 and only if you differ with that definition would you have
10 some basis for this response, but let's move on to Number 7.

11 In the response to Number 7 you confirm your
12 understanding that no improvements have been made in the RPW
13 system, is that correct?

14 A Yes, sir, in a recent period of time, yes.

15 Q And is it also your understanding that BRPW is
16 unchanged between the base year in the last rate case and
17 the one in this case?

18 A I think that is my general understanding, yes,
19 sir.

20 Q Is a change that results in better quality
21 estimates an improvement?

22 A Not necessarily. We are just trying to figure out
23 what the real truth is. We have spent a lot of our own
24 money trying to figure out what the real truth is at some
25 risk to ourselves if it came out to be wrong.

1 Q So your answer was no?

2 A We are only interested in trying to figure out
3 what the truth is about in county volumes.

4 Q So a change that results in better quality
5 estimates is or is not an improvement?

6 A It would be an improvement.

7 Q If a quality change is made and a long-term result
8 is other than an increase in reported in county volume, is
9 that an improvement?

10 A Well, it could be if it was a -- you know, a
11 result that was verifiable and seemed to be accurate -- we
12 would have to live with it.

13 Q Okay. Turning to Number 10, Interrogatory
14 USPS/NNA-T1-10, quotes page 6 of your testimony where you
15 state, quote, "We got a better response than we expected"
16 while referring to the study sponsored by Witness Elliott
17 and asked for your understanding of what response rate you
18 expected.

19 Your answer refuses to answer the question
20 directly and basically indicates that any response is great.
21 Is that a reasonable characterization?

22 A Well, when you consider the average response to a
23 direct mail campaign used to be 2 percent and is lower than
24 that now, and we got 33 percent response from publishers who
25 are busy, many of whom weren't members of our association

1 because of the random draw, many of them very small and have
2 no staff to do these type of things, many times things get
3 misdirected and they don't get in the right hands, we
4 thought the 33 percent response rate was quite good.

5 We didn't have any specific goals or expectations
6 but we thought that was rather gratifying.

7 Q Okay. I take it from your response then the
8 framework, and let's use a different word, the context for
9 your response then is the usual response rates seen to
10 direct mail pieces?

11 A Well, I am just using that as a matter of
12 contrast. Obviously a survey is not a direct mail piece but
13 to me, and again not being a statistician, not being a
14 survey expert, we felt that getting a third of the people to
15 return a questionnaire that is sort of difficult and
16 sometimes arcane for people to fill out as postal matters
17 can be was quite good.

18 Q Do you happen to know what the response rate was
19 as measured by the number of completed responses?

20 A I think as far as fully completed was somewhere
21 like maybe 50-55 percent, something like that, I'm thinking.

22 Q 55 percent of the surveys you sent out came back
23 fully completed?

24 A Well, you know, something like that. I can't
25 remember that -- I may have that exact number here somewhere

1 but --

2 Q That's all right. I think we established you are
3 not a statistician and we can move on.

4 As you have indicated earlier today and as you
5 also indicate in your response to USPS/NNA-T1-11, you
6 indicated that your "focus is primarily upon the
7 nonautomated office segments".

8 Are you aware that the nonautomated offices are
9 stratified using in county revenue -- we are talking RPW
10 now?

11 A Yes, I am aware of that.

12 Q Are you aware that this means the need to derive
13 accurate in-county RPW measures has been elevated higher
14 than any other periodicals mail need that might call for
15 some other stratification?

16 A I just don't have any way of confirming that.

17 Q Are you aware of how much in-county volume comes
18 from non-automated offices?

19 A No, I'm not, but our belief is, based on the
20 pattern of our membership, that most of it does.

21 Q Well, now, you referenced, in response to 14(b),
22 transcript page 907, which is actually sourced in Library
23 Reference I-230, Appendix A, page 3 of 6, which shows that
24 about 60 percent of revenue is from permit system offices.

25 Did you review that material before you cited it

1 in your interrogatory response?

2 A No, I don't believe I did.

3 Q That's curious.

4 [Pause.]

5 You preface your response to USPS/NNA-T1-14(a)
6 with a statement that the Postal Service has repeatedly
7 refused to respond to NNA's questions about how offices
8 qualify as permit system offices.

9 Where and when has the Postal Service repeatedly
10 refused to respond about how offices qualify for the permit
11 system?

12 A Well, to the best of my knowledge, that would be
13 in the two meetings that we've conducted, and maybe other
14 things that I don't know about.

15 Q Are you aware that NNA posed institutional
16 interrogatories on this very question in this docket?

17 A Yes, I believe I am. I'm trying to recall exactly
18 what some of those were, but --

19 [Pause.]

20 Q So, perhaps the Postal Service has responded at
21 some point; is that right?

22 A Well, not to my knowledge.

23 Q Now, wait a second. A moment ago you said you
24 were aware of those institutional responses.

25 A I said I was --

1 Q Your statement is --

2 A You asked me if I was aware of the question that
3 we had raised, the interrogatory we had raised.

4 Q Okay, fair enough. So you're not aware of the
5 responses?

6 A No, I'm not.

7 Q Is it your understanding that the Postal Service
8 refused to answer those interrogatories?

9 A That's my understanding.

10 Q Okay.

11 A But again, our main concern has been not with the
12 permitted offices, but with the panel, size of the panel of
13 the non-permitted offices.

14 Q Right where I was headed. On page 7 of your
15 testimony, which the body of Interrogatory 14 from the
16 Postal Service also addresses, you assert that only 25 out
17 of 26,000 non-automated offices were asked to provide volume
18 data.

19 Do you understand the concept of a stratified
20 random sample?

21 A Well, I think I do, but I think it still seems
22 awful small to, as I said, to a non-statistician like
23 myself.

24 Q How many of those 26,00 offices had any in-county
25 volume when the 25 were selected?

1 A I don't think I know that.

2 Q If only a few of those had any in-county volume,
3 would that impact your understanding of how many offices
4 should be sampled?

5 A Well, if I'm understanding, I believe there is,
6 like, 6,103 offices, maybe, that reported in-county volume.
7 I'm not sure I'm quoting that number right or not, but
8 that's the number that comes to mind.

9 Q So, of those offices that had any in-county
10 volume, it might be around 6,000, rather than 26,000?

11 A Assuming that the reports that were put together
12 on whether they really had in-county revenue were correct.

13 Q If I paraphrase page 7 and other pages of your
14 testimony, you assert that much of the volume entered as
15 in-county mail is entered by rural newspapers; is that a
16 fair characterization?

17 A Yes, sir.

18 Q Do you consider Columbia, Missouri, to be rural?

19 A No, sir.

20 Q What about Lexington, Virginia?

21 A Borderline.

22 Q What about Moorehead City, North Carolina?

23 A Close, close to rural, yes.

24 Q Close to rural? Oxford, Mississippi?

25 A Pretty borderline. It's a major college town.

1 Q Boston, Massachusetts?

2 A Certainly not rural.

3 Q How about Denver, Colorado?

4 A Certainly not rural.

5 Q Aren't publishers in each of these cities members
6 of NNA?

7 A Certainly.

8 Q Indeed, aren't they on the NNA Board?

9 A Correct.

10 Q So, I guess, NNA's interest is not exclusively
11 rural; is that a fair characterization?

12 A There are some suburbans. I would assert to you
13 that most of those members are not the metro newspapers in
14 those towns, but they are some small suburban or ex-urban
15 newspapers.

16 Q Okay, moving on to Interrogatory 15, Part (a)
17 there of your response refers to the, quote, "version of the
18 database used to construct the sample for the NNA study,"
19 end quote.

20 How many other versions are there?

21 A Well, I'm not in charge of the NNA database, but I
22 know that you probably could -- I think there are versions
23 that may be our members, and there are versions that may be
24 our total universe as we have it out there, members and
25 nonmembers, because members come and go, and we try to

1 maintain as accurate a database as we can of the entire
2 newspaper universe of the country.

3 That's a very difficult thing to do, but that's
4 only for very loose, general knowledge.

5 Q Do in-county mailers mail copies to commercial
6 customers?

7 A Copies to commercial customers? Define
8 commercial.

9 Q Oh, insurance agents or real estate brokers or
10 maybe nonprofits even like schools and libraries?

11 A To a limited degree.

12 Q If more than one copy is directed to a single
13 address, what options exist for mailing them?

14 A You would be speaking of the firm package
15 discount, I suppose. It would disaggregate total copies
16 from the piece.

17 Q Could you explain what that is?

18 A Well, you know, there's a provision in the rules
19 that is sometimes taken advantage of that allows you to mail
20 more than one copy in a package and claim the piece rate for
21 the entire package as if it were a piece.

22 Q Are you aware of any customer preference for using
23 one versus the other?

24 A One customer preference for using one versus the
25 other?

1 Q Well, for using a firm bundle as opposed to
2 multiple single pieces.

3 A You're speaking of the customer as the recipient
4 of the mail?

5 Q The recipients, yes.

6 A Not particularly, no.

7 Q But you would agree that a mailer might prefer to
8 use the firm bundle because of the rate advantage?

9 A They could do that, yes.

10 Q Your response to Interrogatory 18(b) appears to
11 illustrate that you appreciate the distinction between
12 copies, as used by newspaper publishers, and pieces, as used
13 by the Postal Service.

14 Can you state the distinction?

15 A Well, I just don't believe that this inference
16 that's trying to be made here has any real distinction to
17 the issue at hand.

18 I think to most people's thinking, pieces and
19 copies are synonymous, and I don't think there is enough
20 usage of this to jimmy the numbers in the subclass, if
21 that's what's trying to be implied here by the --

22 Q Could you answer the question?

23 A I'll try, if you want to give it to me again.

24 Q What is the distinction between pieces and copies?

25 A Well, I thought we just defined it with the firm

1 package discount, earlier. It can be, in some people's
2 minds, but, again, that's another arcane piece of the Postal
3 Manual that is not widely used, but occasionally used, that
4 does allow people to send multiple copies in a package and
5 claim the piece rate for the entire package. So that's my
6 understanding of that.

7 Q Are all copies mailed?

8 COURT REPORTER: That was your understanding of
9 what?

10 THE WITNESS: That's my understanding of what the
11 difference between copies and pieces would be. That's a
12 potential understanding, but most people speak of them
13 interchangeably.

14 Again, you're going for a fine distinction here
15 that is not often made, but I know there are people who
16 would like to have it made.

17 BY MR. HOLLIES:

18 Q Are all copies mailed?

19 A Are all copies mailed?

20 Q Are all copies of a newspaper entered as mail?

21 A No.

22 Q You indicate in your response to Interrogatory 19
23 from the Postal Service that you believe most respondents to
24 the survey retrieved their data on mailed copies from
25 postage statements and reported pieces, not copies.

1 Why do you believe that to be the case?

2 A Well, in my talks with mailers, they think of the
3 total number that they mail. Again, I've tried to say that
4 I think that the distinction is probably meaningless, a
5 distinction without a difference here.

6 But in most people's mind in the newspaper
7 business, the distinction between pieces and copies is --
8 there is no distinction; there is no difference.

9 But you just don't know what people think, but I'm
10 guessing that they might say pieces. Who knows?

11 Q In your response to Interrogatory 23, Part (a)
12 from the Postal Service, which asked for the basis of your
13 assertion that the panel is infrequently refreshed, your
14 response says see transcript page -- Volume II, page 909.

15 And that transcript page makes no reference to
16 refresh rates. Do you have any other basis for answering
17 the interrogatory 23(a) that way?

18 A It would have been my understanding, as provided
19 by our counsel who has worked directly with these items.

20 Q So you've been told by others, this, and you have
21 no reason to think you were told anything but the truth?

22 A I have no independent knowledge. I haven't been
23 over there examining their records. They won't let us.

24 Q Do you have an opinion of how frequently a panel
25 should be refreshed?

1 A No, not for certain, but we would think it
2 certainly would probably be good if it be refreshed between
3 rate cases. Unfortunately, they come a little too often
4 these days.

5 Q Are you aware that the current panel was
6 constructed specifically to address concerns expressed
7 regarding in-county mail?

8 A I am not sure that I am.

9 Q In part (b) of your response to 23, you claim,
10 "The Postal Service believes the subclass is changing
11 rapidly." What is the source of your -- the basis of your
12 opinion there?

13 A Well, just the fact that the numbers come in that
14 low makes it sort of an obvious assumption or understanding,
15 over a period of time, the decline that they are reporting.

16 Q Do you know how much of a decline or gain there
17 has been in the last few years?

18 A I think they are showing about a 50 percent drop
19 over about a 10 year period.

20 Q Well, about how since the last rate case?

21 A I think it went up one year and down another.

22 Q And by what percentage was it varying?

23 A I don't have that in my head.

24 Q Would you consider the 8 percent increase between
25 '96 and '97 to be a rapid increase?

1 A Well, considering the overall trends, it would be
2 certainly a little blip upward.

3 Q Is that a rapid increase?

4 A I don't know that I would call it rapid, no.

5 Q Well, then what is the basis for your claiming
6 that the declines are rapid in the second sentence of your
7 response to part (b)?

8 A Well, they seemed rather drastic as reported in
9 the RPW reports over that 10 year period that we have spoken
10 about. If you look at the 10 year --

11 Q So the rapid changes over 10 years?

12 A Over, as I understand it, yes, over the 10 year
13 period, the general trend, as reported by RPW has been
14 rather rapid in decline, in my opinion. We don't believe it
15 is correct, but that is what the numbers show.

16 Q With respect to your response to part (d), Roman
17 I, of Interrogatory 23, you state that offices which had no
18 in-county volume when the last panel was created are not
19 being captured, is that your testimony?

20 A That is our understanding, our general
21 understanding, yes.

22 MR. HOLLIES: Thank you. I have no further
23 questions at this point.

24 CHAIRMAN GLEIMAN: Is there any follow-up?
25 Questions from the bench?

1 COMMISSIONER OMAS: I have one.

2 CHAIRMAN GLEIMAN: Mr. Heath, maybe you can help
3 me out, was the PERMIT System that has been discussed today
4 in use back when the Postal Service was preparing its case
5 for the R94 rate case?

6 THE WITNESS: It is my general understanding that
7 that is so, yes, sir.

8 CHAIRMAN GLEIMAN: Okay. Thank you.

9 Commissioner LeBlanc.

10 COMMISSIONER OMAS: Mr. Chairman, I do have a
11 quick question, how would you go about or what would your
12 recommendations be how to resolve the dilemma with
13 exceptional dispatch?

14 THE WITNESS: Well, we said since February of
15 1991, when we first were faced with this dilemma, that we
16 believe that exceptional dispatch entered mail is meeting
17 all the same qualifications that should be granted to PVDS
18 or Additional Entry mail. We are bypassing the same cost to
19 the Postal Service, and we believe we are dealing with
20 relatively small volumes that aren't verified on a
21 week-to-week basis, and we see no reason why it shouldn't
22 just be written into exceptional dispatch that it qualifies
23 for the DDU entry discount.

24 COMMISSIONER OMAS: But how would you go about
25 verifying the number of newspapers or whatever, when you do

1 drop ship, when there is no clerk present at 4:00 in the
2 morning? What is your resolution to that?

3 THE WITNESS: Well, again with exceptional
4 dispatch, we don't believe there is any requirement to do
5 any sort of regular verification, nor is there any being
6 done. Nor do we believe it is necessary. And we certainly
7 believe that people have a right to look at that mail any
8 time they want to and double-check the volumes and make sure
9 they are accurate within 2 percent. But we don't believe
10 that verification is necessary on those exceptional dispatch
11 volumes.

12 Did I obfuscate you? I didn't mean to.

13 COMMISSIONER OMAS: Thank you.

14 CHAIRMAN GLEIMAN: Commissioner LeBlanc.

15 COMMISSIONER LeBLANC: Just clarify something for
16 me, Mr. Heath, if you can. In your exchange with the
17 counsel for the Postal Service, you were talking about
18 copies versus pieces. In your opinion, you have been in the
19 business quite a number of years, is there any difference
20 between smaller NNA type group understanding of that versus
21 larger publications, if you will?

22 THE WITNESS: Well, my general belief is that firm
23 packages would be used more heavily by business type
24 publications such as Ad Age things would mail multiple
25 copies to a business. Firm package that they referring to

1 would connote the heavy mailing of a copies to a firm and
2 newspapers generally don't mail that many multiple copies to
3 a firm, as someone might mail, for instance an Ad Age to
4 multiple partners in a firm that would be dealing with
5 advertising and so forth.

6 COMMISSIONER LeBLANC: Also, clarify for me here,
7 I understood you to say that most of your membership, 10 to
8 20 percent of the volume is under 5,000.

9 THE WITNESS: I think what I was saying, that --

10 COMMISSIONER LeBLANC: Did I get that --

11 THE WITNESS: He was seeking an answer, as I
12 recall, for the volumes that might be eligible for
13 exceptional dispatch mail. And I said that most of our
14 newspapers, our average is under 5,000, and our membership.
15 And then my estimate was that, with most of that mail being
16 in-county, and not all Post Offices having problems with
17 being able to handle same day delivery of mail that is
18 entered at the original entry office in that county, that
19 the use of exceptional dispatch, as a best guess by me,
20 would not exceed 10 to 20 percent of that 5,000 number.

21 COMMISSIONER LeBLANC: Of the 5,000.

22 THE WITNESS: Right. I think that is what I was
23 trying to say, if I recall.

24 COMMISSIONER LeBLANC: Thank you, sir.

25 CHAIRMAN GLEIMAN: Commissioner Covington?

1 COMMISSIONER COVINGTON: Thank you, Mr. Chairman.

2 Good morning, Mr. Heath. I had one or two
3 questions seeking some clarification and insight from you as
4 it relates to the testimony you are giving here this
5 morning.

6 Am I to understand that in county mail, well,
7 newspaper mail, is in decline?

8 THE WITNESS: We don't believe so.

9 COMMISSIONER COVINGTON: Okay. You don't believe
10 so -- no, because that is your contention.

11 Let me know why is it you may be of the belief
12 that PVDS is unrealistic for small newspaper mailers?

13 THE WITNESS: Well, even weekly newspapers have
14 deadlines to contend with and printing arrangements with
15 plants to be able to go into a small office and get someone
16 to stop what they are doing and preverify that mail in a
17 small rural post office, often where it's got to be turned
18 around and gotten to these other offices to make certain
19 critical entry times is pretty difficult.

20 We even know post offices in our communities that
21 are so small they don't even have scales where we enter
22 mail, so how in the world they are going to preverify the
23 mail we don't know, and so that is what happens is it
24 doesn't happen very often that post offices are either
25 knowledgeable about or willing to or there is a time window

1 capable during working hours to easily preverify the mail of
2 small quantities of a periodical but again we don't think
3 that it has to be.

4 I think that mail from periodical newspapers is
5 entered week-in, week-out all across this country without
6 being absolutely verified as to weight and quantities and
7 for the small volumes we are talking about we believe that
8 since we are avoiding the work we ought to get the discounts
9 without the PVDS, because it just is not working for us.

10 We wouldn't spend all this time coming back here
11 before the Commission if this wasn't brought up to us as a
12 need and let me just say this.

13 Harley Hitchcock, who is a former postal employee
14 now working for the Texas Press Association, had not been in
15 the job too long trying to assist publishers in Texas with
16 problems when he called me to tell me how critical it was
17 that we try to work on this issue, not even knowing we were
18 working on it, that there's a lot of people that needed to
19 take their mail to other post offices because they just
20 could not get timely delivery of their local entry mail in
21 adjoining counties and sometimes in county and they needed
22 to be able to do it, needed a discount for it, so there's
23 people who used to work for the Postal Service that have
24 been out there assisting publishers that have seen this same
25 need in seeing how PBDS just does not work.

1 COMMISSIONER COVINGTON: Okay. Well, Mr. Heath, I
2 guess you know that Commissioner Omas and myself was from
3 the sprawling metropolitan state of Mississippi, and -- but
4 on a more serious note, when you look at the demographics
5 and geographically the way that Mississippi is set up, I
6 guess you probably realize at least 80 percent of that area
7 down there is rural, so what impact would that have on a RPW
8 data collection system?

9 I am talking as far as your association is
10 concerned.

11 THE WITNESS: The fact that it's rural? Well --

12 COMMISSIONER COVINGTON: And that we may have some
13 of those post offices that don't even have a scale.

14 THE WITNESS: Well, as far as the RPW system, of
15 course, our main contention there, and my company owns a
16 paper in New Albany, Mississippi that is quite rural as
17 well, and we believe that a majority of NNA member mail is
18 entered in offices that are not on the PERMIT system.

19 We believe, as best we can tell from our own
20 studies and what is going on in my own company as sort of a
21 microcosm of that so far as a national sample, we believe
22 that somehow the panel of nonautomated offices is missing a
23 true picture of what is really going on, and so to the
24 extent that small towns in Mississippi might also be
25 excluded in that blowup and the fact it is done from 25

1 offices, we think that is a large part of the problem.

2 COMMISSIONER COVINGTON: Okay, and then one last
3 question for you, Mr. Heath. I think somewhere off in your
4 testimony I was scrolling my screen. I think you had stated
5 that we here at the Commission should be able to obtain or
6 should be able to seek out what you refer to as the highest
7 supportable numbers for adjusting volume data for within
8 county type publications.

9 Can you clarify that for me?

10 THE WITNESS: Well, you know, the Commission has
11 been very fair and kind to us in the past in dealing with
12 this issue, and we believe that you have the statisticians
13 and the number crunchers that can look at those trends and
14 look at what we have provided in testimony and make some
15 fair adjustment of this as we seek to get better numbers in
16 the future through hopefully more changes in the system
17 working with the Postal Service.

18 COMMISSIONER COVINGTON: Okay, thanks, Mr. Heath.
19 That's all I have, Mr. Chairman.

20 COMMISSIONER OMAS: Mr. Chairman? One final
21 question. Mr. Heath, what specific studies, if any, do you
22 have on the costs avoided by exceptional dispatch?

23 THE WITNESS: Well, I think Witness Stuart Elliott
24 will give some indication of that, and there are plenty of
25 other Postal Service costs that they have done that indicate

1 what the studies are. It's not that I have that information
2 available to me personally other than what the Postal
3 Service has done, but whatever the cost avoidance is for
4 PVDS or additional entry mail, all I can tell you is that
5 exceptional dispatch is avoiding all those same costs.

6 COMMISSIONER OMAS: So you do have a study that
7 verifies that, that verifies the costs avoided?

8 THE WITNESS: I don't, but I know the Postal
9 Service has computed that and other independent economists
10 have computed various cost avoidance calculations.

11 My point is that we are -- whatever they are, we
12 are avoiding all the same costs, sir.

13 COMMISSIONER OMAS: All right, thank you.

14 CHAIRMAN GLEIMAN: Follow-up to questions from the
15 bench?

16 [No response.]

17 CHAIRMAN GLEIMAN: If not, that brings us to
18 redirect.

19 Would you like some time with your witness?

20 MS. RUSH: Yes, sir.

21 CHAIRMAN GLEIMAN: It is time for our mid-morning
22 break, so we will take ten at this point and come back at
23 five of the hour and pick up there.

24 Our next witness after we are finished with Mr.
25 Heath's testimony will be the witness that we should have

1 taken up first. We will get Witness Milani's testimony in
2 the record and then proceed on according to plan.

3 [Recess.]

4 CHAIRMAN GLEIMAN: Ms. Rush?

5 MS. RUSH: Thank you, Mr. Chairman.

6 REDIRECT EXAMINATION

7 BY MS. RUSH:

8 Q Mr. Heath, the Postal Service has asked you a
9 number of questions about the verification of mail that's
10 entered through exceptional dispatch, or delivered through
11 exceptional dispatch.

12 If a newspaper mailer enters its mail through an
13 original entry office where the deposit account is, is that
14 mail verified on a mailing-by-mailing basis, to your
15 knowledge?

16 A Normally, it is not.

17 Q If that mailing includes a bundle that's to be
18 removed from that mailing and delivered to a distant office,
19 say, 50 miles away, through exceptional dispatch, are the
20 pieces from that exceptional dispatch bundle verified at the
21 original entry office, to your knowledge?

22 A No, they are not.

23 Q Are they verified, generally, at the exceptional
24 dispatch office?

25 A Rarely, to my understanding.

1 Q How, as a practical matter, does verification
2 occur for the regular mailing?

3 A Periodicals mail is given a postage payment review
4 once a year where it's totally weighed and verified.

5 The eligibility audit has actually been
6 discontinued, and only occurs once a year, based on the
7 statement of ownership.

8 So, the only other verification would be just by
9 the fact that the mailer submits some standardized
10 documentation with each mailing, showing quantity, changes,
11 and sortation.

12 Q In your experience with newspaper mail, why do you
13 believe the Postal Service allows this fairly infrequent
14 verification to occur?

15 A Well, it's because they know our numbers are very
16 constant, because they're a subscriber-based publication
17 that, again, varies very little from week to week.

18 Q Are you discussing the main mailing, or are you
19 discussing the exceptional dispatch mailing?

20 A Both.

21 Q Is it your testimony that newspaper mail should
22 not be verified, should not require verification at
23 exceptional dispatch because it's newspaper mail and there
24 should be some special privilege?

25 A No, no. Just, periodical mail, in general, is

1 fairly consistent by its nature of having a subscriber base.
2 It's fairly consistent in its numbers from week to week.

3 Q In your experience, is there significant
4 opportunity for the Postal Service to lose revenues through
5 exceptional dispatch, precisely because it's not verified?

6 A No.

7 Q Mr. Heath, let me ask you to refer again to the
8 cross examination exhibit, redesignated Exhibit 1 by the
9 Chairman.

10 On the second page of that, the Postal Service has
11 presented you a list of data that appear to be Post Office
12 names and zip codes. Is that what you understand this list
13 to be?

14 A That's correct.

15 Q And Postal Service asked you to confirm that this
16 list was provided to you for some independent verification
17 by you to show that these were offices that had experienced
18 a ten-percent or more decline in volume.

19 Would you agree that this list appears at least to
20 refer to drops in volume between FY97 and FY98?

21 A That's what the headers would indicate.

22 Q Can you recall when this list was provided to you?

23 A I believe it was early 1999.

24 Q If you were making calls to mailers or to Post
25 Offices to try to find out why these drops had occurred,

1 what time period would you have been inquiring about?

2 A Well, it would have been Fiscal Year '97, which I
3 believe would have started in October of '96, and Fiscal
4 Year '98 which would have started in October of '97.

5 Q When were you making the calls?

6 A Early- to mid-'99.

7 Q Was it your experience that the mailers could
8 explain to you what had happened during that time period
9 from as early as the Fall of 1996?

10 A No. We even asked several consultants who worked
11 with clients to try to help us, and we just really couldn't
12 come up with anything that was helpful.

13 Q When this list was provided to you, was it
14 explained to you by the Postal Service that this list
15 comprised only PERMIT offices?

16 A That was not our understanding.

17 Q When did you learn that?

18 A Somewhere later in the year, mid- to late-year.

19 Q Were you ever provided a list of PERMIT offices
20 that had experienced a ten-percent increase or more?

21 A No. After we saw this list, we certainly would
22 have liked to have had that list, and I believe maybe asked
23 for it, but we have never seen it.

24 Q Were you ever able to confirm that there actually
25 was a decrease of ten percent or more in volume in these

1 offices?

2 A No.

3 MS. RUSH: I have no further questions, Mr.

4 Chairman.

5 CHAIRMAN GLEIMAN: Any recross?

6 [No response.]

7 CHAIRMAN GLEIMAN: There doesn't appear to be any.
8 That being the case, Mr. Heath, that completes your
9 testimony here today. We appreciate your appearance and
10 your contributions to our record. We thank you and you are
11 excused.

12 [Witness Heath excused.]

13 CHAIRMAN GLEIMAN: As I indicated before the
14 break, if Mr. Levy is ready to enter the testimony of
15 Witness Milani, we --

16 MR. LEVY: Thank you, Mr. Chairman. I now would
17 like to have entered into evidence and transcribed into the
18 record without the witness's appearance, the testimony of
19 Louis J. Milani on Behalf of Alliance of Nonprofit Mailers,
20 American Business Media, and Magazine Publishers Association
21 of America.

22 The testimony is designated ANM-T-2. No discovery
23 was filed of it, and no one has requested cross examination,
24 and I have attached to each of the two copies, a declaration
25 by Mr. Milani, adopting the document as his testimony.

1 CHAIRMAN GLEIMAN: Is there any objection to
2 receiving the testimony of Witness Louis J. Milani into
3 evidence?

4 [No response.]

5 CHAIRMAN GLEIMAN: If not, if you would then
6 please provide the Court Reporter with two copies of the
7 testimony and the authentications, we will proceed to
8 transcribe that material into the record and enter it as
9 evidence.

10 [Written Direct Testimony of Louis
11 J. Milani was received into
12 evidence and transcribed into the
13 record.]

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ANM-T-2

TESTIMONY OF
LOUIS J. MILANI
ON BEHALF OF
ALLIANCE OF NONPROFIT MAILERS,
AMERICAN BUSINESS MEDIA,
AND MAGAZINE PUBLISHERS OF AMERICA

Please send correspondence about this document to:

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Counsel for the Alliance of Nonprofit Mailers

May 22, 2000

1 My name is Louis J. Milani. I am Senior Director—Business
2 Affairs and Strategic Marketing, Consumers Union, with offices at 101
3 Truman Avenue, Yonkers, NY 10703-1057. 914-378-2220. My duties
4 include responsibility for operating expenses such as paper, printing and
5 distribution of Consumers Union publications. I joined Consumers Union
6 45 years ago, and have held my present position for over 20 years.

7 Consumers Union is a member of the Alliance of Nonprofit
8 Mailers ("ANM"), the Direct Marketing Association ("DMA"), and the
9 Magazine Publishers of America ("MPA"). On behalf of Consumers Union,
10 I serve on the board of directors of ANM, and on MPA's Postal Committee.
11 This testimony, submitted on behalf of ANM, MPA and American Business
12 Media, describes how the rate increases proposed by the Postal Service
13 in Docket No. R2000-1 for nonprofit periodicals mail will affect Consumers
14 Union.

15 Consumers Union is an independent nonprofit testing and
16 consumer protection organization. Since 1936, we have been a compre-
17 hensive source for unbiased reporting about products and services,
18 personal finance, health and nutrition, and other consumer concerns. We
19 are tax exempt as an educational organization under Section 501(c)(3) of
20 the Internal Revenue Code, and we have been authorized to use nonprofit
21 postal rates for many years.

22 Consumers Union tests products in 50 state-of-the-art labs
23 at our 24-acre national testing and research center in Yonkers, New York.
24 Our product ratings are based on lab tests, controlled use tests, and
25 expert judgment by our technical and research staff. To determine the
26 longer-term reliability of consumer products, we also conduct an annual

1 survey of our subscribers. The survey, with over 500,000 responses each
2 year, has one of the largest respondent bases of any survey in the United
3 States after the Census. The survey yields data on the reliability of
4 hundreds of auto models, and of products such as appliances and elec-
5 tronic gear. Reader survey data also help us to report on other consumer
6 services.

7 To preserve our objectivity, Consumers Union accepts no
8 advertising in our publications from third parties. We buy our tested
9 products off the shelf, and we accept no free samples. We do not let any
10 company use our reports or ratings for commercial purposes, and we do
11 not provide our subscriber list to other entities through sale or rental.

12 Consumers Union fulfills its educational mission through a
13 variety of media. Our flagship publication is *Consumer Reports*, which
14 appears 13 times yearly. With over 4 million paid subscribers, *Consumer*
15 *Reports* is one of the ten largest circulating magazines in the United
16 States. Other Consumers Union periodicals are *Zillions* (a bimonthly
17 consumer education periodical for children), and two monthly newsletters,
18 *Consumer Reports on Health* and *Consumer Reports Travel Letter*.

19 Consumers Union also disseminates information by
20 publishing books and monographs. Titles currently in print include *Best*
21 *Buys for Your Home 2000*, *Best Travel Deals 2000*, *Complete Drug*
22 *Reference 2000*, *Guide to Baby Products*, *Home Computer Buying Guide*,
23 *House and Home Buying Guide 2000*, *How to Plan for a Secure Retirement*,
24 *Money Book*, *New Car Preview 2000*, *1999 New Car Buying Guide*,
25 *Sport Utility Special 2000*, and *Used Car Buying Guide 2000*. Consumers
26 Union also publishes special reports on public policy issues affecting

1 consumers. Several dozen titles are currently in print. See
2 <http://www.consumersunion.org/resources/publications.htm> (listing titles).

3 Consumers Union also publishes *Consumer Reports Online*
4 (www.consumerreports.org). With 421,000 paid subscribers, this is the
5 largest paid subscription magazine on the World Wide Web. As the costs
6 of magazine production increase, we will continue to market aggressively
7 the online edition.

8 Consumers Union is a major customer of the Postal Service.
9 We pay postage on approximately 200 million pieces of mail per year:
10 roughly 70 million pieces of Periodical mail, 120 million pieces of Standard
11 A mail, and ten million pieces of First Class mail. After salaries, postage
12 is our largest expense, representing about \$30 million of our \$147 million
13 annual budget. On average, each one-penny increase in postal rates
14 increases our expenses by about \$2 million.

15 Consumers Union has performed increasing amounts of
16 worksharing in recent years. We presort *Consumer Reports* to the highest
17 possible level: 80-85% is presorted by carrier route; the remainder is bar-
18 coded and presorted to maximum extent possible. To minimize bundle
19 breakage, we palletize *Consumer Reports* as well. We barcode and truck
20 our Standard A mail for entry at multiple destinations. (We do not truck
21 our periodicals for entry at multiple destinations: the destination entry
22 discounts for publications with less than ten percent advertising matter are
23 too low to cover the trucking costs.)

24 Despite the size and sophistication of our mailing operations,
25 our postage expenses have continually outpaced inflation in recent years.
26 Rate increases for nonprofit periodicals mail have been especially trouble-

1 some.

2 Docket No. R97-1 increased the cost of nonprofit postage for
3 our periodical publications by ten percent. For nonprofit publications with
4 little or no advertising, the resulting rates were higher than even the corre-
5 sponding *commercial* periodical rates. Our nonprofit educational publica-
6 tions, which accept no paid advertising and rely solely on subscriptions
7 and donations for funding, began paying higher rates than for-profit publi-
8 cations with a high percentage of advertising content.

9 Confronted with this anomaly, the Postal Service and the
10 Commission agreed in Docket No. MC99-3 to allow nonprofit periodicals
11 to pay the lower of commercial or nonprofit rates. While this relief was
12 welcome, it still failed to restore any nonprofit rate differential for nonprofit
13 publications with little or no advertising. Since MC99-3 took effect,
14 Consumers Union has entered most of our periodical mail at commercial
15 rates.

16 In tandem with the present case, the Postal Service has tried
17 to rectify this anomaly by proposing legislation that would restore a rate
18 preference of five percent for the nonprofit periodical subclass. Consum-
19 ers Union and the three sponsors of this testimony strongly support this
20 legislation. A discount of five percent does not provide the same rate
21 reduction for nonprofit mail that prevailed when the Revenue Forgone
22 Reform Act was enacted in 1993, however. Furthermore, the nonprofit
23 periodical rates proposed by the Postal Service, which assume the
24 enactment of this legislative reform, would still produce an 11.5 percent
25 increase in the annual postage bill paid by Consumers Union for its
26 nonprofit publications. While this increase would be less than the

1 increases of 15 percent or more facing the average commercial periodical,
2 it is still higher than the rate of inflation since Docket No. R97-1.

3 If the legislation fails to pass in time, the result would be
4 even worse. CU could be forced to reduce its product testing, consumer
5 education and advocacy. Some projects may be cut in scope, with fewer
6 products tested. Other products may be scrapped entirely.

7 For these reasons, I support the legislation proposed by the
8 Postal Service, with the support of nonprofit and commercial mailers, to
9 cap nonprofit rates at levels below commercial rates. But I also ask the
10 Commission to take the following steps.

11 First, carefully scrutinize the costs that the Postal Service is
12 proposing to attribute to periodicals and Standard (A) mail, and hold the
13 Postal Service to its burden of showing that the proposed cost increases
14 are a realistic likelihood.

15 Second, in setting the coverage ratio over attributable costs
16 for periodical mail as a whole, I respectfully ask the Commission to recog-
17 nize the educational value of periodicals publications. Periodicals still
18 remain one of our society's most important information highways for edu-
19 cational, scientific and cultural matter. But periodicals will continue to play
20 this vital role only if publishers can afford to publish them, and potential
21 readers can afford to read them.

JUL 07 '00 03:41PM CU FINANCE ACCT

P.1

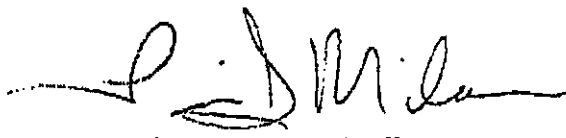
DECLARATION OF**LOUIS J. MILANI**

I, Louis J. Milani, declare under penalties of perjury as follows:

I am Senior Director—Business Affairs and Strategic Marketing, Consumers Union, 101 Truman Avenue, Yonkers, NY 10703-1057, 914-378-2220.

I am the author of the attached testimony, which was filed under my name in Postal Rate Commission Docket No. R2000-1 on May 22, 2000, by the Alliance of Nonprofit Mailers, American Business Media and Magazine Publishers of America. I prepared the testimony personally or under my direct supervision.

The statements set forth therein are true and correct to the best of my knowledge, and I continue to adopt the document as my testimony.



July 7, 2000

1 MR. LEVY: Thank you, Mr. Chairman.

2 CHAIRMAN GLEIMAN: Thank you, Mr. Levy. Ms. Rush,
3 if you'd like to call your next witness?

4 MS. RUSH: NNA would like to call Stuart Elliott.
5 Whereupon,

6 STUART ELLIOTT,
7 a witness, having been called for examination, and, having
8 been first duly sworn, was examined and testified as
9 follows:

10 DIRECT EXAMINATION

11 BY MS. RUSH:

12 Q Mr. Elliott, I'm handing you a copy of a document
13 that's entitled Direct Testimony of Stuart Elliott on Behalf
14 of the National Newspaper Association, NNA-T-2. Was this
15 document prepared by you or under your direction?

16 A It was.

17 Q And if you were to provide this testimony today,
18 would your testimony be the same?

19 A Yes.

20 MS. RUSH: Mr. Chairman, I'm handing two copies of
21 this document to the Reporter, and requesting that it be
22 admitted into evidence.

23 CHAIRMAN GLEIMAN: Is there any objection?

24 [No response.]

25 CHAIRMAN GLEIMAN: Hearing none, counsel will

1 provide two copies to the Reporter of the Direct Testimony
2 of Witness Elliott, and I'll direct that the testimony be
3 received into evidence and transcribed into the record.

4 [Written Direct Testimony of Stuart
5 Elliott, NNA-T-2, was received into
6 evidence and transcribed into the
7 record.]
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NNA-T-2

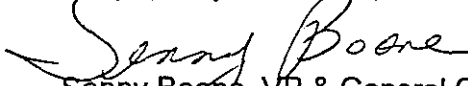
BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes

Docket No. R2000-1

Direct Testimony of Stuart Elliott
On Behalf of the National Newspaper Association
(NNA-T-2)

Respectfully Submitted,



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Counsel for the National Newspaper Association

May 22, 2000

1
2 **AUTOBIOGRAPHICAL SKETCH**
3

4 My name is Stuart W. Elliott. I am a Senior Analyst at Project
5 Performance Corporation (PPC), a consulting firm based in McLean, VA. PPC
6 provides management, information technology, and environmental consulting
7 services to private and public sector clients.

8 I attended Columbia University, where I received a B.A. in Economics,
9 summa cum laude, in 1985. I also attended the Massachusetts Institute of
10 Technology, where I received a Ph.D. in Economics in 1992. In graduate school,
11 my major fields were labor economics and industrial organization. I received
12 postdoctoral training in Experimental Psychology at Carnegie Mellon University
13 from 1991 until 1994.

14 Following my formal education, I was a Research Fellow at Carnegie
15 Mellon University from 1994 until 1999, where I studied the impact of computers
16 on jobs and productivity. During the 1997-98 academic year, I was also a visiting
17 scholar at the Russell Sage Foundation. I joined PPC in 1999, where I have
18 worked primarily on analysis related to postal economics.

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I. PURPOSE AND SCOPE

The purpose of my testimony in this docket is to discuss two issues related to the Postal Service rates for periodicals as they are applied to newspapers.

First, I present the results of a survey of newspaper use of the in-county periodicals subclass. This study shows increasing in-county volume among newspapers from 1992 to 1998.

Second, I describe the calculation of the Destination Delivery Unit (DDU) discount and its applicability to newspaper mail entered under exceptional dispatch.

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2 **II. A SURVEY SHOWS INCREASING IN-COUNTY VOLUME AMONG**
3 **NEWSPAPERS FROM 1992 TO 1998**
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5 For a number of years, the National Newspaper Association (NNA) has
6 been puzzled by the discrepancy between the circulation growth of its member
7 newspapers and the Postal Service's RPW figures showing a persistent decline
8 in the use of in-county mail. To help explain this discrepancy, the association
9 contracted with PPC to conduct a survey in 1999 about the circulation and
10 delivery methods of community newspapers.

11 The survey was sent to a stratified random sample of newspapers drawn
12 from NNA's database. This database consists of weekly and daily newspapers
13 that belong to the association or have a potential interest in membership. The
14 database attempts to capture all newspapers, but the association recognizes
15 some potential omissions of daily newspapers that are not likely to be interested
16 in membership, nor in the association's interest in postal affairs. The
17 association's primary membership focus is on newspapers with an editorial
18 emphasis on the local community. These newspapers tend to be the ones that
19 use in-county mail, since larger newspapers are ineligible for in-county mail
20 because of their size and geographic reach. Periodicals must have a circulation
21 under 10,000 or be distributed primarily within their county of origin in order to be
22 eligible for this subclass. The survey sample was stratified by frequency and size
23 of newspaper, with four strata of daily papers and five strata of weekly papers.
24 As shown in Table 1, we sent out 1,016 surveys and received 340 responses. In
25 analyzing the responses, we focused on newspapers that provided circulation

1 figures by delivery method for both 1992 and 1998. Out of the 340 returned
 2 surveys, 161 provided information on both years.

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Table 1
Number of Papers and Responses by Stratum

Stratum (By Circulation Per Issue)	Total Number of Papers	Number Surveyed	Surveys Returned	Response Rate	Complete Surveys
Daily Papers					
Under 5,000	238	60	20	33%	7
5,000 to 10,000	289	60	19	32%	9
10,000 to 25,000	340	60	24	40%	9
Over 25,000	317	60	20	33%	15
Subtotal	1,184	240	83	35%	40
Weekly Papers					
Under 1,000	647	78	28	36%	11
1,000 to 3,000	2256	271	93	34%	45
3,000 to 5,000	1270	152	49	32%	16
5,000 to 20,000	1790	215	68	32%	40
Over 20,000	483	60	19	32%	9
Subtotal	6,446	776	257	33%	121
All Papers	7,630	1,016	340	33%	161

7

8 Table 2 shows the changes in circulation from 1992 to 1998, projecting
 9 from the sample responses to the entire set of newspapers in NNA's database.

10 The table shows that total circulation remained relatively constant over the
 11 period, with an increase of 0.2 percent. Out of a total annual circulation in 1992
 12 of about 10 billion newspapers, dailies represented 78 percent of the total while

1 weeklies comprised the remaining 22 percent. Underlying the stable circulation
 2 for newspapers in aggregate, the two types of papers show different trends: the
 3 dailies showed an average decrease of 3 percent in total circulation over the
 4 period, whereas the weeklies showed an average increase of 9 percent.

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Table 2
Estimated Total Annual Circulation Change, 1992 to 1998

Stratum (circulation per issue)	1992 Circulation (millions)	1998 Circulation (millions)	1992-98 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1992 Circulation
Daily Papers					
Under 5,000	202.46	199.59	-2.87	23.86	-1.42%
5,000-10,000	570.01	540.74	-29.26	15.17	-5.13%
10,000-25,000	1,597.97	1,596.36	-1.60	52.12	-0.10%
Over 25,000	5,231.72	5,056.51	-175.21	89.94	-3.35%
Subtotal	7,602.15	7,393.21	-208.94	107.73	-2.75%
Weekly Papers					
Under 1,000	23.32	23.93	0.61	2.17	2.60%
1,000-3,000	273.02	324.09	51.08	40.36	18.71%
3,000-5,000	236.59	249.01	12.41	8.99	5.25%
5,000-20,000	766.13	819.27	53.14	42.08	6.94%
Over 20,000	797.70	870.39	72.69	49.36	9.11%
Subtotal	2,096.76	2,286.69	189.93	76.95	9.06%
All Papers	9,698.91	9,679.89	-19.01	132.39	-0.20%

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10 Table 3 shows the changes in newspaper in-county mail volume from
 11 1992 to 1998. Overall, the survey results show an increase of 3 percent in in-
 12 county mail volume over this 6-year period. As with total circulation, there is a

1 broad contrast between daily and weekly papers: daily papers show a 14
 2 percent decrease in in-county mail, whereas weekly papers show a 7 percent
 3 increase.

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Table 3
Estimated Change in Newspaper In-County Mail Use, 1992 to 1998

Stratum (circulation per issue)	1992 In-County Mail (millions)	1998 In-County Mail (millions)	1992-98 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1992 In-County Mail
Daily Papers					
Under 5,000	47.79	46.33	-1.46	4.49	-3.05%
5,000-10,000	29.95	31.62	1.67	1.33	5.57%
10,000-25,000	5.28	3.30	-1.99	0.83	-37.58%
Over 25,000	26.67	13.60	-13.08	5.74	-49.03%
Subtotal	109.69	94.84	-14.85	7.45	-13.54%
Weekly Papers					
Under 1,000	12.20	11.71	-0.49	1.10	-4.04%
1,000-3,000	106.55	114.79	8.25	5.56	7.74%
3,000-5,000	73.42	76.07	2.64	3.23	3.60%
5,000-20,000	193.32	234.02	40.70	37.42	21.05%
Over 20,000	26.63	5.27	-21.37	21.25	-80.23%
Subtotal	412.12	441.85	29.73	43.52	7.21%
All Papers	521.81	536.69	14.88	44.16	2.85%

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10 Table 3 shows that about 80 percent of newspaper in-county mail is sent
 11 by weekly newspapers, precisely the type of newspapers showing circulation

1 increases. A comparison of tables 2 and 3 shows that the growth in in-county
2 mail volume for the weekly newspapers is keeping pace with the overall growth in
3 their circulations. In contrast, the daily newspapers show a decline in in-county
4 volume of 14 percent that is substantially larger than their 3 percent decline in
5 total circulation. This difference reflects a substantial shift away from the use of
6 in-county mail by the larger daily papers. However, since the larger dailies make
7 up only 6 percent of newspaper in-county mail in 1992, this shift away from in-
8 county mail had only a moderate effect on total newspaper use of in-county mail.

9 The NNA survey shows that the use of in-county mail by newspapers is
10 strong and even increasing. For the smaller papers that the subclass was
11 designed to serve, in-county volume has kept pace with their substantial
12 increases in circulation over the period. The survey does show that larger
13 papers reduced their use of in-county mail. However, the increased in-county
14 use by the smaller papers easily made up for the decreased in-county use by the
15 larger papers, resulting in a net increase in newspaper in-county volume.

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2 **III. THE DDU DISCOUNT PROVIDES A REASONABLE ESTIMATE OF THE**
3 **COSTS AVOIDED BY EXCEPTIONAL DISPATCH**
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5 Under current Postal Service regulations, publishers are able to receive
6 the Destination Delivery Unit (DDU) discount for periodicals that are dropped at
7 the delivery unit under additional entry. However, publishers are not able to
8 receive the DDU discount for periodicals that are dropped at the delivery unit
9 under exceptional dispatch. As a result, two publications with the same original
10 entry office that are both dropped at the same delivery unit will pay different rates
11 if one publication is dropped under additional entry and the other is dropped
12 under exceptional dispatch.

13 As explained by Witnesses Crum (USPS-T-27) and Taufique (USPS-T-
14 38), the DDU discount is based on estimates of the mail processing and
15 transportation costs that the Postal Service avoids when publishers deposit their
16 mail at the delivery unit. Witness Crum estimates the mail processing portion of
17 the costs avoided. The costs avoided when mail is dropped at a delivery unit are
18 calculated on top of the costs avoided when mail is dropped at the SCF. The
19 SCF analysis is based on avoiding one handling in a transfer hub and a possible
20 additional handling in a non-destination SCF/ADC. USPS-T-27 at page 18. The
21 delivery unit analysis is based on avoiding another handling through an SCF
22 about 97 percent of the time, in addition to the handlings avoided in dropping at
23 the SCF. USPS-T-27 at page 20. Crum's analysis shows a savings in mail
24 processing unit costs of \$0.0301 for Periodicals Regular mail and a savings of
25 \$0.0159 for Periodicals Nonprofit mail. USPS-T-27 at page 21.

1 Witness Stralberg provides further analysis of the delivery unit discount on
2 behalf of Time Warner. He argues that Witness Crum's analysis does not
3 include unloading costs at the delivery unit and does not take into account the
4 types of pallets eligible for dropshipping. Recalculating the DDU mail processing
5 savings with these two corrections, witness Stralberg derives a total savings of
6 \$0.0374 in unit costs.

7 Witness Taufique proposes the piece and pound discount associated with
8 dropshipping at the delivery unit. This proposed piece discount is based on a
9 decision to allocate 75 percent of the mail processing cost savings to piece-
10 related discounts and 25 percent to pound-related discounts. The DDU pound-
11 related discount also includes the transportation savings resulting from
12 dropshipping at the delivery unit.

13 The same mail processing and transportation savings result when
14 publishers drop their mail at the delivery unit, whether that mail is dropped under
15 additional entry or under exceptional dispatch. Therefore, it is appropriate to
16 extend the same DDU discount to this mail both under additional entry and under
17 exceptional dispatch.

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DECLARATION

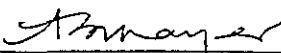
I, Stuart W. Elliott, declare under penalty of perjury that the foregoing testimony is true and accurate to the best of my knowledge, information, and belief.


Stuart W. Elliott

Dated: 5-22-00

Certificate of Service

I hereby certify that I have on this 22 day of May, 2000, served the foregoing document in accordance with the Commission's Rules of Practice.



Alexis Baden-Mayer

1 CHAIRMAN GLEIMAN: There was no Designated Written
2 Cross Examination for this witness before today's hearing.
3 Does anyone have any written cross examination that they
4 would like to designate?

5 MR. HOLLIES: Yes, Mr. Chairman. The Postal
6 Service would like to designate the interrogatory responses
7 provided by Mr. Elliott.

8 They were actually provided last Wednesday, and
9 I'd be happy to do that now.

10 CHAIRMAN GLEIMAN: Please proceed, counsel.

11 THE WITNESS: It still looks the same.

12 CROSS EXAMINATION

13 BY MR. HOLLIES:

14 Q Mr. Elliott, I have handed you two copies of your
15 written responses to interrogatories from the United States
16 Postal Service.

17 And were you to answer those today, would your
18 answers be the same?

19 A Yes, they would.

20 Q And have you had a chance to look through them and
21 make sure the sets are correct?

22 A Yes, I have.

23 MR. HOLLIES: With that, the Postal Service would
24 like to move them into evidence.

25 CHAIRMAN GLEIMAN: Mr. Hollies, do you recall the

1 numbers of the interrogatories?

2 MR. HOLLIES: One through 23.

3 CHAIRMAN GLEIMAN: If you'd please provide two
4 copies to the Court Reporter, I will direct that they be
5 transcribed into the record and entered as evidence.

6 [Designated Written Cross
7 Examination of Stuart Elliott,
8 USPS/NNA-T-2-1 through 23 were
9 received into evidence and
10 transcribed into the record.]
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USPS/NNA-T2-1. Please refer to the survey you discuss in Part II of your testimony on which you base your testimony. Please also refer to the document prepared by Project Performance Corporation (PPC) for NNA attached as Attachment 1 to this interrogatory.

- a. Please confirm that the Attachment is PPC's final report on this study. If not, please identify the attachment and provide a copy of the final report.
- b. Please confirm that other than the glossary and survey instrument shown in the attachments to your testimony, you have not provided any survey-based raw data, computer programs, worksheets, formulae, assumptions, data files or other information called for by the Commission's Rules of Practice that would enable an independent reviewer to validate or replicate your findings or results. If you are unable to confirm, please explain fully.
- c. Please provide all documentation for the study, including input and output data, preferably in computer readable form, that will permit replication of the results. If necessary, you may redact or code respondent identifier information (such as name and company) or provide material under protective conditions to maintain survey respondent confidentiality.
- d. Please confirm that your study began after the joint meeting initiated by the Postal Service in 1999 referenced in USPS/NNA-T1-5. If not confirmed, please explain fully and provide copies of any written documentation supporting your view.

a. Confirmed.

b. Confirmed, subject to the correction that there were no attachments to my testimony.

c. The data for the study are being provided in library reference NNA-LR-1 as an Access 2000 database entitled "NNA Survey." Answers for questions from the survey are prefaced with a number in parenthesis, indicating the corresponding question from the original survey form. Answers to the last question (6) are not provided, because in a number of instances the respondent provided identifying

information about the publication. In addition, a written answer to (3e) is redacted for one respondent because it provided identifying information.

Empty numerical fields are usually indicated in the database by 9999999999, though sometimes they are indicated by a blank entry. When respondents provided total circulation figures without disaggregating them by distribution method, circulation figures are indicated as empty. The yearly total circulation figures in the database are calculated fields and are not taken from the survey form.

In addition to the survey data, the database includes six extra fields: 1) a respondent ID; 2) the NNA database's figure for the newspaper's circulation per issue; 3) a code indicating the stratum; 4) the type of paper, whether daily or weekly; 5) a "clean" version of the first question on the survey, asking respondents for the number of issues they published per week; and 6) a rescaling factor used to adjust the circulation figures of respondents who did not appear to give annual figures. The last two of these fields are discussed in USPS/NNA-T2-18I, which describes the data cleaning procedure.

The circulation figures for 12 publications were questioned because of apparent internal inconsistencies, and this resulted in alterations in 10 cases. This data cleaning is also discussed in USPS/NNA-T2-18I. The database reflects these 10 changes. This data cleaning was performed for only the respondents who provided complete data for 1992 and 1998; it was not performed for respondents who provided complete data for 1995 but incomplete data for 1992 or 1998.

d. Confirmed.



Findings from the National Newspaper Association In-County Mail Survey

A Report Prepared for the
National Newspaper Association

by

Project Performance Corporation

**Project
Performance**



CORPORATION

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December 1999

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1.0 Executive Summary

This report describes the findings from a survey of newspapers about their use of the Postal Service's Periodicals In-County subclass (In-County mail). This survey was conducted to understand the trends in the use of In-County mail by newspapers and the reasons behind those trends.

Overall, the survey found widespread use of In-County mail, particularly among small and medium weekly papers, and that the overall role of In-County mail in newspaper distribution stayed roughly the same over the period from 1992 to 1998. There was some movement away from In-County mail by the largest newspapers during this period, but these papers have not used In-County mail as a primary distribution method so this shift had only a moderate effect on the total newspaper use of In-County mail. The newspapers with the greatest use of In-County mail are the medium weeklies, and these users increased their In-County mail use proportionately as they increased their total circulation.

Specifically, the survey found the following:

- Circulation is growing for the type of papers that make the greatest use of In-County mail. Although total annual newspaper circulation did not change from 1992 to 1998, there was a shift of circulation from the dailies in the survey to weeklies.
- Newspapers increased their use of In-County mail from 520 million papers in 1992 to 540 million papers in 1998. This was an increase of 3 percent.
- Weekly newspapers with circulations between 1,000 and 20,000 account for over 70 percent of the In-County mail sent by newspapers.
- As newspapers grow, they change the way they distribute their papers: smaller papers use In-County and other types of mail, whereas larger papers use contract carriers.

These findings are discussed in more detail in the remainder of the report. Section 2 describes the survey design. Section 3 discusses the sample response. Section 4 describes the statistical methods. Section 5 describes each of the findings of the analysis. A glossary of terms related to newspapers and their distribution is included in Appendix A. A copy of the survey form is included in Appendix B.

2.0 Survey Design and Methodology

In the spring of 1999, the National Newspaper Association (NNA) contracted Project Performance Corporation (PPC) to survey a sample of newspapers. The purpose of the NNA In-County Mail Survey was twofold: 1) to determine the trends in newspapers' use of the Postal Service's Periodicals In-County subclass (In-County mail) and 2) to understand the reasons underlying these trends.

Working closely together, NNA and PPC devised a six-question survey instrument (see Appendix B) and survey procedures. The questions asked for three types of information:

- Annual circulation by year, for 1992, 1995, and 1998
- Circulation by delivery method for each year, including:
 - Periodicals In-County Mail
 - Out-of-County Mail
 - Newsstand Sales
 - Other Delivery/Contract Carriers.
- Reasons for trends in the use of In-County mail

PPC used a four-stage mailing, which started in early August and continued through early September. The mailings included:

- 1) An initial letter, to announce and describe the survey
- 2) The questionnaire, with a cover letter re-explaining its purpose
- 3) A thank you and reminder postcard
- 4) The questionnaire again, with a cover letter explaining the importance of responding

NNA also announced the survey in its August newsletter. Throughout the survey period, PPC maintained the "National Newspaper Association In-County Mail Survey Hotline" – a voice mailbox that those in the sample could call with questions.¹

The sample was drawn from NNA's database of newspapers, which consists of weekly and daily newspapers that belong to the association or have a potential interest in membership. The association's primary membership focus is upon community newspapers or those with an editorial emphasis upon local community. The database therefore contains a much larger number of weekly newspaper titles than daily newspaper titles and, in fact, may omit some very large daily newspapers that are unlikely to have membership interest. This omission is unlikely to affect the study's findings about trends in newspaper use of In-County mail since most large dailies are ineligible for In-County mail because of their size and geographic reach.

¹ PPC received approximately 50 calls on the Hotline over an eight-week period. Most callers, having lost the questionnaire, simply requested a new copy of it. Many others expressed a desire to participate in the survey, but indicated that they did not have all the requested information. PPC asked these individuals to return the questionnaire with whatever information they had available.

Surveys were sent to a stratified random sample of 1,016 newspapers.² To select the sample, PPC and NNA divided the initial list according to frequency (daily or weekly) and circulation. NNA and PPC realized that the type and size of different newspapers could have an important effect on their use of In-County mail. Nine different subgroups, or "strata," were identified – four strata of daily papers, and five strata of weekly papers (see Table 1). A stratified sample was used to minimize sampling error.

² PPC also surveyed the 58 members of the Association of Area Business Publications (AABP) and received 4 complete responses. These results are provided for comparison in the tables of this report, but they are not analyzed separately.

3.0 Responses and Data Cleaning

Consistent with the survey's goals, the analysis focuses on the questions that asked respondents to provide total circulation and a breakdown of delivery methods for 1992, 1995, and 1998. Out of the original mailing of 1,016 surveys, 340 surveys were eventually returned, for a total response rate of 33 percent. In all, 161 of the respondents provided complete circulation figures, broken out by delivery method, for all years surveyed; PPC analyzed only these completed questionnaires. Table 1 shows for each stratum the number of newspapers in the NNA database, the number surveyed, the number of responses, the response rate, and the number of complete responses.

Table 1
Number of Papers and Responses by Stratum

Stratum	Total Number of Papers	Number Surveyed	Surveys Returned	Response Rate (%)	Complete Surveys
All Daily Papers	1,184	240	83	35	40
Under 5000	238	60	20	33	7
5000 to 10,000	289	60	19	32	9
10,000 to 25,000	340	60	24	40	9
Over 25,000	317	60	20	33	15
All Weekly Papers	6,446	776	257	33	121
Under 1000	647	78	28	36	11
1000 to 3000	2256	271	93	34	45
3000 to 5000	1270	152	49	32	16
5000 to 20,000	1790	215	68	32	40
Over 20,000	483	60	19	32	9
All Papers	7,630	1,016	340	33	161
AABP Members	58	58	15	26	4

Despite instructions to provide *annual* circulation figures, many respondents appeared to have provided per issue figures instead. In these cases, the circulation figures were close to the values in NNA's member database for the size of that newspaper's circulation per issue. Because of this similarity, PPC concluded that these respondents had given per issue circulation figures instead of annual figures. A total of 75 of the 161 complete responses reported an "annual" circulation figure that was either below or not more than 25 percent larger than the circulation per issue figure in the NNA database. In each of these cases, the respondent's circulation figures were rescaled to yield appropriate annual figures using the newspaper's number of issues per year.

For 12 responses, there were additional indications that the responses were possibly in error. For 5 of these, respondents gave In-County mail figures but indicated on other

parts of the survey either that they were ineligible for In-County rates or that they mailed at third class rates. For these newspapers, the In-County mail figures were included in Out-of-County mail, which in this survey includes both Standard A and Regular Rate periodicals. The other 7 responses involved either circulation figures that were much higher than expected given the NNA database figures or In-County mail figures that were higher than expected given the type of publication. In these cases, the newspapers were contacted to check their survey responses. In 3 cases, the respondent had provided data on a different paper or on a group of papers because figures on the targeted paper were not available; these responses were recoded as incomplete responses and are not included in the 161 total. In the other cases, if the respondent indicated that an error had been made in the survey response, the database was changed accordingly.

4.0 Statistical Methods

Starting with the 161 complete survey responses, PPC aggregated the information on circulation and In-County mail within each stratum by summing all complete responses in the stratum by year and delivery method. The totals were then expanded statistically to give total figures for the stratum.

The statistical method accounts for the number of responses and the total number of members in the stratum. For example, in the stratum of daily newspapers with circulations over 25,000 there are 15 complete survey responses from a total of 317 such dailies in the NNA database. These 15 responses listed total In-County mail use for 1998 of 1,262,155 pieces. This sample response for this stratum can then be expanded to obtain In-County mail figures for the total stratum by multiplying by the ratio 317/15. The result is an estimate of 26.67 million newspapers sent by In-County mail for this stratum of newspapers in 1998. When such estimates are obtained for both 1992 and 1998 and for all strata, it is then possible to analyze how In-County mail use changed for different types of newspapers. It is also possible to add together the figures for all strata to analyze how In-County mail use changed overall.³

As in any survey, the results are likely to be biased in some way. PPC believes that there are two likely sources of bias. First, it is logical that current users of the service were more likely than others to respond. Second, some papers are part of larger publishing groups. In some cases, respondents may have provided circulation figures for all the papers in the group, rather than just the paper to which the survey was mailed. In the first case, the bias will tend to produce an overestimate of In-County mail use. In the second case, the bias will cause the results to be skewed toward the trends of multi-paper groups.

³ This approach weights the responses of different newspapers by their size. The responses were also analyzed using an unweighted approach. The unweighted results were similar and will not be discussed in this report.

5.0 Findings

5.1 Total Circulation

Table 2 shows the changes in circulation from 1992 to 1998. Total circulation remained relatively constant over the period, with an increase of 0.2 percent that is not statistically significant. Out of a total annual circulation in 1992 of about 10 billion newspapers, dailies represented 78 percent of the total while weeklies comprised the remaining 22 percent. Underlying the stable circulation for newspapers in aggregate, the two types of newspapers show dramatically different trends: the dailies show an average decrease of 3 percent in total circulation over the period, whereas the weeklies show an average increase of 9 percent. As a result of these different growth rates, dailies declined to 76 percent of total circulation by 1998, and weeklies increased to 24 percent. Within each of the two groups there are some differences between the larger and smaller papers, but these differences are not statistically significant.

Table 2
Estimated Total Circulation Change, 1992 to 1998

Stratum	Circulation 1992 (millions)	Circulation 1998 (millions)	Change 1992 to 1998 (millions)	Percent Change 1992 to 1998 (%)	T-score
All Daily Papers	7,602.15	7,393.21	-208.94	-2.75	-1.94
Under 5000	202.46	199.59	-2.87	-1.42	-0.12
5000 to 10,000	570.01	540.74	-29.26	-5.13	-1.93
10,000 to 25,000	1,597.97	1,596.36	-1.60	-0.10	-0.03
Over 25,000	5,231.72	5,056.51	-175.21	-3.35	-1.95
All Weekly Papers	2,096.76	2,286.69	189.93	9.06	2.47
Under 1000	23.32	23.93	0.61	2.60	0.28
1000 to 3000	273.02	324.09	51.08	18.71	1.27
3000 to 5000	236.59	249.01	12.41	5.25	1.38
5000 to 20,000	766.13	819.27	53.14	6.94	1.26
Over 20,000	797.70	870.39	72.69	9.11	1.47
All Papers	9,698.91	9,679.89	-19.01	-0.20	-0.14
AABP Members	60.18	54.43	-5.75	-9.56	-0.83

⁴ A "T-score" is a statistical test that indicates whether or not a change is significantly different from no change at all. A T-score close to 2.00 or above (or close to -2.00 and below) indicates a significant difference.

5.2 In-County Mail

Table 3 shows trends in In-County mail use by newspapers. The use of In-County mail shows an increase of 3 percent that is not statistically significant. As with total circulation, there is a broad contrast between daily and weekly papers: daily papers show a 14 percent decrease in In-County mail that is statistically significant, while weekly papers show a 7 percent increase in In-County mail that is not statistically significant. For the dailies there is a clear difference between the trends of the smaller and larger papers: the smaller dailies show no clear change in In-County mail use over the period, whereas the larger dailies cut their In-County mail use in half. For the weeklies, the differences between the In-County mail trends of the smaller and larger papers were not statistically significant.

A comparison of Tables 2 and 3 shows that the In-County mail trend for the weeklies as a group kept pace with their growth in total circulation, showing growth rates of 7 and 9 percent, respectively. In contrast, for the daily papers the 14 percent loss in In-County mail was substantially larger than the 3 percent circulation loss, reflecting a substantial shift away from In-County mail by the larger daily papers. However, since the larger dailies make up only 6 percent of total In-County mail used by newspapers in 1992, this shift away from In-County mail had only a moderate effect on total newspaper use of In-County mail.

Table 3
Estimated Total In-County Mail Change, 1992 to 1998

Stratum	In-County Mail, 1992 (millions)	In-County Mail, 1998 (millions)	Change, 1992 to 1998 (millions)	Percent Change, 1992 to 1998 (%)	T score
All Daily Papers	109.69	94.84	-14.85	-13.54	-1.99
Under 5000	47.79	46.33	-1.46	-3.05	-0.32
5000 to 10,000	29.95	31.62	1.67	5.57	1.26
10,000 to 25,000	5.28	3.30	-1.99	-37.58	-2.39
Over 25,000	26.67	13.60	-13.08	-49.03	-2.28
All Weekly Papers	412.12	441.85	29.73	7.21	0.68
Under 1000	12.20	11.71	-0.49	-4.04	-0.45
1000 to 3000	106.55	114.79	8.25	7.74	1.48
3000 to 5000	73.42	76.07	2.64	3.60	0.82
5000 to 20,000	193.32	234.02	40.70	21.05	1.09
Over 20,000	26.63	5.27	-21.37	-80.23	-1.01
All Papers	521.81	536.69	14.88	2.85	0.34
AABP Members	13.57	13.01	-0.57	-4.2	-1.04

5.3 In-County Mail's Role as a Distribution Method

Table 4 reports In-County mail as a percentage of total circulation. This table shows that the relative importance of In-County mail in total distribution stayed relatively stable in all strata over the period. All but two of the strata show decreases in In-County's proportion of total distribution, but in no case has there been a shift in the use of In-County mail of more than 4 percentage points.

For newspapers as a whole, there is a small shift toward In-County mail distribution, which increases from 5.38 to 5.54 percent of total distribution. This occurs despite the fact that dailies as a group and weeklies as a group each show a small shift away from In-County mail distribution. This apparent paradox – with dailies and weeklies each shifting away from In-County but total circulation shifting toward In-County – is explained by the overall shift in total circulation from dailies to weeklies. The movement of circulation towards weeklies that send a higher percentage of their papers as In-County mail makes up for the small shifts by both dailies and weeklies away from In-County mail.

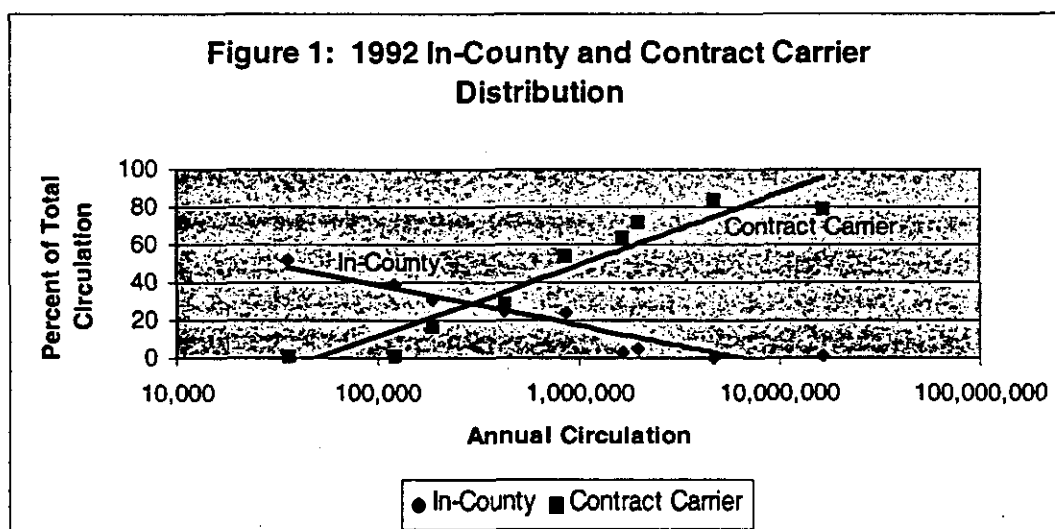
Table 4
Percentage of Total Circulation Delivered by In-County Mail
Change, 1992 to 1998

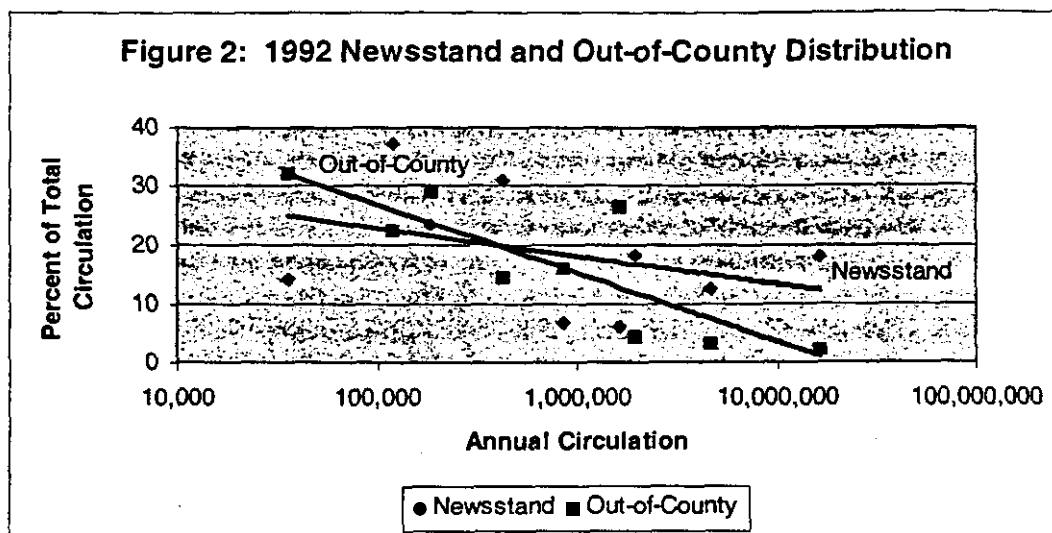
Stratum	Percent In-County 1992 (%)	Percent In-County 1998 (%)	Change, 1992 to 1998 (percentage points)
All Daily Papers	1.44	1.28	-0.16
Under 5000	23.60	23.21	-0.39
5000 to 10,000	5.25	5.85	0.59
10,000 to 25,000	0.33	0.21	-0.12
Over 25,000	0.51	0.27	-0.24
All Weekly Papers	19.66	19.32	-0.33
Under 1000	52.31	48.92	-3.38
1000 to 3000	39.03	35.42	-3.61
3000 to 5000	31.03	30.55	-0.49
5000 to 20,000	25.23	28.56	3.33
Over 20,000	3.34	0.61	-2.73
All Papers	5.38	5.54	0.16
AABP Members	22.55	23.90	1.34

5.4 Distribution Method and Newspaper Size

Figures 1 and 2 show the way that the primary distribution method differs by strata, as newspapers become larger. This change is shown for 1992 data, but the trends are virtually identical for 1998 data. Figure 1 shows the main story, which is the shift from In-County mail towards Contract Carriers as newspapers become larger. Figure 2 shows the smaller movements away from Newsstand Sales and Out-of-County mail as papers grow in size. Note, however, that the shift away from Newsstand Sales is a very weak trend.

For each stratum, the figures plot the average annual circulation against the percent of total circulation for each of the distribution methods. The sample includes weeklies with a range of circulations from 400 to 60,000 and dailies with a range of circulations from 800 to 140,000. A weekly with circulation of 400 publishing one issue per week has an annual circulation of about 20,000. The largest weekly with a single issue per week has an annual circulation of about 3,000,000. A daily with circulation of 800 publishing seven issues per week has an annual circulation of about 300,000. The largest daily with seven issues per week has an annual circulation of about 50,000,000. For the purposes of this study, newspapers with fewer than five issues per week are classified as weeklies and newspapers with five or more issues per week are classified as dailies.





5.5 Reasons for Changes in In-County Mail

The survey included several questions asking respondents about the reasons for any substantial changes in their use of In-County mail. Table 5 summarizes the answers to these questions. Not surprisingly, about 40 percent of the respondents listed a change in circulation as a reason for a change in In-County mail. In addition, some papers listed a change in Newsstand Sales or a change in Other Delivery as a reason for a change in In-County mail. Note that it is the larger papers that tend to cite a change in Other Delivery as the reason and the smaller papers that tend to cite a change in Newsstand Sales.

Table 5
Reasons for Changes in In-County Mail

Stratum	Total Responses	Change in Issues per Week	Change in Circulation	Change in Newsstand Sales	Change in Other Delivery
All Daily Papers	40	3	16	2	7
Under 5000	7	1	5	0	0
5000 to 10,000	9	1	1	0	1
10,000 to 25,000	9	0	4	0	1
Over 25,000	15	1	6	2	5
All Weekly Papers	121	8	49	17	10
Under 1000	11	1	6	1	0
1000 to 3000	45	2	17	10	1
3000 to 5000	16	2	6	0	1
5000 to 20,000	40	3	20	5	6
Over 20,000	9	0	0	1	2
All Papers	161	11	65	19	17
AABP Members	4	0	0	0	0

5.6 Reasons for Not Using In-County Mail

Table 6 summarizes responses about the reasons for not using In-County mail. The table combines answers from respondents who had never used In-County mail and from respondents who stopped using In-County mail at some point in time. Not surprisingly, 7 of the larger papers indicated that they did not use In-County mail because of eligibility limitations. The most important reason cited was the availability of a less costly method of delivery – this reason was given by 10 of the respondents. There were 3 responses from weekly newspapers listing service difficulties as the reason for not using In-County mail. Some respondents elaborated on their concerns about Postal Service cost or service difficulties in written comments.

Table 6
Reasons for Not Using In-County Mail

Stratum	Total Responses	Eligibility	Subscriber Preference	Inadequate USPS Service	Less Costly Method
All Daily Papers	40	1	1	0	4
Under 5000	7	0	1	0	0
5000 to 10,000	9	0	0	0	2
10,000 to 25,000	9	1	0	0	0
Over 25,000	15	0	0	0	2
All Weekly Papers	121	6	0	3	6
Under 1000	11	0	0	0	0
1000 to 3000	45	0	0	1	1
3000 to 5000	16	0	0	0	0
5000 to 20,000	40	3	0	0	4
Over 20,000	9	3	0	2	1
All Papers	161	7	1	3	10
AABP Members	4	3	0	0	0

Appendix A: Glossary

This study incorporated terms in common usage among mailers of newspapers. The common meanings were assumed to be understood by the survey respondents. In the event of inquiries, explanations of eligibility or usage were offered by the researchers. Some of the definitions in effect follow.

Periodical refers to publications that are published at a stated frequency with the intent to continue publication indefinitely. The Postal Service's Domestic Mail Manual (DMM) in Section E211.2.1 defines periodicals as having the following characteristics:

- a. The continuity of the periodical must show from issue to issue. Continuity is shown by a serialization of articles or by successive issues carrying the same style, format, theme, or subject matter.
- b. The primary purpose of the periodical must be the transmission of information.
- c. The content of the periodical may consist of original or reprinted articles on one topic or many topics, listings, photographs, illustrations, graphs, a combination of advertising and non-advertising matter, comic strips, legal notices, editorial material, cartoons, or other subject matter.
- d. The primary distribution of each issue must be made before that of each succeeding issue.

Newspaper is defined in this study as a publication eligible for membership in the National Newspaper Association. Both daily and non-daily newspapers are eligible if they have 25 percent editorial content. Both free and paid circulation publications are eligible.

Daily refers to a newspaper published five or more days a week.

Weekly refers to a newspaper published fewer than five days a week. In common parlance a weekly is most often published only once, twice or three times per week.

In-County Mail refers to copies of periodicals that are mailed at a preferred Postal Service Periodicals rate under DMM Section E270.1. In-County rates apply to subscriber copies of any issue of a Periodicals publication (except a requester publication) when they are entered within the county in which the post office of original entry is located for delivery to addresses within that county, and when at least one of the following conditions is satisfied:

- a. The total paid circulation of such issue is less than 10,000 copies.
- b. The number of paid copies of such issue distributed within the county of publication is more than 50% of the total paid circulation of each issue.

Out-of-County Mail refers in the study to any mailed pieces that do not qualify for preferred In-County rates under DMM Section E270.1.

Newsstand Sales refers to any newspaper copies sold to a consumer through a retail outlet, a vending machine or news agent.

Contract Carrier refers to delivery directly to homes or businesses by any person or entity other than an employee or agent of the Postal Service. For purposes of this study, it included contractors to a publisher, as well as a publisher's employees or other non-postal personnel.

Appendix B: Survey Form



NATIONAL NEWSPAPER ASSOCIATION IN-COUNTY MAIL SURVEY

Publisher:	
Newspaper:	
Person Completing Survey:	
Telephone Number:	
Fax Number:	
Street Address:	
City, State, Zip:	

GENERAL

- 1) On average, how many issues did you publish per week in 1998? _____

- 2) Please provide the total *annual* circulation of the newspaper in 1998, 1995, and 1992; categorize this annual figure by delivery method, as indicated in the table below.
 - Annual circulation is average circulation times the annual number of issues.
 - Please provide figures for all years and categories for which you have data.
 - Please mark X for years or categories for which you have no data.

Delivery Method	1998	1995	1992
Mailed			
Periodicals In-County Mail			
Out-of-County Mail			
Not Mailed			
Newsstand Sales			
Other Delivery/Contract Carriers			
Total			

All responses to this survey will be kept strictly confidential

 NATIONAL NEWSPAPER ASSOCIATION IN-COUNTY MAIL SURVEY

IN-COUNTY MAIL SERVICE

- 3) Did the annual number of newspapers that you mailed using the Postal Service's in-county mail service increase or decrease by more than five (5) percent between 1992 and 1998?

☐ Yes ☐ No

- 3a) If yes, what was the major reason for this change? (*Circle answer*)

- a. Number of issues per week increased/decreased
- b. Average circulation increased/decreased
- c. Single copy newsstand sales increased/decreased
- d. Use of other delivery/contract carriers increased/decreased
- e. Other _____

- 4) In which of the listed years (1998, 1995, 1992) were you eligible to mail newspapers using the Postal Service's in-county mail service? (*Circle answer*)

1998	Eligible	Not Eligible	Don't Know
1995	Eligible	Not Eligible	Don't Know
1992	Eligible	Not Eligible	Don't Know

- 5) If you did not use the Postal Service's in-county mail service in 1998, 1995, or 1992, have you ever used it?

☐ Yes ☐ No

- 5a) If yes, when did you stop using it? 19 _____

- 5b) If yes, why did you stop using it?

- a. No longer eligible
- b. Subscriber preference
- c. Inadequate service from Postal Service
- d. Availability of less costly delivery method
- e. Other _____

All responses to this survey will be kept strictly confidential

NATIONAL NEWSPAPER ASSOCIATION IN-COUNTY MAIL SURVEY

5c) If no, why haven't you ever used the Postal Service's in-county mail service?

- a. Not eligible
- b. Subscriber preference
- c. Inadequate service from Postal Service
- d. Availability of less costly delivery method
- e. Other _____

6) Is there anything else you would like us to know about how your methods for delivering newspapers have changed since 1992? If so, please provide this information in the space below. Feel free to attach additional sheets, if necessary.

THANK YOU FOR YOUR TIME!

Please return this completed survey in the enclosed envelope, or mail to:

National Newspaper Association
c/o Project Performance Corporation
7600 Colshire Drive, Fifth Floor
McLean, VA 22102-7600
(703) 345-2202

All responses to this survey will be kept strictly confidential

USPS/NNA-T2-2. Please refer to the survey described in Part II of your testimony.

a. What was your role in each of the design, development, implementation, data editing and reporting, and data analyses stages of the survey? Please explain fully.

b. Please list all university level courses taken and completed by you related specifically to the study of survey sampling methods, mathematical statistics (distribution theory), probability, and variance estimation (but not economic theory). Please include with your list the name of the college or university you attended, the year you completed each course, and the textbooks and their authors.

c. Please define precisely the population under study and provide a working definition of the sampling unit at each level of sampling employed in your survey.

d. Please compare and contrast your definitions from part (c) with those underlying the Postal Service's RPW-based estimates of volume.

e. Please describe completely the process used to select the sample within each stratum of the stratified random sample.

f. Was a skip or interval sampling method used to select the sample within each stratum? If so, please describe the mechanism, process or procedure used to select the sample and provide the program code (hardcopy) and the code used to sort the sampling units within each stratum prior to sample selection.

g. Please describe any random start process used and describe how such a random start was determined and used to select the final sample within each stratum. If no random start was used please state so and describe fully all mechanisms and procedures used to impart randomness into sample selection process prior to the draw of the sample in each stratum. Please identify the programming language used and provide in hardcopy form the programming code for the random process used to select the sampled units.

h. Please provide the method used to determine any random seed used in the random selection process and provide the random seeds.

i. How were stratum boundaries determined? Were boundaries other than those shown in Tables 1-3 of your testimony considered? If so, what were they and why were they rejected? If not, why not? Please explain fully.

j. Please explain how the sample sizes shown in Table 1 were determined for each of the nine strata. Please provide all formulae used in determining the stratum sample sizes.

k. Please provide the reasons it was found necessary to sample the NNA database in lieu of a complete census of this database.

a. I was not involved in the design, development, or implementation of the

survey. I had primary responsibility for the data editing, reporting, and analysis.

b.

Undergraduate Courses:

Columbia University, Introduction to Statistics for Economists, 1984
Freedman et al., *Statistics*, Norton, 1980.

Columbia University, Econometrics, 1984
Pindyck and Rubinfeld, *Econometric Models & Econometric Forecasts*, McGraw-Hill, 1981.

Graduate Courses:

MIT, Statistical Methods for Econometrics, 1985
Larsen and Marx, *An Introduction to Mathematical Statistics and its Applications*, Prentice-Hall, 1981.
McFadden, lecture notes.

MIT, Econometrics I, 1986
Theil, *Principles of Econometrics*, Wiley, 1971.
McFadden, lecture notes.

MIT, Econometrics II, 1986
Amemiya, *Advanced Econometrics*, Harvard, 1985.
Various journal articles.

c. The population of interest is United States newspapers that are current or potential users of In-County mail, with a sampled unit being an individual newspaper.

d. My understanding is that the Postal Service's RPW-based estimates of volume for the In-County mail subclass is focused on a population of post offices, with a sampled unit being an individual post office. The Postal Service's population will provide information about both newspaper and non-newspaper users of In-County mail. The NNA's population will provide information about

both postal and non-postal methods of newspaper distribution. Both methods will provide information related to newspaper distribution using In-County mail. Note, however, that the Postal Service does not have any information about the relative sizes of the newspaper and non-newspaper portions of In-County mail use (NNA/USPS-13).

e. The NNA database was stratified using circulation figures in the database. Within each stratum, a number of newspapers was randomly selected to be included in the survey. Table 1 of my testimony gives the total number of newspapers and the number surveyed within each stratum. The random selection was performed using the random number generator of High Performance System's iThink software (Analyst 5.1.1 version). The random number generator was seeded with the value of 1 for the generation of each sample.

f. No.

g. See part (e) above. I do not believe that a copy of the actual programming code is available.

h. See part (e) above.

i. My understanding is that the stratum boundaries were determined through discussions with NNA experts on community newspapers about the size differences that might lead to differences in distribution methods.

j. My understanding is that the sample sizes were determined to be proportional to the number of newspapers in each stratum, subject to a minimum of 60.

k. It would have been more costly to have sent the survey to all publications listed in the NNA database.

USPS/NNA-T2-3. Please refer to use of the terms "circulation" and "survey" throughout your testimony. Please also refer to the terms "copies" and "pieces" (one or more copies bundled together and mailed to the same address) as required on the Form 3541 postage statement (see Appendix A of USPS-LR-I-26/R2000-1) to compute postage.

- a. Please indicate whether you believe that a respondent reporting circulation units as copies instead of pieces in your survey biases your reported measures. Please explain fully.
- b. Please describe and explain all steps taken in the survey to ensure that circulation was reported by the survey respondents in piece-based units and not in copy-based units. Please provide copies of all written documents where the copy and piece distinction is explained to the intended survey recipients.
- c. Please confirm that the In-County postage paid circulation volumes reported by the survey respondents were not validated by obtaining copies of mailer provided postage statements. If you are unable to confirm, please explain fully.
- d. Please explain how eligibility for In-County rates was determined. Please indicate where on the survey form guidelines were provided pertaining to DMM editorial and circulation minimums to help the survey respondents understand In-County eligibility requirements.

a. My understanding is that only a small proportion of newspaper In-County volume represents pieces with multiple copies bundled together. As a result, I believe that the distinction between copies and pieces is of no practical importance for the survey results report in my testimony.

By "total annual circulation" the survey meant the total number of copies of the newspaper distributed throughout the year. In determining the proportion of total newspaper circulation delivered using In-County mail, one should use the number of copies that are sent by In-County mail. However, since In-County mail volume is measured in pieces, one should use the number of pieces that are sent by In-County mail in determining the change in newspaper In-County mail volume over time.

If respondents provided the number of copies, then newspaper In-County mail volume could be over-estimated. However, as long as the proportion of pieces

representing multiple copies is relatively constant over time, there would be no bias in the estimate of the change in newspaper In-County mail volume. If respondents provided the number of pieces, then the In-County proportion of total newspaper delivery could be under-estimated. I do not believe that any of these biases are likely to be large enough to be of practical importance for the results reported in my testimony.

Respondents were not directed to make a distinction between copies and pieces. However, they were asked to provide a breakdown of their annual circulation figures according to the delivery method used. In this context, I would speculate that most respondents provided answers in terms of the number of copies.

b. See part (a) above.

c. Confirmed.

d. The respondents were simply asked whether or not they were "eligible to mail newspapers using the Postal Service's in-county mail service" in 1992, 1995, and 1998. No guidelines on In-County eligibility requirements were provided.

For small and medium size newspapers, I would speculate that most respondents were familiar with the requirements for In-County eligibility, given their small staffs and the importance of In-County mail as a distribution method for these papers. For large newspapers, I would speculate that some respondents were not familiar with In-County eligibility requirements and might have included newspapers mailed to addresses within the county but not at In-County rates. It is possible that the strata of daily and weekly newspapers with the largest circulations are affected by this misunderstanding. If that is the case,

then the decrease in In-County volume shown for those strata in Table 3 may be purely an artifact of a misunderstanding about In-County eligibility. This suggests that the increase in newspaper In-County volume may be under-estimated in the reported survey results.

USPS/NNA-T2-4. In Tables 1-3 of your testimony, you report circulation values in undefined units. Please answer the following.

- a. Please define the term "circulation" as you have used it in these tables.
- b. Please reconcile your circulation-based volume definition with the copy- and piece-based terms found in the DMM for Periodicals mail or as required to compute postage on Form 3541.
- c. Please provide corrected circulation in piece-based units for all Table 1-3 entries. If you are unable to do so, please explain why.

a. See my response to USPS/NNA-T2-3a.

b. See my response to USPS/NNA-T2-3a.

c. No data are available to provide corrected figures. In any case, as I have explained in my response to USPS/NNA-T2-3a, I believe that the distinction between pieces and copies is of no practical importance for the results reported in my testimony and that any potential correction would be so small as to be insignificant.

USPS/NNA-T2-5. Please refer to Tables 2-3 of your testimony.

a. Please describe completely how your reported estimates of circulation totals, changes in circulation, and related standard errors are constructed for each entry in Tables 2-3. Please include in your description all expansion factors, their development, and explain why you selected the particular expansion factors you used over other possible choices. Please include all necessary assumptions you made pertaining to your data and estimation methodology.

b. Please provide all formulae relied upon by you to construct each table entry in sufficient detail to enable an independent analyst to replicate your results.

c. Please identify the source of the estimator formulae including the source used for estimating standard errors.

a. The same procedure was used for developing the figures in the first, second, and third columns of Tables 2 and 3. The only difference was the data used to calculate the figures. In the case of the third columns, showing the 1992-98 change for circulation and newspaper in-county volume, respectively, the sampled unit value was the 1992-98 change for the individual newspaper.

Within each stratum h , the estimate of the population total $\hat{\tau}_h$ for the stratum is calculated as:

$$\hat{\tau}_h = N_h \bar{y}_h$$

where N_h is the number of newspapers in stratum h and \bar{y}_h is the average value for the sampled newspapers. The value of N_h used is simply the value in the "Total Number of Papers" column in Table 1 of my testimony. Thus, the survey results are expanded to project values to the population of newspapers contained in the NNA database.

The estimated population totals for each strata are added together, as appropriate, to obtain the daily and weekly estimated population subtotals and the estimated population total for all papers. These additions are calculated as follows:

$$\hat{\tau} = \sum_h \hat{\tau}_h$$

where $\hat{\tau}$ is the appropriate population subtotal or total that is being calculated. The fourth columns of Tables 2 and 3 provide standard errors for the 1992-98 change values. In each case, the value is simply the square root of the estimated variance of the estimated population total for the stratum, which is calculated as follows:

$$\text{var}(\hat{\tau}_h) = \frac{N_h(N_h - n_h)}{n_h} s_h^2$$

where n_h is the number of sampled units in the stratum, and s_h^2 is the sample variance for the sampled units. The latter is calculated as follows:

$$s_h^2 = \frac{1}{n_h - 1} \sum_{i=1}^{n_h} (y_{h,i} - \bar{y}_h)^2$$

where y_{hi} is the value for the i -th sampled unit. The actual calculation of s_h^2 is performed within Access using the program's variance grouping function.

The estimated variances of the estimated population totals for each stratum are simply added together to obtain the estimated variances for the population subtotals and the total over all papers:

$$\text{var}(\hat{\tau}) = \sum_h \text{var}(\hat{\tau}_h)$$

The square root of this variance is taken to obtain the standard error of the 1992-98 change for the daily and weekly subtotals and for the total over all papers.

The fifth columns of Tables 2 and 3 provide the 1992-98 change as a percentage of the 1992 values. This percentage is obtained simply by dividing the values in the third column by the values in the first column and converting to percents.

Note: the above formulae are adapted from *Sampling* by Steven K. Thompson (Wiley, 1992).

- b. See part (a) above.
- c. See part (a) above.

USPS/NNA-T2-6. Please refer to Tables 2-3 provided in your testimony.

- a. Please confirm that an estimated C.V. (coefficient of variation) computed from your reported standard error of 44.16 million circulation units for your reported estimate of change of 14.88 million circulation units in Table 3 is 296.8 percent. If you are unable to confirm, please provide an estimate of the C.V. for your estimate of change and describe completely how you arrived at your estimate.
- b. Please provide an estimated 95 percent confidence interval for each total circulation and change in total circulation estimate shown in Tables 2-3 at the stratum, subtotal and grand total levels.
- c. Please confirm that your estimated confidence intervals for the changes in "All Papers" circulation from part (b) for Tables 2-3 include the (i) value zero and (ii) negative values. If you are unable to confirm, please explain fully.
- d. Please provide an estimated 95 percent confidence interval for each estimate of standard error shown in your tables under the "Standard Error of Change" column at each stratum, subtotal and grand total level. Please provide all formulae used to provide these interval estimates and identify in the literature the source of your formulae.
- e. Please provide an estimate of the C.V. of your estimated change at the "All Paper" level in Table 2 and show how you compute this estimate. If you are unable to compute this estimate, please explain why.
- f. Please interpret your result from part (e) and explain the usefulness and meaning of any negatively valued C.V. estimate.
- g. Assuming a single population and parameter are of interest, please confirm that a C.V. is a relative measure of precision that allows one to compare the results of different sampling methodologies and their outcomes for purposes such as assessing the relative efficiency between two or more sampling methodologies. If you are unable to confirm, please explain fully.
- h. Please indicate if you believe that a confidence interval that includes the value of zero provides evidence of a statistically significant change. Please explain your answer fully.
- i. Please confirm that the Postal Service reports an estimated C.V. of 2.2 percent for its In-County piece-based volume estimate for the FY 1998 period. If you are unable to confirm, please explain fully.

a. Confirmed.

b. The 95 percent confidence intervals are provided in the following six tables.

Note that for the individual strata the confidence intervals are calculated using

the *t* distribution with the appropriate number of degrees of freedom in the

stratum, whereas for the subtotal and total the confidence intervals are calculated

using the *t* distribution with an asymptotic number of degrees of freedom.

Table 6b-1: 1992 Circulation (NNA-T-2 Table 2)

Stratum (circulation per issue)	Point Estimate (millions)	Lower Bound of 95% Confidence Interval (millions)	Upper Bound of 95% Confidence Interval (millions)
Daily Papers			
Under 5,000	202.46	11.27	393.64
5,000-10,000	570.01	383.35	756.67
10,000-25,000	1,597.97	1,343.08	1,852.85
Over 25,000	5,231.72	2,711.90	7,751.54
Subtotal	7,602.15	5,278.79	9,925.51
Weekly Papers			
Under 1,000	23.32	18.20	28.44
1,000-3,000	273.02	195.04	351.00
3,000-5,000	236.59	158.42	314.76
5,000-20,000	766.13	580.23	952.02
Over 20,000	797.70	454.34	1,141.06
Subtotal	2,096.76	1,738.21	2,455.31
All Papers	9,698.91	7,348.04	12,049.77

Table 6b-2: 1998 Circulation (NNA-T-2 Table 2)

Stratum (circulation per issue)	Point Estimate (millions)	Lower Bound of 95% Confidence Interval (millions)	Upper Bound of 95% Confidence Interval (millions)
Daily Papers			
Under 5,000	199.59	20.67	378.51
5,000-10,000	540.74	365.76	715.73
10,000-25,000	1,596.36	1,383.29	1,809.44
Over 25,000	5,056.51	2,644.42	7,468.59
Subtotal	7,393.21	5,171.90	9,614.51
Weekly Papers			
Under 1,000	23.93	16.52	31.34
1,000-3,000	324.09	168.87	479.32
3,000-5,000	249.01	177.24	320.77
5,000-20,000	819.27	632.25	1,006.28
Over 20,000	870.39	446.49	1,294.29
Subtotal	2,286.69	1,850.98	2,722.39
All Papers	9,679.89	7,416.26	11,943.53

Table 6b-3: 1992-98 Circulation Change (NNA-T-2 Table 2)

Stratum (circulation per issue)	Point Estimate (millions)	Lower Bound of 95% Confidence Interval (millions)	Upper Bound of 95% Confidence Interval (millions)
Daily Papers			
Under 5,000	-2.87	-61.25	55.52
5,000-10,000	-29.26	-64.24	5.71
10,000-25,000	-1.60	-121.80	118.60
Over 25,000	-175.21	-368.11	17.69
Subtotal	-208.94	-420.09	2.20
Weekly Papers			
Under 1,000	0.61	-4.24	5.45
1,000-3,000	51.08	-30.27	132.42
3,000-5,000	12.41	-6.75	31.58
5,000-20,000	53.14	-31.98	138.25
Over 20,000	72.69	-41.13	186.52
Subtotal	189.93	39.10	340.75
All Papers	-19.01	-278.50	240.47

Table 6b-4: 1992 In-County Mail (NNA-T-2 Table 3)

Stratum (circulation per issue)	Point Estimate (millions)	Lower Bound of 95% Confidence Interval (millions)	Upper Bound of 95% Confidence Interval (millions)
Daily Papers			
Under 5,000	47.79	-12.12	107.69
5,000-10,000	29.95	-26.47	86.38
10,000-25,000	5.28	0.93	9.64
Over 25,000	26.67	6.46	46.88
Subtotal	109.69	39.29	180.10
Weekly Papers			
Under 1,000	12.20	9.50	14.90
1,000-3,000	106.55	79.05	134.05
3,000-5,000	73.42	37.55	109.30
5,000-20,000	193.32	130.99	255.64
Over 20,000	26.63	-32.09	85.36
Subtotal	412.12	322.97	501.27
All Papers	521.81	408.21	635.41

Table 6b-5: 1998 In-County Mail (NNA-T-2 Table 3)

Stratum (circulation per issue)	Point Estimate (millions)	Lower Bound of 95% Confidence Interval (millions)	Upper Bound of 95% Confidence Interval (millions)
Daily Papers			
Under 5,000	46.33	-9.01	101.67
5,000-10,000	31.62	-25.67	88.90
10,000-25,000	3.30	0.34	6.25
Over 25,000	13.60	3.91	23.28
Subtotal	94.84	28.36	161.32
Weekly Papers			
Under 1,000	11.71	8.54	14.87
1,000-3,000	114.79	78.96	150.63
3,000-5,000	76.07	42.77	109.36
5,000-20,000	234.02	137.65	330.38
Over 20,000	5.27	-4.56	15.09
Subtotal	441.85	337.21	546.48
All Papers	536.69	412.72	660.66

Table 6b-6: 1992-98 In-County Change (NNA-T-2 Table 3)

Stratum (circulation per issue)	Point Estimate (millions)	Lower Bound of 95% Confidence Interval (millions)	Upper Bound of 95% Confidence Interval (millions)
Daily Papers			
Under 5,000	-1.46	-12.44	9.53
5,000-10,000	1.67	-1.39	4.72
10,000-25,000	-1.99	-3.90	-0.07
Over 25,000	-13.08	-25.39	-0.76
Subtotal	-14.85	-29.46	-0.24
Weekly Papers			
Under 1,000	-0.49	-2.95	1.96
1,000-3,000	8.25	-2.96	19.45
3,000-5,000	2.64	-4.24	9.52
5,000-20,000	40.70	-34.99	116.40
Over 20,000	-21.37	-70.36	27.63
Subtotal	29.73	-55.58	115.04
All Papers	14.88	-71.67	101.43

c. Confirmed that the estimated confidence intervals in part (b) above for the change in "All Papers" circulation from Table 2 and the change in "All Papers" In-County mail from Table 3 include the records for papers that had zero circulation for one year, zero In-County mail for one or both years, a decline in circulation from 1992 to 1998, or a decline in In-County mail from 1992 to 1998.

d. I do not have ready access to a formula giving an estimator of the variance of the estimator of the variance of a sampled value, which is required in order to calculate the standard error of an estimated standard error. Therefore I have no basis for constructing 95 percent confidence intervals for the standard error estimates included in Tables 2 and 3.

In any case, I am not aware that such 95 percent confidence intervals for standard error estimates appear in any portion of the Postal Service's direct testimony. Therefore, it seems that the Postal Service itself does not believe that the construction of confidence intervals for standard error estimates is of any practical importance.

e. My understanding is that the coefficient of variation is defined to be the standard error of an estimate divided by the estimate itself. Using this definition, the coefficient of variation for the estimated change at the "All Papers" level of Table 2 is -696 percent. Please note that the Postal Service does not provide coefficients of variation for estimated changes in In-County mail, so there is no way to compare this figure to coefficients of variation from the Postal Service's RPW system.

f. The fact that the coefficient of variation in part (e) is negatively valued is irrelevant: whenever an estimated quantity is negative its coefficient of variation will be negatively valued. However, this does not have any impact on using the coefficient of variation as a short-hand for understanding the degree of uncertainty in an estimate arising from sampling error.

g. Confirmed that in some cases a coefficient of variation allows a useful comparison between different sampling methodologies. It is important to note, however, that non-sampling error is not reflected in an estimated standard error and so is not reflected in a coefficient of variation. If different sampling methodologies are subject to different biases, a comparison of their coefficients of variation will not provide useful information about the impact of those biases.

As an example, it is instructive to compare the change in the Postal Service's RPW figures with the change in newspaper In-County volume found by the survey reported in my testimony. The Postal Service's RPW figures for 1992 and 1998 imply a decrease in In-County volume from 1,193 million to 924 million. NNA/USPS-T5-4 and USPS-T-5 Table 2. This represents a decrease of 269 million, which is a change of -22.5 percent of the 1992 volume figure. In contrast, the 95 percent confidence interval for the change in newspaper In-County mail that I report above in part (b) is from -72 million to 101 million. Expressed as a percentage of the estimated 1992 newspaper In-County mail,

this 95 percent confidence interval is from -13.7 to 19.4 percent. Despite the large coefficient of variation from the survey, this confidence interval is still tight enough to reject the hypothesis that the estimated change in newspaper In-County volume is the same as the Postal Service's estimate of a change of -22.5 percent in total In-County volume. The source of the difference between these two estimates must therefore lie in differences between their populations (see USPS/NNA-T2-2d) or in their biases, neither of which are reflected in a comparison of their coefficients of variation.

h. Under conventional usage, a confidence interval that includes the value of zero is not considered evidence of a "statistically significant change."

Nevertheless, it is important to remember that some information is still contained in estimates even if they are not considered "statistically significant" when using an arbitrary cutoff of 95 percent confidence.

For example, using the normal approximation of the distribution of the estimated change it is possible to calculate the probability that the range from 0 to positive infinity contains the true change in newspaper In-County volume. With an estimated change of 14.88 million and an estimated standard error of 44.16 million, the probability that the positive range contains the true change is about 63 percent. Conversely, the probability that the range from 0 to negative infinity contains the true change in newspaper In-County volume is about 37 percent.

Thus the results indicate that it is 1.7 times as likely that the positive range includes the true change than that the negative range includes the true change.

Equivalently, this means that it is 1.7 times as likely that the true change is included in the range representing an increase in newspaper In-County volume than that it is included in the range representing a decrease in newspaper In-County volume.

It is also important to note that the study's finding of an estimated change of 2.9 percent in newspaper In-County volume is statistically significant in comparison to the RPW estimate of a change of -22.5 percent in total In-County volume over the same six-year period. As pointed out in part (g) above, the RPW estimate does not lie within the 95 percent confidence interval found by the study. Indeed, the RPW estimate does not even lie within the 99 percent confidence interval found by the study. There is only a 0.5 percent chance that the range from -19.1 percent to negative infinity includes the true value of the change in newspaper In-County volume.

i. Confirmed that the Postal Service reports an estimated coefficient of variation of 2.2 percent for its In-County piece-based volume estimate for the FY 1998 period. For comparison, the estimate of 536.69 million pieces of newspaper In-County mail for 1998 that I report in Table 3 of my testimony has a standard error of 63.25 million. These figures imply an estimated coefficient of variation of 11.8 percent.

USPS/NNA-T2-7. Please refer to the survey discussed by you in your testimony.

a. Please provide the survey coverage period for each of the two years studied (show calendar begin and end dates).

b. Please provide for each year surveyed the probability that a Periodicals eligible publication of any type (newspaper or otherwise) regardless of the type of delivery (Postal Service or other means) that meets the DMM requirements for an In-County mailing is sampled in your survey.

c. Please provide for each year surveyed the probability that a Periodicals eligible publication of any type (newspaper or otherwise) mailed through the Postal Service that meets the DMM requirements for an In-County mailing is sampled in your survey.

d. Please provide for each year surveyed the probability that a Periodicals eligible newspaper regardless of the type of delivery (Postal Service or other means) that meets the DMM requirements for an In-County mailing is sampled in your survey.

e. Please provide for each year surveyed the probability that a Periodicals eligible newspaper mailed through the Postal Service that meets the DMM requirements for an In-County mailing is sampled in your survey.

f. Please provide for each year surveyed the probability that a non-newspaper publication mailed at In-County rates through the Postal Service is sampled in your survey.

g. Please provide for each year surveyed the probability that a publication mailed at In-County rates through the Postal Service that is not a NNA or potential NNA member is sampled in your survey.

h. Please indicate if you believe that the probability that any single mailpiece mailed at In-County rates that has a non-zero probability of being included in the BRPW automated or non-automated office panel also has a non-zero probability of being included in your study. Please explain your answer.

i. Please show how you arrived at the probabilities requested in Parts (b-g) or explain why you are unable to provide any of these probabilities.

a. The survey asked for information about 1992, 1995, and 1998. No directions regarding calendar dates were given. I would speculate that most respondents provided answers for calendar years. To the extent that there was any deviation from this convention, I believe that its impact would be so small as to have no practical importance for the results reported in my testimony.

- b. I do not have data available to answer this question. My testimony refers to a study conducted using the NNA database, which includes only newspapers and does not provide information on In-County eligibility. According to NNA/USPS-13, the Postal Service also has no data available to answer this question.
 - c. See part (b) above.
 - d. See part (b) above.
 - e. See part (b) above.
 - f. Since the survey was conducted using a sample from the NNA database, publications not included in the database have a zero probability of being included in the sample.
 - g. See part (f) above.
 - h. The circulations of newspapers mailed at In-County rates have a non-zero probability of being included in the study if they are publications that are included in the NNA database.
 - i. See parts (b-g) above.
-

USPS/NNA-T2-8. In Table 3 of your testimony, you report an increase in circulation of 14.88 million units between 1992 and 1998. Please provide the probability that the estimated change in In-County circulation between the two years is exactly this number reported by you. Please explain how you derive this answer.

The answer to this question is of no practical importance, since the probability of a single value drawn from a continuous distribution is infinitesimal. It is more informative to ask for probabilities in relation to ranges of values. For example, as I point out in my response to USPS/NNA-T2-6h, there is a 63 percent chance that the estimated change lies in the range from 0 to positive infinity. As I further point out in my response to that interrogatory, there is only a 0.5 percent chance that the estimated change lies in the range from -19.1 percent to negative infinity, which is the range that includes the estimate of -22.5 percent derived from the Postal Service's RPW system for the change in total In-County volume from 1992 to 1998.

USPS/NNA-T2-9. In Table 3 of your testimony, you report an increase in circulation of 14.88 million units between 1992 and 1998 and a standard error of 44.16 million units.

a. Please construct an estimated 95% confidence interval for your estimate and provide the probability that the true (and unknown) change in circulation is in your estimated 95% confidence interval. If you are unable to do so, please explain why.

b. Please confirm that any number in an estimated 95% confidence interval constructed around your estimate is possible. If you are unable to confirm, please explain fully.

a. See USPS/NNA-T2-6b for the 95 percent confidence interval for the estimated change in newspaper In-County volume. By construction, "the probability that the true (and unknown) change in circulation is in your estimated 95% confidence interval" is 95 percent. Also note that since the uncertainty lies with the estimated change rather than with the true (and unknown) change, some statisticians might prefer a more exact wording of this portion of the interrogatory as "the probability that the estimated 95 percent confidence interval contains the true (and unknown) change in circulation."

b. Any number is "possible" for the true change, including values both inside and outside the 95 percent confidence interval. However, all numbers are not equally likely. By construction, there is a 95 percent chance that the 95 percent confidence interval contains the true change and only a 5 percent chance that the range of values outside the 95 percent confidence interval contains the true value. Even inside the 95 percent confidence interval, not all numbers are equally likely, with numbers closer to the point estimate being more likely than numbers farther away.

USPS/NNA-T2-10. Please refer to page 3 of your testimony at lines 12-15 where you refer to the NNA database. What proportion of all newspapers nationwide (postal and non-postal delivery methods) do you believe is captured in the NNA database? What proportion of all newspapers nationwide (postal and non-postal delivery methods) that meets all DMM eligibility requirements for mailing at In-County rates do you believe is captured in the NNA database? Please explain fully how you arrive at your answers.

My understanding is that the number of dailies is better known than the number of weeklies. Editor & Publisher, as reported on the website of the Newspaper Association of America, lists a total of 1,489 daily newspapers in 1998 (www.naa.org/info/facts99/13.html). Thus the 1,184 daily newspapers included in the NNA database represent approximately 80 percent of all daily newspapers. Because of the focus of NNA on smaller newspapers, I would expect the organization devotes proportionally more resources to identifying weeklies and smaller dailies, but I also suspect that such newspapers are harder to identify than larger dailies. However, without having any other numbers for comparison, I believe it would be a reasonable approximation to conclude that the NNA database covers roughly 80 percent of all papers. Given the focus of NNA on smaller newspapers that are more likely to meet the DMM eligibility requirements for mailing at In-County rates, I believe it would be reasonable to conclude that the NNA database includes somewhat more than 80 percent of such papers.

USPS/NNA-T2-11. Please refer to your Tables 2-3 and to the survey form provided in Appendix B of your testimony.

- a. Please explain why 1995 data are excluded from your Tables 2-3.
- b. Please explain why your answer to part (a) would not also apply to the 1992 and 1998 years in your study.
- c. Please provide in the same format as for Tables 2-3 of your testimony, (i) the 1995 results relative to the 1992 results, and (ii) the 1998 results relative to the 1995 results.

a. It is my understanding that the survey asked for figures for 1995 because there was concern that many small newspapers would not be able to locate circulation and distribution figures going back all the way to 1992. However, in my preliminary review of the data, it seemed that there were not many newspapers that had data for 1995 but not for 1992. Since it is easier to see a constant temporal trend in data over a longer period of time and since there appeared to be only a small cost in the number of usable observations, I therefore began my analysis using the 1992 data. Because of budget limitations, I never analyzed the 1995 figures further.

b. See part (a) above.

c. The tables with the 1995 comparisons follow. These comparisons use only data for which complete answers are provided for all three years. Note that this additional constraint removes two observations from those analyzed in my testimony, which required complete answers for only 1992 and 1998. One observation each is removed from the stratum of dailies with circulations per issue of 5,000 to 10,000 and the stratum of weeklies with circulations per issue of 3,000 to 5,000.

Table 11c-1
Estimated Total Annual Circulation Change, 1992 to 1995

Stratum (circulation per issue)	1992 Circulation (millions)	1995 Circulation (millions)	1992-95 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1992 Circulation
Daily Papers					
Under 5,000	202.46	196.47	-5.98	6.39	-2.95%
5,000-10,000	579.40	580.84	1.45	5.05	0.25%
10,000-25,000	1,597.97	1,600.55	2.58	32.48	0.16%
Over 25,000	5,231.72	5,152.89	-78.83	44.35	-1.51%
Subtotal	7,611.54	7,530.76	-80.78	55.57	-1.06%
Weekly Papers					
Under 1,000	23.32	24.57	1.25	1.78	5.36%
1,000-3,000	273.02	279.28	6.26	4.43	2.29%
3,000-5,000	238.94	244.56	5.62	5.06	2.35%
5,000-20,000	766.13	790.31	24.19	17.31	3.16%
Over 20,000	797.70	812.26	14.56	12.62	1.83%
Subtotal	2,099.10	2,150.98	51.88	22.52	2.47%
All Papers	9,710.64	9,681.74	-28.90	59.96	-0.30%

Table 11c-2
Estimated Total Annual Circulation Change, 1995 to 1998

Stratum (circulation per issue)	1995 Circulation (millions)	1998 Circulation (millions)	1995-98 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1995 Circulation
Daily Papers					
Under 5,000	196.47	199.59	3.12	19.34	1.59%
5,000-10,000	580.84	542.90	-37.94	15.34	-6.53%
10,000-25,000	1,600.55	1,596.36	-4.18	43.65	-0.26%
Over 25,000	5,152.89	5,056.51	-96.38	69.36	-1.87%
Subtotal	7,530.76	7,395.37	-135.39	85.59	-1.80%
Weekly Papers					
Under 1,000	24.57	23.93	-0.65	0.58	-2.65%
1,000-3,000	279.28	324.09	44.81	40.11	16.04%
3,000-5,000	244.56	252.00	7.44	6.22	3.04%
5,000-20,000	790.31	819.27	28.95	36.18	3.66%
Over 20,000	812.26	870.39	58.14	49.08	7.16%
Subtotal	2,150.98	2,289.68	138.70	73.26	6.45%
All Papers	9,681.74	9,685.05	3.31	112.66	0.03%

Table 11c-3
Estimated Change in Newspaper In-County Mail Use, 1992 to 1995

Stratum (circulation per issue)	1992 In-County Mail (millions)	1995 In-County Mail (millions)	1992-95 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1992 In-County Mail
Daily Papers					
Under 5,000	47.79	48.58	0.80	1.96	1.67%
5,000-10,000	5.17	5.05	-0.12	0.18	-2.32%
10,000-25,000	5.28	3.78	-1.51	0.61	-28.60%
Over 25,000	26.67	20.78	-5.89	2.68	-22.08%
Subtotal	84.91	78.19	-6.73	3.38	-7.93%
Weekly Papers					
Under 1,000	12.20	12.22	0.02	0.84	0.16%
1,000-3,000	106.55	112.31	5.77	3.62	5.42%
3,000-5,000	75.24	76.00	0.76	2.20	1.01%
5,000-20,000	193.32	192.22	-1.10	13.11	-0.57%
Over 20,000	26.63	8.56	-18.08	18.22	-67.89%
Subtotal	413.93	401.30	-12.63	22.86	-3.05%
All Papers	498.85	479.49	-19.36	23.11	-3.88%

Table 11c-4
Estimated Change in Newspaper In-County Mail Use, 1995 to 1998

Stratum (circulation per issue)	1995 In-County Mail (millions)	1998 In-County Mail (millions)	1995-98 Change (millions)	Standard Error of Change (millions)	Change as Percent of 1995 In-County Mail
Daily Papers					
Under 5,000	48.58	46.33	-2.26	4.28	-4.65%
5,000-10,000	5.05	6.51	1.47	1.62	29.11%
10,000-25,000	3.78	3.30	-0.48	0.49	-12.70%
Over 25,000	20.78	13.60	-7.18	4.38	-34.55%
Subtotal	78.19	69.74	-8.45	6.35	-10.81%
Weekly Papers					
Under 1,000	12.22	11.71	-0.51	0.35	-4.17%
1,000-3,000	112.31	114.79	2.48	3.26	2.21%
3,000-5,000	76.00	77.92	1.92	2.70	2.53%
5,000-20,000	192.22	234.02	41.80	32.87	21.75%
Over 20,000	8.56	5.27	-3.29	3.03	-38.43%
Subtotal	401.30	443.70	42.40	33.29	10.57%
All Papers	479.49	513.44	33.95	33.89	7.08%

USPS/NNA-T2-12. Please refer to page 7 at lines 13-15 of your testimony. Please reconcile your contention of a net increase in newspaper In-County volume with your Table 3 estimate of change for "All Papers" in the context of your reported standard error which is nearly 3 times the estimate of purported change.

The summary portion of my text that this interrogatory refers to states that the survey found a "net increase in newspaper in-county volume." Given the size of the estimated standard error of this estimate, the change is not statistically significantly different from zero. My testimony does not state that the estimated change in newspaper In-County volume is statistically significantly different from zero, though that point is clear from even a cursory review of Table 3. My testimony does discuss the point estimate for the change in In-County volume. I believe it is customary to discuss the values of point estimates, even if they are not statistically significantly different from zero in conventional terms.

As I have pointed out in my response to USPS/NNA-T2-6h above, "it is important to remember that some information is still contained in estimates even if they are not considered 'statistically significant' when using an arbitrary cutoff of 95 percent confidence." In that response, I go on to point out that "it is 1.7 times as likely that the true change is included in the range representing an increase in newspaper In-County volume than that it is included in the range representing a decrease in newspaper In-County volume."

Furthermore, even if the increase in newspaper in-county volume found by the study is not significantly different from zero, it is still significantly different from the large decline in total in-county volume indicated by the Postal Service's RPW system. See my response to USPS/NNA-T2-6g.

USPS/NNA-T2-13. Please refer to the survey referenced in Part II of your testimony.

- a. What statement(s) can you make about the adequacy of the useable or effective response rate of approximately 15.8 percent ($100 \times 161/1016$); computed from your Table 1 "Number Surveyed" and "Complete Surveys" columns?
- b. Have you studied other survey response rates? Please explain fully.
- c. What assurances do you have that this group was similar in study results?
- d. Please confirm that you conducted a non-response follow-up study to verify the study results and provide the results of this follow-up study.

a. Obviously, a higher response rate is more desirable than a lower response rate. That being said, it is important to remember that even a survey with a low response rate contains some information. Furthermore, if non-response doesn't impart a bias, then its only impact is to increase sampling error. See my response to part (c) below.

b. I have not studied other survey response rates.

c. Non-response imparts a bias if respondents and the non-respondents differ systematically with respect to the quantity being measured. Without this systematic connection, the only impact of non-response is to increase the standard error because of the reduction in observations.

Since the survey was focused on In-County mail use, it's reasonable to think that users of In-County mail might have been more likely to respond. Further, it's reasonable to think that such differing response rates would lead to an over-estimate of newspaper In-County mail volume. With this concern in mind, it's instructive to look at the response rates in Table 1 of my testimony. In-County mail is more important to weekly papers than to daily papers, but the daily papers actually show a slightly higher response rate. In-County mail is more important

to small papers than to large papers, but there is no trend in response rates as circulation increases. Thus, although it's reasonable to be concerned that heavy users of In-County mail were more likely to respond to the survey, the data that I have suggests that this was not in fact a problem.

A different issue is involved with respondents who provided incomplete surveys. For such respondents, I believe the primary issue is the availability of data rather than an interest in providing it. In order for the survey completion rate to bias the results, it must be the case that respondents with complete data differ systematically from respondents with incomplete data in relation to their use of In-County mail. It's plausible to think that smaller newspapers are more likely to have incomplete historical records. As a result, I believe it's plausible to think that any potential bias from differing completion rates would lead to an under-estimate of newspaper In-County volume. The table below provides the completion rate for each of the strata reported in Table 1 of my testimony. This completion rate is calculated by simply dividing the number of complete surveys by the number of surveys returned. As with the response rate, this table suggests that for the completion rate there is no difference between weeklies and dailies. The high completion rate for the largest strata of daily papers does suggest that there might be some small bias introduced within some strata by a higher completion rate for larger papers within the stratum. Based on contrasts across different strata, I believe such a higher completion rate for larger papers within some strata could lead to a small under-estimate of newspaper In-County

volume and a small under-estimate of the change in newspaper In-County volume.

**Table 13c-1
Completion Rate**

Stratum (By Circulation Per Issue)	Surveys Returned	Complete Surveys	Completion Rate
Daily Papers			
Under 5,000	20	7	35%
5,000 to 10,000	19	9	47%
10,000 to 25,000	24	9	38%
Over 25,000	20	15	75%
Subtotal	83	40	48%
Weekly Papers			
Under 1,000	28	11	39%
1,000 to 3,000	93	45	48%
3,000 to 5,000	49	16	33%
5,000 to 20,000	68	40	59%
Over 20,000	19	9	47%
Subtotal	257	121	47%
All Papers	340	161	47%

d. Not confirmed. The limited budget for the survey did not allow a non-response follow-up study.

USPS/NNA-T2-14. Please confirm that the Postal Service's estimation of In-County volume is independent of mailpiece type (newspaper, newspaper [sic], magazine or other publication) and frequency of issuance (daily, weekly, or other period). If you are unable to confirm, please explain your understanding of how the Postal Service constructs its estimates of In-County volume.

Confirmed.

USPS/NNA-T2-15. Please refer to Table 1 of your testimony and to the survey form shown in Appendix B of your testimony.

- a. Please provide a count of the responses indicating "Yes" and a count of the responses indicating "No" to question No. 3.
- b. Please distribute each of the two counts from part (a) to the nine strata shown in Table 1 and provide this distribution.

- a. The Table is provided below.

Table 15-1
Count of Responses to Question 3

Stratum (By Circulation Per Issue)	Yes	No	No Response
Daily Papers			
Under 5,000	14	3	3
5,000 to 10,000	9	8	2
10,000 to 25,000	15	4	5
Over 25,000	15	4	1
Subtotal	53	19	11
Weekly Papers			
Under 1,000	15	12	1
1,000 to 3,000	40	42	11
3,000 to 5,000	21	21	7
5,000 to 20,000	37	22	9
Over 20,000	7	6	6
Subtotal	120	103	34
All Papers	173	122	45

- b. See part (a) above.

USPS/NNA-T2-16. Please refer to page 3 of your testimony at lines 12-13 where you state that "[t]his database consists of weekly and daily newspapers that belong to the association or have a potential interest in membership." Please also refer to Tables 1-3 and to the glossary in Appendix A of your testimony.

- a. Please define explain [sic] how it was determined that a publication had potential interest in NNA membership.
- b. For each Table 1-3, please partition its data into NNA-only and potential-NNA tables and provide these tables.
- c. How many of the 7,630 total newspapers shown in the second column of Table 1 fall into the category referred to in part (a)?
- d. Please explain if your answer to part (c) is also the count of publications "eligible for membership" as described in your glossary.
- e. Would you consider all newspapers that are not members of NNA at the time of the survey as having "a potential interest in membership"? Please explain.
- f. What is the annual In-County volume for the group of non-member newspapers? Please explain how you arrived at this number.

a. My understanding is that NNA attempts to record all newspapers in its database as possible members. However, because its focus is largely upon community newspapers, its data collection efforts are directed more intensely to smaller and weekly newspapers rather than larger newspapers.

b. I do not have access to NNA's membership list and therefore have no way to partition the data into members and non-members.

c. This information is not available.

d. Not applicable.

e. I believe NNA would consider them to be potentially interested. I am not involved in NNA's membership recruitment program.

f. See part (b) above.

USPS/NNA-T2-17. Please refer to the survey form shown in Appendix B of your testimony.

- a. Please confirm that the survey was mailed to the recipients.
- b. If part (a) is confirmed, to whom (title) were the survey packets addressed?
- c. Please provide a copy of all correspondence accompanying the survey including a copy of the cover letter referenced on page 2 of the NNA survey findings report attached to USPS/NNA-T2-1.
- d. Please provide a copy of the instructions and guidelines that the survey recipients received with their survey form.
- e. Please describe completely the follow-up methodology used to resolve all incomplete items or partial responses.
- f. Please describe completely the follow-up methodology used for all nonrespondents.

a. Confirmed.

b. My understanding is that the surveys were addressed to the contact person included in the NNA database, who is generally the publisher or general manager.

c. Copies of near-final drafts of the survey correspondence are included on the following pages. *These drafts were provided to the mailing service that sent out the mailing.* I do not have ready access to actual copies of the mailed correspondence.

Text of the initial letter describing the survey

Ms. Jane Doe, Circulation Manager
The Somewhere Tribune
P.O. Box 00001
Any County, USA 12345-6789

Dear Ms. Doe,

Within the next few days, you will receive a request to complete a brief questionnaire. We are mailing it to you in an effort to learn more about how newspaper publishers use the Postal Service to deliver their papers.

We believe that the Postal Service will soon file a case with the Postal Rate Commission to raise postage rates. We are conducting this survey in order to be better able to represent your interests to the Postal Rate Commission.

If you would take a few minutes to complete and return the questionnaire, we would truly appreciate it.

Thanks in advance for your help.

Sincerely,

XXXXXXXXXX
National Newspaper Association

Text of the cover letter that accompanied the survey

Ms. Jane Doe, Circulation Manager
The Somewhere Tribune
P.O. Box 00001
Any County, USA 12345-6789

Dear Ms. Doe,

For some newspapers, mail delivery via the Periodicals In-County subclass is an important delivery option. According to the United States Postal Service, use of this subclass has changed in the past ten years, and the subclass may therefore be targeted for a rate increase in the next postal rate hearings.

Your newspaper is one of a small number that we are asking to provide information about the use of the Periodicals In-County mail subclass. Depending on the results of this survey, we may be able to negotiate more favorable rates for this subclass when the Postal Rate Commission next meets to discuss broad rate changes.

Your paper was selected at random from a list of all rural newspapers in the United States. In order to get an accurate picture of how important the Periodicals In-County subclass is, we need everyone in our survey group to provide the information we ask for. You can help ensure that our information is of the highest possible quality by filling out and returning your questionnaire in the envelope enclosed with this letter. We will keep all of your responses confidential.

If you have any questions about this survey or how it will be used, please call me at (202) 555-1212.

Thank you very much for your help.

Sincerely,

XXXXXXXXXX
National Newspaper Association

Text of the postcard sent after the survey

Last week, we sent you a questionnaire asking about your newspaper's use of the Periodicals In-County mail subclass. Your paper was among a small group that we selected at random to represent all rural newspapers in the United States.

If you have already completed and returned the questionnaire to us, we thank you. If you have not, please do so as soon as possible. We believe that your help will allow us to negotiate more favorable mailing rates for rural newspapers.

If you did not receive a questionnaire, or if it was lost or misplaced, please call us at (202) 555-1212 and we will send you a new one right away.

Sincerely,

XXXXXXXXXX

National Newspaper Association

Address

Address

Text of the cover letter sent with the second copy of the survey

Ms. Jane Doe, Circulation Manager
The Somewhere Tribune
P.O. Box 00001
Any County, USA 12345-6789

Dear Ms. Doe,

About three weeks ago, we wrote to you asking for information about your paper's use of the Periodicals In-County mail subclass. As of today, we have not yet received your completed questionnaire. We realize that you may not have had time to fill it out. However, we would sincerely appreciate your response, and we hope that you will take a few minutes to complete the questionnaire.

We are conducting the survey in the hope that we can negotiate more favorable mailing rates for rural newspapers around the country. Your participation is vital to the success of this effort because the statistical method we are using depends upon a response from every paper selected for the study. Any information you provide will be used only for this study and will be kept confidential.

In case your questionnaire has been lost or misplaced, we enclose a replacement. We are very happy to answer any questions you may have about the questionnaire or about the survey itself. Please do not hesitate to call us at (202) 555-1212.

Thank you for your help.

Sincerely,

XXXXXXXXXX
National Newspaper Association

- d. See part (c) above.
- e. There was no follow-up for incomplete or partial responses.
- f. As described on page 2 of the survey report that was provided as an attachment to USPS/NNA-T2-1, non-respondents were first sent a thank you and reminder postcard and were then later sent a second copy of the questionnaire with a cover letter explaining the importance of responding.

USPS/NNA-T2-18. Please refer to the NNA survey findings report attached to USPS/NNA-T2-1.

- a. Please quantify the "first case" of bias referenced on page 6 that leads to an overcount of In-County mail in your survey.
- b. Please quantify the "second case" of bias referenced on page 6 and indicate its direction. If the direction is unknown, please explain why this bias was not believed important enough to warrant study.
- c. For the stratum example provided on page 6 wherein 15 useable (complete survey) responses from the 60 daily newspapers were received, please provide any information you have on the 45 nonrespondents in this stratum that would allow any inference regarding how the sample mean for the 15 respondents relates to that of the 45 or the total stratum sample.
- d. For the stratum example provided on page 6 wherein 15 useable (complete survey) responses from the 60 daily newspapers were received, please provide any information you have on the 45 nonrespondents in this stratum that would allow one to assume that the correlation between 1992 and 1998 data based on 15 respondents is the same as or close to that based on all 60 daily newspapers sampled in this stratum.
- e. Please confirm that from your useable responses, the actual or effective response rate of 25% ($=100 \cdot 15/60$) for the daily "over 25,000" stratum shown by you in your example on page 6 is the highest response rate of the nine survey strata. If you are unable to confirm, please explain fully.
- f. Please confirm that from your useable responses, that the lowest actual or effective response rate for a stratum in your survey is approximately 10.5 percent for the weekly "3000-5000" circulation stratum. If you are unable to confirm, please explain fully.
- g. Please identify in the literature where it is stated that sample-based estimates obtained under conditions of a low response rate such as your 10.5 percent (rounded) response rate, in the absence of information on the missing 89.5 percent of the sampled units, are reliable. Please provide your assessment of the accuracy of such measures, particularly in light of the fact that respondents having a significant business interest at stake may be more likely to respond than others in the population.
- h. Please refer to the statement at the bottom of page 2 in which it is stated that "...most large dailies are ineligible for In-County mail because of their size and geographic reach". Please define a large daily. Please explain how a publication's size and reach make it ineligible for In-County rates. Please identify the DMM or other postal reference source for this statement.
- i. Please confirm that if AABP's data were expanded (using same procedure as for non-AABP data) and added into your estimates, the purported net change in circulation would be reduced by over 50%.
- j. Please confirm that the T-scores provided in Table 3 on page 8 indicate that the declines in volume in the AABP and daily paper groups are more significant than the increase for the weekly group. If you are unable to confirm, please explain fully.

- k. Please provide the formula used to compute the T-scores and identify the source of this formula.
- l. Please explain the "data cleaning" process described on page 4 as it pertains to each of the 75 and the remaining 86 useable surveys. Please describe more fully the procedure used to "rescale" the circulation figures and provide all formulas required in this process.
- m. Please explain how it was determined that incomplete responses including the three in the example described on page 5 do not affect the results of your study.
- n. Please provide the results of any follow-up analyses conducted on any group of nonrespondents or on incomplete responses.

a. See the discussion in the second paragraph of USPS/NNA-T2-13c. That discussion concludes: *"Thus although it's reasonable to be concerned that heavy users of In-County mail were more likely to respond to the survey, the data that I have suggests that this was not in fact a problem."*

b. If respondents provided circulation figures for all the papers in a multi-paper group, it would clearly result in an over-estimate of both total circulation and total newspaper In-County volume. There is no reason, however, to think that this would lead to a substantial bias in measures of the change of total circulation or of total newspaper In-County volume over time. If multi-paper groups experience some economies of scale in their distribution methods, it's possible that they use a somewhat different mix of distribution methods than comparably sized newspapers that are not part of multi-paper groups. To the extent that this is the case, it would bias the ratio of In-County volume to total newspaper circulation. This ratio was not a focus of my testimony.

In any case, I believe that the number of observations belonging to multi-paper groups is likely to be small. Two cases of multi-papers were detected during data cleaning and both of these were corrected. See part (l) below.

c. For a discussion of possible non-response bias see the second paragraph of USPS/NNA-T2-13c.

d. For a discussion of possible non-response bias see the second paragraph of USPS/NNA-T2-13c.

e. Confirmed.

f. Confirmed.

g. For a discussion of possible non-response and non-completion bias, see USPS/NNA-T2-13c.

h. I do not use "large daily" in my testimony as a precisely defined term. In general, however, it would be reasonable to conclude that the newspapers in the stratum of dailies with circulations over 25,000 are "large." In Appendix A of the survey report that was provided as an attachment to USPS/NNA-T2-1, there is a definition of In-County mail that is taken almost unchanged from the eligibility requirements listed in the DMM Section E270.1. As this definition makes clear, to be eligible for In-County rates a periodical must either have a circulation less than 10,000 copies or have more than half its circulation distributed within the county of publication. Publications with circulations larger than 10,000 will fail the first condition. In addition, publications with higher circulations are more likely to be distributed over multiple counties and therefore to fail the second condition as well.

i. Not confirmed. The AABP data reported in Tables 2 and 3 of the survey report that was provided as an attachment to USPS/NNA-T2-1 are already expanded.

If these AABP data were added to the data for all newspapers from the NNA database, the estimated change in total circulation would change from -19.01 to -24.76 million, and the estimated change in "newspaper" In-County volume would change from 14.88 to 14.31 million.

j. Confirmed.

k. The values in the "T-score" columns of the tables in the report are *t* statistics, which are calculated simply by dividing the estimated value of interest by the standard error of the estimate.

l. The raw data included 164 responses with complete figures for 1992 and 1998. This number was reduced to 161 after a cleaning procedure to check for internal inconsistencies in relation to the use of In-County mail or in relation to total circulation.

In 5 cases, respondents provided In-County mail figures but indicated on other parts of the survey that they were ineligible for In-County rates or that they mailed at third class rates. The IDs associated with these responses are 014416, 002494, 048480, 035587, and 025364. For these newspapers, the In-County mail figures were included in Out-of-County mail, which in this survey included both Standard A and Regular Rate periodicals.

In 3 cases for the stratum of Weeklies with circulations over 20,000, respondents indicated a high level of In-County mail usage that seemed potentially

inconsistent with the DMM requirements for In-County mail eligibility (see USPS/NNA-T2-18h). These respondents were contacted. In one case (ID 004708) the numbers were correct and no change was made. In the second case (ID 019614), the numbers were not correct and no correct disaggregated figures were available, so the figures for this record were deleted. In the third case (ID 048203), the provided figures were totals for 5 publications, no correct disaggregated figures were available, and the publication's total circulation per issue of 5-6,000 indicated that it had not been included in the right stratum. The figures for this record were also deleted.

In 4 cases, the sizes of the respondent's circulations were about 10 times larger than would be expected based on the circulations in NNA's database. In one case (ID 014924) the publication was contacted and the respondent's numbers were correct. No change was made to this record. In the second case (ID 020465) the publication was contacted and the respondent had provided information on the wrong newspaper. Figures for the correct newspaper were not available, so the figures for the record were deleted. In the third case (ID 035521) the publication was contacted and the respondent's total circulation figures were correct but the newspaper was not eligible for In-County mail. The In-County mail circulation in this response was moved to the Out-of-County column, but the record was left in the same stratum. In the fourth case (ID 003076) the respondent had indicated on the survey form that information had been provided for a group of newspapers rather than a single newspaper. The

circulation figures for this record were divided by the number of newspapers in the group.

After the check for internal consistency, the circulation figures were rescaled where necessary to obtain annual figures. This was necessary because 75 of the 161 complete responses reported an "annual" circulation figure that was close to the circulation per issue figure in the NNA database. In these cases, I assumed the respondent had given circulation distribution figures in terms of the number of copies per issue rather than the number of copies per year. To convert to annual figures, I therefore multiplied the provided figures by the number of issues per year. Because there are 52 weeks in a year, I obtained the number of issues per year by multiplying the number of issues per week provided as an answer to the survey's question (1) by 52.

The resulting calculation is combined in a field called the "Rescaling Factor" in the database provided in response to USPS/NNA-T2-1c. When the respondent's total annual circulation figure for 1992 is greater than 1.5 times the circulation per issue figure in the NNA database, no rescaling is performed and the rescaling factor is set to 1. When the respondent's total annual circulation figure for 1992 is less than 1.5 times the circulation per issue figure in the NNA database, the rescaling factor is set to be 52 times the newspaper's number of issues per week. (Note that the survey report provided as an attachment to USPS/NNA-T2-1c erroneously reports that the cutoff for rescaling was 25 percent greater than the circulation per issue figure from the NNA database.)

The issues per week field also required some cleaning before it could be used to generate the Rescaling Factor. Many respondents provided figures that appeared to be for the number of issues per year rather than the number of issues per week. When respondents indicated a value for issues per week of 48-52, I concluded that they had given figures for issues per year instead of issues per week and converted their responses to 1. For all other cases when the respondent indicated a value for issues per week greater than 7, a correct value was obtained from NNA or from contacting the publisher directly. The corrected value for issues per week is contained in a field called "Clean Issues Per Week" in the database provided in response to USPS/NNA-T2-1c.

m. For a discussion of possible non-completion bias, see USPS/NNA-T2-13c.

n. The limited budget for the survey did not allow any follow-up analyses on non-respondents or on incomplete responses.

USPS/NNA-T2-19. Please refer to the glossary shown in Appendix A of your testimony and to your definition of a newspaper. Please refer also to what you have described on page 3 at line 13 and elsewhere in your testimony as newspapers (publishers) that have a "potential interest" in NNA membership.

a. Please confirm that the mailed at In-County rates circulation reported by the survey respondents was verified for the minimum 25 percent editorial content requirement. If you are unable to confirm, please explain why this verification was not done and if it was believed to be unimportant.

b. Please confirm that the mailed at In-County rates circulation reported by survey respondents was verified for the minimum 50 percent paid subscriber requirement. If you are unable to confirm, please explain why this verification check was not done and if it was believed unimportant.

c. Please confirm that the "potential interest" In-County rate circulation [sic] reported by potential interest In-County survey respondents [sic] was verified for the minimum 25 percent editorial content requirement. If you are unable to confirm, please explain why this verification check was not done and if it was believed to be unimportant.

d. Please confirm that the "potential interest" mailed at In-County rates circulation [sic] reported by survey respondents was verified for the minimum 50 percent paid subscriber requirement. If you are unable to confirm, please explain why this verification check was not done and if it was believed to be unimportant.

a. Not confirmed. The survey relied on the respondents' own knowledge of the distribution methods used by their newspapers. The purpose of the study was to provide information on newspaper distribution methods, not to assess the Postal Service's ability to verify compliance with the editorial content requirement.

b. Not confirmed. The survey relied on the respondents' own knowledge of the distribution method used for their newspapers. The purpose of the study was to provide information on newspaper distribution methods, not to assess the Postal Service's ability to verify compliance with the paid subscriber requirement.

c. The phrase "potential interest" appears in my testimony in reference to an interest in NNA membership, not to an interest in In-County mail. NNA-T-2, page

3, line 13. As explained in my response to USPS/NNA-T2-16b, I have no way to partition the data into responses from members and non-members. See also my response part (a) above.

d. See parts (c) and (b) above.

USPS/NNA-T2-20. Please refer to page 3 of your testimony at line 24 where you state that you received 340 responses out of 1,016 surveys sent out. Please also refer to page 3 at line 25 and to page 4 at lines 1-2 of your testimony where you state that "...we focused on newspapers that provided circulation figures by delivery method for both 1992 and 1998. Out of the 340 returned surveys, 161 provided information on both years."

- a. Please confirm that from your useable 161 responses, the effective or actual response rate for your study is less than the 33 percent shown in your Table 1 and is approximately 15.8 percent. If you are unable to confirm please explain fully.
- b. Please describe the original purpose of the survey before any data analyses were conducted.
- c. Please explain if the purpose of the survey changed after any respondent data were received.
- d. If the original purpose of the survey was to estimate change between two years, why isn't this stated on the survey instrument? Please explain fully.
- e. If the original purpose of the survey was to estimate change between 1998 and 1992, why was data collected for the 1995 period? Please explain fully.
- f. For each item asked on the survey form, and for all 340 survey respondents, please provide counts of the complete and incomplete responses.
- g. Please indicate if either formally or informally, the survey data were studied for a correlation between In-County circulation changes (positive or negative) and any response variable. If no study of correlation was made, please explain why. If any correlation studies were made, please describe them completely and provide the findings.

- a. For a discussion of non-response, see USPS/NNA-T2-13.
 - b. The original purpose of the survey is described on page 3 of my testimony, lines 5-10.
 - c. The purpose of the survey did not change after respondent data had been received.
 - d. The purpose of the survey was not solely "to estimate change between two years" and so it would have been inappropriate to have stated this on the survey instrument.
 - e. See USPS/NNA-T2-11a.
-

f. The following table shows the counts of complete and incomplete responses.

Please note that questions 3a, 5, 5a, 5b, and 5c are conditional and are counted as incomplete only if no response is given when the condition is satisfied.

Table 20f-1: Counts of Incomplete Responses

Question	Complete	Incomplete
1	322	18
2	159	181
3	295	45
3a	336	4
4	307	33
5	337	3
5a	320	20
5b	326	14
5c	335	5

g. Budget limitations did not allow exploration of any correlation between In-County volume changes and other response variables.

USPS/NNA-T2-21. Please provide the count of the NNA members referred to on page 3 of your testimony at line 13. Please provide a list of these members.

See USPS/NNA-T2-16b.

USPS/NNA-T2-22. Please provide the number of mailers in your database who use In-County rates.

The NNA database does not contain information on the use of In-County rates.

USPS/NNA-T2-23. Please confirm that newspapers with insufficient editorial or circulation content as defined in the DMM are ineligible for Periodicals rates and must be mailed instead at Standard Mail rates. If you are unable to confirm, please explain fully.

Confirmed.

1 CHAIRMAN GLEIMAN: Is there any other written
2 cross examination that anyone wishes to designate?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. The Postal Service is the only party that indicated
6 an interest in oral cross examination of this witness. Is
7 there any other party that wishes to cross examine Witness
8 Elliott?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, Mr. Hollies, you may
11 proceed.

12 BY MR. HOLLIES [Resuming]:

13 Q Good morning, Mr. Elliott. I'm Ken Hollies with
14 the Postal Service.

15 A Good morning.

16 Q Could you turn to Table 3 of your testimony?

17 A I have it.

18 Q Please state exactly what you believe the estimate
19 of 47.79 million pieces reflects, yes, 47.79 million under
20 the column, 1992, on the row, Under 5,000.

21 A It's an estimate for 1992 in-county mail for a
22 stratum of daily newspapers with per-issue circulation under
23 5,000, and that estimate is for all such newspapers included
24 in the NNA database that was used as the basis for the study
25 that is described in the testimony.

1 Q Does it refer to copies or pieces?

2 A I believe that I addressed this issue in one of
3 the interrogatories. No distinction was made when we asked
4 respondents this question.

5 My understanding is that the discrepancy between a
6 pieces answer and a copies answer is going to be so small as
7 to not have a significant impact on the answer here.

8 I have stated in my interrogatory response that I
9 might speculate that because the respondents were giving
10 answers in relation to all of their circulation, that they
11 would have been thinking in terms of the number of copies.

12 Witness Heath, based on his operational knowledge,
13 has suggested that his speculation is that the respondents
14 would have been using postage statements, and so would have
15 entered the number that was on their postage statements, and
16 therefore would have put down the number of pieces.

17 My sense is that both of these are speculations;
18 that we're not really quite sure, but in any case, whatever
19 variance there is, is quite small, and really not
20 significant.

21 Q Are you able to confirm that those 47.79 million
22 were, in fact, entered as in-county mail?

23 A What we have is the respondents' statement that
24 this is the portion of their circulation which was mailed as
25 in-county mail. We did not provide any -- conduct any

1 independent verification.

2 Q What is the universe that you studied?

3 A The universe is the newspapers which are included
4 on the NNA database, which includes both NNA members and, as
5 I stated in the testimony, newspapers that are nonmembers
6 that NNA believes have a potential interest in membership.

7 Effectively I believe the aim is to include all
8 newspapers, if practical. There is more emphasis on trying
9 to locate smaller newspapers although my belief is that such
10 newspapers are a little bit more difficult to find.

11 Q Was your study purpose to measure absolutes or
12 change?

13 A I guess my sense is both.

14 Q Can you describe the design selection and
15 estimation methodology of your sample?

16 A Well, I was not directly involved with that
17 process myself. My understanding is that there were
18 discussions with NNA officials about what reasonable kinds
19 of strata breakdown would make sense, and once those stratum
20 boundaries were determined the NNA database as it was at
21 that time was taken, separated into the strata and then
22 within each of the strata there was a random selection of a
23 sample conducted.

24 Q Can you describe how paired comparisons are used
25 as a method of estimating a difference?

1 A You are speaking in my testimony itself?

2 Q I am talking about your study.

3 A Yes, okay. I didn't know whether this was a
4 general question.

5 Q Well, it is general in some sense, but the
6 foundation is certainly your study.

7 A If I understand correctly what you are referring
8 to, from our respondents we have information on '92 figures
9 and '98 figures, and then what I did was compute a
10 difference, as though we had simply asked them to provide
11 the difference between '92 and '98, and then once I had that
12 difference then I treated it essentially as a response.

13 Q And do all units reported in your results have
14 "before" and "after" measures?

15 A Before and after what?

16 Q Presumably if there was a change, before and after
17 the change?

18 A There were a number of newspapers that did not
19 provide information for one or both years, if that is what
20 you are asking.

21 Q Did you include those in your survey -- in your
22 presented results?

23 A No, those are not included.

24 Q In your response to Interrogatory 1 of the Postal
25 Service, part (c), you discuss data cleaning, specifically

1 you also mention a clean version of the question about the
2 number of issues published per week.

3 Could you define "clean" or "cleaning" as you use
4 the term?

5 A Well, the notion -- I believe that this is sort of
6 a generally accepted term -- the notion is to correct
7 discrepancies or obvious errors.

8 For example, in this case, as I explained in one
9 of the answers to the later interrogatories, there are a
10 number of cases where respondents indicated that they
11 published 52 issues per week, and so the cleaning that was
12 performed in those instances was to assume that the answer
13 was an error and that they had mistakenly provided their
14 answer for the number of issues per year, and so I therefore
15 changed that answer to a value of one.

16 Q You have provided your survey database in a
17 Library Reference, have you not?

18 A Yes.

19 Q Does that include raw data, that is, uncleaned
20 data?

21 A It does not include raw data in the case of the 12
22 observations where I have described in one of the
23 interrogatories the nature of the cleaning process that went
24 on.

25 It does include raw data in the sense that it is

1 not rescaled in the procedure that I describe.

2 Q Your description of the cleaning you did, is that
3 an exhaustive description?

4 A Yes, it is.

5 Q Who had primary responsibility for the design and
6 development of the survey?

7 A My understanding is that other employees of
8 Project Performance in collaboration with representatives of
9 NNA.

10 Q How is it that you joined this midstream, as it
11 were?

12 A I was hired by the firm in September.

13 Q Okay. Are you familiar with the author William
14 Cochran?

15 A No, I am not.

16 Q So you obviously wouldn't be familiar then with
17 his sampling techniques reference work.

18 A I don't believe so.

19 Q Would you say that the population of interest to
20 the survey was all United States newspapers?

21 A Yes.

22 Q What proportion of these do you believe are
23 current users of in county?

24 A I don't believe that I have figures on that. It
25 could be computed from the data in the database, although I

1 have been focused on levels of in county usage rather than a
2 yes or a no.

3 Q Do you have a feeling for what that proportion
4 might be?

5 A No, I am afraid I don't.

6 Q Okay. Now the sampling unit was basically an
7 individual newspaper, right?

8 A Yes.

9 Q There are several definitions one might proffer
10 for a single newspaper, such as a publisher, a single copy
11 or an issue.

12 Did you have any particular specific definition in
13 mind?

14 A I don't believe so, since I was not involved with
15 the design of the survey. I began working with these
16 figures and they were at that point simply figures.

17 I have described in my interrogatory response that
18 I don't believe that there is a huge distinction between
19 what respondents would have indicated for copies and pieces.

20 Q Are you familiar with the fact that publications,
21 newspapers, can have multiple issues?

22 A Yes.

23 Q Do you know what the probability was that any
24 particular newspaper nationwide was selected in the sample?

25 A I am not exactly sure. In one of the

1 interrogatory responses I indicated that my guess is that
2 about 80 percent of the newspapers nationwide are included
3 in the NNA database, so -- and we have a sample size that is
4 roughly one in seven, so you could compute the percentage
5 from that.

6 Q So some of the population of interest would
7 therefore have had a zero probability of being sampled?

8 A You are saying the ones that are not -- that were
9 not in the NNA database?

10 Q That's -- yes, that is a fair --

11 A Yes. Newspapers that are not in the NNA database
12 would have had a zero probability of being sampled.

13 Q And what proportion of newspapers by in county
14 volume would you think have a zero probability of being
15 included?

16 A I have no idea.

17 Q Do you know why the Postal Service measures pieces
18 and not copies for periodicals?

19 A Presumably because the pieces is the relevant
20 measure for an actual handling of mail.

21 Q Might the rate also have some impact there?

22 A Yes.

23 Q The NNA database to which you project your
24 results, as I think we agreed, is not actual in-county
25 mailings, but newspapers believed to be eligible in-county

1 mailers, is that right?

2 A Try that again?

3 Q Yeah, I think I got it wrong. The NNA database to
4 which you project your results is not in-county mailings but
5 newspapers?

6 A It is a projection to a universe of newspapers,
7 yes.

8 Q And I understand your testimony, the population of
9 those newspapers and actual in-county mail are different,
10 but they are sufficiently similar that the study, you think,
11 has some merit to consider here, is that right?

12 A You are speaking of projecting from the NNA
13 database to all newspapers, so including the additional 20
14 percent that I would say are not included the NNA database?

15 Q Well, no, I am trying to contrast here actually
16 in-county volume with your survey results?

17 A So, you are making the distinction between
18 newspaper in-county volume and non-newspaper in-county
19 volume?

20 Q I am making the distinction between your survey
21 results and actual in-county volume.

22 A Okay. Was there a question someplace?

23 Q Are they the same population?

24 A No, they are not. The distinction being the
25 non-newspaper in-county volume.

1 Q How do the two differ, in that respect alone, or
2 are there any other differences?

3 A Well, I don't have any information about the
4 non-newspaper volume. My sense, from the in-county volume
5 numbers that came out of the survey, is that the survey is
6 capturing in the ballpark of 50 to 60 percent of what the
7 RPW system is currently measuring as in-county volume. That
8 is without projecting to the full 100 percent of newspapers.
9 So, beyond the 80 percent is my estimate for what is
10 included in the NNA database.

11 Q Are any magazines included in the survey
12 responses?

13 A I don't believe so.

14 Q What is the difference between a magazine and a
15 newspaper?

16 A You may be asking for a technical answer that I
17 will not be able to provide.

18 Q Do you have a non-technical answer?

19 A I have a "I know it when I see it" answer.

20 Q Looking at your response to Number 5.

21 A I have got it.

22 Q That first equation there, you say that Yh bar is
23 average value for the sampled newspapers in a stratum. Are
24 we talking 1992 or 1998 average, or the average difference?

25 A This would be, as the first sentence in that

1 Interrogatory response says, the same procedure was used for
2 developing the figures in the first, second and third
3 columns of Tables 2 and 3. So we have six different values,
4 each of which, when they have their turn at the equation,
5 are going to have a \bar{Y}_h .

6 Q Do you believe that your estimator formula is
7 consistent with a difference variable, 98 minus 92?

8 A Yes.

9 Q How would this estimator differ for a total?

10 A I don't know that it would.

11 Q In the equation on the middle of the following
12 page, what is the S_h^2 supposed to be the variance of?

13 A As the sentence right above that equation says, it
14 is a sample variance for the sampled units.

15 Q So that would be --

16 A Within a particular stratum, that is what the h is
17 saying there.

18 Q In response to Number 2(g) from the Postal
19 Service, you indicate that you do not believe programming
20 code is available. Weren't you the one responsible for
21 writing that code?

22 A No. I was at the analysis phase, but you are
23 speaking about something which happened before the study
24 could even have been conducted, because it was necessary to
25 draw the sample from the database.

1 Q Why do believe it is not available?

2 A I spoke with the person who actually conducted the
3 random drawing. I did not specifically ask him if he had
4 it, but this is based on my understanding of the way that
5 things like that tend to be done. There may be some sort of
6 a trace on his machine now, a year later, but I mean I guess
7 my feeling is that I would be uncertain exactly what that
8 trace was and how it lined up with the actual.

9 THE REPORTER: How it lined up with the actual?

10 THE WITNESS: With the actual drawing of the
11 sample.

12 BY MR. HOLLIES:

13 Q Could you turn to Interrogatory 6, part (c)?

14 A I have it.

15 Q Your answer is wholly unresponsive to the
16 question, which asked whether confidence intervals include
17 zero and negative values, not whether zero circulation
18 periodicals were surveyed. Do you understand the question?

19 A I gave it my best shot. If that was what the
20 question was about, then, in the circumstances when looking
21 at the 95 percent confidence interval, they include zero and
22 negative values, then they do indeed include zero and
23 negative values.

24 Q Thank you. In your response to part (e) here of
25 6, you note that the Postal Service does not provide

1 coefficients of variation for estimated changes in in-county
2 mail. Are you aware that the purpose of RPW is to develop
3 point estimates of actual volume?

4 A It is used for that.

5 Q What is its basic measure?

6 A My understanding is that the basic measure is
7 point estimates for revenue pieces and weight. There are
8 cases where the Postal Service is concerned about changes.

9 Q What is your understanding of what a coefficient
10 of variation measures?

11 A Well, my understanding, as I have stated at the
12 first sentence of that interrogatory, is that it is defined
13 to the standard error of an estimate divided by the estimate
14 itself. It gives you some sense as a shorthand for having
15 an understanding for how much noise there is in an estimate
16 and what you might want to do with that estimate.

17 Q And what is your understanding of the significance
18 of a negative 696 percent coefficient of variation? Which I
19 believe you provide.

20 A Well, as I say in (f), my belief is that the fact
21 that it is negative valued is irrelevant, and it is -- I
22 mean it is a large coefficient of variation in absolute
23 terms. I don't have any way of comparing it to what the
24 coefficient of variation would be for change computed from
25 the Postal Service's RPW figures.

1 In the cases for point estimates for individual
2 year volumes, so not computed on a change, but for an
3 individual year, as I note in one of these interrogatory
4 responses, my coefficient of variation is in the ballpark of
5 about five times larger than the Postal Service's.

6 Q In part (g), you confirm that a coefficient of
7 variation allows a useful comparison between different
8 sampling methodologies, but preface your response with "in
9 some cases." Could you please elaborate when it would not
10 be useful to compare the CVs from two samples of the same
11 population using different methods? In other words, why the
12 qualification?

13 A Well, quite frankly, I don't really like using
14 coefficients of variation myself. They are derived from
15 standard errors, and I think it is easiest to actually work
16 with standard errors. So, part of that qualification is
17 that I don't particularly find them useful measures. And I
18 also wanted to draw attention that there are other things
19 going on with different sampling methodologies that you
20 should pay attention to, and so the comparison that you may
21 be wanting to make is not necessarily a comparison that a
22 coefficient of variation is going to tell you anything
23 about.

24 Q In part (h) you characterize a 95 percent
25 confidence interval as arbitrary?

1 A It is, but it is also arbitrary.

2 Q Of what importance is a one standard error
3 interval or 68 percent cutoff?

4 A Could you restate the question?

5 [Pause.]

6 BY MR. HOLLIES:

7 Q Of what importance is a one standard error
8 interval?

9 A A one standard error interval will give you values
10 which are within one standard error of an estimate; a 95
11 percent confidence interval gives you values which are
12 within approximately two standard errors of an estimate.

13 Q What does the 5 percent, if you have got a
14 confidence interval of 95 percent, what does the 5 percent
15 stand for?

16 A The possible values which are not included within
17 the range of values are approximately two standard errors
18 from the point estimate.

19 Q Why would one want to increase that 5 percent to
20 32 percent, as you do?

21 A What are you referring to?

22 Q In your response to part (h) of Number 6.

23 [Pause.]

24 THE WITNESS: I am still lost.

25 BY MR. HOLLIES:

1 Q I am going to move on. I am more lost than you
2 are.

3 What is the probability that the reported
4 confidence interval obtained from your survey and shown in
5 Table 6(b)(6) includes the true but unknown change for the
6 population measured?

7 A It should be 95 percent.

8 Q How did you arrive at your probability of 63
9 percent for the, quote, "from zero to positive infinity"
10 range?

11 A That is a cumulative error -- area under a
12 standard normal based on the point estimate and the
13 calculated standard error.

14 Q Could you spin that out a little for me, please?

15 A What you need to do is you take the change of
16 14.88 million and you have got the estimated standard error
17 of 44.16 and that means that you are approximately a third
18 of a standard error away from zero, so you have got a
19 standard normal that is going from a minus one-third out to
20 positive infinity, and then you look at a standard normal
21 distribution to see how much area is included and the area
22 is about 63 percent.

23 Q If one were to replicate your design changing only
24 the units drawn and came up with a different interval, would
25 I expect to get the 63 percent figure again?

1 A Certainly not exactly. I mean the point of the 63
2 percent is that it is an indication that an increase is
3 about 1.7 times as likely as a decrease based on my
4 information, and so I would expect to get some kind of a
5 similar result again.

6 Q Is any value within a 95 percent confidence
7 interval more likely to be true than any other?

8 A As you get closer to the point estimate the values
9 are more likely to be true than the values that are farther
10 away.

11 Q Why?

12 A It has to do with the shape of a normal
13 distribution. The notion is that you have little errors
14 which are building up and are providing a certain amount of
15 noise and you have to have a lot of little errors to get out
16 towards the edges of the distribution, whereas if you have
17 just a few errors they tend to cancel each other out and
18 keep you close to the point estimate is essentially the
19 process which generates a normal distribution.

20 That is why you have got 65 or 68 percent within
21 one standard error but then when you add the second standard
22 error you only get an additional increment of 30 percent or
23 so for the values which are that far away.

24 Q In the courses you list in the response to
25 Interrogatory 2(b) of the Postal Service to you, did you

1 study distribution theory?

2 A Yes.

3 Q And could you summarize your understanding of what
4 distribution theory is all about?

5 A Not in any cogent fashion, no.

6 Q Looking at your response to Number 11 from the
7 Postal Service, in that interrogatory response you provide
8 tables similar to those which appear in your testimony but
9 with data for 1995 included as well as that for '92 and '98.

10 A Yes, that is correct.

11 Q If a weekly paper had a circulation of less than
12 1000 in '92, and 1000 to 3000 in '95, where would it be
13 included in those tables?

14 A That is a good question. It is going to depend on
15 the value which is attached to the circulation of that
16 newspaper in the NNA database.

17 I have not gone back to check to see exactly how
18 the circulation figures that were given in the survey line
19 up with the values that are in the database.

20 I would expect that those values were probably put
21 in over a period of time and some of them are a little bit
22 older than others, so there will be a little bit of noise
23 there.

24 Q What if a weekly paper had a circulation of 3,000
25 to 5,000 in 1995 and then dropped down to 1,000 to 3,000 in

1 '98. Where would that appear?

2 A Same issue.

3 Q What if a weekly paper ceased publication in 1996?
4 Would it appear at all?

5 A No, it would not appear at all. The survey does
6 not pick up either new entries or exits.

7 Q So if a weekly paper ceased publication in '93
8 again they would not appear?

9 A Right.

10 Q So would you agree that these results could be
11 subject to a survivorship bias -- that is, only those papers
12 that were sufficiently successful and therefore which
13 continued to publish appear in the survey results?

14 A Yeah. The implications of this are a little bit
15 interesting. If you take a look -- I believe it's Table 2
16 in my testimony where I talk about annual circulation
17 change -- we have overall some decline among the dailies in
18 circulation and some increase among the weeklies, a
19 substantial amount of increase among the weekly papers, my
20 sense is that in an industry that is in decline you are
21 likely to have more exits than entrances, okay? -- and so
22 if you take that into account that negative number is likely
23 to end up being slightly larger.

24 The converse is true with the weekly papers. In
25 an industry that is growing, you would expect to have more

1 entrances than exits and so that increase number I would
2 expect to be actually understated, so my feeling is that if
3 you account for that bias that you are essentially going to
4 magnify the findings that I have obtained in this survey.

5 Q If publications that have ceased publishing since
6 1992 were included in your results, what would the effect be
7 on successive years' volume as compared with 1992?

8 A Could you try that again? I believe that you are
9 asking about one version of the general answer that I just
10 gave you, but I missed the particulars of it.

11 MS. RUSH: Mr. Chairman, I think if we didn't
12 study it, we won't have an answer on what the result would
13 be. I am not sure I see where the question is headed.

14 BY MR. HOLLIES:

15 Q If you had a publication, a weekly publication
16 that was publishing in 1992, and publishing in 1995, but
17 ceased publication in 1997, and its volume were reflected in
18 the '92 and '95 figures, and its lack of volume were
19 reflected in the '98 figures, what would the net result be
20 on the '92 to '98 measured change?

21 A The impact of leaving that out is that a decline
22 isn't measured in the same way as leaving out a publication
23 which began publication prior to '98 but was not being
24 published in '92 understates the increase.

25 Q In response to Number 11, you say that, due to

1 budget concerns, the '95 data were never analyzed. Did you
2 do any kind of a cursory comparison of '95 to '98?

3 A I don't believe that I did. I was pleased to have
4 the opportunity to take a look at '95, that your
5 interrogatory provided me.

6 Q Does it strike you as odd at all that respondents
7 could provide more useful information about eight years ago
8 than five years ago?

9 A I don't believe that I have stated that. As I
10 said in one of my interrogatory responses, I used the '92
11 figure because it was my feeling that with somewhat noisy
12 data, it is better to try to look for a change that one
13 believes might or might not be occurring over a longer
14 period of time. There was some reduction in the number of
15 data points that I was able to use because of that, but my
16 feeling was that I would rather have the longer period and
17 slightly fewer data points than to have the shorter period
18 and more data points.

19 Q Do you have any comment on -- I am looking now at
20 Table 11(c)(3). Do you have any comment on the 19.36
21 million unit reduction shown between '92 and '95?

22 A Not much. I mean I would note that it is a
23 decline of about 4 percent, and in comparison, the Postal
24 Service's RPW system's figure for the entire class show a
25 decline of 24 percent over that same period. So there is a

1 substantial discrepancy in that case.

2 Q Turning to Number 13, that interrogatory inquired
3 regarding the response rate in the survey, in which a
4 comparison of the number surveyed and the complete responses
5 reported in Table 1 comes out at 15.8 percent. Do you know
6 what a response rate is?

7 A Yes.

8 Q Is that percentage correct?

9 A Yes. I mean in my response, I have made a
10 distinction between non-response and non-completion because
11 I think if one wants to talk about the biases that those two
12 different phenomenon might give to the study, I think it is
13 important to distinguish between them, rather than lumping
14 them together as non-response. But one can say generally, I
15 mean sort of that -- actually, I have forgotten your
16 question now.

17 Q Is the percentage correct?

18 A The percentage is correct if you include
19 non-completion with non-response, as I have defined it.

20 Q Is it not customary in the survey research
21 industry to report response rates based on the number of, in
22 this case, questionnaires sent out with those that are
23 useful or are used in the final result?

24 A It may be in some cases. In this particular case,
25 I think it is important to draw a distinction between them

1 because if one wants to think about bias, the impact is, I
2 believe, different between the two of them.

3 Q Your response to part (b) indicates you have not
4 studied response rates. Would you care to elaborate a
5 little on that?

6 A Not really.

7 Q So you do or do not know about response rates?

8 A Well, as I say in my answer to part (a), a higher
9 response rate is better than a lower response rate, and when
10 one has a fairly high degree of non-response, one needs to
11 be concerned about what kind of bias that is imparting to
12 your results. As I have also stated in my response to (c),
13 given the data that I have available, I have got no evidence
14 that there really is a problem coming from non-response.

15 Q Does non-response always cause higher sampling
16 error?

17 A Well, other things being equal, if you have fewer
18 respondents, you are going to have more error in your
19 estimate.

20 Q Your survey uses NNA's database as the source of
21 newspapers, we have established that, right?

22 A Yes.

23 Q In Interrogatory 16 from the Postal Service, we
24 asked you how the database is created, and your response to
25 part (a) begins with, "My understanding is that," and then

1 continues with a brief indication that NNA targets community
2 newspapers. Is it true then that you have no personal
3 knowledge of the creation or updating of a database?

4 A Yes, that's correct.

5 Q In part (b), you indicate that you don't have
6 access to NNA's membership list. Why is that?

7 A Because they didn't provide it.

8 Q Did you ask?

9 A No, I have not asked.

10 Q So you don't know that you don't have access,
11 except in the sense that you don't physically have your
12 hands on it now, is that right?

13 A I do not physically have access, that is correct.

14 Q Do you know if they would give you access if you
15 asked?

16 MS. RUSH: Mr. Chairman, I am going to break in
17 here. This study makes no reference to members versus
18 non-members. This is about a population of total
19 newspapers. And I think the witness has given an honest,
20 candid response to the question. I am not sure I see the
21 point of the rest of it.

22 CHAIRMAN GLEIMAN: You know, the answers that you
23 have gotten so far tell you something. I am not sure where
24 you are going with this.

25 MR. HOLLIES: Well, the Postal Service was

1 interested in looking at the survey data and seeing if there
2 was a difference between NNA members and not. And we think
3 that is legitimate discovery. We don't know very much about
4 NNA's database. This witness has no personal knowledge
5 about it. And we thought it was reasonable and we were
6 quite surprised that he did not have access to it, so I am
7 following that up.

8 CHAIRMAN GLEIMAN: I understand that, and I think
9 you have established the point you wanted to make. Now you
10 are asking him questions about, you know, could he have
11 asked for it? And I am not sure where that all goes, or
12 whether he could have asked for it or not, or whether he
13 might ask for it in the future is going to do anything in
14 the way of improving the record that you have already
15 established as a consequence of your cross-examination, so I
16 would like you to move on.

17 MR. HOLLIES: I would be happy to. I would point
18 out that if the Postal Service witnesses did not engage in
19 due diligence on these points, that would not apparently
20 have pleased the Commission. I will be happy to move on.

21 CHAIRMAN GLEIMAN: I am not sure what that means.
22 But please move on.

23 BY MR. HOLLIES:

24 Q In your response to Number 17 from the Postal
25 Service, you provided draft copies of letters that

1 accompanied the survey instrument. Why couldn't you provide
2 a copy of what was actually sent out?

3 A I am currently working in D.C. I believe that
4 there are probably actual copies in storage out in our
5 offices in McLean. I have not had an opportunity to go
6 through, sift through boxes of those to find them. And
7 there is some chance that I might not be able to find them,
8 even once I did that.

9 Q Okay. Do you know whose signature the letters
10 went out over?

11 A I believe they went out under Max Heath's
12 signature.

13 Q Did you participate in drafting the letters?

14 A No, I did not.

15 Q In survey research, is it customary to tell the
16 recipients what results you are looking for in the cover
17 letter?

18 A In general, my understanding is that one would not
19 want to do that. In case like this, one has a struggle
20 between actually wanting to provide enough interest on the
21 part of the potential respondents to respond at all. And so
22 you need to kind of walk a fine line between providing some
23 sense of the issues that one is interested in, without sort
24 of wanting to feel as though you are directing the
25 respondents to respond a particular way.

1 Q Could you provide your understanding of the term
2 "accuracy" as it relates to an estimate?

3 A Well, presumably, the notion is that one is
4 concerned about where the estimate is in relation to the
5 true value, and involved with that would be a concern both
6 with sampling error and with some sorts of non-sampling
7 bias.

8 Q What about the term "precision of an estimate"?

9 A I am not able to produce at the moment a good
10 definition for that.

11 Q Well, let's see if this works anyway. Which term
12 would you use to describe shots from a rifle distributed
13 about a bull's eye and all over the target in no particular
14 pattern, accuracy or precision? Or inaccuracy or
15 imprecision?

16 A I am afraid I really don't have anything useful to
17 say about that.

18 Q Okay. Your responses to NNA -- excuse me,
19 USPS/NNA-T2-18 are, in part, incomplete. Parts (a) and (b)
20 ask you to quantify two cases of bias. Can you?

21 A I can't absolutely quantify. I mean the first --
22 my answers refers to the second paragraph of my response to
23 13(c) in which I state, "Thus although it is reasonable to
24 be concerned that heavy users of in county mail were more
25 likely to respond to the survey, the data that I have

1 suggests that this was not in fact a problem."

2 That suggests that a reasonable quantification is
3 that that bias is near zero.

4 In the case of (b) that is referring to bias that
5 would be introduced by multiparty papers that would have
6 been incorrectly coded as single papers, thus inflating
7 their circulation in in county volume estimates, and as I
8 state at the end of my response to that, I say that I
9 believe that the number of observations belonging to
10 multipaper groups is likely to be small. Two cases of
11 multipapers were detected during data cleaning and both of
12 these were corrected and that data cleaning is described
13 elsewhere.

14 So in both cases I would say that an appropriate
15 estimate of the quantities involved are near zero.

16 MR. HOLLIES: Thank you. I have no further
17 questions at this time.

18 CHAIRMAN GLEIMAN: Any follow-up questions from
19 the bench?

20 [No response.]

21 CHAIRMAN GLEIMAN: Would you like some time with
22 your witness for redirect? How long?

23 MS. RUSH: Two minutes.

24 CHAIRMAN GLEIMAN: Okay.

25 [Pause.]

1 MS. RUSH: Mr. Chairman, we have no redirect.

2 CHAIRMAN GLEIMAN: If there is no redirect, then
3 Mr. Elliott, that completes your testimony here today.

4 We appreciate your appearance, your contributions
5 to the record, and we thank you. You are excused.

6 [Witness excused.]

7 CHAIRMAN GLEIMAN: Our next witness is from Time
8 Warner. Mr. Burzio, if you would like to call your witness.

9 MR. BURZIO: Thank you, Mr. Chairman.

10 Time Warner calls James O'Brien as its first
11 witness.

12 CHAIRMAN GLEIMAN: Mr. O'Brien, please be seated,
13 but first raise your right hand.

14 Whereupon,

15 JAMES O'BRIEN,
16 a witness, was called for examination by counsel on behalf
17 of Time Warner and, having been first duly sworn, was
18 examined and testified as follows:

19 CHAIRMAN GLEIMAN: Please be seated.

20 DIRECT EXAMINATION

21 BY MR. BURZIO:

22 Q For the record, would you please state your name?

23 A James O'Brien.

24 Q And where are you employed and in what capacity?

25 A I am Director of Distribution and Postal Affairs

1 for Time, Inc.

2 Q Do you have with you a document entitled Direct
3 Testimony of James O'Brien marked for identification as
4 TW-T-2?

5 A I believe it is still over there. I don't have it
6 here.

7 Q Well, let me show it to you.

8 A Yes. Yes.

9 Q Did you prepare this document?

10 A I did.

11 Q Do you have any corrections or additions to make
12 to it?

13 A I do not.

14 Q If you were to testify orally today is this the
15 testimony you wish to present to the Commission?

16 A It is.

17 MR. BURZIO: Mr. Chairman, I am handing two copies
18 of the document to the reporter and move that it be received
19 in evidence and transcribed in the record.

20 CHAIRMAN GLEIMAN: Is there any objection?

21 Hearing none, it is so ordered.

22 [Direct Testimony of James O'Brien,
23 TW-T-2, was received into evidence
24 and transcribed into the record.]

25

TW-T-2

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY OF
JAMES O'BRIEN

ON BEHALF OF
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & COMPANY, INC.
MAGAZINE PUBLISHERS OF AMERICA, INC.
THE MCGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
AND
TIME WARNER INC.

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May 22, 2000

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1 **Autobiographical Sketch**

2 My name is James O'Brien. I am the Director of Distribution and Postal Affairs for Time
3 Incorporated, a division of Time Warner.

4 I have been employed by Time Inc. since 1978 and have been involved in the manufacturing and
5 distribution of magazines for over 30 years. At the beginning of my career in 1969, I worked for
6 R.R. Donnelley & Sons, where I prepared mail for shipment and loaded postal vehicles with mail
7 sacks. During college, I worked part-time for United Parcel Service and supervised a parcel re-
8 loading operation. In the late 80's, as Time Inc.'s Director of Field Operations, I was responsible
9 for magazine production and distribution throughout the United States. From 1990 to 1996, I
10 was CEO of Publishers Express, an alternative delivery company that serviced 1000 zip codes in
11 32 cities nationwide. Today, I am responsible for the newsstand and subscriber distribution of
12 all Time Inc. magazines. These titles generate approximately 750 million pieces of Periodicals
13 class mail annually with a USPS revenue value of approximately \$145 million. In the course of
14 my employment, I have visited numerous printing plants, lettershops, freight forwarders and
15 consolidators, U.S. Postal Service facilities, foreign posts, and Postal Service competitors, such as
16 Federal Express.

17 I am currently the Chairman of the Postal Committee for the Magazine Publishers of America,
18 Chairman of the Postal Policy Committee for PostCom (Association for Postal Commerce;
19 formerly AMMA), a member of the PostCom Executive Committee and Board of Directors.

20 I served as a member of the joint USPS/Industry Periodicals Operations Review Team. I also
21 participated in the MTAC (Mailers Technical Advisory Committee) Package Integrity Task
22 Force. The work performed on these task forces forms the main basis for my testimony.

1 **Purpose**

2 The purpose of my testimony is to describe some of the causes of the inefficiencies in the current
 3 mail processing system and identify opportunities for improvement in the test year and beyond.
 4 In addition, I will discuss the inadequacy of the current rate structure and introduce an alternative
 5 structure that would provide incentives for more efficient mailer behavior.

6 **I. The Joint Industry/USPS Periodicals Review Team**

7 The concept of a joint industry/USPS Periodicals Mail Processing Review Team ("Periodicals
 8 Task Force") was conceived immediately after the Docket No. R97-1 decision was issued.
 9 Periodicals mailers had been litigating the issue of mail processing costs since the R90-1 case.
 10 Their primary concern was the sharp increase in Periodicals mail processing costs that began in
 11 FY 1986.¹ These costs have increased at a rate exceeding inflation, postal wages, and mail
 12 processing costs for all other classes of mail since 1986. In its Docket No. R97-1 decision, the
 13 Commission stated its conclusions on the issues we had raised:

14 The presort mailers argue that the rapid growth in mixed mail and not handling
 15 costs reflects automation refugees or other inefficiencies associated with
 16 automation. The Commission finds that the circumstantial evidence for this
 17 inference is inconclusive, but warrants systematic investigation. It makes a similar
 18 finding with respect to the rising unit processing costs of Periodical mail. . . . The
 19 Commission urges the Postal Service to make a more systematic inquiry into the
 20 causes of rising not handling costs, as these witnesses suggest.²

21 In recognition of these as well as other problems, the Commission lowered the Periodicals Class
 22 markup to the minimum level allowable under the Statute. While the publishing industry was
 23 grateful to the Commission for addressing this issue, many realized that a low markup was a
 24 temporary solution at best. It was obvious to both mailers and the Postal Service that something
 25 needed to be done to understand these out-of-control cost increases and to eliminate their causes

¹ See Docket No. R97-1, Testimony of Halstein Stralberg (TW-T-1): Tr. 26/13811, 13820-23.

² PRC Op. R97-1, ¶¶ 3148, 3187.

1 prior to the next rate case. If costs could not be reduced, the publishing industry could expect no
2 further relief from the Commission, and Periodicals Class mailers would see rates increase in lock
3 step with increasing mail processing costs.

4 The mail processing cost issue unified the publishing industry. As a result, the Task Force
5 included representatives from both the American Business Media and the Magazine Publishers of
6 America. The Postal Service provided representatives from Operations and Finance, and a
7 consultant from Christiansen and Associates. As a member of the Task Force, I visited a total of
8 16 Postal Service facilities, including BMC's (Bulk Mail Centers), P&DC's (Processing And
9 Distribution Centers), Annexes, and Associate Offices. Overall, the Task Force visited sites that
10 collectively handle 14% of all flat mail processed in the United States. The Postal Service
11 allowed us to view all operations and ask facility managers any question that pertained to mail
12 processing. However, it must be noted that the Postal Service ruled the topics of IOCS (In-
13 Office Cost System) procedures and cost attribution assumptions off limits. The Report of the
14 Periodicals Operations Review Team is on file as part of Library Reference I-193.

15 The Task Force began its evaluation of mail processing in the fall of 1998 and completed all visits
16 by December 1998. The Task Force incorporated observations from a broad range of geographic
17 locations and all three Postal Service tours. Facilities were visited in the East, Midwest, South,
18 and West.

19 The Task Force produced a total of fifteen recommendations, each of which contains short and
20 long term action items for local postal operations, national postal operations, and/or mailers. In
21 the remainder of my testimony, I summarize each of the recommendations, describe my personal
22 observations from the field visits, and comment on the potential impact of the action items on
23 Periodicals Class mail processing costs.

1 **Issue 1: Preparation standards for Periodicals should more closely match postal**
2 **processing configurations**

3 At many of the facilities we visited, we noticed that Periodicals mail was being transported by
4 USPS contracted vehicles between the P&DC's and their respective annexes. In addition, there
5 were a number of associate offices that processed mail for multiple zip codes. Unaware of this
6 processing configuration, mailers sometimes ship their mail to the wrong facility. For example,
7 the primary plant in Milwaukee, WI, is located in the center of the city, yet Periodicals mail is
8 processed in an annex several miles south of the city. When mailers ship their mail to the
9 downtown facility, the Postal Service must unload the trailer, cross-dock the publications into a
10 trailer destined for the annex, unload the trailer at the annex, and take the mail to the processing
11 area. Needless to say, this is not an efficient process. But it is not a difficult problem to correct.
12 If the Postal Service could develop a national mail processing scheme and facility list indicating
13 where Periodicals mail is actually processed, mailers could tailor their mail preparation and
14 transportation to match the USPS operations. Once mailers begin to ship product to the facilities
15 where the mail is processed, unnecessary allied labor and transportation operations will be
16 eliminated. From a mailer's perspective, this can be accomplished by incorporating the facility
17 database into our presort and dropship software programs. I am confident that this program
18 could be implemented very quickly if it became a DMM requirement.

19 The Task Force also noticed that current USPS regulations require the separation of bar-coded
20 and non-bar-coded bundles destined for the same 5-digit zip code into separate containers. A
21 container, such as a sack or pallet, designated for a 5-digit zip code is not opened until it arrives
22 at the 5-digit facility. At the same time, there is no automation equipment to take advantage of
23 the barcodes at the 5-digit facility. So the exercise of putting barcoded and nonbarcoded mail in
24 separate containers is pointless and adds unnecessary cost. We recommended that the USPS
25 consider allowing barcoded and non-barcoded flats to be combined in the same 5-digit container.
26 On February 29, 2000, the USPS published in the Federal Register a proposed rule allowing

1 barcoded and non-barcoded flats to be placed in the same 5-digit container. It is my
2 understanding that the Postal Service expects to enact and fully implement the regulation change
3 by year-end.

4 Since the Task Force recommendations have been issued, the Postal Service and MTAC have
5 been working on several other initiatives that will allow the Postal Service to capture savings in
6 these areas. First, the USPS has created the L001 labeling list that provides a directory of
7 facilities that process multiple 5-digit zip codes. If compliance with L001 is made mandatory, as
8 I believe likely, the Postal Service expects that approximately \$3.6 million in Periodicals mail
9 processing costs would be saved in Test Year 2001.³

10 It is my understanding that the current list of L001 zip codes represents only 14% of the total
11 available zip codes in the United States. If the Postal Service provides L001 data for the
12 remaining 86% of the zip codes, the number of L001 opportunities will increase significantly. As
13 more facilities that process multiple zip codes are incorporated into Periodicals presort programs,
14 it will result in an even greater number of 5-digit pallets.

15 Next, an MTAC work group is in the process of creating a facility database that reflects where
16 Periodicals mail is actually processed. Peter Moore, who is the industry co-chair of this MTAC
17 initiative, has indicated that the database will be operational by December 31, 2000. Once this
18 database is finalized, Time Inc. will incorporate it in our shipping manifests and dropship our
19 mail to the proper facilities, thus lowering Postal Service costs.

20 **Issue 2: Optimization of containerization can help reduce costs**

21 One of the more resounding themes that we heard from P&DC and delivery unit managers was a
22 desire for more 5-digit pallets. In fact, we heard this from every P&DC manager except one (who
23 happened to have a sack sorter in her facility). It is much easier and more cost effective for them

³ See USPS response to TW/USPS-8 (filed May 9, 2000).

1 to cross-dock a 5-digit pallet than to bring the mail into their facilities for processing. Bundles of
2 mail in a sack or pallet that has less than a 5-digit sort must be unloaded from the trailer and,
3 typically, taken to an SPBS (small parcel and bundle sorter) machine, dumped or loaded by hand
4 onto the SPBS, keyed by zip code into the machine and sorted into a 5-digit container. Someone
5 must sweep the machine, and the 5-digit container must eventually be taken to the shipping dock
6 to be loaded onto an outbound truck. If mail arrives at a P&DC on a 5-digit pallet, it is simply
7 cross-docked to the outbound 5-digit truck, and there is just one handling of that pallet.

8 Pallets are the container of choice for the P&DC's. Once this became clear, we focused our
9 attention on how to create more palletized mail without negatively impacting the smaller facilities
10 downstream. Our first recommendation was to allow the multiple stacking of small pallets up to
11 four tiers high. This suggestion was implemented by the Postal Service on August 12, 1999. We
12 also recommended a review of the operational impact of initiatives such as package reallocation
13 and lower pallet minimums.

14 I have also supplied the Postal Service with samples of pallets that Time Inc. uses for small
15 newsstand shipments. These are basically smaller versions of a full-size pallet, but allow more
16 effective trailer loading. The width of a standard trailer can accommodate a maximum of two full-
17 sized pallets. Our smaller pallets can be loaded three wide on the same vehicle. What's more,
18 these smaller pallets can be handled with a standard forklift or pallet jack with no modifications.
19 No new material handling equipment is required. If the Postal Service adopts this option for
20 creating smaller, more efficient pallets, it will mean some increase in inventory expense but more
21 than compensating savings in transportation and in handling and mail processing costs at the
22 P&DC's.

23 **Issue 3: Encouraging good address quality can significantly reduce rehandling costs**

24 The Task Force raised two key issues related to barcoding and address quality. Obviously, if
25 mailers take the barcode discount, the Postal Service needs to have the ability to capture the

1 savings through automation. We saw many flats that were being rejected by barcode readers and
2 would need to be manually keyed by an FSM clerk. To improve barcoding, the USPS Business
3 Mail Acceptance Units must provide feedback to mailers that submit unreadable barcodes. In
4 addition, mailers need to conduct more barcode testing prior to entering the mail. Time Inc. is
5 currently developing a new process for binding magazines. A prototype of this machine has been
6 in testing for over one year, and we expect the production version to be operational by
7 September 2000. To ensure that this machine produces readable barcodes, I have asked the
8 Director in charge of technology development to have barcode readers installed on every one.

9 Second, we suggested that all mail pieces should contain a carrier route designation. With a carrier
10 route code on all pieces, clerks in both plants and delivery units would not need scheme
11 knowledge to sort copies to individual carrier routes. Periodicals mailers have the ability, with
12 some programming changes, to apply carrier route barcodes to copies within a 5-digit or lower
13 bundle. The Postal Service would have to train its employees to recognize the carrier route
14 designation, since it would not be in the standard position on the endorsement line. This
15 improvement in address quality is entirely possible and needs to be pursued; in fact, McGraw-
16 Hill already applies carrier route designations to copies not contained in carrier route bundles.

17
18 **Issue 4: Enforcement of entry/acceptance requirements and communication of problems**
19 **with irregularities to the publisher, as well as the printer, are important**

20 During our visits we saw numerous examples of mail that had not been prepared according to the
21 DMM regulations, yet it had been accepted by BMEU (Business Mail Entry Unit) personnel.
22 The Postal Service developed two separate initiatives to address this problem. First, Ed Wronski
23 and the staff at the New York Rates and Classification Service Center (RCSC) have created a
24 program called "Getting Closer to the Mailbox." The program consists of printed and video
25 reference material that shows the proper way to prepare mail. This program has been offered to
26 publishers throughout the country by the various Postal District Offices. In addition, this
27 program is required reading/viewing for all USPS acceptance personnel.

1 The second program was developed by the New York RCSC in conjunction with Marketing,
2 Operations, Delivery, and Core Business. This is called the "Periodicals Awareness Program."
3 It consists of roughly two hours of training including a 60 minute video. The training program is
4 being given to all craft and supervisory personnel involved in the processing of Periodicals. The
5 program is currently being rolled out to the field and should be completed within the next two
6 months.

7 While I have not seen the Periodicals Awareness Program, I have reviewed the Getting Closer to
8 the Mailbox program and have made this required reading and viewing for all new people in my
9 department. The material is clear, very basic, and easy to understand. The Postal Service has
10 indicated that they issued a survey that requested feedback on the program and have received
11 approximately 900 responses from mailers, most of which were an endorsement of the program.
12 Overall, I feel that this is an excellent program that can help to improve mail preparation
13 practices.

14 **Issue 5: Further develop and communicate the flats operation plan**

15 Our visits taught us one very clear lesson. No two facilities process Periodicals in the same
16 manner. Each operation is driven by facility configuration, available equipment, local work rules,
17 mail mix, and what at times appeared to be a "We always do it this way" mentality. One facility
18 encourages mailers to prepare sacks because they have a sack sorter. Another has an SPBS but
19 lacks roller extensions for the individual run-outs, and so only sorts to 50% of the available
20 positions. Staffing levels on the SPBS machines range from 11 to 18 people. Some facilities do
21 not have an SPBS but instead process on a LIPS (Linear Integrated Parcel Sorter) machine, which
22 is commonly referred to as the "poor man's SPBS." In some facilities, flats are sorted into sacks
23 rather than rolling stock because of a rolling stock shortage. In short, flats mail processing is a
24 complete hodgepodge that requires some systematic evaluation and change.

1 Since the Task Force's visits, Postal Service personnel have attempted to formulate a
2 systemwide flats automation plan. This plan was widely discussed at a joint USPS/Periodicals
3 industry meeting on February 8, where participants observed the AFSM 100 in action and
4 discussed ways that mailers could work with the Postal Service to further reduce costs. One
5 excellent example of how mailers could help reduce costs came from Tom Tully of McGraw-Hill.
6 The new AFSM 100 machine has a feeding mechanism that inducts flats very quickly. To help
7 the feeders keep up with the machine, a number of people were preparing the mail for the
8 feeders: removing any bundle wrap or straps, facing them in the same direction, and placing the
9 magazines in a special cart that made things quite easy for the feeder. Seeing the amount of allied
10 labor required to prepare the mail for this high speed machine, Tom suggested that mailers could
11 prepare products destined for the AFSM 100 without any bundle strapping or shrink wrap,
12 since this material was removed prior to processing. In this way, AFSM 100 allied labor costs
13 for mail preparation could be dramatically reduced or eliminated.

14 The Task Force also took note of some very good practices taking place in some postal facilities.
15 In Baltimore, for example, the Postal Service took an aging, multi-story facility and transformed it
16 into what appeared to be a well-run, efficient operation. USPS management needs to thoroughly
17 explore best practices in its mail processing operations and encourage those practices in its less
18 efficient operations. Best practices are discussed in greater detail in the following section.
19

20 **Issue 6: Separation of mail classes is of questionable value and may add to costs without**
21 **necessarily improving service**

22 In many facilities, the Task Force observed tremendous efforts being taken to separate
23 Periodicals Class mail from other classes, "in order," we were told, "to protect service." While
24 that is a worthy goal, it does not always play out as planned. By segregating classes in certain
25 mail processing operations, facility managers may be adding costs without improving service.
26 According to witness Unger, "A supervisor will work the class with the largest volume available

1 on the machinery and will move the smaller-volume classes to the manual operations.”⁴ The
2 problem he describes is not attributable to the length of run but the fact that the classes of mail
3 are segregated. If mail classes could be combined on the equipment, the result would be more
4 effective equipment utilization, a streamlined operation, and a reduction of cost.

5 Coming from a publisher of four national weekly magazines, the concept of combining mail
6 classes in processing may sound like heresy, but it is not. In Baltimore, we saw an example of
7 how to combine mail classes yet protect service. In this operation, the facility processed two
8 streams of mail on its flat sorting equipment. The first consisted of First Class mail and time
9 sensitive Periodicals, commonly referred to as “hot pubs,” such as daily and weekly publications.
10 The second was a combination of Standard A mail and lower frequency Periodicals, such as
11 monthly or quarterly publications. The system worked because the people delivering products
12 to the machines for processing had a very clear understanding of what mail goes to each machine.
13 As a result, the “hot pubs” go to one machine and the monthly pubs to another without adding
14 any cost. In terms of service, there really is no delay for either mail stream since managers
15 attempt to “sweep” the facility each night, so that there is no mail remaining in the facility. Any
16 decision to defer mail because of volume considerations is made at the delivery unit, not the
17 P&DC. The delivery unit is in the best position to make that decision. The letter carrier can
18 clearly see that a tote contains both Periodicals and Standard A, and deliver that mail according to
19 the service standard of the highest mail class in the container. If mail needs to be deferred, the
20 delivery units all have adequate quantities of deferrable mail in carrier route bundles that can
21 easily go out the following day and still meet the service standard.

22 Was this system perfect? Absolutely not. For example, in one of the delivery units outside of
23 Baltimore we saw a clerk segregating Periodicals and Standard A pieces that were combined into
24 one tote at the P&DC. This practice not only slowed down both classes of mail but also
25 introduced another level of handling and expense. It would have been far more efficient for the

⁴ USPS-ST-43, at 9, ll. 10-13.

1 clerk to case all of the mail and allow the letter carrier to make a decision on what to defer. This
 2 was a clear example of a lack of communication between the P&DC and the delivery units, but it
 3 is not a difficult problem to correct.

4 According to witness Unger, "Service tends to be a dominant factor in the Postal Service's
 5 approach to Periodicals, and it substantially affects Periodicals processing costs."⁵ This does not
 6 need to be the case. The Baltimore best practice demonstrates that service can be maintained in a
 7 cost effective operation. After seeing this operation in action, I'm convinced that, if replicated, it
 8 could have a significant positive impact upon cost. Senior management at the Postal Service
 9 should recruit someone like the Baltimore P&DC Manager, Jerry Lane (who is no longer in
 10 Baltimore), to develop a specialized process improvement program for each P&DC in the
 11 country.

12 In its final report, the Periodicals Operations Review team stated:

13 Based upon observations in the sites we visited, the review team believes that cost
 14 savings and better use of automated equipment can generally be achieved, without
 15 compromising service standards, by combining Periodicals flats with other mail
 16 streams in the incoming processing at a processing plant and its associated
 17 Distribution/Delivery Units.⁶

18 The USPS agreed and issued the following Addendum to Periodicals Standard Operating
 19 Procedures (SOP) on February 4, 2000:

20 This SOP indicates the following: "The option of commingling Periodicals and
 21 Standard Mail (A) flats may occur at the incoming secondary level, as long as
 22 service for the Periodicals can be maintained. When Periodicals are mixed with
 23 Standard Mail (A) flats, the dispatch container must be labeled as "Periodicals."
 24 Any facility that opts for this type of commingling must ensure that service
 25 performance for Periodicals is strictly monitored and enforced.⁷

⁵ USPS-ST-43, at 7, ll. 10-11.

⁶ Report of the Periodicals Operations Review Team, at 21.

⁷ See response of USPS to POIR No. 9, item 8 (filed May 1, 2000).

1 The challenge for the Postal Service is rolling this best practice out to other P&DC's prior to the
2 test year. According to USPS Processing Operations personnel, they are encouraging plants to
3 incorporate the merging of classes and expect that this practice is being widely adopted.
4

5 **Issue 7: Improved bundle preparation by mailers and improved materials handling by the**
6 **Postal Service will reduce bundle breakage – which appears to increase Periodicals Costs**
7 **significantly**

8 As the Postal Service strives to automate mail processing and make it more efficient by reducing
9 labor costs, it sometimes creates an unwanted by-product. Thus the SPBS and mechanized sack
10 sorting operations apparently resulted in an increase in broken bundles. In several facilities, the
11 Task Force observed pallets of unbroken Periodicals bundles tilted on their sides and dumped
12 onto an SPBS feeding belt. For the bundles at the bottom of the pile, the effect was like being in
13 an avalanche. They were designed to maintain their integrity through mail processing, but not to
14 withstand a 2000 lb. lateral force. As a result, some—but surprisingly, not that many—were
15 broken. The SPBS belts that used pallet dumpers also had one or two people who used sticks to
16 relieve the congestion on the belt once a pallet was dumped. Overall, it appeared to be a process
17 that could use some evaluation and improvement.

18 The Task Force also visited facilities that use sack sorters, machines that consist of numerous
19 overhead belts that route sacks into containers destined for other facilities and that seemed to
20 damage a good deal of mail in the process. In Chicago, we saw the operation where containers of
21 damaged mail from the sack sorters were processed, which consisted of an opening belt staffed
22 by six people, where the mail was dumped and each piece manually processed. The people that
23 were processing this mail had experienced injuries or disabilities, and this operation was a way to
24 keep them busy.

25 Acting on the Task Force's recommendations, the Postal Service in conjunction with MTAC
26 created a Package Integrity Task Force, the purpose of which was to observe various SPBS and
27 sack handling operations to determine the cause of bundle breakage. As a member of that Task

1 Force, I visited the SPBS and sack opening operations in Boston, MA, where I spent the better
2 part of a day at a sack-opening belt where one mail handler dumped sacks of Periodicals onto a
3 belt and three others sorted that mail into containers destined for local delivery units. There were
4 broken bundles coming out of just about every sack. The method of strapping did not seem to
5 matter. On the other hand, I spent roughly one hour at an SPBS pallet dumping operation where
6 pallets were being dumped using the new procedures and did not see any broken bundles. While
7 the complete report of the Bundle Integrity Task force has not been issued, the preliminary data
8 indicate that palletized bundles break 0.5% of the time while sacked mail breaks 17% of the
9 time.⁸

10 To its credit, the Postal Service took quick action on the SPBS dumping problem. Under the
11 current SOP (standard operating procedure), pallets are no longer dumped in their entirety but
12 layer-by-layer.⁹ This significantly reduces the force of the avalanche. In addition, the Postal
13 Service has modified many of the SPBS machines to improve the bundle feeding mechanisms.
14 These improvements include eliminating turns which force products to change direction and
15 possibly break. Side guards were modified to eliminate catch points that could break bundles.
16 To improve the transition of the bundles onto the SPBS belts, extensions were made to the
17 chutes that bundles travel down once they are dumped. The list of improvements is more
18 extensive than discussed here. Of the 345 SPBS machines in the field, the feed systems have
19 been improved on 271 machines. The remaining 74 machines cannot be improved because of
20 space constraints or lack of economic feasibility. Overall, the Postal Service has created an
21 improved process which should result in a significant reduction in bundle breakage.

22 We saw many cases of broken bundles where the SPBS keying clerk simply keyed in each piece
23 individually. The Postal Service has taken steps to curtail this obviously inefficient practice.
24 Under instructions issued to the field by Postal Service Headquarters, SPBS personnel now

⁸ USPS response to TW/USPS-2 (filed April 13, 2000): Tr. 21/9281-83; LR-I-297.

⁹ See note 7.

1 attempt to reconstitute broken bundles using rubber bands if the pieces are still together and can
2 be easily picked up. If the pieces are loose, they are put into a container and sent to a flat sorting
3 operation for processing.¹⁰ This new procedure, under which individual pieces will be keyed on
4 an SPBS only as a last resort, should significantly reduce the extra costs generated in those
5 instances when bundles are inadvertently broken.
6

7 **Issue 8: Focus operations management on the importance of efficiently managing**
8 **processes and equipment**

9 At every facility that the Task Force visited, we asked the senior managers what they would do
10 if they were required to reduce Periodicals mail processing costs by 10% and empowered to
11 change any rule, regulation, or process. To our surprise, many responded that they have never
12 given the matter much thought, or their answers related to service. As a manufacturing and
13 distribution oriented person, I feel that it is essential that local management be focused upon cost
14 control and productivity improvement if the problem of flats mail processing inefficiency is not
15 to perpetuate itself.

16 In Charlotte, NC, we visited the General Mail Facility during the beginning of Tour 1 to see their
17 Tray Management System (TMS) in action. While the TMS appeared to provide an efficient
18 means of handling a large volume of letter trays, I was not convinced that the system resulted in
19 significant labor reductions. The people who were loading the trays onto the various APC's and
20 nutting trucks did not appear to be working very hard throughout the tour. We returned to the
21 facility at 5 a.m. to observe the "dispatch of value." This is the final dispatch of the day to the
22 Associate Offices and determines what mail will get delivered on that day. In preparation for this
23 dispatch, people came out of the woodwork and there was a great deal of activity on the shipping
24 dock. There were people and equipment everywhere, and everyone was hustling to get the
25 products on the trucks. While we viewed this operation, it was obvious that the people who

¹⁰ See response of witness Kingsley to MPA/USPS-T-6, Attachment (filed February 29, 2000); see also Tr. 5/1707.

1 were not moving very quickly throughout the evening were there simply because they were
2 needed to process the dispatch of value.

3 In other facilities without TMS, we saw similar examples of people working at manual
4 Periodicals Class bundle sorting operations at a very slow pace. While we did not return to these
5 facilities to view the dispatch of value, it is my assumption that these people were called into
6 action at 5 a.m. to get the final shipment of mail out the door.

7 In my opinion, there is a great deal of opportunity for cost reduction in flat mail processing if the
8 Postal Service can develop a smooth, efficient process and then place managers in a position to
9 evaluate the performance of the process. The report of the Periodicals Operations Review Team
10 actually states it best:

11 While these observations could also apply to operations working mail other than
12 Periodicals Class, it appears to be a significant opportunity for process
13 improvement, and the team believes that focusing on supervisor effectiveness,
14 machine utilization, performance measurement and accountability, and mail flow
15 to process in the lowest-cost method consistent with service requirements would
16 help reduce periodical costs while actually improving service performance.¹¹

17

18 **Issue 9: There appear to be cost reduction opportunities by better utilizing transportation**
19 **cubic capacities, and by reducing redundant "hot" service trips**

20 On many of our visits to mail processing facilities, the Task Force observed Postal Service
21 contracted or owned trucks that were shipping and arriving half empty. Whenever we asked
22 about truck capacity, the answer was, "We never worry about capacity, there's plenty." We
23 also saw inter-BMC and inter-SCF trucks loaded in a way that used all of the vehicle's floor
24 capacity but substantially less than its full weight capacity. A great deal more product could
25 have been placed on the same vehicles by stacking pallets. In private industry, pallet stacking on
26 shipments is a common practice.

¹¹ Report of the Periodicals Operations Review Team, at 29.

1 Witness Unger asserts: "There is a transportation cost that somewhat offsets the value realized
 2 in pallets, because pallets take up more space on trucks."¹² I could not disagree more. The
 3 President of Hassett Air Express once told me that his company loves handling Periodicals
 4 because they have the same density as bricks; that is, magazines provide high weight and low
 5 cube (as opposed to boxes of popcorn that have high cube and low weight). Time Inc.'s
 6 experience has been that if you stack pallets to a reasonable height, you will exceed the trailer's
 7 weight capacity well before you exceed its cube capacity. It doesn't matter if you reach the
 8 2,000 lbs. per floor position by one skid or four small stacked pallets. The bottom line is that
 9 pallets don't necessarily take up more space on trucks.

10 The Task Force also recommended a reduction in redundant "hot" service trips, which Time Inc.
 11 supports, because we do not expect hot service trips for our magazines.
 12

13 **Issue 10: Use of annexes to deploy additional equipment and accommodate increased mail**
 14 **volumes results in additional costs, which may fall disproportionately on Periodicals**

15 Periodicals mail volume has remained static for the past 10 years, while overall mail volume
 16 continues to grow. As a result of the volume growth and space required for automation, many
 17 postal facilities have opened annexes, located anywhere from one block away to several miles
 18 away from the main P&DC. Most of these annexes do not have direct transportation to the
 19 delivery units. So any product that is processed in an annex must be handled at least twice more
 20 than it would if it had continued to be processed at the P&DC.

21 The Task Force observed Periodicals being shipped back and forth between the P&DC's and
 22 annexes and wondered why Periodicals should be responsible for this additional expense. The
 23 movement of Periodicals into annexes was not requested by Periodicals mailers, nor was it caused
 24 by growth of Periodicals mail volume. So why should Periodicals be paying for it?

¹² USPS-ST-43, at 5, line 3.

1 While improved drop shipping tactics along the lines discussed above in Issue 1 will help to
2 reduce transportation into the annexes, the cost of handling and transportation in getting
3 Periodicals back to the P&DC and out to the delivery units will remain. The Postal Service needs
4 to develop a more equitable method of attributing the costs of annexes, since this is one item that
5 helps to drive up Periodicals Class costs.
6

7 **Issue 11: There is opportunity for cost reduction by more effective utilization of**
8 **automated flat sorting equipment**

9 On the Task Force's first facility visit, we were told that flat sorting equipment is used 20 hours
10 per day and that the remaining four hours is required for maintenance. This sounded plausible,
11 but we discovered that it is not the case. Each of our visits was scheduled to ensure that we
12 would be in the facility when Periodicals mail was actually being processed. We were disturbed
13 to find that flat sorting machines were often idle or understaffed, in spite of frequent complaints
14 that so many machinable flats are being sorted manually because of insufficient FSM capacity.
15 As we visited more and more facilities with idle FSM's, it became a standing joke that we once
16 again "happened" to arrive during the four hour maintenance period, even though we were
17 scheduled to view peak mail processing periods.

18 Our observations indicated that FSM's are far from fully utilized. In fact, the Review Team
19 members from the Postal Service were so concerned with the machine downtime that they ran a
20 report showing national FSM run times. We were told that the report indicated FSM utilization
21 nationally at approximately 12 to 14 hours per day. If that is correct, there are six to eight hours
22 of unutilized FSM capacity per machine per day, and FSM capacity is not the reason why
23 Periodicals mail is being processed manually.

24 The Task Force was also surprised at and disturbed by the amount of time and effort spent
25 preparing mail for automated processing. One facility had someone taking individual pieces from
26 a hamper and sorting them into other hampers based upon their ability to run on automated

1 equipment. This appeared to be a complete waste of time. In another facility, people were
 2 removing shrink-wrap and straps from bundles and placing them on a "Phoenix cart," which
 3 would then be wheeled over to an FSM for processing. None of these prep operations was well
 4 managed, nor were the people working very hard. In my opinion, these people are once again the
 5 personnel buffer for other operations within the P&DC, such as the dispatch of value, yet they
 6 will be charged to Periodicals for the majority of their tour.
 7

8 **Issue 12: There may be interclass cost impacts that require further study. What may be**
 9 **the best for the USPS operations' "bottom line" may not be best for Periodicals**

10 The Task Force Report commented:

11 In some instances, the team observed costs incurred to separate mail based on
 12 machinability. We then observed that all of it was worked manually anyway.
 13 While these actions may make sense for all classes taken as a whole, they
 14 contributed to periodical [sic] cost without adding value. The Postal Service
 15 should study cost causality in these instances to insure accurate marginal cost
 16 estimates.¹³

17 Many facility managers told us that Periodicals mail is often handled manually because it is a
 18 short-run product and they would prefer to use the machines for longer Standard A runs in order
 19 to reduce setup time for the machines and increase efficiency. As a result, Periodicals are charged
 20 with two additional costs: the wasted costs of allied labor used in preparing their mail for
 21 automation, and the costs of their actual processing in manual operations, which are slower and
 22 involve more labor (and more opportunities for IOCS tallies).

23 If witness O'Tormey is correct, the coming deployment of AFSM 100s will virtually eliminate
 24 this problem.¹⁴ In the meantime, to avoid unfairly saddling Periodicals with mail processing
 25 costs that are not incurred for their benefit, the Commission should carefully reevaluate the
 26 distribution of mail processing costs, along the lines recommended in the testimony of witnesses
 27 Halstein Stralberg (TW-T-1) and Rita Cohen (MPA-T-1).

¹³ Report of the Periodicals Operations Review Team, at 36.

¹⁴ See, e.g., Tr. 21/8364-66.

1 **Issue 13: An immediate step can be taken to publicize and emphasize that cost and**
2 **service are not mutually exclusive, and both are important**

3 During our facility visits, the Task Force constantly heard that service is the primary reason why
4 Periodicals costs are rising. But our observations persuaded us, to the contrary, that the
5 increasing costs were the result of a lack of focus on costs by Postal Service management. In the
6 final analysis, both are equally important and need to be monitored and managed, and it is often
7 the case that greater efficiency leads to a lower cost and improved service.

8 In reality, controlling costs and maintaining service are not mutually exclusive. Yet for some
9 reason the Postal Service management feels that they are. For example, witness Unger states:

10 Service tends to be a dominant factor in the Postal Service's approach to
11 Periodicals, and it substantially affects Periodicals processing costs. The
12 experience of the last two years is most indicative of that service commitment. In
13 1997, USPS headquarters initiated a joint MTAC-USPS service task force that
14 worked to identify causes of service problems and remedy those problems. Now
15 in its third year of operation, the service task force has identified and initiated
16 several remedies to fix service.¹⁵

17 While I did not directly participate in that task force, I have reviewed some of their solutions,
18 which they refer to as "QI stories." Of all the QI stories, not one has been shown to increase
19 cost. In fact, a number of them actually reduce cost. An excellent example comes from Mr.
20 Unger's area at the Jacksonville P&DC, where the service improvement team developed a
21 process for reducing instances of mail being sent to the wrong facility. This process
22 improvement will not only improve service but produce an annual projected savings of \$245,000
23 in reduced work hours in the Jacksonville facility.

24 Another QI story from the DVD (Dominick V. Daniels) facility in New Jersey identified
25 misdirected sacks and trays as an item that affected service. The countermeasures adopted to
26 resolve the problem resulted in a savings of \$5348, in addition to a service improvement.

¹⁵ USPS-ST-43, at 7, l. 10.

1 Clearly, if thoughtful, analytical, process-control approaches are taken to resolving service
2 problems, cost control and service are not mutually exclusive. The task force created a process
3 flow for each facility and then analyzed that flow to determine how the facility could improve
4 service without adding cost, rather than placing a band-aid on service problems, or throwing
5 money or personnel at them. Simply pointing to service does not begin to explain rising
6 Periodicals costs.

7 One other point in witness Unger's testimony requires clarification. He states:

8 Periodicals are time-sensitive, and there is an infrastructure in place to reinforce
9 the importance of service. Mailers regularly (and entirely appropriately) send
10 Postal Service managers reports that score on-time performance for some
11 newspapers and magazines.¹⁶

12 Time Incorporated is one of the companies that provide this data to the Postal Service, and there
13 is much more to this program than meets the eye. The program is called DELTRAK, which
14 stands for delivery tracking. The system consists of 700 monitors throughout the country who
15 report the actual day of delivery for Time Inc. titles. The actual delivery dates are compared to
16 USPS service standards, and if a facility meets the standards 70% of the time or better, it is
17 deemed acceptable (just like a passing grade in school). If the facility falls below 70%, Time Inc.
18 adds that facility to our list of problem postal districts, and a Time Inc. Regional Distribution
19 Manager works with the facility to resolve the problem. If for any reason Time Inc. fails to make
20 a critical entry time at the facility, the system automatically changes the scheduled in-home date,
21 so that the Postal Service is not being asked to do more than its service standard requires. I can't
22 understand why being asked to operate within the Postal Service's stated standards should add
23 costs, particularly within the past two years.

24 I'm very optimistic that the types of initiatives illustrated by the Service Improvement Team's
25 QI stories will continue to expand in the coming months and years as we work with the Postal

¹⁶ USPS-ST-43, at 5, l. 29.

1 Service to reduce costs throughout the system while simultaneously coming closer to attainment
2 of the Postal Service's stated service standards.

3

4 **Issue 14: Cost attribution methodologies should be reviewed in light of operational**
5 **observations**

6 To be honest, cost attribution methodology is not my area of expertise. But here is what the
7 Task Force said in its Report:

8 There is strong evidence that in many operations added volume could be absorbed
9 without causing proportional increases in labor cost. It is clear that the capacity
10 to absorb added volume generally varies from one operation to another. Finally, it
11 appears that the cost of allied operations reflects operations to prepare mail for
12 individual piece distribution within the facility as well as operations to transfer
13 mail in bulk to another facility where it may receive individual piece distribution.
14 Hence, further study of allied operations is needed to better understand both cost
15 behavior and the appropriate distribution of cost to the various mail classes and
16 subclasses.¹⁷
17

18 **Issue 15: The Periodicals rate structure should be reviewed to ensure that it is consistent**
19 **with the overall Periodicals processing strategy and induces appropriate mailer behavior**

20 During the Task Force's visits, it was obvious that similar bundles of mail were being handled in
21 a different manner depending upon what type of container they were in. For example, a five-digit
22 pallet entered at the SCF is cross-docked to the delivery unit; a carrier route bundle on that pallet
23 receives no processing at the SCF. An ADC or three-digit pallet coming off the same truck is
24 taken to an SPBS for processing; a carrier route bundle on these pallets would take an entirely
25 different (and probably more costly) route to the delivery unit. Under the current Periodicals
26 rate schedule, the carrier route bundles on the ADC, the 3-digit and the 5-digit pallets would pay
27 exactly the same postage, in spite of the fact that they require different processing and must incur
28 very different costs.

¹⁷ Report of the Periodicals Operations Review Team, at 38.

1 **II. A Rate Grid Model for Periodicals Pricing**

2 Between facility visits, I thought long and hard about what type of rate structure could be
3 developed to more accurately reflect the actual costs of mail processing. The result was the
4 development of a rate grid that reflects all of the various mail processing permutations and
5 combinations. Sufficiently accurate or detailed cost information does not currently exist to
6 permit fully populating the grid with rates that reflect the costs of all of these various
7 permutations. However, the concept of the grid provides, I believe, the right model for future
8 development of correct postal prices that will give mailers incentives to change their behavior in
9 order to minimize combined mailer and Postal Service costs.¹⁸

10 The grid begins with a rate cell in the upper left hand corner that reflects the least costly mail that
11 Periodicals Class mailers can submit to the Postal Service, namely carrier route bundles on a five-
12 digit pallet, entered at the Destination Delivery Unit (DDU). At the opposite corner of the grid
13 are non-barcoded pieces in a mixed ADC bundle, in a mixed ADC sack, entered at a printing plant
14 distant from their ultimate destination.

15 The goal of the grid is twofold: first, to reflect the true cost of each required mail processing
16 operation; second, to allow the Postal Service and the Postal Rate Commission to send very clear
17 pricing signals to Periodicals mailers based upon operational efficiencies or inefficiencies, to the
18 extent that such pricing signals are consistent with the ratemaking criteria of the Postal
19 Reorganization Act.

20 The grid concept also presents three potential problems. The first is rate complexity. If fully
21 implemented as a ratesetting tool, the grid would produce more individual rate cells for
22 Periodicals Class mail. This should not be a significant burden to Periodicals mailers, however,
23 since the vast majority calculate their postage by computer. Once a mailer's sortation is

¹⁸ ABM, CRPA and McGraw-Hill take no position at this time on the rate grid concept discussed herein.

1 completed, plugging quantities into a rate grid is a simple, easily automated task. Therefore, rate
2 complexity should not be a substantial barrier to adopting a rate grid for Periodicals Class mail.

3 The second potential problem is the thorny issue dealt with in the MC95-1 case. In that case, a
4 proposal was made to divide Regular Rate Periodicals mail into two subclasses. One of the
5 subclasses would have received lower rates and the other a rate increase. This resulted in a
6 division within the industry of the "haves" versus the "have-nots". A rate grid would also shift
7 some rates in ways that would help or hurt individual mailers, depending upon their level of mail
8 preparation. While this may seem a drawback and could undoubtedly cause debate within the
9 industry, the fact is that all mailers prepare some mail that is more efficient, and some that is less
10 efficient, than other types of mail. If a grid were employed for postal pricing, all mailers would
11 pay for what they use, but the Postal Service and the Commission would retain the ability to
12 phase in changes or otherwise assure that implementation of this concept would not produce rate
13 impacts that are too severe.

14 The third potential problem with a rate grid is that, in order to populate the cells of the grid, there
15 must be concerted efforts to refine and make more accurate the distribution of in-office costs and
16 the mail flow cost models used in rate design.

17 The costs to the Postal Service for more and less efficient mail need to be passed along to mailers
18 in a manner that causes them to react to those costs and, where necessary, improve mailing
19 practices. A grid would show the true cost of each operation and provide the mailing industry
20 with a clear incentive to change behavior. It is my firm belief that a number of desirable industry
21 changes would take place, given the proper rate structure. These include a significant increase in
22 DDU deliveries, co-mailing, co-palletization, and drop shipping by a great many Periodicals. To
23 verify this prediction, one simply needs to look at Standard A. Correct rate incentives have
24 produced a substantial increase in drop shipping, and equipment manufacturers are now

1 producing flat sorting machines so that lettershops can merge separate mailings into one mail
2 stream, a practice that will improve presort for all mailers in the co-mailing pool.

3 Over my years in the printing and publishing industry I have observed that very little change
4 takes place without the proper financial incentives. If Periodicals class mailers and the Postal
5 Service truly want to lower the costs of the system, there needs to be an incentive. A rate grid
6 approach could provide the type of rate structure that would cause desirable changes in mailing
7 practices.

8 The following page illustrates how a rate grid could be structured:

PERIODICALS CLASS RATE STRUCTURE DISCUSSION DOCUMENT

PIECE	BUNDLE TYPE	CONTAINER	ENTRY				
			DDU	SCF	DESTINATING TRANSFER HUB	ORIGINATING TRANSFER HUB	OTHER
NON-BARCODED	CARRIER ROUTE	5 DIGIT PALLET					
NON-BARCODED	CARRIER ROUTE	CARRIER ROUTE SACK					
NON-BARCODED	CARRIER ROUTE	5 DIGIT SACK					
NON-BARCODED	CARRIER ROUTE	3 DIGIT PALLET					
NON-BARCODED	CARRIER ROUTE	SCF PALLET					
NON-BARCODED	CARRIER ROUTE	ADC PALLET					
BARCODED	5 DIGIT	5 DIGIT PALLET					
BARCODED	5 DIGIT	5 DIGIT SACK					
BARCODED	5 DIGIT	3 DIGIT PALLET					
BARCODED	5 DIGIT	3 DIGIT SACK					
BARCODED	5 DIGIT	SCF PALLET					
BARCODED	5 DIGIT	SCF SACK					
BARCODED	5 DIGIT	ADC PALLET					
BARCODED	5 DIGIT	ADC SACK					
NON-BARCODED	5 DIGIT	5 DIGIT PALLET					
NON-BARCODED	5 DIGIT	5 DIGIT SACK					
NON-BARCODED	5 DIGIT	3 DIGIT PALLET					
NON-BARCODED	5 DIGIT	3 DIGIT SACK					
NON-BARCODED	5 DIGIT	SCF PALLET					
NON-BARCODED	5 DIGIT	SCF SACK					
NON-BARCODED	5 DIGIT	ADC PALLET					
NON-BARCODED	5 DIGIT	ADC SACK					
BARCODED	3 DIGIT	3 DIGIT PALLET					
BARCODED	3 DIGIT	3 DIGIT SACK					
BARCODED	3 DIGIT	SCF PALLET					
BARCODED	3 DIGIT	SCF SACK					
BARCODED	3 DIGIT	ADC PALLET					
BARCODED	3 DIGIT	ADC SACK					
BARCODED	3 DIGIT	MIXED ADC SACK					
NON-BARCODED	3 DIGIT	3 DIGIT PALLET					
NON-BARCODED	3 DIGIT	3 DIGIT SACK					
NON-BARCODED	3 DIGIT	SCF PALLET					
NON-BARCODED	3 DIGIT	SCF SACK					
NON-BARCODED	3 DIGIT	ADC PALLET					
NON-BARCODED	3 DIGIT	ADC SACK					
NON-BARCODED	3 DIGIT	MIXED ADC SACK					
BARCODED	ADC	MIXED ADC SACK					
NON-BARCODED	ADC	MIXED ADC SACK					
BARCODED	MIXED ADC	MIXED ADC SACK					
NON-BARCODED	MIXED ADC	MIXED ADC SACK					

NOTE: ALL PIECE RATES ARE SUBJECT TO THE EXISTING EDITORIAL PIECE DISCOUNT
 FORMAT FOR ADVERTISING AND EDITORIAL WEIGHT REMAINS THE SAME AS TODAY.

1 It should also be noted that costs for many of the grid cells needed to be calculated in order to
2 develop the cost savings projections being submitted by witness Cohen. Christiansen &
3 Associates, in conjunction with the Postal Service and industry, prepared the grid data used in
4 witness Cohen's testimony.¹⁹

5 While I fully understand that it is not possible to implement a grid structure in Docket No.
6 R2000-1, the Commission, the Postal Service, and the publishing industry should be thinking
7 along these lines for the future.
8

9 **III. Additional Developments Since the Report of the Periodicals Operations Review**
10 **Team**

11 Since the issuance of the Report of the Periodicals Operations Review Team in March 1999, I
12 have observed two encouraging developments. First, Harvey Slentz, Manager of Strategic
13 Operations Planning, U.S. Postal Service, and Co-chair of the Periodicals Operations Review
14 Team, told me that in his 20 plus years with the Postal Service, he has never seen the
15 organization so energized by a single issue as it is today by Periodicals costs. His observation
16 has been reinforced by the numerous follow-up meetings and conference calls I have participated
17 in with the Postal Service in an effort to forge ahead with cost evaluation and implementation of
18 the Review Team's recommendations. This single-minded focus should translate into cost saving
19 ideas and new lower cost processes for Periodicals Class mail.

20 The second key development has been the support of Postal Service senior management. On
21 February 9, 2000, the Postal Service hosted a six-month review meeting with the Periodicals
22 Operations Review Team, where Postal Service employees presented a status report on the
23 progress of each of the team's fifteen recommendations. Postmaster General Henderson, other
24 top executives of the Postal Service and senior managers from the publishing industry attended
25 this meeting. It was obvious that people from the Postal Service and industry are serious about

¹⁹ See LR-I-332 (filed May 15, 2000).

1 change and committed to implementing the recommendations. This type of cooperation and
2 commitment at the senior management level is critical to achieving our cost control goals.

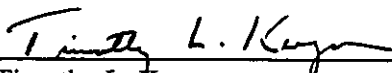
3 **Summary**

4 The Periodicals Operations Review Team invested a great deal of time and effort in attempting to
5 determine why Periodicals costs are rising so rapidly. While there is no "silver bullet" solution to
6 the problem, we developed a host of realistic recommendations that could help reverse this trend.
7 It is unfortunate that we could not develop the related cost savings for these initiatives prior to
8 the rate case, so that the Task Force's recommendations could have been included in the Postal
9 Service's proposal. However, it now appears that we have the full attention of Postal Service
10 management and that change is taking place very quickly in an effort to implement many of these
11 recommendations prior to the test year.

12 It is my understanding that testimony from Rita Cohen, representing a broad coalition of
13 Periodicals mailers, will provide supporting cost data for their recommendations. I hope our
14 testimony will demonstrate to the Commission that the savings are realistic and can be
15 implemented by the test year for this case. More importantly, the changes recommended by the
16 Review Team need to form the basis for a change in behavior when Periodicals Class mailers
17 prepare their mail, not only when the Postal Service processes it. No business can tolerate 15%
18 rate increases every two years. The Postal Service and the publishing industry are cooperating to
19 remove costs from the system in order to end the years of excessive Periodicals cost increases.
20 But more needs to be done, by following up on the Review Team recommendations, carefully
21 evaluating the fairness of the current Postal Service method of distributing mail processing costs,
22 and exploring the possibilities of a rate structure that reflects actual costs and thus encourages
23 economical mailing practices.

CERTIFICATE OF SERVICE

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



Timothy L. Keegan

May 22, 2000

1 CHAIRMAN GLEIMAN: Mr. O'Brien, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, if I could
10 impose on counsel to provide two copies of the designated
11 written cross-examination of Witness O'Brien to the
12 reporter, I will direct that that material be received into
13 evidence and transcribed into the record.

14 [Designated Written
15 Cross-Examination of James O'Brien,
16 TW-T-2, was received into evidence
17 and transcribed into the record.]

18
19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF TIME WARNER INC.
WITNESS JAMES O'BRIEN
(TW-T-2)

Party

United States Postal Service

Interrogatories

USPS/TW-T2-1-4

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
TIME WARNER INC.
WITNESS JAMES O'BRIEN (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

USPS/TW-T2-1

USPS/TW-T2-2

USPS/TW-T2-3

USPS/TW-T2-4

Designating Parties

USPS

USPS

USPS

USPS

USPS/TW-T2-1
Page 1 of 1

**RESPONSE OF WITNESS JAMES O'BRIEN TO INTERROGATORY OF THE UNITED
STATES POSTAL SERVICE**

USPS/TW-T2-1. The cover sheet of your testimony indicates you are testifying on behalf of

Alliance of Non Profit Mailers
American Business Media
Coalitions of Religious Press Associations
Dow Jones & Company, Inc.
Magazine Publishers of America, Inc.
The McGraw-Hill Companies, Inc.
National Newspaper Association
and
Time Warner Inc.

On page 16, lines 10-11, of your testimony you [state] that "The Task Force also recommended a reduction in redundant "hot" service trips, which Time Inc. supports, because we do not expect hot service trips for our magazines." Does your statement only reflect the views of Time Inc., as it indicates? What, if anything, can you say regarding the views of the other organizations for which you are testifying?

USPS/TW-T2-1. Yes, my statement reflects the views of Time Inc. I have not polled the other organizations that have sponsored my testimony to determine if their member companies share this view.

RESPONSE OF WITNESS JAMES O'BRIEN TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW-T2-2. On page 16 of your testimony, lines 18-20, you say that: "Most of these annexes do not have direct transportation to the delivery units. So any product that is processed in an annex must be handled at least twice more than it would if it had continued to be processed at the P&DC."

- a) What is the basis for your conclusion that most of these annexes do not have direct transportation to the delivery units? Please cite all studies or other data you have reviewed. If your conclusion is based on your own observation please list the annexes you have studied and your understanding of their transportation links.
- b) Your statement, that any product processed in an annex must be handled at least twice more than it would if it had continued to be processed at the P&DC, seems to imply some additional mail handler time (cost) associated with the annex. Is this inference correct? If so, please explain how you measured the mail handler time it would take to transport the product within the possibly multi-storied plant, accounting for its destination operation and the operation's location within the plant, and concluded that it was less than the cost of loading and unloading the product to get it to and from the annex. If your understanding is based on studies and/or data please provide them.

USPS/TW-T2-2.

- a) My conclusion is based on personal observation and discussions with Postal Service management. While visiting the Charlotte annex, Postal Service management indicated that they could save "\$12 million in costs annually by having all mail processed in one facility."

No studies or other data were reviewed because the Postal Service does not have a facility database indicating where its annexes are located and what mail is processed in each facility. In fact, the short term action item recommended by the Review Team was for National Postal Operations to: "Develop national scheme and facility list with processing responsibilities and location of each facility." Report at 13. To date, this list does not exist, but it is my understanding that it will

be developed by the end of calendar year 2000. Such a facility list will help mailers to enter mail directly into the facilities where it will be processed and help to reduce mail handling costs.

I visited the following annexes: Charlotte, NC, Greensboro, NC, and Milwaukee, WI. My understanding is that Charlotte delivered directly to some delivery units where volume warranted and all other product flowed out to the delivery units through the P&DC. In Greensboro, all of the processed mail flowed back to the P&DC for distribution to the delivery units. In Milwaukee, the annex had some direct dispatch to delivery units, but most mail flowed through the downtown facility.

- b) If mail arrives at a P&DC on a pallet and is going to be processed at the P&DC, at a minimum, the pallet must be handled once as it is removed from the mailer's truck and taken directly to the processing operation. If that same pallet arrives at the P&DC and is going to be processed at an annex, at a minimum, the pallet must be handled once as it is removed from the mailers truck and loaded onto the truck that shuttles product to the annex. Once that mail arrives at the annex, the pallet must be handled again to remove it from the shuttle truck and take it to the processing operation. If the annex does not have direct transportation to the delivery units, once the mail is processed, it will require an additional handling to load the mail back onto a shuttle truck to take it back to the P&DC, where it will be loaded onto a truck going to the delivery unit. So yes, the inference that additional mail handler time is associated with the annex is correct. In fact, in Charlotte, a Postal Service manager told me: " The annex has added people, equipment and transportation." I assume that these additions would increase cost. All of my conclusions were based upon observations and feedback from local postal

managers, not time and motion studies. Given the large reported increases in Periodicals costs over the last decade, one would have hoped that the Postal Service had conducted the necessary studies to identify means of reducing costs.

The question also asks how the costs of moving mail within a multi-storied building compare to those of loading and unloading at an annex. First, this question does not pertain to two of the facilities visited. Charlotte and Greensboro are both single story P&DCs. Only Milwaukee had a multi-story plant. The answer would depend on where Periodicals are processed in the multi-story facility. If they are processed on the first floor, then the annex would appear to have higher handling and transportation cost. If they are processed on another floor, then the handling costs may be similar, but the annex would probably have higher transportation costs. I assume that an elevator ride is less expensive than a nine-mile trip from downtown Milwaukee to the annex. There are no studies to back this up, but it seems intuitively obvious.

USPS/TW-T2-3
Page 1 of 3

RESPONSE OF WITNESS JAMES O'BRIEN TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW-T2-3. On page 16, lines 21-22, you say that "The Task Force observed periodicals being shipped back and forth between the P&DC's and annexes and wondered why Periodicals should be responsible for this additional expense."

- a) Please indicate the type of operations the Task Force observed in each of the annexes it visited. Please include the type of equipment that was deployed in each annex and the types of mail being worked on each piece of equipment.
- b) For each P&DC-annex combination visited please indicate the Task Force's observation of empty space in the P&DC that could have been used to deploy the equipment that was observed in the annex.

USPS/TW-T2-3.

- a) In the Charlotte annex, we viewed trucks being unloaded, bundles being processed on an SPBS, the SPBS sweeping process, FSM processing, manual processing, and truck loading. In the Greensboro annex, we viewed trucks being unloaded, LIPS processing, FSM processing, manual processing, and truck loading.

It should also be noted that prior to the FSM processing, we saw opening unit personnel removing bundles of Periodicals from a wire container and then sorting each piece individually into three other containers based upon whether the piece was automation compatible and/or a newspaper. The most disturbing part of this procedure was that each piece in a bundle was being sorted individually, yet all flats in the same bundle were virtually identical and hence had the same level of automation compatibility. It appeared that it would have been much less costly to take these bundles directly to the FSM 1000 for processing without the manual preparation.

At the Milwaukee annex, we saw truck unloading, SPBS processing, manual processing into sacks on a pipe rack, and truck loading. We also noticed that at least one of the SPBS machines in Milwaukee lacked the proper runouts, so that the machine could not use all of its sorting capacity. As a result, the bundles for many of the runouts fell into containers and were then manually sorted into other containers. My inference in this situation was that the lack of proper equipment caused an increase in labor costs.

The annexes contained the following equipment:

Charlotte: 2 SPBS, 1 FSM 881, and 1 FSM 1000.
Greensboro: 1 LIPS, 3 FSM 881's, 2 FSM 1000's and 1 Sack Sorter.
Milwaukee: 3 SPBS.

I did not keep detailed records on which type of mail was being worked on each piece of equipment.

- b) My contention with regard to empty space is not that annexes are unnecessary but rather that their costs are not being properly allocated. Growth of Periodicals class mail could not have caused the need for annexes, since Periodicals mail volume has changed less than 1% over the past 10 years. Clearly, growth of other classes of mail is creating the need for annexes, yet Periodicals mailers bear some substantial portion of the additional costs.

I also do not subscribe to the theory that Periodicals service is causing the need for annexes. A P&DC manager stated it best during one of our visits: "Annexes are being built out of necessity, not necessarily service. The necessity is being driven by volume growth and population growth."

USPS/TW-T2-3
Page 3 of 3

Specifically, in my opinion, neither Charlotte, Greensboro, nor Milwaukee had available space for the equipment that was housed in the annexes. However, *growth of Periodicals Class mail did not cause the P&DC space problem.*

**RESPONSE OF WITNESS JAMES O'BRIEN TO INTERROGATORY OF THE
UNITED STATES POSTAL SERVICE**

USPS/TW-T2-4. *On page 6, lines 14-22 of your testimony, you discuss a smaller version of a pallet that Time Inc. uses for newsstand copies. You state, "I have also supplied the Postal Service with samples." Please clarify when Time Inc. provided this information to the Postal Service for consideration.*

USPS/TW-T2-4. On October 8, 1999, I met with Barry Elliott, Operations Specialist, U.S. Postal Service, to discuss the smaller pallet and its potential application. Following the meeting, I sent Mr. Elliott the pallet specifications and photographs that compared equal amounts of mail on a standard USPS pallet and the smaller pallet. I was recently notified that this information was never received by the Postal Service. I sent a similar set of pallet pictures and dimensions to Linda Kingsley of the Postal Service on June 1, 2000.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross and according to my scorecard no party has requested
6 oral cross examination of this witness.

7 Does any party wish to cross examine the witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: Are there any questions from
10 the bench?

11 [No response.]

12 CHAIRMAN GLEIMAN: If not, then Mr. O'Brien, that
13 completes your testimony here today. We appreciate your
14 appearance and I'm sorry that you are not going to get a
15 chance to use your laptop.

16 [Laughter.]

17 CHAIRMAN GLEIMAN: But I am not sure that you are.

18 THE WITNESS: After you gave me such a hard time
19 last time I was here, Mr. Chairman, I figured I had better
20 use it.

21 CHAIRMAN GLEIMAN: Goodness gracious, I have to go
22 back and read the transcript of your last appearance now. I
23 never thought I gave anyone a hard time.

24 In any event, we appreciate your appearance here
25 today and your contributions to the record. We thank you

1 and you are excused.

2 THE WITNESS: Thank you.

3 [Witness excused.]

4 CHAIRMAN GLEIMAN: I am going to go out of order a
5 little bit now. We have one other witness who I believe
6 doesn't have anyone who wants to do oral cross -- Mr. Myers.

7 While Mr. Myers is coming up front, just let me
8 mention that he is no stranger to the Commission, albeit not
9 from that side of the table. This is Pierce Myers' first
10 appearance here at the counsel's table and we welcome you in
11 that capacity. Look forward to seeing you from time to
12 time.

13 MR. MYERS: Thank you very much.

14 CHAIRMAN GLEIMAN: My recollection, Mr. Glick, is
15 that you are already under oath in this proceeding so I
16 won't have to swear you in again.
17 Whereupon,

18 SANDER A. GLICK,
19 a witness previously duly sworn, was called for examination
20 by counsel for MPA and further examined and testified as
21 follows:

22 DIRECT EXAMINATION

23 BY MR. MYERS:

24 Q Mr. Glick, would you please state your name for
25 the record?

1 A Yes. Sander A. Glick.

2 Q And I have handed you a copy of a document marked
3 for identification as MPA-T-2 and entitled "The Direct
4 Testimony of Sander Glick."

5 A I have it.

6 Q Are there any changes which you would like to make
7 to that document?

8 A No, there aren't.

9 Q Do you adopt that document as your testimony here
10 today?

11 A I do.

12 MR. MYERS: Mr. Chairman, with that I would like
13 to give two copies of the document to the court reporter and
14 ask that it be transcribed into the record and received into
15 evidence.

16 CHAIRMAN GLEIMAN: Is there any objection?

17 Hearing none, it is so ordered. The testimony of
18 Witness Glick will be received into evidence and transcribed
19 into the record.

20 [Direct Testimony of Sander A.
21 Glick, MPA-T-2, was received into
22 evidence and transcribed into the
23 record.]

24

25

MPA-T-2

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

RECEIVED
MAY 22 10 45 AM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

)
) Docket No. R2000-1
)
)

DIRECT TESTIMONY
OF
SANDER A. GLICK
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA, INC.
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & CO., INC.
THE MCGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
TIME WARNER INC.

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1 **Autobiographical Sketch**

2 My name is Sander A. Glick. I co-manage the Economic Systems practice
3 at Project Performance Corporation (PPC), a consulting firm based in McLean,
4 Virginia. PPC provides economic and technology consulting services to private
5 and public sector clients. I joined PPC in 1994 as an Analyst and am now a
6 Program Manager. At PPC, I have worked on a number of economic and cost
7 issues for mailer associations, the Department of Defense, and the Department
8 of Energy.

9 In Docket No. R97-1, I testified on behalf of the Magazine Publishers of
10 America (MPA) regarding the special service fee for Qualified Business Reply
11 Mail (QBRM) and the appropriate method for distributing rural carrier costs to
12 mail classes and subclasses. In this case, I am also testifying on behalf of the
13 Association for Postal Commerce (PostCom) and the Recording Industry
14 Association of America (RIAA) on Standard (A) rate design. I am currently
15 serving as an industry representative on the Mailers' Technical Advisory
16 Committee's (MTAC) Package Integrity Work Group and was an industry
17 observer on the MTAC Package Integrity Study.

18 I attended the Maxwell School of Citizenship and Public Affairs at
19 Syracuse University, where I received a Masters of Public Administration in 1994,
20 and Carleton College, where I received a Bachelors Degree, magna cum laude,
21 in Physics in 1993. I am a member of the American Economic Association and
22 the System Dynamics Society.

1 **I. Purpose of Testimony**

2 In this testimony, I propose two improvements to the United States Postal
3 Service's (Postal Service or USPS) costing methods, and quantify the cost
4 savings that will result from cooperative Industry/Postal Service efforts to reduce
5 costs by improving bundle preparation and USPS bundle handling operations.

6

- 7 • Section II of my testimony explains why allied mixed-mail and not-
8 handling mail processing costs should be distributed to subclasses
9 using a distribution key comprised of tallies from both allied operations
10 and piece-distribution operations.

11

- 12 • Section III proposes an improvement to the Postal Service's rural
13 carrier mail shape adjustment, which corrects for definitional
14 differences between the National Mail Count (NMC) and the Rural
15 Carrier Cost System (RCCS).

16

- 17 • Section IV quantifies the savings that will result in the test year from
18 expected improvements in bundle preparation and handling.

19

20 MPA witness Cohen (MPA-T-1) draws upon my testimony to develop Test
21 Year After Rates (TYAR) costs by subclass.

1 **II. Mail Processing Costs**

2 The Mail Processing component of Clerks and Mailhandlers costs (Cost
3 Segment 3 (C/S 3)) is the single largest component of USPS accrued costs. In
4 TYAR, it will comprise more than \$15 billion--23 percent of the accrued costs for
5 the entire Postal Service. USPS-T-14, Exhibit-14K at 8 and 20. With
6 piggybacks, mail processing costs increase to more than \$20 billion.

7 In this section, I first summarize the Postal Service's proposed method for
8 distributing mail-processing costs and review the Commission's Docket No. R97-
9 1 decision pertaining to the distribution of allied mixed-mail costs to subclasses. I
10 then explain why the evidence in this case supports distributing a portion of allied
11 mixed-mail and not-handling costs using allied direct tallies, and a portion using
12 piece-distribution direct tallies.¹ My analysis supports the broad distribution of
13 allied mixed-mail and not-handling costs that forms the basis of witness
14 Stralberg's (TW-T-1) mail processing distribution method.

15 **A. Postal Service Method**

16 Given the nature of mail processing, it would be impossible for clerks and
17 mailhandlers to identify the amount of time they spend processing mail of
18 particular mail subclasses. This is because clerks and mailhandlers spend more
19 than one-half of their time either handling containers of mixed mail or not
20 handling mail at all. USPS-T-17 at 26, Table 2. For this reason, the Postal
21 Service uses a work sampling system, the In-Office Cost System (IOCS), to
22 assign mail processing costs to mail subclasses. While IOCS facilitates this
23 process, the cost distribution method must still address the issue of how to
24 distribute to mail subclasses the costs of the time clerks and mailhandlers spend
25 handling containers of mixed mail and the time they spend not handling mail at
26 all. Below, I describe the Postal Service's proposed distribution method.

27 In this case as in previous ones, the Postal Service generally distributes
28 the cost for direct tallies (tallies where the data collector actually observes and
29 records the mail class being handled by an employee at the time the employee

¹Allied mail processing operations include platform, opening unit, pouching, sack sorting, and cancellation/mail preparation operations.

1 was sampled), which comprise approximately 45 percent of mail processing
 2 costs, (USPS-T-17 at 26, Table 2) to the subclasses that the employee was
 3 observed to be handling by the IOCS data collector. It then distributes mixed-
 4 mail costs, which comprise approximately 12 percent of mail processing costs,²
 5 USPS-T-17 at 26, Table 2, as follows:

6

7 • First, the costs for mixed items³ are distributed to mail subclasses
 8 in proportion to the subclass distribution of direct tally costs for the
 9 same operation (e.g., manual flat sorting, platform operations) and
 10 item type.

11

12 • Second, the costs for identified containers are distributed. An
 13 "identified container" is a container observed being handled by an
 14 employee, where the data collector identifies the contents as mail
 15 that is not identical and records the percentages of container
 16 volume occupied by various items and loose shapes of mail. The
 17 costs for identified containers are first disaggregated based upon
 18 the recorded item type and loose shape percentages. Then, these
 19 disaggregated costs are distributed to subclasses using the
 20 subclass distribution of costs for direct and mixed items and direct
 21 loose shapes of the same item type or loose shape and operation.

22

23 • Third, the costs of unidentified and empty containers are
 24 distributed. The distribution method assumes that the costs
 25 associated with these containers have the same distribution as the
 26 combined costs of identical and identified containers of the same
 27 container type in the same operation.

28 Finally, all other tallies, which account for approximately 43 percent of mail
 29 processing costs, USPS-T-17 at 26, Table 2, collectively referred to as not-

²The majority of mixed-mail costs are for employees handling containers (e.g., hampers, APCs) of mail.

1 handling tallies, are generally distributed in proportion to the distribution of all
 2 other mail processing costs in the same operation. The primary exception to this
 3 method is for not-handling tallies in the allied operations. This is an important
 4 exception because allied operation costs at MODS 1 & 2 facilities were
 5 approximately \$3 billion in Base Year 1998. USPS-T-17 at 24, Table 1. The not-
 6 handling share of these costs is distributed to mail subclasses in proportion to the
 7 combined direct and mixed-mail tallies from all mail processing operations.

8 **B. Docket No. R97-1 Decision**

9 In Docket No. R97-1, the Commission recommended distributing allied
 10 mixed-mail costs using a key consisting of direct tallies from both allied and non-
 11 allied (i.e., piece-distribution) operations. In support of this, the Commission
 12 noted that allied workload has two drivers - piece-distribution support⁴ and
 13 bypass processing⁵ - and that the "mail in allied pools that is prepared for, and
 14 moved to, the piece-distribution MODS pools typically does not receive a direct
 15 tally until it reaches those distribution pools." PRC Op. R97-1, para. 3170-3171.
 16 Furthermore, the Commission said, because containers of identical presorted
 17 mail tend to show up as allied direct tallies, while containers of non-identical mail
 18 do not, distributing allied mixed-mail costs based only upon allied direct costs
 19 tends to overstate costs for presorted mail (which is primarily bypass workload)
 20 and to understate costs for nonpresorted mail (which requires much more piece
 21 distribution):

22
 23 The presort mailers agree that mail that receives an
 24 individual piece distribution is likely to receive a direct tally
 25 and that mail that travels in bulk in mixed items and
 26 containers is not. What witness Degen overlooks, they
 27 argue, is that presorted mail typically travels through allied
 28 pools in bulk in *identical* (or easily counted) items or
 29 containers. For that reason, they argue, presorted mail is
 30 much more likely than other mail to receive a direct tally in
 31 allied pools, even though it less likely than other mail to

³Examples of items are sacks, pallets, and bundles.

⁴Piece-distribution support consists of activities such as moving mail from the platform to a piece-distribution operation (e.g., flat sorting machine, barcode sorter).

⁵Bypass processing is the handling of mail that bypasses USPS piece-distribution operations because the mail was presorted by the mailer. Crossdocking a pallet is an example of bypass processing.

1 receive a subsequent piece distribution. Tr. 36/19285.
2 This, they say, is why presorted mail makes up most of the
3 direct tallies in allied pools, and why these tallies provide a
4 poor picture of the subclasses in allied pools that are
5 subsequently piece sorted in the distribution pools. For
6 these reasons, the presort mailers argue, the distribution
7 key in allied operations should reflect the subclass
8 composition of the direct costs in the distribution pools.
9 Presort Mailers Reply Brief at 12-13. The Commission
10 concludes that this argument is valid.

11
12 PRC Op. R97-1, para. 3172.

13 The Commission also stated that the potential for bias in the distribution of
14 allied mixed-mail costs is increased by the fact that only a small portion of allied
15 tallies are direct:

16
17 The risk that witness Degen's distribution keys for allied
18 pools suffer from the biases described above is magnified
19 by the fact that direct costs are a small minority of the total
20 costs in most allied pools. For example, 10 percent of the
21 costs in the platform MODS pool are direct, while 90
22 percent are mixed and not handling costs. All else being
23 equal, the risk that a 10 percent sample misrepresents the
24 whole is much greater than the risk that a 75 percent
25 sample misrepresents the whole.

26
27 PRC Op. R97-1, para. 3174.

28 The Commission noted, however, that its recommended distribution of
29 allied mixed-mail costs using a key consisting of piece-distribution direct tallies
30 and allied direct tallies was only an interim solution:

31
32 It does so on the understanding that this is an interim
33 solution to the lack of data on the true subclass distribution
34 of mixed mail and not handling costs. The Commission
35 agrees with witness Shew that the assumption that
36 uncounted mixed mail costs have the same subclass
37 distribution as direct mail costs is one that could be tested,
38 if not systemwide, at least by spot sampling.

39
40 PRC Op. R97-1, para. 3178-3179.

1

2 C. Evidence in This Case

3 The evidence in Docket No. R2000-1 strongly reinforces the Commission's
4 conclusion in Docket No. R97-1 that allied workload includes "both the
5 distribution support function and the bypass processing function." PRC Op. R97-
6 1, para. 3170. Also, the potential for bias inherent in using only direct tallies to
7 distribute allied labor costs remains unacceptably high because of the small
8 proportion of direct tallies in allied operations. Additionally, the Postal Service
9 apparently dismissed the Commission's suggested test of its assumptions about
10 mixed-mail costs as not worth the trouble.

11 **1. Allied Workload Consists of Both Distribution Support and Bypass**
12 **Processing**

13 The operational analysis of witness Degen (USPS-T-16) and exploratory
14 allied regressions performed by witness Bozzo (USPS-T-15) reinforce the
15 Commission's conclusion that there are multiple components (including both
16 distribution support and bypass processing) of allied workload. First, witness
17 Degen describes the activities that are performed in the platform operation, the
18 largest allied operation:

19

20 The platform operation group covers a range of activities.
21 Workers clocked into the platform are responsible for
22 unloading inbound trucks (with the exception of some local
23 collection runs, which may be unloaded by workers
24 clocked into culling and cancellation), determining where
25 the mail needs to be taken, moving the mail to staging
26 areas in the plant, moving the mail between operations,
27 moving the mail from the final sorting operation to the
28 outbound dock, and loading outbound trucks.

29

30 USPS-T-16 at 50.

31 Some of these activities, such as loading outbound trucks, are driven by
32 bypass workload as well as volumes of non-presorted mail that are sorted in the
33 facility. Others - such as moving the mail between operations and moving the
34 mail from the final sorting operation to the outbound dock - reflect only the
35 distribution support function. Tr. 15/6508-6511 (Degen). Bozzo also

1 supplements Degen's operational analysis: "The use of volumes from sorting
 2 operations as allied labor cost drivers has an operational foundation, since one
 3 purpose of the allied labor operations is to prepare mail for sorting in the facility,
 4 and to prepare mail that has been sorted for shipment to other facilities." USPS-
 5 T-15 at 137.

6 Furthermore, in his investigation of the volume variability of allied costs,
 7 witness Bozzo used volumes at piece-distribution operations (a proxy for the
 8 distribution support function) and destinating volumes (a proxy for combined
 9 bypass and non-bypass volume) as his cost drivers. He concluded that, "[i]n
 10 general, the results from the models enhanced with these additional data
 11 [including destinating volumes] indicated that Dr. Bradley's 'proxy' cost drivers--
 12 the volumes from piece sorting operations--still provide the bulk of the
 13 explanatory power." USPS-T-15 at 138.

14 **2. The Unacceptably Large Risk of Bias Is Unchanged From Docket No.**
 15 **R97-1**

16 The risk of bias, a consequence of the fact that direct costs comprise such
 17 a small portion of allied costs, has not declined since Docket No. R97-1. Just as
 18 in Docket No. R97-1, Base Year 1998 direct tallies comprise less than ten
 19 percent of the total MODS Platform cost of \$1.1 billion and less than 25 percent
 20 of the total MODS Allied cost of \$3 billion. Tr. 15/6485 (Degen); USPS-LR-I-184,
 21 T17_01.xls. Excluding the "Cancellation & Mail Preparation" operation from this
 22 calculation, MODS allied direct costs comprise only 20 percent of total cost.
 23 Table 1 shows Base Year 1998 allied direct dollar-weighted tallies as a
 24 percentage of all allied dollar-weighted tallies by operation.

Table 1. Base Year 1998 Direct Costs as Percentage of All Costs by Allied Operation (Dollars in Millions)¹

Operation	Direct Cost	Total Cost	Percent Direct
Platform	\$95	\$1,060	8.9%
Air Contract DCS and Incoming	\$8	\$56	14.6%
Manual Sort – Sack Outside	\$31	\$156	19.7%
Bulk Presort	\$3	\$15	22.3%
Pouching	\$119	\$425	28.1%
Opening Unit - Preferred	\$201	\$686	29.3%
Opening Unit – BBM	\$82	\$268	30.7%
Cancellation & Mail Preparation	\$151	\$312	48.5%
Allied Total	\$691	\$2,978	23.2%

USPS-LR-I-184, T17_01.XLS.

Because direct costs comprise such a small portion of total allied costs, just as they did in Docket No. R97-1, "[t]he risk that witness Degen's distribution keys for allied pools suffer from the biases described above is [still] magnified by the fact that direct costs are a small minority of the total costs in most allied pools." See PRC Op. R97-1, para. 3174.

3. The Postal Service Performed No New Study of Mixed-Mail Costs

Despite the Commission's conclusion in Docket No. R97-1 that "the assumption that uncounted mixed mail costs have the same subclass distribution as direct mail costs is one that could be tested, if not systemwide, at least by spot sampling," PRC Op. R97-1, para. 3179, the Postal Service has since performed no new study of the issue. Rather, the Postal Service has simply filed as a library reference (USPS-LR-I-115) a never-before-seen data set from 1995 concerning the subclass distribution of mail at platform operations. Because the sample comprises only 719 containers, Tr. 15/6497 (Degen), there are huge sampling errors. For example, the 95-percent confidence interval for the Periodicals share of platform container costs ranges from five percent to 22 percent. For Standard (A), it ranges from approximately 15 percent to 36 percent. Supplemental Response to MPA/USPS-T16-1(c).

1 In response to the same MPA interrogatory, witness Degen stated that
2 without knowing standard errors from the platform study, one cannot make "any
3 statistically meaningful statement[s]" from it. Tr. 15/6481-6483 (Degen).
4 Because the standard errors are so large, one still cannot make "any statistically
5 meaningful statement" based on the study.

6 **4. An Improved Distribution Method for Allied Labor**

7 Based upon the results of witness Bozzo's exploratory analysis, which
8 represents the only quantitative analysis of allied cost causality on the record and
9 indicates that piece-sorting volumes "provide the bulk of the explanatory power,"
10 USPS-T-15 at 138, allied volume-variable costs should be distributed primarily on
11 a key that reflects distribution support (tallies at piece-distribution operations) and
12 to a lesser degree on a key that primarily reflects bypass processing (tallies at
13 allied operations). Witness Stralberg's *proposed distribution method* does this
14 and is therefore the preferred distribution method.

15 Specifically, to ensure that allied costs are distributed on such a key,
16 witness Stralberg distributed both allied mixed-mail costs and allied not-handling
17 costs using a distribution key based upon tallies from all operations, while
18 distributing costs for allied direct tallies using only allied direct tallies. Where
19 additional IOCS data were available, he used it to further refine his method.

20 Using a broad distribution key (consisting of both allied and piece-
21 distribution direct tallies) for allied mixed-mail costs, but a narrow distribution key
22 (consisting of allied direct and allied mixed-mail tallies) for allied not-handling
23 costs, would not be consistent with Bozzo's analysis because it would distribute
24 the majority of allied costs based on a key dominated by bypass workload.
25 Specifically, allied direct tallies and allied mixed-mail tallies each comprise
26 approximately 23 percent of total allied costs. USPS-LR-I-184, T17_01.XLS.
27 Because allied mixed-mail costs are partially distributed using allied direct tallies,
28 even when using a broad distribution key, the majority of allied handling costs
29 (allied mixed-mail and allied direct costs) are distributed to subclasses based
30 upon the subclass distribution of allied direct tallies. Thus, if allied not-handling
31 costs are distributed based only upon allied direct and mixed-mail tallies, the

1 majority of total allied cost would be distributed to subclasses based upon allied
2 tallies. Such a result would be inappropriate.

3

4 **III. Rural Carrier Costs**

5 In Base Year 1998, rural carrier costs (C/S 10) comprised approximately
6 \$3.7 billion in accrued costs, more than five percent of the total accrued costs of
7 the Postal Service. USPS-LR-I-80, Cs10.xls, worksheet "10.0.1." This section
8 describes how the Postal Service proposed distributing these costs to mail
9 subclasses and proposes an improvement to this method.

10 **A. Postal Service Method**

11 The Postal Service is proposing the same method for distributing rural
12 carrier costs to mail subclasses that it proposed in Docket No. R97-1. I briefly
13 review the relevant portions of the Postal Service's method below.

14

- 15 • Using mail volumes and evaluation factors (time standards) from the
16 National Mail Count (NMC), the Postal Service disaggregates rural
17 carrier costs into attributable costs and institutional costs. Specifically,
18 volume variability was determined by dividing the sum of the average
19 minutes per week per route (average weekly volume multiplied by the
20 evaluation factor) for all route evaluation items that were deemed to
21 vary with volume (e.g., flats delivered) by the average minutes per
22 week per route for all route evaluation items.
- 23
- 24 • Using the same NMC data, the Postal Service disaggregates rural
25 carrier attributable costs by route evaluation item (e.g., letters
26 delivered, flats delivered). This is done by apportioning total volume-
27 variable cost to variable route evaluation items in proportion to average
28 minutes per week per route. MPA/USPS-51 (filed on May 12, 2000).

29

- Because the NMC does not collect mail volumes by subclass, the Postal Service uses the Rural Carrier Cost System (RCCS, also known as 2858R survey data) to distribute these costs to subclasses.
- Due to definitional differences between the NMC and the RCCS, the Postal Service performs a mail shape adjustment to RCCS data before using the data to distribute costs to subclass:

The primary source of the discrepancy appears to be small flats, which accidentally are recorded as letters. The discrepancy results from a definition of 'letters' and 'flats' that is unique to rural routes. The shape of rural letters is defined as 5" in height or less. Anything with a greater height is a flat. By the standard Postal definition (in the Domestic Mail Manual), a letter can have a height of up to 6 1/8". These pieces of mail are shaped like letters, but in fact are greater than 5" in height. They would be considered letters except by experts in Rural Carrier mail shape definitions.... The National Mail Count is the basis for the carrier's salary.... Therefore, they [carriers] would have an incentive to insure that none of their flats get misclassified as letters.... The 2858R surveys, on the other hand, do not appear to carriers as potentially beneficial or harmful to them.... [For this test, data collectors] are experts in distinguishing the details of the different subclasses, so there is no reason to believe they are making any mistakes in this area. The shape of mail, on the other hand, is different for rural routes than for city routes. The shape is not the main focus of this test, and furthermore, is inconsistent with the shape definition for city routes. Therefore, it seems reasonable to conclude that some pieces...are being recorded as letters instead of flats.

Docket No. R90-1, USPS-T-13, Appendix F at F-26 - F-28.

The mail shape adjustment ensures that RCCS flats as a percentage of RCCS flats and letters (the RCCS flats percentage) is equal to NMC flats as a percentage of NMC flats and letters (the NMC flats percentage).

1 In Docket No. R97-1, all parties agreed that a mail shape adjustment was
 2 required because of the definitional differences between the NMC and RCCS.
 3 The only question upon which parties disagreed was whether annual RCCS data
 4 or RCCS data from the four-week period during which the NMC is performed
 5 should be used to determine the magnitude of the mail shape adjustment. In that
 6 case, the Commission accepted the Postal Service's mail shape adjustment
 7 using only four weeks of data from the RCCS only as an "interim solution" and
 8 because the Postal Service's "distribution of costs falls between the other
 9 competing analysis." PRC Op. R97-1, para. 3358. The following section of my
 10 testimony explains why, based upon further examination of RCCS data, it is
 11 appropriate to use annual RCCS data to perform the mail shape adjustment.

12 Despite presenting Base Year rural carrier costs that are based upon a
 13 mail shape adjustment that used only two weeks of RCCS data, Exhibit USPS-
 14 11A, the Postal Service concedes that using only two weeks of RCCS data was a
 15 mistake, stating in response to an interrogatory that identified a discrepancy
 16 between FY 1996 and FY 1998 RCCS data: "For FY 1996, four (4) weeks of
 17 2858R Survey data was used, whereas for FY 1998, only two (2) weeks of
 18 2858R Survey data was used. The FY 1998 data are being revised to reflect four
 19 (4) weeks of 2858R data." Tr. 21/8913.⁶

20 **B. Analysis of Mail Shape Adjustment**

21 It is appropriate to use annual RCCS data to develop the mail shape
 22 adjustment because annual RCCS data are much more reliable than RCCS data
 23 for only the four-week period during the NMC. Furthermore, because the NMC is
 24 performed during September, a month that the Postal Service views as annually
 25 representative, MPA/USPS-51, there is no drawback to using annual RCCS data
 26 to perform the adjustment.

27 RCCS was "designed to produce precise annual estimates, with a sample
 28 size of over 6,000 tests," not to produce volume estimates for any particular four-
 29 week period. Tr. 21/8913. Because of this, data from the four-week period

⁶The Postal Service provided Base Year 1998 rural carrier costs using four weeks of RCCS data to determine the mail shape adjustment in response to the same interrogatory. Tr. 21/8915.

1 during the NMC contain much higher sampling error than annual RCCS data.
 2 See Tr. 21/8913; MPA/USPS-49.⁷ For this reason and because the Postal
 3 Service views volumes from the NMC period as “constituting representative
 4 estimates of average weekly volumes over the entire FY 1998 period,”
 5 MPA/USPS-51, the Postal Service has always used annual RCCS data to
 6 distribute *rural carrier costs* to mail subclasses. See MPA/USPS-50-51.

7 Using RCCS data for the four-week period of the NMC (rather than data
 8 for the entire year) reduces the number of RCCS tests from approximately 6,000
 9 to 333, MPA/USPS-49, or nearly 95 percent.⁸ This reduction in sample size
 10 increases the coefficient of variation on the RCCS flats percentage by a factor of
 11 four, from approximately 0.6 percent to 2.4 percent. MPA/USPS-49. As a result,
 12 the 95-percent confidence interval around the RCCS flats percentage resulting
 13 from using only four weeks of data ranges from 32.5 to 35.7 percent. While this
 14 range does not have a large impact on the cost attributed to mail classes with a
 15 mix of flats and letters, it has a huge impact on the cost attributed to *Periodicals*
 16 because flats comprise more than ninety percent of *Periodicals* volume.
 17 Specifically, every percentage point difference in the RCCS flats percentage has
 18 a \$5-million impact on *Periodicals* attributable costs.⁹

19 Because of the large impact of this range of uncertainty on rural carrier
 20 cost attribution, it is far preferable to use the full RCCS sample to perform the
 21 mail shape adjustment. Moving from four weeks of RCCS data to the full annual
 22 sample reduces the size of the 95-percent confidence interval from 3.2
 23 percentage points to 0.8 percentage points. Attachment A provides Base Year
 24 1998 rural carrier costs by subclass based upon a mail shape adjustment that
 25 employs annual RCCS data.

⁷Note that these issues do not affect NMC data because the NMC is a census of all rural routes.

⁸The sample size is smaller during the four-week period of the NMC period than for other four-week periods precisely because it is the NMC period. More than 25 percent of RCCS tests during the NMC were cancelled. MPA/USPS-49.

⁹This was calculated by dividing the \$8.9 million base year cost difference specified in MPA/USPS-1(b) by the 1.85 percentage point difference between the two-week and four-week RCCS flats percentage. Tr. 21/8913-8915; LR-I-80, Cs10.xls, worksheet “10.0.3 P1.”

1 **IV. Bundle Preparation and Handling**

2 The Postal Service has long hypothesized that bundle breakage is a
3 significant contributor to the absolute level of the cost for processing flats.¹⁰ In
4 late 1998, the Periodicals Operations Review Team's (Team's) observations lent
5 support to this hypothesis and the Team made several recommendations
6 regarding how to reduce both bundle breakage and the associated costs for
7 processing flats. Specifically, the Team's report stated:

8
9 Flats bundles are at risk of breaking during bundle sorting,
10 especially when dumped on the automated feed systems
11 of SPBS machines. Bundles that travel in sacks also incur
12 substantial breakage during sack handling operations,
13 although the sack preserves the presort level of the sack
14 itself. There are a number of possible remedies that
15 together could lead to substantial cost reductions,
16 including better bundle strapping, use of pallets rather than
17 sacks, improved bundle sorting methods, alternatives to
18 today's SPBS feed systems, and better efforts at salvaging
19 partially broken bundles.

20
21 USPS-LR-I-193, Report of the Periodicals Operations Review Team (Team
22 Report) at 24.

23 This section of my testimony quantifies the size of the bundle breakage
24 problem, summarizes the Team's recommendations, describes Postal Service
25 and Industry efforts in this area, and estimates the Test Year cost savings that
26 will result from reduced bundle breakage and improved bundle recovery
27 methods. My analysis concludes that Postal Service and Industry efforts should
28 reduce Test Year costs for processing Periodicals flats by \$21 million and Test
29 Year costs for processing Standard (A) Regular flats by \$58 million.

30

¹⁰Note that while bundle breakage has contributed to the absolute level of flats processing cost, no witness has provided quantitative evidence that bundle breakage has contributed to the negative trend in Periodicals costs over the past decade. In fact, since palletization has increased significantly, there is reason to believe that bundle breakage has decreased over this decade. Furthermore, witness Unger noted on cross-examination that he thought the bundle breakage problem lessened over the period from 1993 to 1999. Tr. 21/8231.

1 **A. Periodicals Operations Review Team**

2 Witness Cohen testifies that Postal Service and Periodical Industry
3 representatives visited more than a dozen facilities from September to December
4 1998 to investigate the causes of, and seek solutions to, continuing increases in
5 costs attributed to Periodicals mail. These facilities collectively process and
6 deliver approximately 14 percent of all flats mail processed in the United States.
7 Team Report at 3.

8 During their visits to these mail processing facilities, the Team observed
9 operations where bundle breakage was reported to be occurring and noted that
10 bundle breakage "appears to increase periodicals cost significantly." Team
11 Report at 24. As a result of its observations, the Team developed several
12 specific recommendations regarding bundle preparation and material handling,
13 which will, when implemented, reduce both the frequency with which bundle
14 breakage occurs and the costs incurred when bundles do break. Below, I
15 summarize the team's major recommendations.

16

17 **1. Improve bundle preparation methods.** "Many mailers may not be
18 aware that there is a bundle breakage problem. We recommend that
19 postal facilities identify the mailers whose bundles are causing the most
20 breakage and communicate to those mailers the need for improved
21 preparation." Team Report at 25. "Mailers can help by improving their
22 bundle strapping." Team Report at 25.

23

24 **2. Move bundles from sacks to pallets.** "Mailers can help by...entering
25 bundles, to the extent feasible, on pallets instead of in sacks. Sacked
26 mail, besides incurring high sack handling costs, sustains substantial
27 breakage during the sack sorting operations. Pallets with finer levels of
28 presort will also reduce the probability of breakage by reducing the
29 number of bundle sorts needed." Team Report at 25.

30

1 **3. Improve USPS processing.** "We believe that the Postal Service should
2 carefully evaluate the cost and benefits of the current SPBS system,
3 including dumping and bundle breakage. Besides occupying large
4 amounts of valuable space in postal facilities, these machines appear to
5 cause considerable breakage of palletized bundles that under more
6 manual systems incur little or no breakage, based on our observations at
7 facilities not equipped with automatic dumpers. The main problem is with
8 the pallet dumping and subsequent bundle travel on highly congested feed
9 belts. We recommend that USPS rapidly evaluate the extent and severity
10 of bundle breakage to assess whether changes need to be made to the
11 dumping strategy. Some facilities have developed better techniques than
12 others for minimizing SPBS bundle breakage, e.g., by carefully controlling
13 the bundle volume dumped on the feed belt at any one time. We strongly
14 recommend development and sharing of best practices in this area."
15 Team Report at 25.

16
17 **4. Improve bundle recovery methods.** "The cost impact of SPBS bundle
18 breakage may be magnified, because SPBS employees choose to key
19 individual pieces in such bundles rather than to salvage partially broken
20 bundles. The cost implications of such practices should be investigated
21 closely, and quickly." Team Report at 26.

22 In addition to these specific recommendations, the team encouraged
23 further joint USPS/Industry exploration of the bundle breakage issue and
24 specifically supported the MTAC Package Integrity Work Group, which is
25 exploring selected issues identified by the Team Report.

26
27 We recognize the need for a further joint industry/USPS
28 effort to resolve the many unanswered questions regarding
29 the best way to prepare flats bundles for the rough
30 handling they receive in postal facilities, and what types of
31 handling cause the most damage...We recognize an
32 MTAC study on this issue is underway, and we support it
33 as part of our team effort.

34
35 Team Report at 25.

1

2 **B. Magnitude of the Problem**

3 Consistent with the Team finding that "improved bundle preparation by
4 mailers and improved materials handling by the Postal Service will reduce bundle
5 breakage--which appears to increase Periodicals costs significantly," Team
6 Report at 24, the MTAC Package Integrity Work Group found that bundle
7 breakage is a problem for Periodicals and Standard (A) flats.

8 In late 1999, the MTAC Package Integrity Work Group performed a study
9 ("MTAC study") of bundle breakage.¹¹ This study found that many bundles in
10 sacks were very damaged at the first step in the USPS processing of individual
11 mailer-produced packages: approximately 17.7 percent of the bundles were
12 broken. It also found a high potential for further breakage at downstream
13 operations based on its additional finding that another 15.3 percent of the
14 bundles were suspect (i.e., that breakage was likely because either the bundle
15 wasn't shrinkwrapped and there was only one band or strap holding the bundle
16 together or the bundle was shrinkwrapped and one or more of the sides of the
17 bundle was at least half open). USPS-LR-I-297.¹²

18 The MTAC study found that there was also a bundle-breakage problem for
19 bundles on pallets (although a much smaller one than for sacked mail):
20 approximately 1.1 percent of bundles on pallets were broken at the first step in
21 the USPS processing of individual mailer-produced packages. Another 8.0
22 percent of these bundles were suspect. Id.

23 **C. Joint Postal Service/Industry Efforts**

24 As discussed by the Team, the cost of bundle breakage can be reduced in
25 four ways: (1) improving bundle preparation methods; (2) moving bundles from
26 sacks to pallets; (3) improving USPS processing; and (4) improving bundle
27 recovery methods. Not only can the cost of bundle breakage be reduced, the
28 USPS and Industry are working diligently to do so. As stated by witness Unger,

¹¹The MTAC study collected data from six sites (2 BMCs and 4 P&DCs). The MTAC data collection team spent three days at each of the sites. The Postal Service filed the MTAC study database as USPS-LR-I-297.

¹²Calculated from totals contained in USPS-LR-I-297, Package Integrity.mdb.

1 "I am confident that the measures designed to reduce the frequency of bundle
 2 breakage will meet with success. I am seeing increased emphasis on mail
 3 preparation changes, consideration of equipment modifications, and changes in
 4 work methods to reduce bundle breakage and recover broken bundles." Tr.
 5 21/8169 (Unger). This section discusses those efforts in greater detail.

6

7 **1. Improve bundle preparation methods.** MPA and the MTAC Package
 8 Integrity Work Group have begun mailer education programs regarding
 9 bundle preparation. Last month, I participated in a panel on package integrity
 10 at the Graphic Communications Association's (GCA) Spring Conference.
 11 Since then, I have had many discussions with mailers and have received
 12 several requests for the data collected by the work group. In general, mailers
 13 were previously unaware of this issue, but having been made aware of it, are
 14 very concerned and motivated to solve the problem. In fact, as discussed by
 15 witness Cohen, several mailers are planning to increase their shrinkwrapping
 16 of bundles based on the MTAC study's finding that shrinkwrapped bundles
 17 maintain their integrity better than bundles with two straps. USPS-LR-I-297.¹³

18

19 Further, the MTAC Work Group has developed a video to raise mailer
 20 awareness of the impact of poor bundle integrity on costs and service and
 21 also to focus on best practices to improve bundle integrity. Copies of the
 22 video will be widely available to mailers from business mail entry units and
 23 USPS sales representatives, and will be shown at Postal Customer Councils
 24 (PCCs), focus groups, and Postal Forums. The video has already been
 25 shown at the Postal Forum in Nashville, the GCA Spring Conference, several
 26 focus group meetings, and mailers have requested it to use as a training tool
 27 for their employees to raise awareness of the importance of bundle integrity
 28 and to focus on improving bundling practices.

29

¹³According to the MTAC study, approximately 13 percent of shrinkwrapped bundles of glossy flats in sacks break as compared to 23 percent breakage for bundles of glossy flats with two straps.

1 Also, the MTAC Package Integrity Work Group is holding a joint Postal
 2 Service/Industry conference on May 31, 2000, to provide an update on the
 3 progress of the group and to solicit feedback and ideas about how to improve
 4 mailer packaging of Periodicals and Standard Mail (A) flats to reduce bundle
 5 breakage. Participants at the meeting expect to identify specific
 6 countermeasures that mailers will implement to reduce bundle breakage
 7 significantly. Attachment B contains the agenda for this meeting.

8
 9 Finally, the Postal Service is in the process of writing articles for the Mailers
 10 Companion on the issue and is working with Business Mail Acceptance staff
 11 to develop more objective standards for bundle preparation and to ensure that
 12 the preparation standards are properly administered by acceptance
 13 personnel.

14
 15 **2. Move bundles from sacks to pallets.** In this case, witness Stralberg
 16 proposes a discount for 5-digit pallets that are dropshipped to destination
 17 SCFs and delivery units.¹⁴ This will have the benefit of increasing the presort
 18 level of pallets and will provide an incentive for co-palletization.

19
 20 Furthermore, the Federal Register notice issued by the Postal Service on
 21 February 29 proposes changes that will reduce the amount of flats in sacks.
 22 65 Fed. Reg. 10735-59 (February 29, 2000). In particular, allowing mailers
 23 to combine packages of barcoded and nonbarcoded flats in containers will
 24 reduce residual volumes in sacks. The proposed changes will also have the
 25 benefit of increasing the number of bundles per sack, which will also reduce
 26 breakage. USPS-LR-I-297.¹⁵

27

¹⁴Also, I am proposing an increase in dropship discounts for Standard (A) mail. As PostCom-T-2 witness Schick indicates, this should also lead to increased palletization.

¹⁵According to the MTAC study, 23 percent of bundles in sacks containing five or less bundles broke. Only 16 percent of bundles in sacks containing 6-to-15 bundles broke.

1 Finally, based upon the findings of the MTAC Package Integrity Work Group
2 and the efforts of the MTAC Presort Optimization Work Group, mailers are
3 reexamining their presort methods to determine ways to reduce residual
4 volumes that are mailed in sacks. For example, since some Postal Service
5 facilities process SCF pallets and 3-Digit pallets in the same operation,
6 mailers are analyzing whether preparing SCF pallets (rather than 3-digit
7 pallets at these facilities) would reduce residual volumes in sacks without
8 affecting service.

9
10 **3. Improve USPS processing.** The USPS is currently developing best
11 practices related to bundle handling. It plans to implement these practices
12 nationwide. For example, the Portland, Oregon Plant has been focusing on
13 the costs and service implications of bundle breakage and identifying steps to
14 improve bundle recovery and processing by the Postal Service and to work
15 with mailers to improve bundle preparation. Postal Service employees at that
16 site have changed the procedure they use to recover broken and suspect
17 bundles to reduce individual piece handlings of flats on the SPBS. They
18 presented their best practices at the National Quality Meeting last year so that
19 other plants could adopt their recommendations. Further, as discussed by
20 witness O'Tormey, the Postal Service's Engineering, Research, and
21 Development organization is focused on improving USPS operations where
22 bundle breakage occurs:

23
24 There is an effort in the Postal Service's Engineering,
25 Research, and Development organization to identify how
26 the equipment used to dump containers of bundles might
27 be modified to reduce bundle breakage. Several
28 modifications have been implemented...Finally, the
29 emphasis on bundle recovery has focused attention at the
30 sack opening/dumping operation to minimize bundle
31 breakage.

32
33 MPA/USPS-ST42-7.
34

1 **4. Improve the methods the Postal Service uses to recover bundles.** The
2 Postal Service is committed to improving its bundle recovery methods.
3 Towards this goal, on December 30, 1999, witness O'Tormey issued
4 instructions to the field that specified expectations on how the field should
5 recover bundles.

6
7 Clearly, the most economical method of package breakage
8 recovery is to recover the broken packages as originally
9 secured by the mailers at induction and re-band them
10 using rubber bands and/or strapping machines and re-
11 induct them into the system. This is the preferred method
12 and should be utilized whenever the package integrity is
13 sufficient to identify the contents because it retains the
14 correct presort level

15
16 If the packages have broken and lost their integrity, they
17 should be recovered and, whenever possible faced and
18 put directly into the proper container...for further
19 processing on the appropriate Flat Sorter Machine (FSM)
20 sort program.

21
22 The least economical method is incurred when the broken
23 package is keyed as individual pieces on the Small Parcel
24 Bundle Sorters (SPBS). Productivities are considerably
25 lower on the SPBS as compared to the FSM. Not only is
26 the process a great deal more expensive, it also inflates
27 SPBS volumes. At no time should this method be used as
28 a processing option.

29
30 Tr. 5/1707 (Kingsley).

31 It appears that the field has received the message. Members of the
32 Periodicals Operations Review Team who also participated in the MTAC
33 Package Integrity Work Group site visits, and USPS personnel suggest
34 that Postal Service efforts to improve bundle recovery methods are
35 already paying off. In particular, witness Stralberg, who was a member of
36 the Periodicals Operations Review Team and attended two of the MTAC
37 Package Integrity Work Group site visits, noticed that many fewer pieces
38 were being keyed during the MTAC study than during the Periodicals
39 Operations Review Team site visits. Also, as Witness Unger indicated, "I
40 am [already] seeing increased emphasis...in work methods to reduce

1 bundle breakage and recover broken bundles (emphasis added). Tr.
 2 21/8169 (Unger).
 3

4 **D. Test Year Cost Savings**

5 To estimate the Test Year cost savings that will result from reductions in
 6 bundle breakage and improvements in bundle recovery methods, I used the flats
 7 cost model that was filed as MPA-LR-2 to model unit Test Year mail processing
 8 costs for Periodicals and Standard (A) flats under two scenarios:
 9

- 10 • **"Before" Scenario** - For this scenario, I assumed that bundle breakage rates
 11 in the Test Year will be the same as estimated in the MTAC study and that 25
 12 percent of the pieces from bundles that broke on a SPBS would be keyed as
 13 individual pieces on the SPBS.
 14
- 15 • **"After" Scenario** – This scenario quantifies the effect of USPS and Industry
 16 efforts to reduce the bundle breakage problem and improve bundle recovery
 17 methods. Based upon discussions with printers, Postal Service and Industry
 18 members of the MTAC Package Integrity Work Group, and witnesses Cohen
 19 and Stralberg, I believe that the efforts described above will reduce the
 20 proportion of bundles that break by about fifty percent, and that the practice of
 21 keying pieces on the SPBS will be nearly eliminated by the Test Year.
 22

23 To determine the total Test Year cost savings by subclass, I multiplied
 24 flats volumes by the modeled unit cost difference between the "Before" and
 25 "After" scenarios. Table 3 summarizes Test Year cost savings by subclass.
 26 Given the significant effort that the Postal Service, MTAC, and Industry are
 27 making in this area, I believe that these cost savings are reasonable and
 28 achievable.
 29
 30
 31

1

Table 3. Test Year Cost Savings by Subclass

2

Class/Subclass	"Before" Unit Cost (in Cents)	"After" Unit Cost (in Cents)	Volume (in Billions)	Savings (in Millions)
	[1]	[2]	[3]	[4]
Periodicals Regular	5.754	5.514	7.4	\$17.6
Periodicals Nonprofit	4.173	4.007	2.1	\$3.4
Standard (A) Regular	7.556	7.196	13.1	\$47.0
Standard (A) Nonprofit	8.225	7.587	1.7	\$10.6

[1] "Before" Unit Cost represents the Weighted Average Modeled Unit Vol Var Cost as found on worksheet "Sc Costs," G54, using the aforementioned "Before" assumptions, in MPA-LR-2.

[2] "After" Unit Cost represents the Weighted Average Modeled Unit Vol Var Cost as found on worksheet "Sc Costs," G54, using the aforementioned "After" assumptions, in MPA-LR-2.

[3] USPS-LR-I-90, R2000_1_Flats Cost Model_USPS Final.xls, "Vols-Std (A) Reg," "Vols-Std (A) Non"; USPS-LR-167, oc1.xls, worksheets "RR TYAR" and "NP TYAR."

[4] = ([1]-[2])*[3]

Attachment A. Base Year 1998 Rural Carrier (C/S 10) Costs
(In Thousands of Dollars)

LINE NO	CLASS, SUBCLASS, OR SPECIAL SERVICE	Proposal (Mail Shape Adjustment)		
		USPS Proposal (Two Weeks RCCS Data)	MPA Proposal (Annual RCCS Data)	Difference
		[1]	[2]	[3]=[2]-[1]
1	FIRST-CLASS MAIL:			
2	SINGLE-PIECE LETTERS	288,432	301,541	13,109
3	PRESORT LETTERS	222,696	243,061	20,365
4	TOTAL LETTERS	511,128	544,602	33,474
5	SINGLE-PIECE CARDS	16,411	17,272	861
6	PRESORT CARDS	10,164	10,756	592
7	TOTAL CARDS	26,575	28,028	1,453
8	TOTAL FIRST-CLASS	537,703	572,630	34,927
9	PRIORITY MAIL	24,079	23,573	(506)
10	EXPRESS MAIL	6,133	6,133	-
11	MAILGRAMS	167	176	9
12	PERIODICALS:			
13	IN-COUNTY	15,355	14,152	(1,203)
14	OUTSIDE COUNTY:			
15	REGULAR	119,587	110,216	(9,371)
16	NON-PROFIT	35,517	32,734	(2,783)
17	CLASSROOM	1,010	931	(79)
18	TOTAL PERIODICALS	171,469	158,033	(13,436)
19	STANDARD MAIL (A):			
20	SINGLE-PIECE RATE	1,072	1,051	(21)
21	COMMERCIAL STANDARD:			
22	ENHANCED CARR RTE	326,363	313,122	(13,241)
23	REGULAR	350,762	342,306	(8,456)
24	TOTAL COMMERCIAL	677,125	655,428	(21,697)
25	AGGREGATE NONPROFIT:			
26	NONPROF ENH CARR RTE	13,918	13,668	(250)
27	NONPROFIT	69,221	70,380	1,159
28	TOTAL AGGREG NONPROFIT	83,139	84,048	909
29	TOTAL STANDARD (A)	761,336	740,527	(20,809)
30	STANDARD MAIL (B):			
31	PARCELS ZONE RATE	11,511	11,467	(44)
32	BOUND PRINTED MATTER	11,761	11,553	(208)
33	SPECIAL STANDARD	4,192	4,148	(44)
34	LIBRARY MAIL	805	799	(6)
35	TOTAL STANDARD (B)	28,269	27,967	(302)
36	US POSTAL SERVICE	1,336	1,384	48
37	FREE MAIL	734	725	(9)
38	INTERNATIONAL MAIL	2,786	2,863	77
39	TOTAL MAIL	1,534,012	1,534,011	(1)
40	SPECIAL SERVICES:			
41	REGISTRY	2,588	2,588	-
42	CERTIFIED	62,423	62,423	-
43	INSURANCE	4,870	4,870	-
44	COD	2,872	2,872	-
45	SPECIAL DELIVERY	-	-	-
46	MONEY ORDERS	1,087	1,087	-
47	STAMPED ENVELOPES	-	-	-
48	SPECIAL HANDLING	-	-	-
49	POST OFFICE BOX	-	-	-
50	OTHER	22	22	-
51	TOTAL SPECIAL SERVICES	73,862	73,862	-
52	TOTAL VOLUME VARIABLE	1,607,874	1,607,873	(1)

[1] USPS-LR-I-80, Cs10.xls, worksheet "Outputs to CRA"

[2] USPS-LR-I-335, cs10out.xls, worksheet "Outputs to CRA"

Attachment B.**Package Integrity Work Group Meeting Agenda**

Date: May 31, 2000

Location: Quad Graphics, West Allis, WI

Time: 10 AM – 4 PM

Purpose of meeting: To provide an update on the progress of the group to date and solicit feedback and ideas about how to move forward to improve mailer packaging of Periodicals and Standard Mail (A) flats to reduce bundle breakage.

Expected outcome:

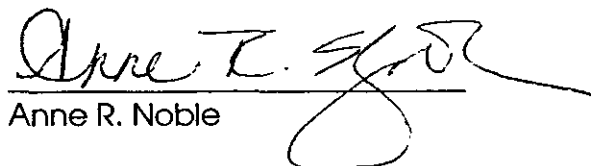
- Buy-in from mailers regarding suggested countermeasures
- A plan to test countermeasures and identification of parties that will participate in testing
- List of volunteers for work group to implement countermeasures

Tentative agenda:

- ✓ Show new video produced to raise awareness of bundle breakage problem
- ✓ Brief overview of the QI Story process – Bill Goodwin, USPS
- ✓ Overview of data collected
- ✓ Portland, OR QI Story – Bundle Breakage
- ✓ Engineering report on equipment modifications and future plans to improve USPS processing to reduce bundle breakage- Jeff Fox, USPS
- ✓ Review current DMM standards for packaging of flat-size mail - Cheryl Beller, USPS
- ✓ Industry input for ideas and future testing
 - ✓ Best practices
 - ✓ Barriers
- ✓ Discuss feedback mechanism for reporting bundle integrity problems
 - ✓ Industry/USPS involvement
 - ✓ Obstacles to overcome
 - ✓ How to ID the “preparer of the mail”
 - ✓ Who to contact – mail preparer and mail owner?
 - ✓ Should work group be formed?
- ✓ Mail acceptance issues
 - ✓ Objective standards to enforce
 - ✓ How to identify bundle integrity problems
 - ✓ Steps to follow when problems are identified at acceptance
- ✓ Discuss development of mailer tools to help resolve the problem

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, D.C.
May 22, 2000

1 CHAIRMAN GLEIMAN: Have you had an opportunity,
2 Mr. Glick, to review the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if I could get you to provide two copies of the designated
11 written cross-examination of the witness to the court
12 reporter I will direct that it be entered into the record as
13 evidence and transcribed.

14 [Designated Written
15 Cross-Examination of Sander A.
16 Glick, MPA-T-2, was received into
17 evidence and transcribed into the
18 record.]

19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF MAGAZINE PUBLISHERS OF AMERICA
WITNESS SANDER A. GLICK
(MPA-T-2)

Party

United Parcel Service

Interrogatories

UPS/MPA-T2-1-2

USPS/MPA-T2-6

United States Postal Service

UPS/MPA-T2-1-2

USPS/MPA-T2-1-7

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
MAGAZINE PUBLISHERS OF AMERICA
WITNESS SANDER A. GLICK (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

UPS/MPA-T2-1

UPS/MPA-T2-2

USPS/MPA-T2-1

USPS/MPA-T2-2

USPS/MPA-T2-3

USPS/MPA-T2-4

USPS/MPA-T2-5

USPS/MPA-T2-6

USPS/MPA-T2-7

Designating Parties

UPS, USPS

UPS, USPS

USPS

USPS

USPS

USPS

USPS

UPS, USPS

USPS

**RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA WITNESS GLICK
TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/MPA-T-2-1-2)**

UPS/MPA-T-2-1. On page 17, lines 1-15, of your testimony, you quote from the Periodicals Operations Review Team's "Team Report" at 25 describing the bundle breakage problem and suggesting ways in which the Postal Service might improve its processing of bundles.

- (a) List the identities of the organizations participating in the Periodicals Operations Review Team and the number of Team members from each listed organization.
- (b) Confirm that the summaries and opinions reflected in the Team Report generally reflect those of the Periodicals Operations Review Team as a whole. If you do not confirm, explain.
- (c) Confirm that the portion of the Team Report cited on page 17, lines 1-15, referenced above reflect the views and opinions of the Periodicals Operation Review Team as a whole.

Response:

Please refer to witness Cohen's response to UPS/MPA-T1-2(b).

UPS/MPA-T2-2. On page 17, lines 7-13, of your testimony, you cite the Operations Review Team Report as stating, "The main problem [resulting in bundle breakage] is with the pallet dumping and subsequent bundle travel on highly congested feed belts...Some facilities have developed better techniques than others for minimizing SPBS bundle breakage, e.g., by carefully controlling the bundle volume dumped on the feed belt at any one time."

- (a) Is it your understanding that the frequency of bundle breakage is positively associated with the volume of bundles being processed? Explain your answer fully.
- (b) If your answer to (a) is yes, also consider page 17, lines 17-20, of your testimony, where you cite the Team Report as stating, "The cost impact of SPBS bundle breakage may be magnified, because SPBS employees choose to key individual pieces in such [broken] bundles rather than to salvage partially broken bundles." In light of your response to part (a) and the fact that SPBS employees key individual pieces of broken bundles, is it your understanding that total piece handlings, as recorded by SPBS machine counts, increase disproportionately with the actual number of bundles arriving at SPBS machines for processing?

Response:

a. No. My understanding is that there is no relationship between the use of these "better techniques" and bundle volume. At the MTAC study site visit that I attended, I noticed that the operator often dumped bundles from pallets all at once with no resulting benefit. There was no benefit because the bundles did not arrive at the keying station any faster than if the operator had dumped the bundle from the pallet carefully over a slightly longer period of time.

b. No.

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
MAGAZINE PUBLISHERS OF AMERICA WITNESS GLICK
(USPS/MPA-T2-1-7)

USPS/MPA-T2-1 Please refer to MPA T-2 at p. 23 lines 19-21. Please provide the data and analyses, if any, that support your belief that efforts will "reduce the proportion of bundles that break by about fifty percent" by the Test Year.

Response:

In my testimony I discuss four recommendations made by the Periodicals Operations Review Team to reduce the frequency and the cost of bundle breakage. The first three of these recommendations—improve bundle preparation, increase palletization, and improve USPS processing—would directly reduce the bundle breakage rate. The fourth recommendation—improve bundle recovery—would both reduce the cost of whatever bundle breakage occurs and also reduce the breakage of non-broken but "suspect" bundles in subsequent operations. (Before further discussing methods for reducing bundle breakage, it is worth noting that improved bundle recovery alone could significantly reduce Postal Service mail processing costs.)

As I detail below, I believe that each of the first three MTAC recommendations could individually cut bundle breakage in half over the next few years. Partial implementation of these MTAC recommendations in the Test Year will reduce average bundle breakage rates by about fifty percent. In later years, full implementation of all three MTAC recommendations for reducing bundle breakage could reduce average breakage rates by far more than fifty percent.

Improve Bundle Preparation. Before developing my estimate of the Test Year reduction in bundle breakage, I conducted an analysis of the data collected in the MTAC Study. (These data are contained in USPS-LR-I-297.) My analysis indicated that there are at least four changes in mail preparation that can have a significant impact on bundle breakage in sacks: shrinkwrapping glossy flats, using canvas sacks instead of plastic sacks, filling sacks with more bundles, and eliminating the use of single bands. Table 1 below shows an estimate of the impact of each of these changes on the average bundle breakage rate for sacks using the MTAC

data. I am currently working with the Postal Service and industry representatives to perform a controlled test to confirm these findings.

Table 1. Impact of Improved Mail Preparation

Change	Bundles Affected (Percent)	Bundle Breakage Reduction for Affected Bundles (Percentage Point)	Average Bundle Breakage Reduction (Percentage Point)
	(1)	(2)	(3)=(1) x (2)
Shrinkwrap glossy flats that aren't shrinkwrapped	32	- 11	- 3.4
Replace plastic sacks with canvas	39	- 1	- 0.4
Increase sacks to at least 6 bundles	34	- 8	- 2.8
Double binding all bundles with single band	5	- 9	- 0.5

Source: Derived from data provided in USPS-LR-I-297

My analysis indicates that, in aggregate, these four changes could reduce average breakage rates for bundles in sacks by 7.2 percentage points. According to the MTAC study, the bundle breakage rate in sacks is approximately 18 percent, so this would be a reduction of about forty percent.

In addition to these four changes, the MTAC Work Group noticed a significant variation in the breakage rates within each bundle preparation method. Based upon this variation, the MTAC Work Group noted that a cause of bundle breakage was poor application of a given bundle strapping method.

Given that most mail preparers (even major printers) were unaware of the bundle breakage problem at USPS facilities until recently and that the Postal Service is undertaking a significant mailer education program (including making presentations at conferences, distributing an educational video on the topic, and publishing an article in *Memo to Mailers*) and considering implementing an improved feedback program (a move strongly supported by both the MTAC Work Group and the mailing industry in general), I expect bundle preparation to improve.

Increased Palletization. The MTAC data show that the bundle breakage rate for sacks is about 18 percent whereas the bundle breakage rate for

pallets is below 1 percent. Thus, moving bundles from sacks to pallets eliminates most of the breakage for those bundles. According to USPS-LR-1-90, sacked mail represents about 36 percent of Periodicals Regular flats. If 60 percent of sacked mail were switched to pallets, the average bundle breakage rates would be cut in half.

Peter Moore has recently made software available to analyze how changing presort parameters affects the containerization of flats bundles. The software allows mailers to optimize their mailings in a way that has never before been available. Preliminary runs by Brown Printing indicate that optimizing presort can reduce sack usage by 30 percent with little effect on postage. Based upon this analysis, Brown Printing is working with mail owners to help them optimize their presort. Furthermore, Russ Shores (Brown Printing) told me that Brown is not alone in making these efforts; in fact, most printers are making similar efforts. I believe that these efforts will continue at a rapid pace because printers generally prefer to palletize mailings whenever possible.

Furthermore, to determine whether Brown Printing's analysis was representative, I asked Peter Moore if reducing sack usage by 30 percent by optimizing presort was typical. He indicated that while every mailing is different, he has found significant reductions in sack usage for mailings of almost any size. For mailers who are not currently palletizing, reductions in sack usage are significantly higher.

Finally, as discussed by witness Schick (PostCom, et al.-T-2), increases in drop ship incentives, such as the ones I have proposed in the present case (PostCom, et al.-T-1), will further increase palletization.

Improved USPS Processing. At an MTAC Package Integrity Work Group meeting in January, a senior United States Postal Service field representative on the work group estimated that improvements in internal Postal Service operations alone could reduce bundle breakage by approximately fifty percent.

As examples of ways that the Postal Service can reduce bundle breakage, witness O'Brien's testimony describes both a change in the SPBS pallet dumping procedure and a set of physical modifications to SPBS machines. Both of these changes have now been implemented as a result of the attention the MTAC Work Group has brought to the problem. TW-T-2 at 13. Furthermore, according to USPS witness O'Tormey (USPS-ST-42), there is an effort in USPS Engineering, Research, and Development to identify modifications to dumping equipment to reduce breakage and also an increased focus on minimizing bundle breakage at

sack opening/dumping operations. Response to MPA/USPS-ST42-7a
(O'Tormey).

USPS/MPA-T2-2. Please confirm that your estimated cost reductions of \$21 million for Periodicals and \$58 million for Standard (A) flats assume that bundle breakage will be reduced by fifty percent by the *beginning* of the Test Year. If you do not confirm, please explain why not.

Response:

Not confirmed. My estimates assume that, *on average*, bundle breakage will be fifty percent lower in the Test Year than in the Base Year.

USPS/MPA-T2-3. Please refer to MPA-T-2 at p. 15 lines 27-29. Here you state that "efforts should reduce Test Year costs for processing Standard (A) Regular flats by \$58 million". Please refer to your testimony at p. 24, Table 3 ("Test Year Cost Savings by Subclass"). Your table shows savings of \$47.0 million for Standard (A) Regular. Please explain the discrepancy between these two cost savings figures for Standard (A) Regular.

Response:

Table 3 states correctly that the Test Year cost savings for Standard (A) Regular are \$47.0 million. The \$58 million savings cited on page 15 combines the estimated cost savings for Standard (A) Regular and Standard (A) Nonprofit. In this context, my reference to "Standard (A) Regular" was meant to imply that cost savings for Standard (A) ECR were not included in the analysis. This is because neither MPA-LR-I-2 nor USPS-LR-I-90 models Standard (A) ECR costs. Note that I excluded the Periodicals In-County subclass and the Standard (A) Nonprofit ECR subclass for the same reason. Including these subclasses in my analysis would further increase cost savings.

USPS/MPA-T2-4. Please refer to MPA-T2 at pp. 19-22, which describes four efforts to potentially reduce bundle breakage. Please explain, in quantitative or qualitative terms, what weight you believe each effort will contribute towards achieving your assumed overall fifty percent reduction in bundle breakage.

Response:

Given that some types of bundles (e.g., glossy flats) in sacks break at times even when shrinkwrapped **and** strapped, the largest potential for improvement is in improved USPS sack-handling operations.

I am, nonetheless, confident that the mailing industry will contribute nearly as much as the Postal Service to solving the problem now that it is aware of the issue. For example, I was recently at a large printing plant and asked a supervisor in the bindery if she knew the extent of the bundle breakage problem in USPS processing. She replied that she had never received any feedback on the issue from the Postal Service and therefore assumed there was no problem. Once I informed her of the issue, she was interested in helping solve it. Based upon the Postal Service's mailer education program, this printer (and many others) is working with the MTAC Work Group to perform a controlled test of the MTAC Study findings.

My interactions with mail preparers in general indicate that witness Cohen's statement about the importance of reducing bundle breakage to publishers is equally applicable for mail preparers. In her testimony, witness Cohen states:

Publishers have a very strong interest in retaining bundle integrity, not only to keep costs down, but also because bundle breakage tends to damage the magazines in the bundle. Damaged subscriber copies are something the magazine industry tries to avoid assiduously. MPA-T-1 at 15.

USPS/MPA-T2-5. Please refer to MPA-T-2 at p. 20, line 15. The first effort towards reducing bundle breakage that you discuss is to "improve bundle preparation methods" of mailers. Please describe what specific steps, including changes in mailer operations, are required for mailers to improve bundle preparation methods. Please discuss the likelihood that mailers will significantly improve bundle preparation methods by the Test Year.

Response:

Below, I describe below several examples of steps that mail preparers are already taking that will reduce bundle breakage.

For reasons other than improved package integrity, mail preparers are already shifting away from packaging bundles with two straps and towards shrinkwrapping bundles. This shift is being driven by three factors: (1) strapping machines reduce bindery productivity; (2) strapping can damage mailpieces; (3) the quality of shrinkwrap and performance of shrinkwrap tunnels have improved.

Through increased comailing and copalletization as well as presort optimization (see my response to MPA/USPS-T2-1), mail preparers are continuing to increase the amount of mail on pallets. Joe Schick recently told me that his company, Quad Graphics, has increased the proportion of mail on pallets from about 95-97 percent a couple of years ago to more than 99 percent today. These efforts will increase further if the Commission recommends increased dropship discounts and a 5-digit pallet discount.

Finally, I believe that mail preparers will take a variety of actions to improve bundle preparation on a case-by-case basis as a result of increased feedback from the Postal Service. Based upon the recommendation of Russ Shores, the Package Integrity Work Group's Industry Co-Chair, MTAC recently organized a work group to address the process for Mail Irregularity Feedback. (The work group, however, is still awaiting USPS approval.) While the purpose of the Work Group is to develop "Procedural changes (that) could provide timely feedback to the mail owner/preparer to resolve (numerous) problems that impact mail processing, automation and delivery," a primary objective of the work group will be to provide feedback related to package integrity.

As an example of the importance of feedback to improved mail preparation, a USPS representative on the MTAC Package Integrity Work Group has informed me that the Postal Service has recently been working closely with a large Standard (A) mail owner. Based on these

interactions, the representative believes that the mailer will both improve its bundle preparation methods and the amount of mail presented on pallets.

USPS/MPA-T2-6. Please confirm that within MPA-LR-1-2, you assume that in the Base Year 25 percent of pieces from broken bundles processed on the SPBS are keyed manually. Please provide the data and analyses that support this assumption. If you do not confirm, please explain why not.

Response:

Confirmed. While I was unable to collect FY 1998 USPS operational data, witness Stralberg's observations indicate that this figure is quite conservative. During Periodicals Operations Review Team site visits, he observed that at times half of the Periodicals units being sorted on the SPBS were individual pieces. Also, in his testimony, witness Stralberg reported "seeing operators pulling pieces out of bundles that were not yet broken, that would have been called only 'suspect' in the MTAC terminology." TW-T-1 at 50. Further supporting Stralberg's observations is the fact that Postal Service Operations believed keying pieces on a SPBS was important enough of an issue that it sent a letter to the field instructing employees to discontinue this practice.

As Table 1 below indicates, the result of my assumption is that 10-15 percent of Periodicals units that were sorted on SPBS in the Base Year were individual pieces.

Table 1. Calculation of Percentage of Periodicals SPBS Sorts That Are Pieces

Subclass		Sack Volume	Pallet Volume	% of SPBS Sorts that are Pieces		
				Sacks	Pallets	Total
Periodicals		(a)	(b)	(c)	(d)	(e)
	Regular	2,500,722,281	4,527,995,229	33.82%	1.71%	13.13%
	Nonprofit	528,021,917	1,608,476,481	44.37%	2.49%	12.84%
Total		3,028,744,199	6,136,471,711	35.66%	1.91%	13.06%

(a), (b). MPA-LR-2, worksheets "Vols-Per Reg" and "Vols-Per Non."

(c) MPA-LR-2, worksheet "Productivities" cell N10 after setting Worksheet "Control Sheet" cell F7 to 1, cell B21 to .25, and cell G27 to C

(d) MPA-LR-2, worksheet "Productivities" cell N10 after setting Worksheet "Control Sheet" cell F7 to 2, cell B21 to .25, and cell G27 to C

(e) Average of (c) and (d) weighted by (a) and (b)

(3) Average of (1) and (2) weighted by volumes in (a) and (b)

USPS/MPA-T2-7. Please refer to MPA-T-2 at p. 19 line 7. The second effort towards reducing bundle breakage that you discuss is to "Move bundles from sacks to pallets". Please provide the assumptions you used for what portion of volume is in sack and pallets (including the bundle levels) for both the base and test years.

Response:

For both the Base Year and the Test Year, I used the sacked and palletized volumes contained in USPS-LR-I-90. To simulate the fifty percent reduction in bundle breakage in the Test Year, I reduced both the sack and pallet breakage rates by fifty percent. While some of the reduction in the breakage rate for flats that were in sacks in the "Before" scenario will come from volumes shifting to pallets, I did not explicitly shift these volumes from sacks to pallets in the model.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: Am I correct that there is no
5 oral cross for this witness?

6 [No response.]

7 CHAIRMAN GLEIMAN: Questions from the bench?
8 There don't appear to be any.

9 That being the case, Mr. Glick, that completes
10 your appearance here today. We appreciate again your
11 appearance and your testimony and your contributions to the
12 record.

13 You are excused.

14 THE WITNESS: Thank you.

15 [Witness excused.]

16 CHAIRMAN GLEIMAN: I think since it is only five
17 after the hour we can go a little bit longer this morning,
18 unless there is somebody that's terribly, terribly hungry
19 out here and insists that we break for lunch, and Mr. Myers,
20 you have the next witness also.

21 MR. MYERS: I would like to call Rita D. Cohen to
22 the stand.

23 CHAIRMAN GLEIMAN: Ms. Cohen, before you settle
24 in, I would like to get you to raise your right hand.
25 Whereupon,

1 RITA D. COHEN,
2 a witness, was called for examination by counsel for MPA
3 and, having been first duly sworn was examined and testified
4 as follows:

5 CHAIRMAN GLEIMAN: Please be seated.

6 DIRECT TESTIMONY

7 BY MR. MYERS:

8 Q Ms. Cohen, would you please state your name for
9 the record?

10 A Rita D. Cohen.

11 Q I have handed you a document marked for
12 identification as MPA-T-1 and entitled, "The Direct
13 Testimony of Rita D. Cohen."

14 First, I would like to ask you to confirm that
15 that document contains replacement pages 4, 32, 33, and 34,
16 which were noticed in the erratum filed -- errata filed by
17 MPA on May 25th and May 31st.

18 A Yes, it is. Correct.

19 Q Are there any other changes you would like to make
20 to that document?

21 A There is one additional change on page 4. The
22 reference to Witness Crowder should be MPA-T-5. That is on
23 line 11 on page 4.

24 Q Okay. With those changes do you adopt that as
25 your testimony here today?

1 A Yes, I do.

2 MR. MYERS: Mr. Chairman, with that I would like
3 to give two copies of the testimony to the court reporter
4 and ask that it be transcribed into the record and received
5 in evidence.

6 CHAIRMAN GLEIMAN: The testimony of Witness Cohen
7 will be transcribed into the record and received into
8 evidence.

9 [Direct Testimony of Rita D. Cohen,
10 MPA-T-1, was received into evidence
11 and transcribed into the record.]
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MPA-T-1

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY
OF
RITA D. COHEN
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA, INC.
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & CO., INC.
THE MCGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
TIME WARNER INC.

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1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Rita Dershowitz Cohen. I am Senior Vice President for
3 Legislative and Regulatory Policy at the Magazine Publishers of America (MPA).
4 I am responsible for postal, tax, environmental, state, and consumer protection
5 issues. As part of my postal responsibilities, I am MPA's association executive
6 for the Mailers' Technical Advisory Committee (MTAC) and participate in several
7 MTAC work groups, a member of the Postal Service's Periodicals Advisory
8 Group, a postal advisor to MPA's Smaller Magazine Advisory Council, and a
9 frequent speaker on postal topics. I was also the Industry Co-Chair of the
10 Periodicals Operations Review Team (Team).

11 I attended the University of Pennsylvania, receiving a bachelor's degree in
12 statistics and a master's degree in business and applied economics. I received
13 the J. Parker Burst prize for outstanding achievement in statistics.

14 I have worked on postal rate issues for almost 27 years. Following my
15 graduation, I was employed by the Postal Rate Commission (PRC or
16 Commission) as a statistician for two years, testifying in Docket No. R74-1 on the
17 issue of second-class costing methodology. In 1975, I joined the United States
18 Postal Service (Postal Service or USPS) as a cost analyst in the Revenue and
19 Cost Analysis Division. I was employed by the Postal Service for ten years,
20 including four years as an operations research analyst in the Mail Classification
21 Research Division and four years as a principal operations research analyst in
22 the Office of Rates. I conducted analyses of postal costs in various cost
23 segments and worked on classification and rate issues in various postal rate and
24 classification cases during that period. I testified on the roll-forward model used
25 to project costs in Docket No. R77-1.

26 In 1985, I left the Postal Service to join Buc & Associates, Inc., which, in
27 1986, merged with ICF, Incorporated, a consulting firm based in Fairfax, Virginia.
28 I worked at ICF until 1995, becoming a Vice President in 1993. I directed and
29 performed economic and policy analyses for both private and public sector
30 clients, including MPA, The McGraw-Hill Companies, Inc. (MH), and the National

1 Newspaper Association (NNA). In Docket No. R87-1, I testified on city carrier
2 street time for MPA and second-class presort discounts for NNA. Continuing my
3 representation of MPA, I proposed a rate design for second-class regular rate
4 and nonprofit in Docket No. R90-1 and testified on cost savings likely from
5 introduction of the barcode discount for flats in Docket No. MC91-1. In Docket
6 No. R94-1, I testified on the In-Office Cost System and the Postal Service's
7 distribution of mail processing costs to classes and subclasses.

8 In 1995, I joined MPA, and was promoted to my current position in
9 January 1999. I continue to analyze postal issues and prepare testimony, as I
10 have done for my entire professional career. On behalf of MPA, I presented both
11 direct and rebuttal testimony in the reclassification case, Docket No. MC95-1,
12 presenting alternative structures and rate designs for the proposed publications
13 service subclass. In Docket No. R97-1, I proposed alternative methodologies for
14 distributing mail processing costs to classes and subclasses of mail.

15

16 I. PURPOSE AND SCOPE OF TESTIMONY

17 This testimony is cosponsored by Magazine Publishers of America,
18 Alliance of Nonprofit Mailers, American Business Media (formerly American
19 Business Press), Coalition of Religious Press Associations, Dow Jones & Co.,
20 Inc., The McGraw Hill Companies, Inc., National Newspaper Association, and
21 Time Warner Inc., whom I will refer to collectively as "Periodicals mailers."

22 In this testimony, I update and correct costs presented by the Postal
23 Service for Periodicals. These updates are based in large part on information
24 that has become available since the Postal Service filed its case in January. This
25 new information relates to the results of joint Postal Service/industry initiatives
26 undertaken over the past several years to improve efficiency and reduce costs
27 for Periodicals. The concerted efforts of all involved are now bearing fruit and will
28 lead to substantially lower Periodicals costs in the Test Year than originally
29 forecast by the Postal Service. A roadmap of my testimony follows.

30 In Section II of this testimony, I describe the history of Periodicals' cost
31 increases and discuss the Periodicals Operations Review Team (Team), a joint

1 effort of industry and the Postal Service to identify and ameliorate the causes of
 2 cost increases for Periodicals. I summarize the findings of the Team and its
 3 recommendations. I firmly believe that implementation of the Team's
 4 recommendations will result in more than \$150 million in costs savings for the
 5 Postal Service. Based on the record in this case to this point and the steps the
 6 Postal Service has already undertaken, I am able to identify \$111 million in
 7 savings for Periodicals that will result from the efforts of the Team. More than
 8 \$75 million in savings are acknowledged in various USPS documents filed
 9 subsequent to the filing of its direct case on January 12, 2000. These savings are
 10 referred to in Table 1 below as "USPS TY Cost Reductions." All cost reductions
 11 that I describe will be in place by the Test Year and are in addition to those
 12 previously presented by the Postal Service in its direct case. These savings are
 13 referred to as "Periodicals TY Cost Reductions." In this section, I also prescribe
 14 some other cost savings opportunities in transportation.

15 **Table 1.**
 16 **Cost Reductions**
 17 **(millions of dollars, TY)**

	USPS TY Cost Reductions	Periodicals TY Cost Reductions
Carrier Route Sacks, L001, and Combining Automation and Nonautomation Flats in Sacks and on 5-Digit Pallets	\$15	\$15
Line of Travel	\$23	\$23
Bundle Breakage	\$15	\$21
Air Transportation	\$11	\$11
Memorandum of Understanding of Vertical Flats Casing	\$ 7	\$ 7
Equipment and Productivity Enhancements	\$ 6	\$ 6
Correction to Projected Cost Savings from the AFSM 100	\$ 0	\$28
Total	\$77	\$111

18
 19 In Section III, I address cost attribution and distribution issues. While the
 20 Team spent its time in the field, our observations suggested the need to revisit
 21 the theories of cost causation underlying USPS's cost attribution and distribution

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 ^{MPA-T-5}~~(ADVO-T-4)~~ 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 estimates, and the improved distribution methods. Finally, in Section V, I discuss
2 considerations that the Postal Rate Commission should take into account when
3 designing rates for Periodicals. Specifically, I explain that, given the cost savings
4 and improved costing methodology I identify and quantify, the rate increase for
5 the Periodicals subclasses should not exceed the systemwide average. Further,
6 the Commission should take into account the additional \$10 million of projected
7 Periodicals revenue from Ride Along pieces as approved by the Commission in
8 the recently completed Docket MC00-1. The Postal Service's filing neglected to
9 incorporate this additional revenue. I also discuss several rate design issues,
10 including an improved method for measuring cost avoidance, as well as
11 recommendations regarding discounts for automation, dropshipping, and for 5-
12 digit pallets.

13 **II. COST REDUCTION PROGRAMS**

14 In this section, I first discuss the history of Periodicals cost increases.
15 Troubled by these cost increases, the Postal Service and the Periodicals mailing
16 community formed the Periodicals Operations Review Team to identify and
17 resolve the issues that have led to a trend of rapidly escalating Periodicals costs.
18 I next describe the Team effort and summarize its findings and
19 recommendations. I discuss a number of factors uncovered by the Team that it
20 concluded contributed to the cost increases and explain why measures
21 recommended by the Team and already underway lead me to be confident that
22 the trend will abate. Then, I describe several cost reduction programs
23 developed in a cooperative effort between industry and the Postal Service that
24 were not identified by witness Tayman (USPS-T-9) and present the cost savings
25 that will result from these programs. I developed these cost savings from data
26 provided by the Postal Service in its testimony, written cross-examination
27 responses, and library references.

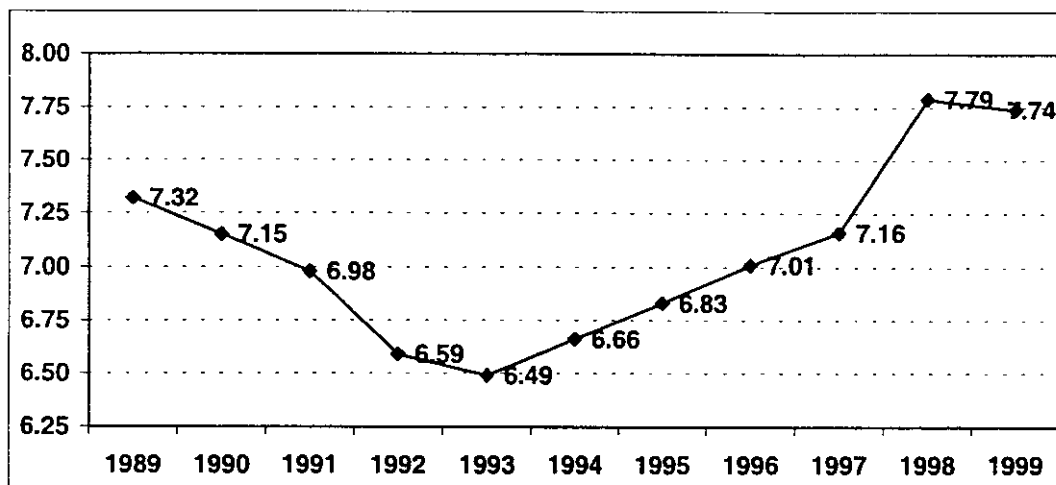
1 **A. Measured Costs for Periodicals Have Been Increasing Rapidly**

2 Since 1990, Periodicals mailers have noted with alarm both the rapid
3 increase in Postal Service costs for processing Periodicals and the fact that since
4 1987 the costs attributed to Periodicals have been increasing much faster than
5 costs in other mail classes. Periodicals mailers have expressed concern about
6 these large increases to senior management at the Postal Service and to the
7 Postal Rate Commission during the past four rate cases. For example, in Docket
8 No. R97-1 witness Little pointed out "from fiscal year 1986 through fiscal year
9 1996, Periodicals mail processing unit costs have increased 71 percent." Docket
10 No. R97-1, Tr. 15/14545.

11 The PRC is concerned about the issue as well. It expressed this concern
12 in an order on March 28, which "requests that Postal Service present detailed
13 evidence explaining the causes of the trend in the costs of processing Periodicals
14 from a witness qualified to respond to participants' questions on the topic. . . . A
15 witness with high-level managerial responsibility over flat handling operation
16 would appear to be best suited to this need." PRC Order No. 1289 (March 28,
17 2000) at 1. The Order provides several graphs, one of which shows trends for
18 mail processing plus city carrier in-office unit costs for various classes of mail.
19 Figure 1, below, reproduced from the Order, shows this rapid increase in
20 Periodicals costs since 1993.

21

1 **Figure 1.**
 2 **Periodical Regular Mail Processing Plus City Carrier In-Office Unit Costs**
 3 **Cents per Piece, Wage Level Adjusted to FY 1989¹**



4 ¹Source: PRC Order No. 1289 (March 26, 2000).

5 Adding to Periodicals mailers' concern over these cost increases is the
 6 fact that they have occurred even as mailers have increased their worksharing
 7 activities. The Commission recognized this phenomenon in its Docket No. R97-1
 8 opinion: "the Commission finds the argument that additional worksharing should
 9 have reduced costs has some plausibility." PRC OP. R97-1, para. 3191.

10 Further, the Postal Service acknowledges that the mailers are performing
 11 more worksharing than they did a decade ago. In his response to an MPA
 12 interrogatory, witness Taufique confirms that mailers performed more
 13 worksharing in 1999 than in 1992 or 1989, noting, "three major changes that
 14 stand out in the comparison of these three years are the increases in barcoded,
 15 Carrier Route and dropshipped volumes." Tr. 17/6986.

16 I examined major changes in mail characteristics to explore the extent of
 17 Periodicals mailers worksharing. Table 3 below presents my findings. The
 18 results show, unambiguously, that mailers are saving the Postal Service
 19 enormous amounts of work, which should translate into major savings in costs.
 20 As the Table shows, in 1999, 65 percent of Periodicals Regular mail was
 21 barcoded, while in 1989 none of it was. In 1999, 64 percent was on pallets, while

1 ten years earlier only 37 percent was. In 1999, 40 percent of Periodicals mail
 2 was presorted to carrier route, while 10 years earlier only 26 percent was. And in
 3 1999, 40 percent of our mail was drop shipped, while 10 years earlier only 20
 4 percent was. Based on these trends, costs should be decreasing rather than
 5 increasing.

6 **Table 3. Periodicals Regular Subclass Worksharing Over Time¹**

Worksharing Characteristic/Level	1989	1992	1999
<i>Presort Level</i>			
Basic	10.3%	8.5%	9.1%
3-Digit	26.4%	21.5%	19.6%
5-Digit	37.1%	31.5%	31.5%
Carrier Route	26.2%	38.5%	39.8%
<i>Automation Level of Non-Carrier Route Mail</i>			
Nonautomation	100.0%	99.3%	34.7%
Automation	0.0%	0.7%	65.3%
<i>Drop ship Level</i>			
DDU	0.0%	2.2%	0.9%
DSCF	21.4%	25.2%	39.2%
Not Drop shipped	78.6%	72.6%	59.9%
<i>Containerization</i>			
Sacks	52.4%		35.6%
Pallets	37.3%		64.4%
Other	10.3%		

7 ¹USPS-LR-I-272, worksheets "1989", "BD_All_Yrs" and "1990 Mail Chrt Stdy" and USPS-LR-I-
 8 90, worksheet "Vols-Per Reg"

9 On April 17, the Postal Service responded to PRC Order No. 1289 by filing
 10 supplemental testimony from two operations witnesses: Walter F. O'Tormey,
 11 Manager of Processing Operations, Operations Planning and Processing (USPS-
 12 ST-42), and Dennis R. Unger, Manager Operations Support for the Southeast
 13 Area (USPS-ST-43). Although both witnesses purported to address the topic of
 14 why processing costs for Periodicals flats may be higher than the costs for other
 15 flats, neither provided any plausible explanation for the trend of increasing costs.
 16 In fact, witness O'Tormey unconditionally accepted the proposition that
 17 automation "has lowered per unit cost for mail processing". Tr. 21/8391.
 18 Witness Unger also agreed with this proposition. Tr. 21/8240. Unger also
 19 agreed that drop shipping, barcoding, palletization, and presorting also all reduce

1 costs. Tr. 21/8238-39, 8246-47. Based on their testimony, I would have
2 expected mail-processing costs for Periodicals to decrease rather than increase.

3 **B. Periodicals Operations Review Team**

4 Several years ago, after much prodding from industry and the
5 Commission, the Postal Service finally admitted the need to examine Periodicals
6 operations to stem the continuing escalation in cost. In 1997, the Postal Service
7 and Periodicals mailers agreed to form the Team in order to identify and address
8 the causes of the rapid increase in Periodicals costs over the past decade and to
9 suggest solutions. I served as co-chair of the Team and worked with
10 representatives from both the Postal Service and Industry. The effort began in
11 1998.

12 Field visits began in September and lasted through December 1998, the
13 now infamous Fall 1998 mailing season. USPS-ST-43 at 11-13. The Team
14 visited more than a dozen Postal Service facilities, which collectively process and
15 deliver approximately 14 percent of all flat mail processed in the U.S. USPS-LR-
16 I-193, Report of the Periodicals Operations Review Team (Team Report) at 3.
17 We also visited two mailer plants. The focus of our effort was to "identify the
18 causes of the rapid rise in Periodicals costs over the past decade, identify
19 opportunities to drive costs from the postal system, and make recommendations
20 for industry and the Postal Service to capture these opportunities." Team Report
21 at 2.

22 With respect to its first focal point, which is also the question posed by the
23 PRC in Order No. 1289, the Team did not find a "smoking gun." But while we did
24 not find one root cause for the large increases in costs, we did learn more than
25 perhaps we could ever have hoped. Each facility visited was different, but over
26 the course of the study, we began to see patterns and uncover clues about what
27 was going on with Periodicals. Trying to convey the complexity of the situation,
28 the Report states, "[t]he Team concluded that it had observed system
29 inefficiencies in both postal and mailer processes along with other inherent
30 characteristics that likely have contributed to, but do not explain fully, the large

- 1 increases in Periodicals costs.” Team Report at 3. Although I cannot
2 unequivocally explain the large increases for flats, I can identify a major
3 contributing factor. Because flats automation trailed letter automation for both
4 technological and economic reasons, Postal Service management focused on
5 letters. The resulting inattention on flats created inefficiencies. We saw:
- 6 • Too much manual processing of machinable flats, while flat sorting
7 machines sat idle. This was especially true for Periodicals. This
8 manual processing was occurring at decreased productivity rates,
9 which declined after 1994 even though the flats volumes processed
10 manually grew in 1995. MPA/USPS-ST42-3(d) (filed May 9, 2000).
11 Extensive preparation work to separate periodicals into machinable
12 categories was frequently wasted effort, as periodicals did not often get
13 automated handling. Team Report at 32-34.
 - 14 • A lack of effective supervision, particularly crucial during a period of
15 rapid change in flats processing procedures and emerging technology.
16 Team Report at 27-29. This deficiency may have been due to the
17 effects of reorganization described by witness O’Tormey. USPS-ST-42
18 at. 17.
 - 19 • Wide fluctuations in flats processing procedures among facilities. This
20 stood in marked contrast to the standardized processing procedures
21 used for letter mail. Team Report at 19-20.
 - 22 • Poor coordination between upstream and downstream facilities.
23 Downstream facilities would sometimes undo processing steps taken
24 upstream, for example, separating mail classes that had been
25 combined in previous operations. Team Report at 19-20.
 - 26 • Little, if any, attention by facility management to processing costs by
27 type of operation and no attention to costs by class. Facility
28 management was judged on and cognizant of overall budget,
29 complement, and service levels. Team Report at 11.
 - 30 • A relative lack of communication between mailers and Postal Service
31 personnel about matching mail preparation to postal processing needs.

1 Team Report at 13-16. During this period of rapid change, additional
2 facilities, and new mail separation processes, we saw instances of
3 apparent mailer confusion about, or disregard for, correct mail makeup.
4 Team Report at 18.

5 **C. Cost Reductions**

6 In spite of the trends of the past, I am sanguine about Periodicals cost
7 prospects for the future. The Team's field visits were an eye-opener both for the
8 mailing community and the Postal Service. I firmly believe that at senior levels of
9 Postal management there is a fundamental recognition and understanding of the
10 flaws in the system that caused costs to increase. In fact, Postal Service
11 management recently has taken steps to solve major elements of the problem
12 and regain their focus. Witness O'Tormey briefly touched on a number of these
13 steps in his testimony, and provided additional information in written answers to
14 interrogatories and oral cross-examination.

15

- 16 • As stated by witness O'Tormey, "There are scheduled teleconferences
17 with the Area Managers of Operations every two weeks to monitor overall
18 flats processing performance." USPS-ST-42 at 20. The Postal Service has
19 developed a "scorecard" to use in the teleconferences, which includes ten
20 major indicators by which area managers are compared. The scorecard
21 measures utilization of both 881 and 1000 flat sorting machines and
22 productivity improvement in manual operations. TW/USPS-9 (filed on May
23 10, 2000). The Postal Service is committed to a "use it or lose it" policy
24 and has pulled machines out of low-utilization facilities. Tr. 21/8257.
- 25 • To provide a game plan to the field, Headquarters revised the Strategic
26 Improvement Guide for Flats Processing (USPS-LR-I-193) and has issued
27 management instructions on many facets of bundle and flats processing,
28 including proper staffing and how to maximize use of automation.

1 • The Postal Service's direct case included some cost savings related to
2 these initiatives. Witness Tayman quantified cost reductions for
3 increasing utilization of equipment as well as the procurement of additional
4 automation. USPS-LR-I-126. And witness O'Tormey assures us that they
5 have already begun to plan to capture the labor savings from this new
6 equipment. Tr. 21/8374-75.

7
8 However, there are additional cost savings in these areas and others that
9 will also reduce Periodicals costs in the Test Year. Following the Team's field
10 visits and based on its observations and conclusions, it recommended a number
11 of initiatives that will reduce Periodicals costs. These initiatives "identify mail
12 preparation and processing issues that could be rapidly addressed to achieve the
13 maximum initial benefit, and lay the groundwork for longer-term improvements."
14 Team Report at 2. Although they are not included in its direct case, the Postal
15 Service has subsequently followed up on a number of these recommendations.

16 Below, I describe and quantify seven cost reduction programs that the
17 Postal Service already has implemented or will implement by the Test Year, but
18 for which the Postal Service did not quantify cost savings in its direct case.

19 ***Reducing Costs Through Improved Mail Preparation***

20 Currently, the Periodicals Industry is working closely with the Postal
21 Service to better align mailer preparation with USPS processing. Based upon
22 these efforts, the Postal Service has recently issued a Federal Register notice
23 regarding the use of L001 lists and "Carrier Routes" sacks and will shortly issue a
24 notice to establish line-of-travel (LOT) sequencing for Periodicals Carrier Route
25 mail. I briefly describe the benefits of these changes in mail preparation
26 standards and then quantify their impact on TYAR costs.

27 ***Carrier Route Sacks, L001, and Combining Automation and Nonautomation Flats***
28 ***in Sacks and on 5-Digit Pallets***

29 On February 29, the Postal Service issued a Federal Register notice that
30 will require changes in the makeup of containers at the 5-digit level to maximize

1 efficiency and to direct the mail to the point at which it will actually be processed.
2 These changes will decrease the number of containers, particularly sacks. There
3 are three components that lead to the reduction in containers: (1) mailers will
4 combine mail for 5-digit zip codes that is processed together in an L001 sort
5 scheme; (2) mailers will combine mail for carriers that deliver out of the same
6 carrier delivery unit; and (3) mailers will combine barcoded and non-barcoded
7 packages when this mail is processed together in incoming secondary
8 operations. 65 Fed. Reg. 10735-59 (February 29, 2000).

9 MPA has been a strong supporter of allowing mailers to combine mail and
10 reduce the number of containers when doing so is consistent with Postal Service
11 processes. This is reflected in two Team recommendations: (1) to match mail
12 preparation to postal processing; and (2) to optimize use of containers I
13 understand that the Postal Service is planning to require the use of the L001
14 scheme and the combining of CRRT "skin sacks" into "carrier routes" sacks, as
15 suggested by MPA. The Postal Service has estimated that these improved mail
16 preparation standards will reduce TYAR costs for Periodicals by \$15 million.
17 MPA/USPS-ST42-4-5 (filed on May 9, 2000); USPS-LR-I-332.

18 *Line of Travel (LOT)*

19 Since 1997, the Postal Service has required Standard A Carrier Route
20 flats to be prepared in LOT sequence. This same sequencing has not been
21 required for Periodicals. As part of our cooperative effort to identify mail
22 preparation changes that could drive costs from the postal system, the Postal
23 Service asked industry to consider a LOT requirement for Periodicals. Industry
24 discussions revealed widespread willingness to prepare Periodicals in this
25 manner if it would reduce postal costs. As a result, the Postal Service undertook
26 to quantify the potential savings from a LOT requirement for Periodicals. Finding
27 substantial savings, the Postal Service plans to move forward quickly.

28 As the Postal Service stated in its response to MPA/USPS-47, it plans to
29 propose "imposing a line-of-travel (LOT) requirement for Periodicals Carrier
30 Route Basic mail through a Federal Register notice within the next several

1 months." Tr. 21/8947. Just as it did for Standard (A) Carrier Route Basic flats,
 2 the LOT requirement will improve casing efficiency and reduce carrier costs. The
 3 Postal Service estimates that implementing the LOT requirement will reduce
 4 Periodicals costs by \$23 million in the Test Year. USPS-LR-I-307 at 8.

5 Given industry's already stated agreement with a LOT requirement for
 6 Periodicals and the ready availability of comparable programming logic from
 7 Standard (A), I believe implementation for Periodicals will be accomplished
 8 quickly. I agree with the Postal Service that its calculated \$23 million cost
 9 savings will be achieved in the Test Year.

10 ***Reducing Costs Through Improved USPS Operations***

11 ***Bundle Breakage***

12 In its report, the Team noted that bundle breakage is a significant problem,
 13 but one that can be solved:

14 Flats bundles are at risk of breaking during bundle sorting,
 15 especially when dumped on the automated feed systems
 16 of SPBS machines. Bundles that travel in sacks also incur
 17 substantial breakage during sack handling operations,
 18 although the sack preserves the presort level of the sack
 19 itself. There are a number of possible remedies that
 20 together could lead to substantial cost reductions,
 21 including better bundle strapping, use of pallets rather than
 22 sacks, improved bundle sorting methods, alternatives to
 23 today's SPBS feed systems, and better efforts at salvaging
 24 partially broken bundles.

25 ***Team Report at 24.***

26 Since the issuance of the Team Report, MPA has worked actively with the
 27 Postal Service to study the causes of bundle breakage and reduce it. As
 28 discussed in more detail by witness Glick, who is a member of the MTAC
 29 Package Integrity Work Group, through improved mailer preparation and USPS
 30 operations, I believe we can reduce the magnitude of this problem significantly.
 31 The Postal Service agrees. Based upon the cost model presented by witness
 32 Yacobucci (USPS-T-25), it estimates a \$15 million dollar reduction in Periodicals

1 costs due to a 25 percent reduction in broken bundles. MPA/USPS-ST42-10
2 (filed on May 9, 2000).

3 I believe the estimated 25 percent significantly understates the reduction
4 in bundle breakage that will be achieved in the Test Year. As described by
5 witness Glick, efforts to reduce bundle breakage are proceeding on many fronts
6 simultaneously and with a not surprising sense of urgency. I am aware of
7 changes in bundle preparation already being considered by publishers and their
8 printers based on reports emerging from the MTAC Work Group that bundles
9 enclosed in polywrap have lower breakage rates. Publishers have a very strong
10 interest in retaining bundle integrity, not only to keep costs down, but also
11 because bundle breakage tends to damage the magazines in the bundle.
12 Damaged subscriber copies are something the magazine industry tries to avoid
13 assiduously.

14 With all the effort being put forth by industry, USPS, MTAC, and printers, I
15 believe a 50 percent reduction in bundle breakage is easily achievable.
16 Correcting for witness Yacobucci's use of an average bundle breakage rate for
17 both sacks and pallets, witness Glick shows that industry and Postal Service
18 efforts to reduce bundle breakage and improve bundle recovery methods will
19 reduce Periodicals costs by \$21 million in the Test Year.

20 *Air Transportation*

21 While the Periodicals Operations Review Team was tasked with looking at
22 mail processing operations, it also learned quite a bit about transportation
23 operations. In particular, it learned of situations in which the Postal Service
24 undertook to provide extraordinary transportation measures to meet perceived
25 Periodicals' service needs. The Team concluded that obtaining extraordinary
26 transportation was inappropriate, as mailers understand critical entry times and
27 are already willing to live with the consequences of missing critical entry.

28 In following up on transportation issues, the Postal Service discovered that
29 Periodicals mail was sometimes transported by air rather than surface
30 transportation. Except in areas where this is the only means of transportation,

1 the Postal Service agreed with the Team that this use of extraordinary air
2 transportation should be discontinued. As evidenced by the 65 percent (\$12
3 million) decrease in Periodicals "passenger air" costs between FY 1998 and
4 1999, the Postal Service is making a concerted effort to keep "surface mail off of
5 air transport." TW/USPS-6 (filed on May 9, 2000). Due to these efforts, FY 1999
6 purchased transportation costs for Periodicals are \$11 million less than witness
7 Kashani (USPS-T-14) projected. USPS-LR-I-276; USPS-T-14, Exhibit USPS-
8 14B. While the Postal Service does not believe that it can reduce Periodicals air
9 transportation costs further, it is committed to "sustaining these reductions."
10 TW/USPS-6a (filed on May 9, 2000). This will result in Test Year Periodicals
11 transportation costs being \$11 million less than projected by the Postal Service.

12 *Memorandum of Understanding on Vertical Flats Casing*

13 In the "Current Improvement Efforts" section of his testimony, witness
14 O'Tormey describes a memorandum of understanding between the Postal
15 Service and the National Association of Letter Carriers (NALC), which "gives
16 management the authority to implement the vertical flats casing method for those
17 routes not currently using it. Under this method, flats are sequenced in the order
18 of delivery in one handling by the carrier rather than in two handlings" USPS-ST-
19 42 at 24. The Postal Service estimates that this processing change will result in
20 Test Year savings of \$7 million for Periodicals. TW/USPS-7 (filed on May 9,
21 2000).

22 *Equipment and Productivity Enhancements*

23 The Team Report noted that the Postal Service should "look for low-cost
24 opportunities to increase automated FSM capacity, e.g., more Barcoding and
25 OCR capabilities on FSM machines." Team Report at 32. I am pleased that the
26 Postal Service is following through on this recommendation by modifying FSM
27 1000s with OCRs and automatic feeders. Response to MPA/USPS-ST42-9 (filed
28 on 5/9/00). The Postal Service is also improving its capability to process flats in
29 an automated fashion through the deployment of AFSM 100s. While it's too early
30 to tell whether AFSM 100s will do for flats what barcode sorters have done for

1 letters, early indications are extremely encouraging. Based upon pre-production
2 improvements, the Postal Service has recently revealed that it now believes that
3 the performance of the AFSM 100s will be even better than expected.
4 MPA/USPS-ST42-2 (filed on May 9, 2000).

5 The FSM 1000 modifications and the better-than expected performance of
6 the AFSM 100s will reduce Test Year costs for Periodicals by \$4.3 million more
7 than was projected by witness Tayman. USPS-T-9. MPA/USPS-ST42-8-9 (filed
8 on May 9, 2000). Aggressive productivity targets for manual flat sorting will
9 reduce TYAR Periodicals costs by another \$2 million. TW/USPS-9 (filed on May
10 9, 2000).

11 *Correction to Projected Cost Savings From the AFSM 100*

12 As discussed by witness Buc, witness Tayman has understated the cost
13 savings that will be achieved from procurement of the AFSM 100 machines.
14 DMA, et al.-T-1. Using information provided by the Postal Service in its direct
15 case and written discovery responses on the number of AFSM 100 machines
16 being purchased, their deployment schedule, and known productivity levels for
17 the machine, witness Buc recalculates the cost savings estimate. Buc's
18 correction reduces Periodicals costs by an additional \$28 million in the Test Year.

19 *Ongoing Efforts to Reduce Costs*

20 While the efforts I have detailed above will allow us to capture \$111 million
21 in cost savings in the Test Year, there are additional efforts underway, not
22 presently quantified, that I am confident will also bear fruit in the near term. Time
23 Warner Inc. Witness O'Brien (TW-T-2) describes in substantial detail each of the
24 15 recommendations of the Team, and explains why their implementation will
25 result in substantial cost savings. Industry and the Postal Service continue to
26 meet regularly to assess our progress in implementing each of the Team's
27 recommendations. There are a number of recommendations for which measured
28 cost savings are not yet available but which are the subject of initiatives
29 underway. These include improvements in address quality, increased
30 compliance by mailers with mail preparation regulations, optimizing use of

1 containers, and opportunities to gain processing efficiencies by combining mail of
 2 different classes when appropriate. I believe that implementation of the Team's
 3 15 recommendations would result in Test Year savings of more than \$150
 4 million. I understand the Postmaster General agrees.¹

5 ***Other Cost Savings Opportunities in Transportation***

6 Witness Nelson identifies several opportunities for cost savings within
 7 transportation. Some of these he is able to quantify based on information on the
 8 record in this case, as well as on his extensive expertise in transportation.
 9 Others are currently unquantifiable.

10 One of the significant cost savings opportunities he identifies relates to
 11 Amtrak rail service. Witness Nelson shows that USPS currently pays Amtrak a

¹The following exchange occurred between Postmaster General William J. Henderson and the Honorable Jim Kolbe on April 4, 2000:

Chairman Kolbe: I think all of us have heard from the magazine industry. There is a lot of concern, obviously about the periodicals, and I think a legitimate concern. And I think you have expressed your concerns about this, that you do not want to see this class of mail simply disappear from the Postal Service, and clearly that seems to be the direction we are heading with a 15 percent increase. I know you have been looking for ways to make sufficient savings and efficiencies in delivering this particular class of mail, since each of your classes of mail have to stand alone. What progress have you made in this regard that might enable you to get down below a 10 percent increase?

PMG Henderson: We've made substantial progress. We have a task force that is actually made up of industry representatives and postal operating management and they have made substantial progress. I think all the parties are pleased with the progress that's been made in reducing the hit of this rate increase.

Chairman Kolbe: And I understand that you have actually identified, along with the Magazine Publishers Association, you have identified some costs that might total as much as 150 million dollars. If those are able to be implemented and saved would you then be able to then project less than 10 percent? Or 10 percent or less?

PMG Henderson: That final determination would be up to the Postal Rate Commission, but we believe that \$150 million in savings would bring it to single digits, yes.

Chairman Kolbe: Is that a realistic number? \$150 million that you can -- you think you can squeeze that kind of savings out?

PMG Henderson: Yes. I think it's going to be greater than that actually.

Hearings on Postal Appropriations, 2000: House Subcommittee on Treasury, Postal Service and General Government, Committee on Appropriations, U.S. House of Representatives, (April 4, 2000) (transcribed from videotape; proceedings not yet printed).

1 substantial premium over the cost it would pay to obtain equivalent transportation
2 services from other sources. While the Postal Service describes Amtrak as a
3 "less-than-truckload" network, witness Nelson shows that more than 94 percent
4 of Amtrak costs occur on segments where USPS procures capacity that equals
5 or exceeds a truckload, and that 94 percent of those costs are on segments
6 where USPS pays Amtrak an amount greater than the cost of equivalent highway
7 transportation. Eliminating this premium in the Test Year would reduce
8 Periodicals costs by \$15 million.

9 Several of witness Nelson's quantified cost savings relate to purchased
10 highway transportation. In particular, he describes cost savings that could be
11 achieved by tightening administrative requirements to ensure competitive terms
12 on renewed highway contracts. He demonstrates that there is currently a
13 "premium" on renewed contracts that costs Periodicals over \$19 million, \$4
14 million of which he estimates could be eliminated by the Test Year. Similarly,
15 cost savings could be obtained by renegotiating highway contracts that are no
16 longer needed prior to the expiration of such contracts. He calculates that a
17 program to identify and renegotiate unneeded contracts prior to their expiration
18 could save \$2 million for Periodicals in the Test Year.

19 With regard to freight rail transportation, witness Nelson shows that recent
20 changes in the freight rail industry, leading to increased competition, should allow
21 USPS to achieve lower intermodal rates than currently in effect. This could save
22 \$1 million in Periodicals freight rail costs.

23 We have held preliminary discussions with the Postal Service on the costs
24 of Amtrak service and USPS has indicated that it is currently conducting a review
25 of its Amtrak costs and is hopeful that this review will lead to cost savings in the
26 coming year. USPS has also indicated a willingness to consider our other
27 suggestions for costs savings.

28 **III. COST ATTRIBUTION AND DISTRIBUTION**

29 My testimony in Docket No. R97-1 focused extensively on the distribution
30 of costs for mail processing. As discussed in that testimony and in preceding

1 cases, many questions have been raised about the costs attributed to classes by
2 the Postal Service and the relative proportion of costs distributed to Periodicals
3 by the Postal Service methodology. In its decision in Docket No. R97-1, the
4 Commission agreed that there were many uncertainties regarding both cost
5 causation and distribution. The Commission, for example, noted the need to
6 collect more information on the contents of items and containers and stated, "[i]t
7 is also clear that better models of cost responsibility for allied operations are
8 urgently needed." PRC Op. R97-1, para. 3179.

9 The uncertainty about cost attributions and distributions was one of the
10 factors motivating the formation of the Team. Unfortunately, the Team's study
11 was not able to address complex costing issues but was limited to potential
12 changes in mailer and postal operations to drive costs from the system. The
13 Team's conclusions noted that the inefficiencies it observed in postal and mailer
14 processes "likely have contributed to, but do not explain fully, the large increases
15 in Periodicals costs." Team Report at 3. The Team concluded that "[f]urther
16 study of postal operations and analysis of cost attribution - which was not part of
17 this study - must still be undertaken if the cost behavior of Periodicals is to be
18 fully understood and maximum cost containment is to be achieved." Ibid. The
19 Team included a recommendation (number 14) on cost attribution and
20 distribution, noting the need for further study of volume variability models and
21 examination of alternative procedures for distributing costs, particularly allied
22 labor costs, to classes.

23 In this case, the Postal Service has proposed several changes in cost
24 attribution and distribution, two of which I believe provide a more accurate
25 representation of cost behavior and cost causation. Below I describe the nature
26 of improvements in the Postal Service's methodology for mail processing
27 attribution and suggest further enhancements. In terms of distribution, as
28 described by witnesses Stralberg and Glick, the Postal Service in this case has
29 taken one step forward and one step back. While expounding correctly on the
30 interplay between the hours in allied operations and the workload in both allied
31 and distribution operations and taking this relationship into account in the

1 distribution of allied not-handling costs, the Postal Service failed to take this
2 relationship into account in its distribution of allied mixed-mail costs. This was
3 especially disappointing to publishers in light of the Commission's decision in the
4 last case. In its decision, the Commission both noted the validity of our
5 arguments about the effect of allied and distribution workloads on allied work
6 hours, and it distributed allied mixed-mail costs on tallies from both allied and
7 distribution operations. PRC Op. R97-1, para. 3172, 3178.

8 After my experience on the Team, I am more convinced than ever that
9 allied workload is dependent to a large degree on, and supportive of, the needs
10 of the distribution operations. I concur with witness Stralberg's observations in
11 this regard based on our joint field experience. My Test Year costs incorporate
12 the analyses of witnesses Stralberg and Glick, which refine the distribution of
13 mail processing costs.

14 MPA has also undertaken detailed reviews of the Postal Service
15 methodology for city carrier costs, rural carrier costs, and transportation. In these
16 areas, my calculations of Test Year costs incorporate analysis and results from
17 the testimonies of witnesses Crowder, Hay, Glick, and Nelson.

18 **A. Mail Processing Costs**

19 ***The Commission Should Accept Witness Bozzo's Estimates Of Volume*** 20 ***Variability***

21 USPS witness Bozzo, USPS-T-15, presents a state-of-the-art analysis of
22 the volume variability of 10 MODS cost pools. This analysis represents a clear
23 advance over the approach used by the Commission in Docket No. R97-1, which
24 primitively assumes that the volume variability of each mail processing activity is
25 either 100 or zero percent. Witness Bozzo explains how the traditional approach
26 originated with Docket No. R71-1 as an attempt to provide the best possible
27 estimates of volume-variability factors, given the econometric techniques
28 available in the late-1960s and the manual mail processing environment of that
29 time. Because of the difficulties of carrying out sophisticated regression analyses
30 30 years ago, the traditional approach relied purely on operational judgments to

1 identify mail-processing activities as either fixed or variable with respect to
2 volume changes. With witness Bozzo's testimony in the current case, the Postal
3 Service has taken advantage of advances in cost analysis over the past 30 years
4 to provide considered econometric estimates of volume-variability factors for a
5 set of mail processing cost pools.

6 In rejecting Dr. Bradley's analysis in Docket No. R97-1, the Commission
7 described a number of defects that it said prevented acceptance of the
8 econometric approach at that time. Witness Bozzo has squarely addressed
9 these defects in his analysis and testimony and has incorporated important
10 changes.

- 11 • His regressions include lag terms that reflect cost responses over a
12 full year, in contrast to the single lagged accounting period used by
13 Bradley.
14
- 15 • He performs a more modest scrubbing of the data, removing an
16 average of 9.6 percent of the data as opposed to Bradley's removal
17 of 22.4 percent. Tr. 15/6383 Table 3; PRC OP. R97-1, Appendix F,
18 Table F-1.
19
- 20 • He adds wage, capital and network variables, including both
21 standard cost function variables and controls for network effects
22 important to mail processing.
23
- 24 • He worked with witness Degen to make sure his quantification was
25 firmly grounded in operational realities.

26 These changes argue strongly for Commission acceptance of a cost analysis for
27 mail processing in this docket that marries operational considerations and
28 sophisticated quantification techniques.

29 USPS witness Degen, USPS-T-16, provides an extensive operational
30 analysis supporting the concept that mail processing volume variability is less
31 than 100 percent. He analyzes the Postal Service network as well as individual
32 operations and demonstrates that the structure of the operations themselves lead
33 to the conclusion that volume variability differs by operation and is less than 100
34 percent for the numerous operations he studies. Further validating his
35 conclusions, he also analyzes the differences in variability among operations and

1 explains these differences in operational terms. For example, in discussing
2 manual sortation he says,

3 The estimated volume-variabilities for all the manual cost
4 pools are substantially less than one, as expected. The
5 lowest estimate is for Priority Mail and parcels where the
6 low volumes mean that set-up and takedown times are
7 substantial portions of the total workhours. Manual letter
8 and flat sortation have higher volume-variabilites reflecting
9 their substantially higher volumes.

10
11 Manual flat sortation has slightly higher volume-variability
12 than manual letter sortation. Manual flat sortation involves
13 proportionately more production sorting as opposed to
14 functioning as a backstop. This can be seen from the fact
15 that the proportion of flats sorted manually is more than
16 twice the share of letters sorted manually. Relatively less
17 of a backstop role for manual flat sortation means more
18 time at full capacity and greater volume variability.

19 USPS-T-16 at 52.

20 My own extensive field observations corroborate witness Degen's
21 analysis. For example, I have observed numerous set ups and pull downs
22 of sort schemes on all postal sorting equipment, including SPBSs, FSM
23 881s, and FSM 1000s. In my experience, the time required to set up and
24 tear down a scheme, which can be a considerable proportion of the total
25 time on that scheme, is generally independent of the volume run through
26 it. I have also observed substantial variations in speed of both manual
27 and mechanized processing, depending on volume. Higher volumes lead
28 clerks to process mail more quickly, but at a rate that appears sustainable,
29 leading to marginal cost being less than average cost.

30 ***Witness Bozzo's Econometric Volume-Variability Estimates Should Be***
31 ***Extended To Other Cost Pools Based On Analogies And Operational***
32 ***Comparability***

33 In leaving many of the mail processing volume-variability factors arbitrarily
34 set at 100 percent, Witness Bozzo has failed to provide the best estimates for
35 those cost pools. The testimonies of witnesses Bozzo and Degen describe

1 operational information that can be used to improve the estimated volume-
2 variability factors of many of these mail processing cost pools. First, witness
3 Bozzo has identified a number of analogies between cost pools where he
4 estimated econometric variabilities and cost pools where he did not. Tr. 15/6263-
5 64, 6278-80. To identify these analogous cost pools, he relied on the testimony
6 of witnesses Degen and Kingsley. USPS-T-10. Witness Bozzo supports the use
7 of these analogies to derive more accurate estimates of volume-variability
8 factors:

9 I believe the use of econometric results for analogous
10 operations is potentially superior to the IOCS-based
11 method in that it makes use of the qualitative operational
12 information used to derive the analogies as well as the
13 quantitative evidence for the analogous operations.

14 Tr. 15/6278-79.

15 Witness Bozzo's suggested analogies involve mail-processing activities that are
16 closely related. For example, it is intuitively obvious that the characteristics of
17 the Non-MODS manual letters cost pool are likely to be similar to the
18 characteristics of the Function 1 MODS manual letters cost pool.

19 In Table 4, I present revised volume-variability factors for seven cost pools
20 that use the analogies that witness Bozzo has described. These revised volume-
21 variability factors are the best current estimates based on available operational
22 and econometric information. Tr. 15/6381-86.

Table 4. Volume-Variability Factors for Analogous Cost Pools¹

Cost Pool	Analogous Function 1 Cost Pool	Volume Variability
LD41—Unit Distribution—Automated	BCS	0.897
LD42—Unit Distribution—Mechanized	FSM	0.820
Automated/ Mechanical Operations (Non-MODS)	BCS	0.897
Manual Letters (Non- MODS)	Manual Letters	0.737
Manual Flats (Non- MODS)	Manual Flats	0.773
Manual Parcels (Non- MODS)	Manual Parcels	0.522
SPBS & IPP (BMC)	SPBS	0.645

¹Tr. 15/6264, 6280, 6283 (Bozzo).

***Witness Bozzo's Analysis Can Be Used To Develop A Better Estimate Of
The Variability Of Allied Operations***

It is very unfortunate that witness Bozzo was unable to satisfactorily conclude econometric volume-variability analyses for the allied operations cost pools in mail processing, since it is clear that the assumption of 100 percent volume variability is even more inappropriate for the allied operations than for the distribution operations. As stated by witness Degen, [m]y analysis of the allied operations indicates that the allied operations have lower volume-variabilities than the distribution operations" USPS-T-16 at 69. This conclusion is further bolstered by witness Bozzo's preliminary econometric analyses of four MODS allied operations, which show aggregate variabilities ranging from 54.3 to 69.0 percent. USPS-T-15 at 136-39; Tr. 15/6233.

The observations of the Team certainly also support the notion that the volume variability of allied operations is substantially less than 100%. In fact, the Team in its recommendation on cost attribution, singled out allied operations as requiring extensive rethinking. Team Report at 38. Certainly, in both opening unit and platform operations, there are significant planned idle periods. For

1 example, on the platform, allied labor must be available to unload trucks, but at
2 certain times of the day more time is spent waiting than unloading. Because of
3 this, increases in mail volume would result, at least in part, in less waiting time
4 per employee rather than proportionate increases in staffing. Further, allied
5 operations function as backstops for bundle distribution operations on the SPBS
6 and as such are subject to the lower volumes and excess capacity found in
7 manual backstop operations as well. The self-paced nature of allied operations
8 will also lead to lower volume variability as the speed with which workers process
9 mail will vary with the amount of mail to be worked.

10 The Postal Service's estimates of allied volume-variability factors can be
11 substantially improved by making use of the operational and quantitative
12 evidence that the allied operations have a lower volume variability than the
13 sorting operations. As an interim measure, pending a complete econometric
14 analysis of the allied operations, I believe that the composite volume-variability
15 factor of the sorting operations should be used as an upper bound for the volume
16 variability factors of the allied operations. This composite volume-variability
17 factor is 77.5 percent. Tr. 15/6276; revised according to Tr. 15/6381.

18 Witness Bozzo describes eight Function 1 MODS cost pools without
19 econometrically estimated volume-variability factors that involve allied
20 operations. Tr. 15/6276. In addition, he describes three BMC cost pools that
21 involve allied operations (Platform, Allied Labor & All Other Mail Processing, and
22 Sack Sorting Machine), and one Non-MODS cost pool that involves allied
23 operations (Allied Operations). Finally, there are two Function 4 MODS cost
24 pools that involve a mix of allied and sorting operations (LD43 and LD44). Tr.
25 15/6278, 6281. For these 14 cost pools, I use the composite volume-variability
26 factor from the sorting operations as an upper bound that represents the most
27 accurate available estimate of the volume-variability factor in allied operations.

1 ***Witness Stralberg Provides A More Accurate Distribution of Allied Mixed***
2 ***Mail Costs***

3 In Docket No. R97-1, I provided both direct and rebuttal testimony
4 regarding the appropriateness of distributing mixed-mail and not-handling costs
5 in the allied cost pools to mail classes and subclasses on the basis of tallies in
6 both the allied cost pools and the distribution cost pools. I explained that allied
7 workload depends both on the volumes being dock-transferred at a facility as
8 well as the volumes that need to be prepared for and moved into the facility for
9 bundle and piece distribution. See generally Docket No. R97-1, MPA-T-1, MPA-
10 RT-1. The Commission agreed with this finding, noting that allied workload
11 consists of both the piece-distribution support function and the bypass
12 processing function. PRC Op. R97-1, para. 3169-3179.

13 My experience with the Team leaves me more convinced than ever
14 regarding the interplay between allied workhours and the needs of distribution
15 operations. Clerks and mailhandlers in allied operations separate barcoded mail
16 from nonbarcoded mail and machineable mail from nonmachineable mail to get it
17 ready for distribution. These separate mail streams are then moved to the
18 appropriate distribution operation. The situation is similar for the times when
19 clerks and mailhandlers are not handling mail. In these times, clerks and
20 mailhandlers in allied operations are either awaiting the arrival of mail to be
21 prepared and separated or providing reserve capacity if distribution operation
22 capacity is exceeded.

23 Based on my experience, I am not surprised that witness Bozzo's
24 empirical evidence demonstrates that volumes at the piece-distribution
25 operations are the primary drivers of allied costs. USPS-T-15 at 138.

26 Both witnesses Stralberg and Glick discuss this matter extensively in their
27 testimonies. Witness Stralberg demonstrates operationally that piece-distribution
28 support is a significant portion of allied workload. Witness Glick provides
29 additional support for the appropriateness of distributing allied mixed-mail and
30 not-handling costs based upon tallies in both allied operations and distribution
31 operations. I adopt witness Stralberg's distribution methodology for allied mixed-

1 mail costs and allied not-handling costs in my calculation of revised Test Year
2 costs. See MPA-LR-3. Combining this distribution with the lower variabilities
3 described above reduces Base Year Periodicals mail processing costs by \$127
4 million.

5 **B. City Carrier Street Costs**

6 ***The Results of the Engineering Standards Study Are Unreliable and Should***
7 ***Not Be Used***

8 The Postal Service in this case has proposed a new methodology to
9 segment the street-time costs of city delivery carriers. This new methodology,
10 which leads to extraordinary departures from the street-time survey results used
11 in previous cases, relies on the results of a survey of carrier street activities
12 which, by the Postal Service's own admission, "was not designed to produce
13 information for use in an omnibus rate proceeding." Opposition of United States
14 Postal Service to Advo Motion to Compel Answers to Interrogatories
15 ADVO/USPS-T13-2 and 19(c) to Witness Raymond, March 16, 2000, at 3. In
16 addition, the survey was not designed with statistically valid sampling frames.
17 Unfortunately, the study also failed to utilize training manuals or written
18 instructions to data collectors on how to identify and record specific activities,
19 leading to great uncertainty and potential bias in the assignment of time to
20 various street activities.

21 As will be described by witness Crowder, the results of the Engineering
22 Standards (ES) study presented by witness Raymond cannot be validated and, in
23 some cases, contradict the USPS explanation for them. Further, there are
24 several reasons to believe that the ES results are not only unreliable, but may
25 also be biased toward an excess of load time. Overall, the proportion of load
26 time seems incredibly high, with the results for park and loop routes, for example,
27 showing carriers spending as much time loading mail into receptacles as they do
28 moving between delivery points. By comparing the time measurements
29 contained in the ES database against the accompanying videotapes of route
30 segments, one can see that this anomaly may be caused to some extent by

1 inconsistent and potentially biased ES data collector coding of carrier activities.
2 Specifically, a review of selected ES video tapes of route segments strongly
3 suggests that (a) the ES data collectors were inconsistent in the coding of their
4 observations which ultimately became the ES load and run time tallies, and (b)
5 the ES load time proportion contains more than the strict rate-making standard
6 for load time. Accordingly, the current LTV load time variability, based on the
7 stricter rate-making standard for load time, is not correctly matched with the
8 accrued load cost, as measured by the ES load time proportions. To the extent
9 that the ES accrued load cost overstates true load cost, the application of the
10 mismatched LTV load variability causes a serious overstatement of variable load
11 cost.

12 Witness Hay (MPA-T-4) describes the impropriety of using the ES
13 database for rate-making purposes. Based on his and witness Crowder's
14 detailed analysis of this flawed study, I advocate that the Commission not use the
15 anomaly-laden results to depart so radically from the street time proportions used
16 in Docket No. R97-1 and preceding cases. The new results do not meet the
17 Commission's standards for statistical studies and create a bias towards
18 excessive levels of load time. In calculating Test Year costs for Periodicals, I use
19 the existing Commission methodology to segment and attribute city carrier street
20 costs. Using the existing city carrier costing methodology reduces Base Year
21 Periodicals city carrier costs by \$50 million.

22 ***If The Commission Were to Consider Using the Engineering Standards***
23 ***Study, It Should Measure Load Time Variability On a Consistent Basis***

24 While we have been unable to determine precisely what information is
25 contained in the Engineering Standards database in order to test and evaluate it
26 fully, important information about the study and additional output from the ES
27 study database has recently come to light. On May 12, 2000, the Postal Service
28 filed a Library Reference, prepared by Foster Associates, containing a load-time
29 variability analysis based on the Engineering Standards Database. USPS-LR-I-
30 310.

1 As described in the Foster Associates Report, “[u]ntil now, only the work
2 sampling tally data...has been used to support rate case cost analyses.” USPS-
3 LR-I-310 at 1. Foster Associates has now determined that new volume and
4 possible delivery points data from a subset of Engineering Standards data set
5 routes “provide an opportunity to conduct new load-time regression analyses.”
6 Apparently, while the Postal Service chose to use only part of the results of the
7 ES study, data were also collected in that study that can be used to estimate new
8 load-time variabilities in conjunction with witness Raymond’s street time
9 proportions

10 The Foster Associates Report evaluates the new model against the earlier
11 load-time variability model. It concludes, “[h]owever, the route-level regression’s
12 use of more recent data, its much improved econometric estimation, its
13 operationally sensible results, and its good predictive performance present
14 perhaps even more compelling reasons to substitute it for the stops-level
15 regressions.” USPS-LR-I-310 at 23.

16 Not surprisingly, given the apparent overestimation of load time costs by
17 witness Raymond, the corresponding load time variability is lower than the load
18 time variability that corresponds to the established load-time measurements. If
19 the Commission were to consider using the street-time proportions obtained by
20 witness Raymond, it would of necessity have to pair that cost estimate with the
21 load time variability analysis developed as part of the same study. The details of
22 this analysis are presented in USPS-LR-I-310.

23 ***Correction to Variability of Loop/Dismount Costs***

24 As described in witness Nelson’s testimony, a correction is needed to the
25 Postal Service’s calculation of the variability of driving time for park and loop
26 routes. The method proposed by the Postal Service fails to account for the
27 interaction between the volume variability of looping points and dismounts. As
28 discussed by witness Nelson, the conversion of current loop delivery points to
29 dismounts as volume increases moderates the need to add looping points.
30 Conversely, if a volume increase on loops is accommodated by an equal

1 percentage increase in the number of loop parking points, none of the stops on
2 those loops will need to be converted to dismounts, and the number of dismounts
3 will not change.

4 The change proposed by witness Nelson reduces the overall variability of
5 loop/dismount driving time to 32 percent from the 41 percent proposed by the
6 Postal Service. This reduces Base Year Periodicals costs by \$ 7 million.

7 **C. Rural Carrier Costs**

8 The Postal Service uses data from the National Mail Count (NMC) to
9 determine rural carrier costs by cost driver and data from the Rural Carrier Cost
10 System (RCCS) to distribute these costs to mail subclasses. Because of
11 differences in the ways these two data systems define flat mail, the Postal
12 Service recodes some RCCS letters as flats so that the resulting flats percentage
13 for the RCCS data is consistent with the cost data from the NMC. In this case,
14 the Postal Service proposes to determine the proportion of letters to recode as
15 flats by comparing the RCCS flats percentage for the four-week period of the
16 NMC with the NMC flats percentage.

17 While the Postal Service uses this approach because it compares data
18 from the same time period, it is inappropriate because RCCS data during the
19 four-week period of the NMC, or any other four-week period, is infected with high
20 sampling error. MPA/USPS-49. For this reason, annual RCCS data, which
21 contain much less sampling error, MPA/USPS-49 (filed on May 12, 2000),
22 should be used to determine the RCCS flats percentage. Witness Glick provides
23 more detail on this point. Use of witness Glick's methodology reduces Base Year
24 Periodicals costs for rural carriers by \$13 million.

25 **D. Transportation Costs**

26 ***Witness Bradley Overstates The Variability Of Purchased Highway*** 27 ***Transportation Costs***

28 As described by witness Nelson, witness Bradley's quantitative analysis of
29 volume variability for purchased highway transportation costs is inconsistent with

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 Roadrailleurs Is***
11 ***Incorrect***

12 There is a new type of transportation cost in this case, namely the use of
13 "roadrailleurs" as part of the Amtrak rail service. Movement of mail by roadrailleurs
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, roadrailler 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 roadrailleurs
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 using a key that combines the volume variable costs associated with purchased
2 highway as well as freight rail and Amtrak. This refinement reduces Periodicals
3 Base Year costs by \$5 million.
4

5 **IV. TEST YEAR COSTS**

6 To develop TYAR costs by subclass, I roll forward and piggyback the
7 Base Year costs for mail processing, city carriers, rural carriers, and purchased
8 transportation costs that were presented by Periodicals Mailers witnesses. To do
9 this, I use ratios of Test Year-to-Base Year costs from the Postal Service's
10 proposal, Exhibits USPS-11A and USPS-14K, as well as USPS Test Year
11 piggyback factors, USPS-LR-I-77. Then, I adjust TYAR costs for Periodicals
12 subclasses downward to reflect the cost reduction programs identified in Section
13 II of this testimony.² MPA-LR-4 implements this method. Table 3 below
14 summarizes TYAR costs by subclass.

² / Some of these cost reduction programs will also affect other classes. I have not calculated savings for other classes.

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

1 face if the Postal Service's proposed rates are approved by the Commission. As
2 shown in the attachment, there is an unprecedented degree of consistency to the
3 rate increases facing MPA's membership. Despite public statements by the
4 Postal Service that smaller commercial mailers are facing more modest
5 increases, the average increase for smaller-circulation magazines within MPA is
6 every bit as high as for the larger-circulation magazines. The proposed increase
7 for ABM members is similar, averaging 15 percent and with a very narrow range
8 around the 15 percent average.

9 Given the magnitude of cost savings and improved cost attributions and
10 distributions I present in this testimony and the corresponding decrease in the
11 Test Year costs of Periodicals, there is no need for any of the Periodicals
12 subclasses to have a rate increase that exceeds the system average.

13 **B. Ride-Along Revenues**

14 In calculating Test Year revenues for Periodicals, the Commission should
15 include the \$10 million of revenue for Periodicals "Ride-Along" enclosures that
16 witness Taufique estimated in Docket No. MC00-1. Docket No. MC00-1, USPS-
17 T-I, Exhibit I. As witness Taufique testified in MC00-1, these revenues should be
18 included in the Periodicals class just as their costs are: "Currently, the revenue
19 stream, albeit a small one, generated with these enclosures or attachments is
20 reported with Standard (A), but additional costs, if any, are included with the
21 Periodicals subclass". Docket No. MC00-1, USPS-T-I at 2. There has already
22 been substantial interest in the new experimental service, and there is no reason
23 to doubt that volume and revenue projections from MC00-1 will be met.

24 I would note that this estimate of additional Periodicals revenue in the Test
25 Year is conservative in that there may be publishers who continue to use
26 Standard (A) enclosures instead of the experimental ride-along service. This
27 would be the case, for example, for enclosures that do not meet the stringent
28 physical characteristics required of ride-along enclosures. As described by
29 witness Taufique, the revenues for such enclosures continue to accrue to

1 Standard A even though the costs are attributed to Periodicals. Correcting this
2 inequity would yield additional revenues for Periodicals.

3 **C. Cost Avoidance for Rate Design**

4 As described in detail by witness Stralberg and PostCom witness Glick
5 (PostCom-T-1), the USPS flats cost model (USPS-LR-I-90) contains many
6 incorrect and inconsistent assumptions, including those regarding bundle
7 breakage, bundle and piece-sorting productivities, and optical character reader
8 accept rates. Therefore, witnesses Stralberg and Glick have developed an
9 improved version (MPA-LR-2) that better reflects the reality of postal operations.
10 I recommend that the Commission use mail processing cost avoidances from this
11 improved model when designing rates for the Outside-County subclass. This
12 model should be used to calculate automation and presort discounts.

13 **D. Passthroughs For Automation Rate Categories**

14 I recommend that the Commission maintain witness Taufique's greater-
15 than-100 percent passthroughs of automation-related cost avoidances in this
16 case. USPS-LR-I-167, OC1.xls, worksheet "Piece Discounts2". As discussed by
17 PostCom witnesses Lubenow and Glick, the Postal Service's cost avoidance
18 model (even as corrected by witnesses Stralberg and Glick) accounts for the
19 benefits of the higher address quality of automation flats only to the extent that
20 they affect reject rates. Therefore, the modeled automation cost avoidance
21 understates true cost avoidance. Furthermore, in the rapidly evolving flats
22 processing environment, it would be inappropriate to change pricing signals
23 suddenly due to a temporary drop in cost avoidance. As stated by witness
24 Taufique:

25 And especially in the area of bar code discounts, if you are
26 looking at those, there were three thoughts that I had.
27 When we give a signal to the mailing community, they
28 make substantial investments to follow through on our
29 signals, and if you change those signals overnight, that
30 can cause a problem for the business community.

31
32 Number 2, the overall rate increase was significantly
33 higher, as I have pointed out earlier, 12.7 percent

1 compared to all the other classes, a 100 percent discount,
2 100 percent passthroughs would have led to increases of
3 more than 20 percent for some rate cells, and these were
4 rate cells that had large volumes of mail in them.
5

6 And, Number 3, my thought was that at least my basic
7 understanding of how flats processing is evolving at the
8 Postal Service, it is not settled, things are changing, and it
9 is possible that bar codes in the future environment of
10 different types of machines and doing DPS (sic) at the
11 plant level will become more valuable.

12 Tr. 17/7037-38.

13 **E. 5-Digit Pallet Discount**

14 In its report, the Team noted that "[m]ailers can help [reduce USPS costs]
15 by . . . entering bundles, to the extent feasible, on pallets instead of in sacks.
16 Sacked mail, besides incurring high sack handling costs, sustains substantial
17 breakage during the sack sorting operations. Pallets with finer levels of presort
18 will also reduce the probability of breakage by reducing the number of bundle
19 sorts needed." Team Report at 25. Towards the goals of reducing bundle
20 breakage and Postal Service container handling costs, I support witness
21 Stralberg's proposal for a two-cent discount for pieces presented on 5-digit
22 pallets that are drop shipped to DSCFs or DDUs. Such a discount will help
23 overcome the high cost barriers to the creation of 5-digit pallets and provide the
24 Postal Service with its preferred type of container.

25 **F. DDU Rate Design**

26 Witness Stralberg also identifies a mistake in the Postal Service's
27 calculations of the DDU cost avoidance for Periodicals mail. While USPS
28 procedures require that drivers unload mail that is drop shipped to delivery units,
29 witness Crum's model of Periodicals dropship cost savings (USPS-LR-I-175)
30 assumes that Postal Service employees unload the truck. As witness Stralberg
31 shows, correcting this mistake increases the DDU cost savings for the
32 Periodicals Regular subclass by 0.73 cents per piece. He estimates that this will
33 lead to an increase in the per-piece and per-pound discounts for DDU entry of
34 0.5 cents.

Attachment A.

Periodicals Regular Rate Increase for MPA Members

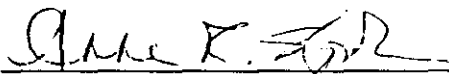
Publication	Rate Increase (%)
1	14.9%
2	15.5%
3	15.7%
4	15.5%
5	15.5%
6	16.3%
7	15.8%
8	16.3%
9	14.9%
10	13.9%
11	15.6%
12	15.7%
13	15.9%
14	15.1%
15	16.0%
16	15.4%
17	15.5%
18	15.6%
19	15.9%
20	16.1%
21	15.8%
22	15.3%
23	14.5%
24	15.0%
25	15.2%
26	14.8%
27	14.6%
28	14.9%
29	15.1%
30	14.7%
31	15.0%
32	15.3%
33	15.2%
34	15.3%
35	14.6%
36	14.7%
37	14.9%
38	15.1%
39	14.9%
40	15.2%
41	15.1%
42	15.0%

43	15.2%
44	15.1%
45	13.7%
46	15.2%
47	15.0%
48	15.1%
49	14.9%
50	11.6%
51	16.0%
52	15.0%
53	14.6%
54	15.9%
55	14.9%
56	15.4%
57	15.1%
58	15.1%
59	15.6%
60	15.4%
61	15.0%
62	15.1%
63	15.1%
64	15.2%
65	14.6%
66	14.6%
67	14.7%
68	14.7%
69	14.9%
70	14.8%
71	14.6%
72	15.1%
73	14.7%
74	15.0%
75	15.4%
76	15.1%
77	15.1%
78	15.4%
79	15.4%
80	14.9%
81	15.3%
82	16.3%
83	14.7%
84	15.8%
85	15.0%
86	15.2%
87	15.0%
88	15.0%
89	14.5%
90	15.1%

91	15.6%
92	15.3%
93	15.0%
94	15.3%
95	15.2%
96	15.4%
97	15.5%
98	15.1%
99	14.7%
100	9.7%
101	9.7%
102	15.0%
103	14.7%
104	15.2%
105	15.3%
106	15.3%
107	14.5%
108	14.8%
109	15.1%
110	14.9%
111	15.6%
112	16.0%
113	15.5%
114	15.2%
115	15.4%
116	15.2%
117	15.1%
118	14.9%
119	14.5%
120	14.6%
121	14.8%
122	14.6%
123	15.7%
124	14.7%
125	14.8%
126	15.0%
127	14.5%
MPA Total	14.9%

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, D.C.
May 22, 2000

1 CHAIRMAN GLEIMAN: Ms. Cohen, have you had an
2 opportunity, Mr. Glick, to review the packet of designated
3 written cross-examination that was made available earlier
4 today?

5 THE WITNESS: Yes, I have.

6 CHAIRMAN GLEIMAN: And if those questions were
7 asked of you today, would your answers be the same as those
8 you previously provided in writing?

9 THE WITNESS: Yes, they would.

10 CHAIRMAN GLEIMAN: That being the case, counsel,
11 if I could get you to provide two copies to the court
12 reporter the material in question, which is the designated
13 written cross examination of Witness Cohen, will be received
14 into evidence and transcribed into the record.

15 [Designated Written
16 Cross-Examination of Rita D. Cohen,
17 MPA-T-1, was received into evidence
18 and transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF MAGAZINE PUBLISHERS OF AMERICA
WITNESS RITA D. COHEN
(MPA-T-1)

Party

Interrogatories

Office of the Consumer Advocate

OCA/MPA-T1-1-5

United Parcel Service

OCA/MPA-T1-1, 4-5
UPS/MPA-T1-5

United States Postal Service

OCA/MPA-T1-1-5
UPS/MPA-T1-1-5
USPS/MPA-T1-1-9

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
MAGAZINE PUBLISHERS OF AMERICA
WITNESS RITA D. COHEN (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
OCA/MPA-T1-1	OCA, UPS, USPS
OCA/MPA-T1-2	OCA, USPS
OCA/MPA-T1-3	OCA, USPS
OCA/MPA-T1-4	OCA, UPS, USPS
OCA/MPA-T1-5	OCA, UPS, USPS
UPS/MPA-T1-1	USPS
UPS/MPA-T1-2	USPS
UPS/MPA-T1-3	USPS
UPS/MPA-T1-4	USPS
UPS/MPA-T1-5	UPS, USPS
USPS/MPA-T1-1	USPS
USPS/MPA-T1-2	USPS
USPS/MPA-T1-3	USPS
USPS/MPA-T1-4	USPS
USPS/MPA-T1-5	USPS
USPS/MPA-T1-6	USPS
USPS/MPA-T1-7	USPS
USPS/MPA-T1-8	USPS
USPS/MPA-T1-9	USPS

**RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA WITNESS COHEN
TO INTERROGATORIES OF OFFICE OF THE CONSUMER ADVOCATE
(OCA/MPA-T-1-1-5)**

OCA/MPA-T-1-1. Please refer to page 21 of your testimony, lines 21 through 22. You state that the testimony presented by USPS witness Bozzo is "state-of-the-art."

- (a) Please indicate whether you believe that Dr. Bozzo's testimony is long run or short run in its economic modeling analysis.
- (b) Please state whether you believe the economic modeling effort should be long run or short run.
- (c) Please state your understanding of the Commission's findings on the issue of whether the economic modeling effort should be long run or short run.

Response:

- a. Dr. Bozzo stated at Tr. 15/6402-6406 that his analysis is short run, in the sense that he assumes some factors of production are "fixed" when the Postal Service decides how to staff its mail processing operations. I have no basis for disagreement with Dr. Bozzo's characterization of his own work.
- b. As the Commission has stated in the past: "The appropriate horizon for the Commission's work should reflect the period of time that the Commission's recommended rates would remain in effect if accepted by the Postal Service Board of Governors" (PRC Op., Docket No. R97-1, Vol. 1 at 73). Strictly speaking, the Commission does not specify a long run or a short run analysis, as I understand it, but rather a period of time which is approximately two to three years. Some of the Postal Service's "factors of production" clearly are not fully variable over a period of two to three years.
- c. Please see my response to part (b).

OCA/MPA-T-1-2. Please refer to page 22 of your testimony, lines 2 through 5.

- (a) Do you believe that witness Bozzo has provided an economic model that is theoretically correct, has included all necessary variables in the analysis, and has used the correct estimating methodology?
- (b) Has Dr. Bozzo complied with the Commission's findings in Docket No. R97-1 on the subject of methodology?
- (c) If the Commission should find that Dr. Bozzo's methodology contains errors, should the study be adopted?
- (d) If your answer to (c), above, is "yes", please explain why you would advocate adopting an incorrect study.
- (e) If your answer to (d), above, is that adoption of Dr. Bozzo's methodology, even though erroneous, represents improvement over the current state of knowledge, please indicate and quantify the level of improvement.

Response.

- a. I believe that Dr. Bozzo worked with Mr. Degen and other operational experts to construct an econometric model that reflects the operational realities of mail processing over the two-to-three year period of the postal rate cycle. In my testimony at page 22, lines 11-22, I have listed the changes in the model and variables that correct deficiencies in Dr. Bradley's analysis in R97-1. Furthermore, though I do not profess to be an expert on panel data econometrics, I understand that Dr. Bozzo used well-known specification tests to select among the various estimators he considered and that his preference for the fixed-effects model is consistent with those tests (see USPS-T-15 at pages 122-124).
- b. My testimony, at page 21, lines 6-28, is that Dr. Bozzo "has squarely addressed these defects (identified by the Commission) in his analysis and testimony and has incorporated important changes."
- c. I believe that the relevant issue would be the materiality of any errors the Commission might identify.
- d. I do not recommend that the Commission adopt a materially incorrect study.
- e. Not applicable.

OCA/MPA-T-1-3. Please refer to page 24 of your testimony, lines 19 through 20, and the associated Table 4 on page 25, wherein you assert that certain mail processing activities for which volume variabilites have not been estimated are analogous to certain mail processing activities for which volume variabilities have been estimated.

- (a) In comparing analogous activities at sites for which variabilities have been computed to activities for which variabilities have not been computed, have you gathered comparable data for comparing the sites at which the two types of activities are performed, such as the size of the sites, magnitude of the activities, capital use, geographical location, network position, and other relevant characteristics? If so, please furnish the data.
- (b) Please provide information on site visits during which you developed the above information, including the activity observed, date, location, and all data collected.
- (c) Please indicate how the information collected in (b), above, was analyzed to arrive at your conclusion.

Response:

- a. I have not collected quantitative data. My recommendation is based on the operational analogies provided by Dr. Bozzo, which in turn are based on the testimonies of Mr. Degen and Ms. Kingsley, as I state at page 24, lines 2-6. Since Mr. Degen also served with me on the Periodicals Operations Review Team, many of his operational descriptions refer to observations that we both had the opportunity to make during our many field visits. Furthermore, as I state at page 24, lines 15-18, "Witness Bozzo's suggested analogies involve mail-processing activities that are closely related. For example, it is intuitively obvious that the characteristics of the Non-MODS manual letters cost pool are likely to be similar to the characteristics of the Function 1 MODS manual letters cost pool."
- b. Not applicable.
- c. Not applicable.

OCA/USPS-T-1-4. Please refer to page 25 of your testimony, lines 9-11, in which you comment on witness Degen's testimony.

- (a) In your view, does witness Degen's testimony consider the long run or the short run aspects of mail processing?
- (b) Please provide the basis for your understanding.

Response:

- a. As I discussed in my response to OCA/MPA-T1-1, witness Bozzo has described the Bozzo/Degen analysis as short run, in the sense that some factors of production are assumed to be "fixed" during the analytical period.
- b. Please see the response to part (a).

OCA/USPS-T-1-5. Please refer to page 26 of your testimony, lines 10-13, in which you discuss allied volume variability factors. You advocate that the composite volume variability factor of the sorting operations should be used as an upper bound for the volume variability factors of the allied operations.

- (a) Do you have a study to substantiate this statement? If so, please provide the study.
- (b) Do you have studies, analyses, or position papers to substantiate any of your other suggestions concerning allied volume variability factors? If so, please furnish the studies, analyses, or position papers.

Response:

- a. As I state in my testimony at page 25, lines 9-18, my recommendation is substantiated by my observations of allied operations as part of the Periodicals Operations Review Team, Mr. Degen's analysis of allied operations in USPS-T-16, and Dr. Bozzo's preliminary updates to Dr. Bradley's allied labor models, presented in response to MPA/USPS-T15-1, Tr. 15/6233.
- b. I am not sure what "other suggestions concerning allied volume variability factors" you believe I make, apart from the recommendation that the sorting operation composite variability be used as an upper bound for the allied operations. As a general matter, my position on allied labor variability is substantiated by the analysis described in my response to part (a).

**RESPONSE OF MAGAZINE PUBLISHERS OF AMERICA WITNESS COHEN
TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/MPA-T-1-1-5)**

UPS/MPA-T1-1. Confirm that the following volume variability factors are used in MPA's calculation of volume variable mail processing costs. If not confirmed, explain in full. If confirmed, provide the basis for using these factors.

FACILITY TYPE	COST POOL	MPA
MODS	LD43	0.775
MODS	LD44	0.775
BMC	SSM	0.775

Source: Library Reference MPA-LR-3 (files "dolwgt" and bmc4).

Response:

Confirmed.

The MODS LD43 and LD44 cost pools involve a mix of allied and sorting operations, as I note in my testimony at page 26, lines 23-24. For the allied operations in general, I use the composite volume-variability factor from the sorting operations as "an upper bound that represents the most accurate available estimate." Since most of the rest of the operations in these cost pools involve sorting operations, as identified by Dr. Bozzo, I have also used the sorting operation composite as an approximation of the volume-variability factors for the rest of these operations. Dr. Bozzo provides an alternate volume-variability factor of 0.677 for these two cost pools, based on a weighted average of volume-variability factors from eight cost pools. Tr. 15/6283. I did not use his calculation in this case because it included his econometrically estimated value of 0.600 for the volume-variability of allied operations. Since I had decided to use the more conservative upper-bound estimate from the sorting operation composite for the allied operations in general, I also decided to use this more conservative estimate for the LD43 and LD44 cost pools. I could have recalculated Dr. Bozzo's weighted average using the upper-bound estimate instead, but instead I decided for simplicity to use the sorting operation composite as a general upper-bound for all of the operations included in LD43 and LD44.

The BMC SSM cost pool was identified by Dr. Bozzo as being analogous to the MODS Function 1 cost pool of Mechanical Sack Sorting (1SACKS_M). Tr. 15/6280. This is one of the cost pools that Dr. Bozzo identified as being a MODS allied labor cost pool. Tr. 15/6277.

UPS/MPA-T1-2. On page 9, line 9, of your testimony you indicate that you served as co-chair of the Periodicals Operations Review Team.

- (a) List the identities of the organizations participating in the Periodical Operations Review Team and the number of team member from each listed organization.
- (b) Confirm that the summaries and opinion reflected in the Periodicals Operations Review Team Report (referred to as the "Team Report") generally reflect the view of all of the Operations Review Team members.

Response:

(a)

United States Postal Service and Contractors (8 members)
Magazine Publishers of America (2)
American Business Press (1)
Time, Inc. (2)
Meredith Corporation (1)
The McGraw-Hill Companies (1)

(b)

In writing the Team Report, our goal was to accurately report our observations and develop fact-based conclusions and recommendations. This meant reporting the problems we saw in both Postal Service operations And mail preparation. We also made a significant effort to ensure that the conclusions and recommendations stated in the report represented a consensus among Team members. This meant that some conclusions were not stated as strongly as some Team members would have liked. Therefore, I believe that while all members of the Team agree with all of the conclusions and to each of the recommendations, Team members may disagree on the importance of each recommendation.

UPS/MPA-T1-3. On page 21, lines 21-22, of your testimony, you opine that "USPS witness Bozzo, USPS-T-15, presents a *state-of-the-art* analysis of the volume variability of 10 MODS cost pools" (emphasis added). Please identify the characteristics of Dr. Bozzo's study that, in your opinion, qualify if as a state-of-the-art econometric study.

Response:

It is my understanding that the approach used by Dr. Bozzo is the kind of approach an econometrician would be expected to use today. For more detail, please see my response to OCA/MPA-T1-2(a).

UPS/MPA-T1-4. On page 22, lines 8-10, of your testimony, you state that "Witness Bozzo has squarely addressed these defects [which prevented the Commission from acceptance of Dr. Bradley's econometric approach in Docket No. R97-1] in his analysis and testimony..."

(a) In Docket No. R97-1, the Commission was concerned about unobserved facility-specific effects changing over time (Docket No. R97-1 Opinion, Volume 1, at 86, and Volume 2, Appendix F at 10).

(i) Does Dr. Bozzo address this concern in the analysis he presents in USPS-T-15? If your answer is yes, explain in detail the basis of your response, and provide appropriate citations to USPS-T-15. If your answer is no, reconcile your response with your statement on page 22, lines 8-10, of your testimony, referenced above.

(b) In Docket No. R97-1, the Commission expressed concern about the validity of the proportionality assumption (see Docket No. R97-1 Opinion, Volume 2, Appendix F at 17-19).

(i) Does Dr. Bozzo address this concern in the analysis he presents in USPS-T-15? If your answer is yes, explain in detail the basis of your response, and provide appropriate citations to USPS-T-15. If your answer is no, reconcile your response with your statement on page 22, lines 8-10, of your testimony, referenced above.

Response:

- (a)(i). Yes. As indicated in my testimony at page 22, lines 20-22, Dr. Bozzo explicitly includes in his models three variables that were not present in Dr. Bradley's data set and which capture the effects of time-varying facility-related factors on cost pool workhours: the wage variable, the facility capital variable, and the possible deliveries variable. See also Dr. Bozzo's model specifications at pages 117-118 of USPS-T-15.
- (b)(i). Yes. Dr. Bozzo addresses issues related to the "distribution key" method, including the "proportionality assumption," in USPS-T-15 at pages 28-29 and 53-56.

UPS/MPA-T1-5. On page 22, lines 24-25, of your testimony, you state that Dr. Bozzo has "worked with witness Degen to make sure his quantification was firmly grounded in operational realities." In describing activities at mail processing operations, Mr. Degen describes the highly dynamic way in which mail is allocated across parallel processing operations (USPS-T-16, pages 18-20). Where, if at all, does Dr. Bozzo reflect this institutional reality in the analysis he presents in USPS-T-15? Explain in detail the basis of your response, and provide citations to USPS-T-15. Reconcile any contradictions of your response with your statement on page 22, lines 24-25, of your testimony, referenced above.

Response:

The cited section of Mr. Degen's testimony is entitled "Network and Location-Related Factors Affect Costs, But Do Not Change With Volume." I believe that Dr. Bozzo's models reflect the "institutional reality" described by Mr. Degen in this section in the following four significant ways:

- use of the "manual ratio" variable, where appropriate, to capture the effects of the allocation of mail among the manual and automated operations on cost pool labor requirements (see USPS-T-15 at pages 49 and 116-117);
- use of the facility capital variable, to capture the effects of equipment and, potentially, some aspects of plant configuration on cost pool labor requirements (see USPS-T-15 at pages 15, 88, 116-117; Tr. 15/6407-6408);
- use of the possible deliveries variable, which plays a significant non-volume role in determining sort schemes, processing windows, and consequently the non-volume effects of those factors on cost pool labor requirements (see USPS-T-15 at pages 47-49; 116-117);
- provision for "fixed effects," to capture the effect of fixed cost-causing factors (such as whether the facility is located in a large urban area) that are difficult or impossible to quantify otherwise on cost pool labor requirements (see USPS-T-15 at pages 25-26, 35-36, 67-70, and 122-124).

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
MAGAZINE PUBLISHERS OF AMERICA WITNESS COHEN
(USPS/MPA-T1-1-8)

USPS/MPA-T1-1. Please refer to Exhibit 5-1, footnote [2] that accompanies your testimony. Please provide the source in DMA, et al.-T-1 where these amounts appear. If these amounts do not appear in DMA, et al.-T-1, please provide the proper source or provide all calculations you relied upon to produce the results.

Response:

Witness Buc's correction to the Postal Service's estimate of Test Year cost savings related to the installation of AFSM 100s increases savings by approximately \$200 million for all mail classes. This figure can be found in column [3] of Attachment C to DMA, et al.-T-1. As stated in Exhibit 5-1, footnote [2], I determined the Periodicals share of these savings using mail processing cost distribution keys from Table 3 of witness Van-Ty-Smith's testimony (USPS-T-17). Consistent with witness Buc's cost savings analysis, which estimates that half of the savings is from replacing manual sorts and the other half is from replacing machine sorts, I distributed half of the cost savings using Van-Ty-Smith's key for manual flat sorting costs and the other half using the FSM distribution key.

USPS/MPA-T1-2. Please refer to Exhibit 4-1 that accompanies your testimony.

- a) Please confirm that the TYAR Cost amounts shown in Column [2] do not include any Final Adjustments. If you do not confirm, please explain fully.
- b) Please confirm that the TYAR Cost amounts shown in Column [2] do not include any Contingency amount. If you do not confirm, please explain fully.
- c) Please confirm that Exhibit 4-1 does not reflect "Other" or "Institutional" costs. If you do not confirm, please explain fully how "Other" costs are included in your analysis and provide all calculations showing their inclusion.

Response:

- a. Confirmed, but note that there are no final adjustments for Periodicals.
- b. Confirmed. Note that contingency is added in Exhibit 3-1.
- c. Confirmed.

USPS/MPA-T1-3. Please refer to Exhibit 4-2 that accompanies your testimony.

- a) Please confirm that the TYAR Cost amounts shown in Column [2] do not include any Final Adjustments. If you do not confirm, please explain fully.
- b) Please confirm that the TYAR Cost amounts shown in Column [2] do not include any Contingency amount. If you do not confirm, please explain fully.
- c) Please confirm that the Base Year Cost amounts shown in Column [1] would be different if the Commission's cost methodology had been used. If you do not confirm, please explain fully.
- d) Please confirm that the TYAR Cost amounts shown in Column [2] would be different if the Commission's cost methodology had been used. If you do not confirm, please explain fully.
- e) Please confirm that the Rollforward Ratio amounts shown in Column [3] would be different if the Commission's cost methodology had been used to determine the amounts in either Column [1] or Column [2]. If you do not confirm, please explain fully.
- f) Please confirm that Exhibit 4-1 does not reflect "Other" or "Institutional" costs. If you do not confirm, please fully explain how "Other" costs are included in your analysis and provide all calculations showing their inclusion.

Response:

- a. Confirmed, but note that there are no final adjustments for Periodicals.
- b. Confirmed. Note that contingency is added in Exhibit 3-2.
- c. Assuming that you are referring to the cost methodology that the Commission used in Docket No. R97-1, I confirm.
- d. Confirmed.
- e. Confirmed. Note that because the Commission's roll forward method is similar to the Postal Service's method, the Commission and Postal Service Rollforward Ratios should be similar. For this reason, either ratio would provide a good approximation of the impact of MPA-proposed changes in cost attribution and distribution on Test Year After Rates costs. Given that the Commission will run its own rollforward model to develop TYAR costs based upon all changes that it makes to the Postal Service's proposed costing methods, my goal was simply to approximate Test Year After Rates costs under the MPA proposal.

f. Confirmed.

USPS/MPA-T1-4. Please refer to Exhibit 4-3 that accompanies your testimony.

- a) Please confirm that the TYAR Cost amounts in Column [2] do not include any Final Adjustments. If you do not confirm, please explain fully.
- b) Please confirm that the TYAR Cost amounts in Column [2] do not include any Contingency amount. If you do not confirm, please explain fully.
- c) Please confirm that Exhibit 4-1 does not reflect "Other" or "Institutional" costs. If you do not confirm, please fully explain how "Other" costs are included in your analysis and provide all calculation showing their inclusion.

Response:

- a. Confirmed, but note that there are no final adjustments for Periodicals.
- b. Confirmed. Note that contingency is added in Exhibit 3-3.
- c. Confirmed.

USPS/MPA-T1-5. Please refer to Exhibit 4-4 that accompanies your testimony.

- a) Please confirm that the TYAR Cost amounts in Column [2] do not include any Final Adjustments. If you do not confirm, please explain fully.
- b) Please confirm that the TYAR Cost amounts in Column [2] do not include any Contingency amount. If you do not confirm, please explain fully.
- c) Please confirm that the Base Year Cost amounts shown in Column [1] would be different if the Commission's cost methodology had been used. If you do not confirm, please explain fully.
- d) Please confirm that the TYAR Cost amounts shown in Column [2] would be different if the Commission's cost methodology had been used. If you do not confirm, please explain fully.
- e) Please confirm that the Rollforward Ratio amounts shown in Column [3] would be different if the Commission's cost methodology had been used to determine the amounts in either Column [1] or Column [2]. If you do not confirm, please explain fully.
- f) Please confirm that Exhibit 4-1 does not reflect "Other" or "Institutional" costs. If you do not confirm, please fully explain how "Other" costs are included in your analysis and provide all calculations showing their inclusion.

Response:

- a. Confirmed, but note that there are no final adjustments for Periodicals.
- b. Confirmed. Note that contingency is added in Exhibit 3-4.
- c. Again assuming that you are referring to the cost methodology that the Commission used in Docket No. R97-1, I confirm.
- d. Confirmed.
- e. Confirmed. Also, see my response to USPS/MPA-T1-3(e).
- f. Confirmed.

USPS/MPA-T1-6. Please refer to Exhibit 3-2 that accompanies your testimony.

- a) Please confirm that the USPS methodology Rollforward Ratio in Column [2] is applied to Commission methodology Base Year differences in Column [1]. If you do not confirm, please explain fully.
- b) Please confirm that the USPS methodology Piggyback Factor in Column [4] is applied to rolled-forward Commission methodology Base Year differences in Column [3]. If you do not confirm, please explain fully.

Response:

a. Confirmed that the Base Year cost difference in column [1a] of Exhibit 3-2 is based upon comparing costs from two PRC Version Cost Segments and Components reports. I calculated this cost difference using the Commission methodology because these two reports allowed me to isolate the impact of using the Engineering Standards study on City Carrier Cost attribution. Also, confirmed that the Rollforward Ratio in Column [2] is based upon the USPS methodology.

b. Confirmed that column [4] contains the USPS methodology piggyback factor.

USPS/MPA-T1-7. Please refer to Exhibit 3-1 that accompanies your testimony.

- a) Please confirm that the Rollforward Ratio in Column [2] is the result of running the Postal Service's rollforward model. If you do not confirm, please explain fully.
- b) If the Base Year amounts in Column [1] change, would the Rollforward Ratio in Column [2] change? If amounts in Column [2] would change, please explain conceptually how they would change. If the amounts in Column [2] would not change, please explain why not.
- c) Please confirm that the Piggyback Factors in Column [4] are the result of running the Postal Service's rollforward model. If you do not confirm, please explain fully.
- d) If the Base Year amounts in Column [1] change, would the Piggyback Factors in Column [4] change? If amounts in Column [4] would change, please explain conceptually how they would change. If the amounts in Column [4] would not change, please explain why not.

Response:

- a. Confirmed that the Rollforward Ratio I used is the ratio of Test Year After Rates costs using the USPS method to Base Year costs using the USPS method. Note, however, that I did not run the rollforward model.
- b. While it certainly could have an impact, I believe the impact would be small. Also, please see my response to MPA/USPS-T1-3(e).
- c. Confirmed that Test Year Piggyback Factors are developed using Test Year costs, which are developed by rolling forward Base Year costs.
- d. While it certainly could have an impact, I believe the impact would be small.

USPS/MPA-T1-8. Please refer to Exhibit 1 that accompanies your testimony.

- a) Please confirm that the USPS amounts shown in Column [1] include Final Adjustments. If you do not confirm, please explain fully.
- b) Please confirm that the Final Adjustment amounts provided in USPS-LR-1-131, Volume J, Fiscal Year 2001 After Rates After Workyear Mix Adjustment, Table E, "D" Report (With Final Adjustments), pages 1-2, which uses the Commission's methodology, are different than the amounts shown in Column [1]. If you do not confirm, please explain fully
- c) Please confirm that the Difference amounts shown in Column [2] do not include Final Adjustments. If you do not confirm, please explain fully how the Final Adjustments are included and provide all calculations showing their inclusion.

Response:

a. Confirmed.

b. Exhibit 1, Column [1] does not contain final adjustments. Rather, it shows Test Year After Rates costs (with final adjustments) under the USPS method. I can confirm that the Test Year After Rates costs (USPS Method) in Exhibit 1, Column [1] are different than Test Year After Rates costs using the Commission methodology. Also, note that there are no final adjustments for Periodicals.

c. Confirmed.

**UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
MAGAZINE PUBLISHERS OF AMERICA WITNESS COHEN
(USPS/MPA-T-1-9)**

USPS/MPA-T-1-9. What are the Periodicals associations and industry doing to ensure that the proposed makeup requirements changes, such as L001 and combining auto and non in the same container, are being publicized to the entire range of Periodical mailers so they are prepared for implementation?

Response:

Periodicals associations are working in three areas to ensure that the proposed makeup requirement changes are publicized to the entire range of Periodicals mailers. First, the associations are publicizing these changes to their own members. In particular, MPA has had extensive discussions about the proposed changes at meetings of our Postal Committee and will supplement these discussions with notification to the entire membership when the final rules are promulgated. Also, I am informed that American Business Media's (ABM) Postal Counsel regularly sends emails to more than 100 representatives of member companies regarding changes in mail preparation requirements. He has also advised them of the importance of implementing the proposed makeup requirement changes to joint Postal Service/Periodicals Industry efforts to reduce the rate increase for Periodicals mailers. I am also informed that the National Newspaper Association (NNA) is planning a session at its October conference to discuss key elements of the rate case including changes in mail preparation standards.

Second, Periodicals associations routinely and actively participate in panel discussions regarding mail preparation changes such as these at postal conferences, such as the Graphic Communication Association's (GCA) Addressing and Distribution Conference and PostCom's Postal Policy and Operations Conference, joint regional MPA/ABM magazine conferences and MTAC Work Group meetings. Representatives of many large and small publishers and suppliers to publishers attend these events. These suppliers include printers, fulfillment bureaus, and software providers. While it is certainly possible that publishers who do not belong to a Periodicals association do not attend these conferences, many of the suppliers that do attend serve a large number of Periodicals clients. Educating these suppliers about mail preparation changes serves dual

purposes. First, these suppliers can be expected to inform and explain the changes to their clients. These suppliers use a variety of methods to educate their clients on mail preparation changes, such as the ones currently being proposed, including newsletters and other written and verbal communication. Second, some smaller publishers do not handle the more detailed aspects of mail preparation themselves but rely on their suppliers to understand and implement mail preparation changes on their behalf.

Third, Periodicals associations are updating their educational materials regarding mail preparation to reflect the proposed makeup requirement changes. For example, I am told that NNA is planning to publish an update to its Mail Preparation Handbook. Furthermore, Max Heath, chairman of the NNA Postal Committee, has already written an article about the Line-of-Travel (LOT) requirement in NNA's *Publisher's Auxiliary*, a publication sent to at least 6,000 publishers, editors, and their staff nationwide. I expect that Mr. Heath will write additional articles about mail preparation changes in his regular column in the *Publisher's Auxiliary*.

Equally important to the success of the proposed makeup requirement changes are the Postal Service's own educational efforts. These efforts include discussing the changes at conferences, at the Postal Forum, which is attended by many unaffiliated publishers, MTAC meetings, and Focus Groups as well as publishing articles about the changes in the *Postal Bulletin*, *Mailers Companion*, and *Memo to Mailers*.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross examination?

3 If not, that brings us to oral cross.

4 One party has requested oral cross examination.
5 That is the Office of the Consumer Advocate.

6 Is there any other party that wishes to cross
7 examine this witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, Mr. Richardson, when
10 you are ready.

11 MR. RICHARDSON: Thank you, Mr. Chairman.

12 CROSS EXAMINATION

13 BY MR. RICHARDSON?

14 Q Good morning or afternoon, Ms. Cohen.

15 A Good morning or good afternoon.

16 Q I would just like to explore with you first the
17 general recommendations of your testimony because you do
18 recommend volume variability for several different cost
19 pools and as I understand it, you use as a starting point
20 the Postal Service's Witness Bozzo's analysis for mail
21 processing and you rely to a large extent on Witness Bozzo's
22 studies, is that correct?

23 A I think that is a fair representation.

24 I adopt his variability for the cost pools for
25 which he used it and I use some of his additional

1 information for further recommendations.

2 Q And the cost pools which you apply different
3 volume variabilities to appear on page 24 of your -- excuse
4 me, 25 in Table 4 of your testimony and that covers seven
5 cost pools, is that correct? That's seven of the
6 modifications you make to Witness Bozzo's numbers in his
7 testimony?

8 A Right, but they are actually in Witness
9 Van-Ty-Smith's testimony where she uses the variabilities
10 but he did not make changes in these and I did.

11 Q And you are referring to Van-Ty-Smith's Table 1, I
12 believe, which is attached to Van-Ty-Smith's testimony?

13 A I think so. I don't have that with me -- if you
14 want me to look at it I would be happy to.

15 Q You will accept that subject to check?

16 A Yes.

17 Q And in addition to those cost pools if you will
18 refer to your response to the United Parcel Service UPS
19 Interrogatory UPS/MPA-T1-1, also discusses three additional
20 cost pools that don't appear on your page -- in your Table 4
21 on page 25, the LD-43, LD-44 and SSM.

22 Are those three additional cost pools for which
23 you make a volume variability recommendation other than --
24 that differs from that of Witness Bozzo and Van-Ty-Smith?

25 A Yes, and these are a subset actually of the cost

1 pools that I discuss in my testimony on page 26.

2 I actually use that same volume variability for a
3 total of 14 cost pools.

4 Q And are there some additional cost pools besides
5 the seven on page 25 and these three that you applied --

6 A Yes.

7 Q -- that you adjust?

8 A That is what I just said.

9 Q Okay, and what specifically are the names of those
10 cost pools?

11 A Well, you have the seven that are done by
12 analogy --

13 Q Yes.

14 A -- and those are in Table 4, and the three that
15 were in that interrogatory.

16 In addition, I use that same variability for the
17 allied operations that were identified by Witness
18 Van-Ty-Smith and for ones that were identified by Witness
19 Bozzo for BMC and function 4 and non-MODS. It is described
20 on page 26 of my testimony.

21 Q Now, with respect to the Table 4 cost pools and
22 the additional three cost pools in USPS -- excuse me,
23 UPS/MPA-T1-1, in each of those cases, your recommendation is
24 to lower the volume variability that is recommended by
25 Van-Ty-Smith; is that correct?

1 A Yes.

2 Q And is that also true of the additional cost pools
3 that are not in those two locations?

4 A Well, the effect of what I do is to lower the
5 variability that Witness Van-Ty-Smith uses in her testimony.

6 I guess I would sort of say I don't believe it's
7 quite the recommendation, because I think there's a fair
8 discussion in Witness Bozzo's testimony about why the
9 variabilities for these cost pools should be lower.

10 Q Which ones are you referring to specifically?

11 A Well, I believe all of the ones I have adjusted, I
12 believe that there was record support for.

13 Q And you're referring to support based upon Dr.
14 Bozzo's analysis, in part?

15 A Yes, and analogies based on operational
16 considerations, and my own experience.

17 Q Now, if you'd turn to the Interrogatory
18 OCA/MPA-T1-2, which is OCA's interrogatory to you, in Part
19 (b), you indicate that Dr. Bozzo has squarely addressed the
20 defects which the Commission found in Dr. Bradley's study in
21 the previous rate case, R97-1.

22 Do you agree with that?

23 A Yes, I do.

24 Q Now, have you looked at Dr. Bozzo's response,
25 specifically with respect to the particular portions of the

1 Commission's opinion in R97-1 as to the specific points of
2 disagreement that the Commission had with Dr. Bradley's
3 analysis?

4 A Yes, I think this was covered extensively in Dr.
5 Bozzo's testimony, and I also read some of the
6 interrogatories and transcript.

7 Q Do you agree that Dr. Bozzo did not address all of
8 the Commission's concerns regarding Dr. Bradley's analysis?

9 A Well, what do you mean by "address"?

10 Q Analyze. For instance, did he address the
11 concerns about the manual ratio that the Commission
12 expressed in its opinion?

13 A Yes, I do think he discussed the manual ratio, and
14 concerns that had been raised.

15 Q Did he change the approach to the manual ratio
16 that Dr. Bradley used?

17 A No. I believe he decided that the use of the
18 manual ration was still appropriate.

19 Q However, the Commission did express a concern
20 about that in its opinion, correct?

21 A Yes, and he addressed the concern.

22 Q Okay. Now, the Commission's opinion also
23 indicated a preference for additional analysis of the cross
24 sectional elements of panel data in the opinion.

25 Do you agree that this could be achieved by

1 analyzing investment capacity and capacity utilization
2 issues across facilities?

3 A Well, I think that Witness Bozzo did an extensive
4 examination. I think there are a lot of elements to your
5 question, so I'll try to answer it simply:

6 I think he did an examination of the cross section
7 model, and found problems with that. I think he also looked
8 at capital utilization and technology, and took that into
9 account in his model.

10 So I don't know that I would agree with putting
11 those two points together, but I think he certainly examined
12 both.

13 Q When you say, considered, does that mean, in your
14 mind, that he successfully resolved the issue?

15 A Well, I think he showed conclusively with regard
16 to the between model or the cross section model, that the
17 results would argue for rejection of that model, compared to
18 the model he adopted.

19 Q If you would turn to your OCA -- your response to
20 OCA/MPA-T1-3, the next interrogatory, you indicate in Part
21 (a) that you have not collected any quantitative data on
22 mail processing activities analogous to activities for which
23 volume variabilities have been estimated.

24 Then in your answer further along, you compare the
25 MODS and non-MODS activities. However, would you explain

1 why that's relevant to the situation where you apply, by
2 analogy, volume variabilities from one MODS operation to
3 another MODS operation?

4 A Well, using the analogies, which is what I did for
5 the seven areas that are included in Table 4, I did not use
6 any of the MODS operations for other MODS operations.

7 What I did there was, I used it to extend it to
8 Function 4, and non-MODS and one function at the BMC.

9 Q Now, did you use, by analogy, apply volume
10 variability to non-MODS offices from MODS offices, however;
11 is that correct?

12 A Right. I used the analogies that Witness Bozzo
13 provided for four operations at non-MODS facilities; three
14 manuals, letters, flats, and parcels, and one automated,
15 which would be the bar-code sorting or the DPS-sorting at
16 the non-MODS offices.

17 Q Now, Dr. Bozzo indicated in his own testimony that
18 the Postal Service has no quantitative evidence to support
19 or refute Dr. Bradley's assumptions regarding non-MODS
20 offices. That was in his testimony at page 134.

21 A Right.

22 Q And then he concluded on page 135 of his testimony
23 that it may be possible to collect piece-handling data in
24 the future. Now, you have not collected any piece-handling
25 data at all to reach your conclusions?

1 A Right, there was no basis for a quantitative
2 measure of the actual operations in the non-MODS offices
3 that I was examining, so what I used was the quantified
4 results from the MODS offices and the qualitative
5 information on the analogies.

6 Q And when -- in using that analogy, you indicate
7 that there are some similarities between the MODS offices
8 and non-MODS offices; that is one of the primary bases for
9 your applying the analogy; is that right?

10 A Well, I don't think that I drew a conclusion about
11 overall operations.

12 What I tried to do was, at a pretty detailed
13 level, look at individual operations and determine whether
14 similarities that would tell me that there was a better
15 estimate out there that I should be using for those cost
16 pools.

17 Q But as between non-MODS and MODS offices, there
18 are differences in many respects, as well as perhaps
19 similarities; do you agree with that?

20 A Well, I think, certainly, there could be
21 differences. What I tried to do was to look at it at a
22 detailed level, such as the manual letter operation where I
23 think you will see a lot of similarity.

24 I have been out in the field, and I think there's
25 a lot of comparability to the activities that occur in these

1 types of operations. So I felt that it was pretty much
2 intuitive that there would be a strong relationship.

3 Q What is the general difference between a MODS and
4 a non-MODS operation? Would you say it's size of facility,
5 for the most part?

6 A Well, the difference between the MODS and the
7 non-MODS offices certainly is a size element. I don't know
8 that I would take that to say that there might be
9 differences in the operations.

10 To some extent, there are, but a lot of the
11 differences are that there are operations at MODS offices
12 that there aren't at the non-MODS offices.

13 Q Because they're too small, and they wouldn't have
14 the equipment and the facilities to handle the size or the
15 volume that is handled in the MODS offices?

16 A Right, because of the network configuration that
17 was described pretty extensively in the Postal Service's
18 testimony, certain offices perform certain roles, and the
19 non-MODS offices have a more limited role.

20 Q Is the complexity of the sortation process
21 different in the non-MODS offices as compared to the MODS
22 offices?

23 A There could be some differences in terms of number
24 of separations, for example, on the manual sortations. I
25 did not do any analogies on the larger pieces of equipment.

1 It was really to the manual operations and one DPS analogy.

2 Q Would you turn also now to OCA/MPA-T1-4, which
3 discusses short-run versus long-run analysis.

4 [Pause.]

5 You note Witness Bozzo has described the
6 Bozzo-Degen analysis as short-run. Do you believe that a
7 long-run analysis would be relevant?

8 A Well, first of all, let me clarify. What I said
9 about his analysis being short-run is that he did not assume
10 that all factors of production would be changed, so that
11 some of them would remain fixed during the analytical
12 period.

13 I don't think that -- and I struggled with this --
14 that's not really what the Commission asked to see, which
15 was what is the effect of a small sustained volume increase
16 over the life of the rates, the time that the rates will be
17 in effect?

18 So, I think I felt less comfortable talking about
19 it, per se, as short-run versus long-run.

20 Q In your response to another interrogatory of OCA,
21 I guess it was 5, or perhaps it was -- it was 1.

22 Yes, it was your response to OCA/MPA-T1-1, at the
23 end of Part (b), where you indicate that some of the Postal
24 Service's factors of production clearly are not fully
25 variable over a period of two or three years.

1 Do you understand that there could be variability
2 over -- well, let me back up a little.

3 What period of time do you think they would be
4 variable, fully variable?

5 A Well, I believe it was in Dr. Bozzo's testimony
6 where he said that a new facility could take six to nine
7 years to come online. I believe that was in his testimony.

8 So it can be quite a long time. I certainly
9 haven't been privy to the deliberations of the Board and
10 seeing their monthly statements.

11 They take quite awhile to approve procurements.
12 We've been anxious sometimes for things to move even more
13 quickly.

14 Q Now, in that time period, that would not include
15 -- that would not be only for the actual deployment of the
16 physical machinery; that would also include the planning
17 process, planning analysis and preparation of the orders and
18 the --

19 A Well, I believe that if you're looking at what the
20 effect of the volume would be in the long run, you have to
21 incorporate the planning time into that, because you would
22 have to assess whether the volume was increasing, whether it
23 would be sustained, whether it would require you to change
24 your capital investment, and then ask for that from Postal
25 management.

1 Q Now, Witness Bozzo has used a variable QICAP,
2 Q-I-C-A-P, for investment. Would you say that variable
3 includes the planning stages, takes into account, the
4 planning stages for new investment?

5 A Well, what that variable does, as I understand it,
6 is, it controls for the current level of fixed assets, the
7 capital level for those facilities at that time period for
8 each of the observations in the study.

9 Q So that it wouldn't take into account, the
10 planning, the years of planning that go into the investment?

11 A Well, it is not designed to do that; it is
12 designed to take into account, the capital level of the
13 facility.

14 Q We'll have more questions. If Dr. Bozzo's
15 testimony were rejected by the Commission in this case,
16 would it also follow that your testimony would be rejected?

17 A Do you mean, to the extent that his volume
18 variabilities would not be used?

19 Q Yes, if the Commission were to use the approach
20 approved in R97-1 or that he used in R97-1.

21 A Well, perhaps. It seems to me -- also I guess I'm
22 assuming that you say that the Commission would, as an
23 alternative, go back to the method that we call the
24 IOCS-based method, because, alternatively, they could do a
25 different methodology and then there might be a different

1 answer with what the implications would be for mine.

2 But if they chose not to use his and used only 100
3 percent, that could have problems for the analogies. I'm
4 not sure that the Commission could not independently
5 determine a variability level for particular operations.

6 It seems to me that they could determine that they
7 wanted to use a lower level for allied, and so they might do
8 something not necessarily what I did, because I used his
9 composite, but they might choose to use a different value
10 for the variability.

11 Q With respect to how many cost pools?

12 A Well, I don't know. I mean, I think that would be
13 in the Commission's jurisdiction to decide what they wanted
14 to do, but I think that, operationally, I've tried to
15 indicate that there are reasons why individual cost pools
16 have a volume variability less than 100 percent, independent
17 of what the econometric results show.

18 And that I further think that for allied
19 operations, that variability is even lower than for the
20 sorting operations, a view shared by Witness Degen and
21 Witness Bozzo. So the Commission could choose to accept
22 that finding.

23 Q Now, if the Commission did accept Dr. Bozzo's
24 testimony as to volume variabilities, it nevertheless would
25 not necessarily accept some of your position with respect to

1 the other cost pools that we discussed earlier; is that
2 correct; that they are not necessarily tied together; that
3 you use certain analogies that Dr. Bozzo does not use, and
4 so they are not tied; is that correct?

5 A Well, if the Commission determined that it found
6 the econometric results that Dr. Bozzo modeled, reasonable,
7 they would still have to determine if, given a lack of an
8 econometric result for the cost pools where I extend his
9 results, if they were comfortable with that extension, I
10 would hope they would be, but that would be a determination
11 the Commission would have to make.

12 MR. RICHARDSON: Those are all the questions, I
13 have, Mr. Chairman.

14 CHAIRMAN GLEIMAN: Is there any followup?

15 [No response.]

16 CHAIRMAN GLEIMAN: Questions from the Bench?

17 [No response.]

18 CHAIRMAN GLEIMAN: Would you like some time with
19 your witness for redirect?

20 MR. MYERS: There will be no redirect.

21 CHAIRMAN GLEIMAN: That being the case, Ms. Cohen,
22 that completes your testimony here today. We appreciate
23 your appearance, your contributions to the record, and we
24 thank you, and you're excused.

25 [Witness Cohen excused.]

1 CHAIRMAN GLEIMAN: We have one witness left. If I
2 could just make an inquiry, it's my understanding that the
3 only party that has asked for cross examination of Witness
4 Stralberg is the U.S. Postal Service; is that correct? Is
5 there anyone else?

6 [No response.]

7 CHAIRMAN GLEIMAN: Ms. Duchek, could you give me a
8 sense of how much cross examination you intend to do?

9 MS. DUCHEK: Not much, Mr. Chairman. I think
10 probably 15-20 minutes at the outside.

11 CHAIRMAN GLEIMAN: That being the case, I think
12 we'll try and plow through, if that's to everyone's liking,
13 and then we won't have to spend the afternoon in here.

14 Counsel?

15 MR. KEEGAN: Thank you, Mr. Chairman. Time
16 Warner, Inc., calls as its next witness, Halstein Stralberg.
17 Whereupon,

18 HALSTEIN STRALBERG,
19 a witness, having been called for examination, and, having
20 been first duly sworn, was examined and testified as
21 follows:

22 DIRECT EXAMINATION

23 BY MR. KEEGAN:

24 Q Mr. Stralberg, do you have in your possession, two
25 copies of a document marked for identification as TW-T-1,

1 and captioned, Direct Testimony of Halstein Stralberg?

2 A Yes, I do.

3 Q And was that testimony prepared by you or under
4 your supervision?

5 A Yes, it was.

6 Q Do you have any alterations or changes to make to
7 the testimony at this time?

8 A Yes, there are three changes: First of all, on
9 page 51, the last line of Footnote 38, which actually flows
10 over from the Footnote -- from the page 50, was
11 inadvertently dropped in the file copy.

12 A corrected page was subsequently filed as an
13 attachment to my response to USPS-TW-T-1-15, Part (c). And
14 I believe that already is included in this copy.

15 Then on page 55, at lines 8-12, there were two
16 citations omitted in the file copy. And there was an
17 erratum filed providing a corrected page, on May 30th.

18 Finally, there was a typographical error that was
19 recently discovered on page 58, at line 19. The third word
20 in that line should be very, rather than every. It should
21 not be very, but it should be every, and that correction is
22 manually performed on the copy.

23 Q And with those changes, would your testimony be
24 the same if you were testifying today?

25 A Yes, it would.

1 MR. KEEGAN: Mr. Chairman, I move that Mr.
2 Stralberg's testimony be accepted into evidence and
3 transcribed into the record.

4 CHAIRMAN GLEIMAN: Is there any objection?

5 [No response.]

6 CHAIRMAN GLEIMAN: Hearing none, if counsel would
7 please provide two copies of the corrected Direct Testimony
8 of Witness Halstein Stralberg, I'll direct that that
9 material be received into evidence and transcribed into the
10 record.

11 [Written Direct Testimony of
12 Halstein Stralberg, TW-T-1, was
13 received into evidence and
14 transcribed into the record.]

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TW-T-1

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

DIRECT TESTIMONY
OF
HALSTEIN STRALBERG

ON BEHALF OF
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & COMPANY, INC.
MAGAZINE PUBLISHERS OF AMERICA, INC.
THE MCGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
AND
TIME WARNER INC.

CONCERNING
PERIODICALS COSTS AND RATE DESIGN
AND
DISTRIBUTION OF CLERK AND MAILHANDLER COSTS

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May 22, 2000

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1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Halstein Stralberg. I am a consultant to Time Warner on issues related to distribution
 3 of magazines through the postal system. Until June 1999 I was a principal at Universal Analytics,
 4 Inc. (UAI), a management consulting firm in Torrance, California. and manager of its Operations
 5 Research Division.

6 My academic background is in mathematics, with a master's degree from the University of Oslo,
 7 Norway in 1963. I received a bachelor's degree in mathematics, physics and astronomy at the
 8 University of Oslo in 1961. Most of my professional experience is in the area of management
 9 science and operations research. I have directed and performed over 25 years of postal related
 10 studies as well as a number of management studies for other clients in government and private
 11 industry, in such diverse fields as production scheduling and control, corporate planning and
 12 finance, investment analysis, design and optimization of transportation systems, health care and
 13 computer system design.

14 I have previously presented 17 pieces of testimony before this Commission on a variety of postal
 15 costing and rate design issues: two rebuttal testimonies on behalf of the Postal Service in Docket
 16 R80-1; four testimonies on behalf of Time Inc. in R87-1; four on behalf of Time Warner Inc. in
 17 R90-1; one in MC91-3; two in R94-1; two in MC95-1; and two in R97-1.

18 Since 1987 most of my work has been in support of Time Warner's participation in postal rate
 19 cases. Besides the presentation of testimony, I have advised Time Warner on a variety of postal
 20 issues and directed the development of computer models for analysis of postal costs and rate
 21 design. I participated actively on behalf of Time Warner as a member of the joint industry/USPS
 22 Periodicals Review Team whose report and recommendations are included in LR-I-193, and as an
 23 industry representative in the recent MTAC data collection on bundle breakage.

24 From 1973 until 1987, I directed UAI's efforts under several contracts with the U.S. Postal
 25 Service. Some of my major activities on these contracts included:

- 26 • Design and development of the Mail Processing Cost Model (MPCM), a weekly staffing
 27 and scheduling computer program for postal facilities, with an annualized extension
 28 (AMPCM) that uses linear programming to fit long term staffing planning in a postal
 29 facility to seasonal variations in volume and personnel absentee/attrition rates.
- 30 • An extensive data collection in 18 postal facilities designed to (1) establish a Postal
 31 Service data base on mail arrival rates and mail attributes affecting costs (subclass, shape,

1 indicia, presort, container method, etc.), and (2) develop the model input data needed to
2 apply MPCM for each facility.

- 3 • The "Study of Commercial Mailing Programs" under the Long Range Classification Study
4 Program. This study involved a detailed cost and market evaluation of several rate and
5 classification concepts, including various presort concepts, destinating SCF discounts for
6 second class, plant loading and barcoding of preprinted envelopes.
- 7 • A BMC cost analysis which resulted in the establishment of the Inter/Intra-BMC parcel
8 post rate differential in R80-1.
- 9 • Numerous simulation studies requested by USPS management.

10 My two rebuttal testimonies on behalf of the Postal Service in R80-1 addressed the Intra/Inter
11 BMC cost analysis and Dr. Merewitz's use of MPCM to analyze peak load costs.

12 I have conducted a number of classes and seminars on the use of MPCM both for Postal Service
13 employees and interested outside parties. I have made extensive visits, including many multiple
14 repeat visits, to over 40 USPS mail processing facilities. I have observed all aspects of mail
15 processing operations on all tours, as well as methods of mail collection, acceptance and
16 transportation, and various ongoing postal data collection systems. I estimate that in total I have
17 spent more than 2000 hours on site in postal facilities.

18 Besides my postal activities, I directed a study for the department of Health and Human Services
19 of the impact of alternative regulatory policies used by state Medicaid agencies, which included an
20 extensive data gathering effort and multiple regression analysis to determine factors influencing
21 utilization and cost in the Medicaid program.

22 Before joining UAI I was an Operations Research Analyst at the Service Bureau Corporation
23 (IBM), where I performed several large-scale simulation studies, including an analysis during the
24 design stage of the Dallas/Fort Worth Airport's people mover system and simulations to improve
25 design and response time in large interactive computer systems.

26 I was an Operations Research Analyst at Norsk Hydro, a Norwegian petrochemical company,
27 where my work included design, development and implementation of factory production
28 scheduling systems, studies of transportation and distribution systems and risk analysis of
29 investment decisions.

30 For three years I was an assistant Professor of Mathematics at the University of Oslo, Norway.

1 **I. PURPOSE OF TESTIMONY**

2 My testimony has several purposes. First, as I have done in each rate case since Docket
3 No. R90-1, I discuss the long term, still ongoing and still not satisfactorily explained
4 rise in reported Periodicals costs and the associated almost precipitous drop in flats
5 sorting productivity, which seems to have accelerated as the Postal Service deployed
6 more and more advanced technology. I will show why the excuses for these trends
7 offered by the Postal Service in this docket so far are inadequate if not misleading, and
8 fail to address the broad issues surrounding the declining productivity raised by the
9 Commission first in POIR 4 and subsequently in Order No. 1289.

10 I propose several modifications to the Postal Service's MODS/IOCS based method of
11 distributing mail processing costs to subclasses and special services. I show that while
12 the Postal Service has improved its distribution of "not handling" costs relative to the
13 method it presented in R97-1, there is still room for considerable improvement. I
14 recommend ways to make better use of available IOCS data, but I also show that there
15 continue to be inherent biases in the present methodology that can be addressed only
16 through new and better data collection methods.

17 I also address the long discussed issue of bundle breakage. I identify severe errors in
18 the treatment of bundle breakage in witness Yacobucci's flats mail flow model (USPS-
19 T-25) and offer a revised model based on more accurate and recent data. Using this
20 model, I develop a corrected set of presort and automation cost differentials for use in
21 Periodicals rate design. I also analyze the Test Year 2001 impact of ongoing industry
22 and Postal Service efforts to substantially reduce bundle breakage and its cost effects.

23 I show that in this and previous dockets the Postal Service has understated the costs it
24 saves when mailers bring Periodicals or Standard A mail to the destinating delivery
25 unit (DDU). I therefore recommend increasing the Postal Service's proposed DDU
26 discount for Periodicals. Finally, I recommend that the Commission establish a
27 discount for 5-digit Periodicals pallets entered at the destinating SCF or DDU. Such a
28 discount would have little impact on other mailers but could lead to increased DDU
29 dropshipping and a substantial reduction in bundle sorting costs.

1 **II. SUMMARY**

2 Ten years ago, upon examining cost data presented by the Postal Service in the R90-1
3 rate case, I saw one of my worst fears turn into reality. In visits to postal facilities in the
4 preceding years I had become concerned that the rapid move to letter mail automation
5 would lead to claims of great savings which the Postal Service would only be able to
6 justify by reporting higher costs for non-automated mail. That is precisely what had
7 happened since FY86, base year for the preceding (R87-1) rate case, to a greater extent
8 than I had thought possible.¹ The alarming trend towards inexplicably higher
9 Periodicals costs has continued ever since. To comprehend the magnitude of this
10 increase one needs to consider the substantial increase in mailer worksharing and the
11 great strides in flats and bundle sorting technology that should have reduced costs.
12 One also must remember that some of the steepest Periodicals cost increases occurred
13 between FY86 and FY89, concurrent with the first big push towards letter automation.
14 A cost comparison that starts in FY89 will conceal the full extent of the problem.

15 The anomalous cost increases have fueled a contentious and often difficult dialog
16 between the industry and Postal Service management, whose reactions have seemed to
17 range from denial, to disbelief, to finger pointing. More recently, however, a
18 realization has grown both at the Postal Service and in the industry of a need to work
19 together in order to develop genuine solutions that drive costs out of the system. This
20 has led to cooperative efforts such as the Periodicals Operations Review Team, on
21 which I was an active participant. The Periodicals Review Team was able to learn
22 much about Postal Service operations in a short time through an intense schedule of
23 visits to mail processing facilities. After meeting with management in each facility
24 during daytime hours, we then sacrificed sleep to observe what was really happening
25 at various times during the night and early morning hours when most mail is
26 processed. The report of that effort, which I helped write, is on file in this docket as a
27 part of LR-I-193 and contains many specific recommendations that I hope Postal Service
28 management will take to heart and act on. Some initiatives have already resulted from

¹ See Docket No. R90-1, TW-T-2, Direct testimony of Halstein Stralberg On Behalf Of Time Warner and MPA Concerning Second Class Mail Processing Costs: Tr.27/13276 et seq.

1 that report, including an MTAC package integrity workgroup whose survey results on
2 bundle breakage I rely on later in this testimony.²

3 Unfortunately, from the inception of the Periodicals Review Team, the Postal Service
4 insisted that costing issues were "off the table." Thus we never saw even one IOCS
5 clerk. I say that this was unfortunate because, unlike the Postal Service, I believe the
6 issue of ever rising costs can never be fully resolved without an overhaul and re-design
7 of the current IOCS-based costing system. On the other hand, the team did learn much
8 about the dynamics that seem to drive costs in the postal system.

9 In summary, a newly cooperative approach is being pursued by the Postal Service and
10 the industry. There is agreement on many areas where costs can be driven from the
11 system, for example by new mail make-up regulations or by correcting some inefficient
12 practices. But there remains disagreement over both the extent and causes of the
13 Periodicals cost increase. I therefore review the problems faced by Periodicals in
14 Section III below, which rebuts both witness Smith's response to POIR 4 and witnesses
15 Unger and O'Tormey's responses to Order No. 1289.

16 Section IV addresses mail processing cost distribution. In Docket No. R97-1, I
17 expressed severe doubts about the accuracy of the numerous proportionality
18 assumptions implicit in the method proposed by Postal Service witness Degen.³ The
19 introduction of the MODS-based costing system at that time was a further blow to
20 Periodicals, whose reported costs suddenly were even higher than before. My
21 skepticism about many aspects of the new system, including its scheme of item and
22 container sampling, remains. On the other hand, I realize that MODS-based costing is
23 here to stay and that when properly applied it may have some merits.

24 The main problem with separately costing each MODS-based cost pool occurs for pools

² The testimonies of James O'Brien (TW-T-2) and Rita Cohen (MPA-T-1) include further descriptions of the experiences and insights gained by Periodicals Review Team members, as do several later sections of this testimony.

³ Docket No. R97-1, Direct Testimony of Halstein Stralberg On Behalf of Time Warner Inc. Concerning Distribution of Clerk and Mailhandler Costs: Tr. 26/13811.

1 where the volumes handled and the tasks performed lack uniformity, and whose costs
 2 are mostly driven by events outside the pool itself. These pools are commonly referred
 3 to as "allied." As pointed out in my R97-1 rebuttal testimony, within pool distribution
 4 of mixed mail and "not handling" costs is particularly inappropriate at allied pools.⁴

5 I applaud the Postal Service's decision in this docket to propose a broader distribution
 6 of allied not handling costs. I disagree, however, with witness Degen's curious claim
 7 that the justification for such a broad distribution lies only in his and witness Bozzo's
 8 inability to determine the volume variability for allied pools econometrically. USPS-T-
 9 16 at 69. Costs at allied operations, particularly their large "not handling" component,
 10 are mainly driven by piece distribution requirements. Until these relationships can be
 11 quantified, a broad distribution of the allied not handling costs will, I believe, come
 12 much closer than distribution within each allied pool to approximating true cost
 13 causality.

14 I urge the Commission to stand by the broad distribution of allied mixed mail costs that
 15 it introduced in its R97-1 Opinion. PRC Op. R97-1, ¶3146. The one change I
 16 recommend is that in MODS the distribution of allied mixed mail costs be limited to
 17 Function 1 pools, since Function 4 pools in fact represent a different set of facilities, as
 18 do the NonMODS cost pools.⁵ Maintaining this broad distribution effectively means
 19 ignoring the container and item type information in the allied costs pools. While I
 20 generally am not in favor of disregarding available information, I believe it is justified
 21 in this case by the severe possibilities of bias in the current scheme, particularly the
 22 asymmetric treatment of pallets as compared to other containers. However, if the
 23 Commission wishes to make use of the item and container information in allied mixed
 24 mail data, it should use the alternative broad distribution of mixed mail data presented

⁴ Docket No. R97-1, TW-RT-1, Rebuttal Testimony of Halstein Stralberg On Behalf of Alliance of Nonprofit Mailers, American Business Press, Coalition of Religious Press Associations, Dow Jones & Company, Inc., Magazine Publishers of America, The McGraw-Hill Companies, Inc., National Newspaper Association and Time Warner Inc.: Tr. 36/19278, 19285-87.

⁵ The MODS mail processing cost pools are referred to as Function 1 and Function 4, where Function 1 represents the activities that take place in mail processing plants, or SCF's. Function 4 cost pools represent activities that occur in stations and branches of MODS offices.

1 by witness Degen in response to MPA/USPS-T16-17 (Tr. 15/6515-32).

2 The Postal Service's exclusive reliance on MODS numbers as a basis for cost
3 distribution has caused it to ignore much other useful information collected by IOCS
4 clerks. In this testimony I demonstrate that information given in response to IOCS
5 question 19 can lead to a more accurate cost distribution, particularly in MODS
6 Function 4, allied and NonMODS cost pools. I also show a better way to handle
7 "support pool" costs and "migrated" window service costs.

8 Section V of my testimony addresses bundle breakage. While some exaggerated claims
9 have been made about the relevance of this issue to rising Periodicals costs, it does
10 represent a significant amount of avoidable costs. A concerted ongoing joint
11 industry/USPS effort is expected to significantly reduce bundle breakage costs in the
12 2001 test year. Unfortunately, the Postal Service's first attempt at analytical modeling
13 of bundle breakage and its effects, the flats mail flow model presented in this case by
14 witness Yacobucci (USPS-T-25), has serious defects, both in modeling assumptions and
15 in the data it relies on. I propose an alternative model that uses most other aspects of
16 the Yacobucci model but refines the parts relating to bundle sorting and bundle
17 breakage, and that is based on a much better and more recent data base on package
18 integrity, collected by an MTAC team last fall.

19 The revised flats mail flow model, is filed in this case as MPA library reference MPA-
20 LR-2. It also includes some refinements of Yacobucci's assumptions about flats piece
21 sorting costs explained by witness Glick in PostCom, et al.-T-1.

22 Based on analyzing before and after scenarios with the revised flats model, considering
23 both changes the Postal Service is making in its bundle handling and recovery methods
24 and various industry efforts described by MPA witnesses Cohen (MPA-T-1) and Glick
25 (MPA-T-2), I estimate that Periodicals bundle breakage related costs in the test year will
26 be \$21 million less than implicitly assumed in the Postal Service's roll forward
27 estimates. The implication of this and other Periodicals cost reductions that the
28 industry expects will be achieved in the test year is discussed in Cohen's testimony.

29 Section VI addresses Periodicals rate design. I am more convinced than ever that the

1 only reliable way to reduce postal costs is for mailers to prepare their mail in ways that
2 bypass as much of the postal system as possible, i.e., by increased worksharing. In
3 addition to regulations requiring more efficient mail preparation, which the Postal
4 Service apparently plans to introduce more of, it is my view that there must be strong
5 rate incentives to encourage worksharing.

6 Based on the improved flats mail flow model discussed above, I demonstrate that the
7 cost differentials between levels of Periodicals presortation are considerably larger than
8 assumed in the Postal Service's filing. Even my modified mail flow model understates
9 the true presort cost differentials, because it excludes some operations that are
10 performed on mail requiring piece sorting but not on mail that bypasses piece sorting.
11 For that reason, the somewhat higher presort cost savings I present are still very
12 conservative.

13 I point out a longstanding omission in the Postal Service's estimates of Periodicals and
14 Standard A DDU dropship savings. The model used by the Postal Service ignores the
15 fact that it is the mailers, not Postal Service employees, who unload mail entered at
16 DDU's. I propose a corresponding increase in the DDU discount.

17 Finally, I propose the creation of a moderate discount for mail that is entered on 5-digit
18 pallets at the destinating SCF or delivery unit. The wish for more 5-digit pallets, which
19 can simply be cross-docked to the DDU, was almost universal among facility managers
20 interviewed by the Periodicals Review Team. The discount I propose will have
21 minimal if any impact on other rate categories, will reduce bundle sortation at the SCF
22 and the associated risk of breakage, and will make it feasible for some mailers to avoid
23 even more costs by dropshipping all the way to the DDU.

24 **III. RUNAWAY PERIODICALS COST INCREASES AND DECLINING FLATS**
25 **PRODUCTIVITY CONTINUE - AS DOES THE POSTAL SERVICE'S FAILURE TO**
26 **PROVIDE EXPLANATIONS**

27 In my R90-1, R94-1 and R97-1 testimonies before this Commission, I commented
28 extensively on the unreasonableness of the Periodicals cost increases, particularly the
29 mail processing costs reported by the IOCS.

1 In this docket, the Commission has taken the lead in seeking explanations of why, at a
 2 time when the Postal Service claims unprecedented success in simultaneously lowering
 3 costs and improving service for letter mail, it continues to report ever higher costs for
 4 flat mail, in particular Periodicals flats. But the record established on this issue so far is
 5 unhelpful and even rather misleading, because the Postal Service's response through
 6 various witnesses has mostly served to obscure the full extent of the problem.

7 Part A below reviews various historical facts that demonstrate how serious the decline
 8 in flat sorting productivity has been. Part B rebuts witnesses O'Tormey and
 9 particularly Unger, who have failed completely to address the serious issues raised by
 10 the Commission in Order No. 1289. Part C explains why I believe that in spite of many
 11 failed promises of reduced costs in the past, there now are many hopeful signs that
 12 things will turn around, that the attention of postal management finally is focused on
 13 reducing Periodicals costs, and that the many possibilities presented in this docket for
 14 test year cost reductions indeed will be realized.

15 **A. THE PRODUCTIVITY DECLINE AFFECTING PERIODICALS IS FAR**
 16 **GREATER THAN ADMITTED BY POSTAL SERVICE WITNESSES**

17 When it raised the issue of rising Periodicals costs in POIR 4, the Commission focused
 18 on the FY89 through FY98 period. In so doing, it may have taken its lead from witness
 19 Degen's Docket No. R97-1 rebuttal testimony, in which Degen sought to minimize and
 20 justify the large increases in Periodicals costs. Docket No. R97-1, USPS-RT-6: Tr.
 21 36/19312 et seq. Degen knew full well, however, that some of the largest increases in
 22 Periodicals costs occurred prior to FY89, starting in FY86.

23 To illustrate this point, I have plotted in Exhibit 1 the trend in Periodicals mail
 24 processing costs, versus the corresponding trends for all mail and for clerk and
 25 mailhandler wage costs, between FY83 and FY89. Prior to FY86, Periodicals costs were
 26 growing, but at a moderate pace, approximately tracking the trend for all mail and
 27 postal wages. But after FY86, Periodicals processing costs began to behave in a manner
 28 fundamentally different from the costs of processing most other mail. Over the next
 29 three years, the per piece Periodicals processing cost grew almost 25% more than the

1 wage rate, while overall processing costs tracked the wage rate.

2 Why worry about increases that occurred over ten years ago? One reason is that
3 pretending they did not occur has become a part of the Postal Service's continuing
4 denial of the seriousness of the problem visited upon Periodicals mailers. While some
5 of the first FSM's were already in operation in FY86, that year can be seen as
6 representing a time when flats were sorted manually, but much more efficiently than
7 today. It also represents the last year before letter mail automation began to cause
8 major changes in the mail processing environment. Until the Postal Service can process
9 Periodicals at least as efficiently as it did then, its flats automation program can only be
10 described as a failure. The new technology introduced since then is being charged to
11 flat mail, including Periodicals, in the form of higher maintenance and capital costs that
12 were supposed to be recovered by higher, not lower, sorting productivity. And
13 through sharply increased worksharing Periodicals mailers today do much of the work
14 that the Postal Service itself had to do in FY86.

15 In his response to POIR 4, Postal Service witness Smith plots the trends in processing
16 and in-house carrier costs for different categories of flats, adjusting for changes in
17 volumes and wage rates and for the major costing methodology change in R97-1. Smith
18 mentions briefly that some changes were made in IOCS methodology in FY92, the only
19 year in the last twenty that Periodicals processing costs declined, but does not appear to
20 acknowledge all the changes that were made or to make any adjustment for them.⁶

21 A far more serious omission is Smith's failure even to mention that both increased
22 mailer worksharing and advances in flat and bundle sorting technology over the period
23 he studied should have produced major reductions in Periodicals processing costs.⁷

⁶ In the early 1990's, the Postal Service modified the LIOCATT to separately distribute mixed mail costs that could be associated with specific shapes, a process that tends to lower the costs of flat mail, as discussed later in this testimony. That may be the reason for the one-time drop in Periodicals mail processing costs that occurred in FY92. See Docket No. R94-1, USPS-T-4 (Barker): Tr.3/1157-58; TW-T-1 (Stralberg): Tr. 26/13822.

⁷ As designer of the Postal Service's "piggy back" methodology, Smith could at least have mentioned that focusing solely on cost segments 3.1 and 6 fails to consider the sharply higher piggyback costs resulting from advanced technology that was meant to reduce costs.

1 The following are some of the factors that should have led to lower processing costs
 2 and must be included in any serious evaluation of productivity trends. First, advances
 3 in mailer worksharing (focusing on regular rate publications):

- 4 • Carrier route presort increased from 26% in FY89 to over 39% today. This increase,
 5 made possible mostly through expensive investments in selective binding capability
 6 by mailers and printers, represents a lot of flat sorting that the Postal Service used to
 7 have to do (manually) but no longer needs to do.
- 8 • The percent entered at the destinating SCF, which bypasses all earlier transportation
 9 and handling steps, increased from 15.4% in FY86 to 21.6% in FY89. By FY99, the
 10 percent of pieces entered either at the DSCF or the DDU had grown to 36.5%.
 11 Dropshipping saves handling and transportation costs and makes service standards
 12 easier to meet.
- 13 • The industry began to palletize in the early 1980's, which everyone in the field
 14 agrees saves postal costs. The percent of regular rate Periodicals palletized was
 15 estimated at 28% in R87-1, 46% in R90-1, 56% in R97-1 and over 60% in this docket.
- 16 • Pre-barcoding was not even known in FY89. Today well over half the non-carrier
 17 route Periodicals pieces are pre-barcoded. To qualify for barcode discounts, mailers
 18 must comply with strict standards for address quality and other requirements that
 19 did not exist in 1989.

20 Next, some of the impressive technological advances that should have helped raise
 21 productivity:

- 22 • A large number of flat sorting machines were deployed in the late 1980's.
- 23 • FSM's were changed to the 2+2 configuration, a move R97-1 Postal Service witness
 24 Moden said was expected to raise productivity by 13%. R97-1 response to
 25 TW/USPS-T4-14j; at Tr. 5957, 5960.
- 26 • The number of FSM-881's increased to over 800.
- 27 • All FSM-881's were equipped first with barcode readers, then with OCR's.
- 28 • Over 300 FSM-1000's were deployed, with the intention to machine sort almost all
 29 flats. The FSM-1000 has turned out to be a more advanced machine than the 881.
- 30 • Large numbers of small parcel and bundle sorters (SPBS) were deployed, many of

1 which were recently equipped with labor saving "feed systems."

2 This list presents many reasons why flats processing productivity should have risen in
3 the past decade. So far, there have been no productivity increases, only higher
4 piggyback costs due to higher maintenance and capital costs.

5 My analysis of the rising Periodicals costs in previous rate cases led me to conclude that
6 the main problem was not flats piece sorting costs but rather the ever rising "not
7 handling" costs at allied operations, a disproportionate share of which were being
8 attributed to Periodicals. It is, however, clear that declining piece sorting productivity
9 also has become a problem, and for all flats mail, not just Periodicals.

10 A MODS-based Docket No. R97-1 exhibit (Time Warner XE-2 to witness Bradley: Tr.
11 5565) showed that productivity in FSM sorting had declined every year from FY88
12 through FY96. FSM productivity in FY96 was 734 pieces per manhour, 18% less than
13 the 893 pieces per manhour achieved with technologically inferior machines in FY88. It
14 declined to only 614 pieces per manhour in FY98, and to 571 in FY99. See LR-I-190 and
15 LR-I-106, MODS volume and manhour data.

16 Postal Service officials sometimes respond to concerns about declining productivity
17 with the following argument. When a new technology is introduced, the easiest mail
18 tends to be sorted on it first, leading to very high initial productivity rates. But as time
19 goes on and more and more mail is sorted with the new technology, more difficult
20 kinds of mail are included, so that the productivity rate declines. Furthermore, as more
21 and more easy mail is transferred to the new advanced technology, the volume left for
22 the second best technology will consist of more difficult mail, so that the productivity
23 of that technology goes down too, and so on for the third best technology, etc.
24 However, in this process, because more and more mail is brought up to a higher
25 technology, the overall productivity is still increased. Or so the argument goes.⁸

26 For letter mail automation, this theory may have been correct. But the Postal Service

⁸ See, for example, witness Unger's attempts to defend this theory, in the face of plentiful evidence that it so far has not worked for flats. Tr. 21/8274-80.

1 also claims that its non-FSM facilities, where all flats are sorted manually, achieve a
 2 manual sorting rate of 846 flats per manhour, much higher than the rate it now gets on
 3 the FSM's (see LR-I-107), and that the manual rate is higher in those facilities because,
 4 they sort all kinds of flats, not only the difficult ones that are diverted from the FSM's
 5 in FSM offices. How is it possible that manual sortation of flats that include all kinds,
 6 both the easy to sort and the most difficult, is much faster than FSM sortation which
 7 excludes the most difficult flats? Why doesn't FSM sorting achieve at least as high an
 8 average productivity as non-FSM offices are claimed to be achieving manually?⁹

9 To determine whether, as the above theory predicts, overall flat sorting productivity
 10 did increase between FY96 and FY98, when so much new technology was deployed, I
 11 compared total costs of processing on FSM's in MODS offices and at manual flats cases
 12 in MODS Function 1, MODS Function 4 and NonMODS offices. As Table III-1 below
 13 shows, total flat sorting costs increased 22.61% from FY96 to FY98, while the FSM
 14 component increased over 41%.¹⁰ The average clerk/mailhandler wage rate increased
 15 5.11%, leaving a wage adjusted increase of 16.65%. The volume of non-carrier route
 16 flats in the postal system grew from 22.805 billion pieces in FY96 to 25.880 billion in
 17 FY98, or 13.48%.¹¹ Combined with the wage adjusted cost increase, this indicates a
 18 productivity loss of 2.79% from FY96 to FY98.

19 In reality, however, the productivity decline was worse. Almost all the increase in non-

⁹ One answer is that it often does. During the Periodicals Review Team facility visits we did observe very efficient FSM operations, both on Periodicals and Standard A flats, processing well over 1000 pieces per manhour. The fact that this does not always occur, that FSM's often sit idle, even when there are large volumes of mail waiting to be sorted - and even though daytime facility management apparently thinks they are being used continuously - is a problem that USPS management must address.

¹⁰ FSM costs in Table III-1 are based on LR-I-106 in this docket and LR-H-146 in Docket No. R97-1. Manual MODS Function 1 costs are for the MANF pool from the same two sources. Manual MODS Function 4 flat sorting costs are based on answers by Van-Ty-Smith to TW/USPS-T17-4 (FY98) and TW/USPS-T-17-23a (FY96), giving MANF costs at Function 4 offices (Tr. 15/6602-06, 6629-31). NonMODS costs are the NonMODS MANF costs in LR-I-106 (FY98) and response to TW/USPS-T-17-3 (FY96) (Tr. 15/6599-6601).

¹¹ Based on First Class and Standard A flats volumes from LR-I-233 and Periodicals billing determinant data.

1 carrier route flats volume was in Standard A flats, most of which have a 5-digit bundle
 2 presort and require only a single sort to carrier route. First Class flats, most of which
 3 have no presort and therefore may require three or four sorting iterations, declined in
 4 volume. See LR-I-233. The number of required flat sorts therefore increased much less
 5 than the 13.48% assumed above, and the flat sorting productivity declined more.
 6 Additionally, the above calculation looks only at the wages of the clerks who do the
 7 sorting and disregards all the other costs associated with the new equipment.

Table III-1: Flat Sorting Costs In FY96 & FY98 (\$1,000's)			
	FY96	FY98	Increase
FSM	736,969	1,042,369	41.44%
Manual MODS F1	514,848	459,933	-10.67%
Manual MODS F4	92,689	125,092	34.96%
Manual NonMODS	404,037	516,567	27.85%
Total	1,748,543	2,143,961	22.61%
Wage Rates			5.11%
Wage Adjusted Cost Increase			16.65%

8 If there is a bright part to this picture, it is that the Postal Service now has a large latent
 9 sorting capacity in the form of equipment that, at least in FY98 and FY99, it was still
 10 using in a very inefficient manner, as the numbers show, and in the form of even more
 11 advanced equipment that it is deploying. Utilization of this capacity should lead to
 12 sharp productivity increases in the handling of Periodicals and other flats.

13 **B. THE POSTAL SERVICE'S "FLATS" WITNESSES FAIL TO ADDRESS THE**
 14 **LONG TERM INCREASE IN PERIODICALS COSTS**

15 In its search for explanations of the unrelenting long term rise in flats costs, the
 16 Commission issued Order 1289 on March 28, requesting a witness from the ranks of
 17 senior management who could speak from experience about flats operations. The
 18 Postal Service produced witnesses O'Tormey (USPS-ST-42) and Unger (USPS-ST-43).

19 Both these witnesses describe difficulties in processing Periodicals and hint at possible
 20 ways to avoid costs. O'Tormey describes various very specific reasons to believe
 21 Periodicals costs in the test year will be substantially lower than projected in the Postal
 22 Service's roll forward process. These particular cost reduction opportunities include
 23 management initiatives to pay more attention to costs, joint USPS/industry efforts,

1 regulations that will require mailers to do more worksharing and technological
2 improvements. They are discussed in detail in MPA witness Cohen's testimony and
3 should be considered by the Commission in determining test year revenue
4 requirements.

5 But O'Tormey and Unger both fail in addressing the issue that the Commission
6 requested they address, namely the long term decline in flat sorting productivity and
7 anomalous Periodicals cost increase. In addressing this type of issue one needs to
8 adopt a historic perspective and identify things that have changed over time. Yet
9 Unger's testimony in particular is mostly about things that have stayed the same, about
10 which he makes observations that were equally or more true twenty or thirty years ago,
11 and about things that should have reduced Periodicals costs rather than increased
12 them.

13 During their oral cross-examination, it became quite clear that Unger and O'Tormey,
14 having been drafted to help explain the rising costs, in reality have no idea why
15 Periodicals costs have gone up. Neither witness knows how the Postal Service
16 attributes costs. Both address the issue from the point of view of operations, and from
17 that point of view it really makes no sense that Periodicals costs should have gone up.
18 Unger in particular does not seem to believe that they have gone up. See, e.g., Tr.
19 15/8282, 8357. All of this bolsters my long held belief that the main problem for
20 Periodicals is the Postal Service's outdated costing system and its tendency to place a
21 disproportionate share of the costs on the least automated mail.

22 Despite their admissions under cross-examination that the inefficiencies listed in their
23 written testimonies have existed for a long time and that neither of them really knows
24 why Periodicals costs have increased, it may be worthwhile to review some of the
25 things that Unger and O'Tormey initially suggested as explanations for the increased
26 Periodicals costs.

27 • Flats Are Different From Letters. Everyone knows that flats are bigger, heavier and
28 cannot be handled with the speed of automated letters. But repeating this obvious
29 fact does not explain why flats are being sorted at a slower pace today than when all
30 sortation was done manually. And even if O'Tormey and Unger are correct in

1 claiming that Periodicals flats are more likely than other flats to be sorted manually,
2 their costs should not be higher than when manual sorting was the only option.¹²

- 3 • Line Of Travel. The fact that the line of travel (LOT) requirement for Standard A
4 ECR has reduced costs in that subclass substantially is good news. Requiring it for
5 Periodicals, as the Postal Service plans to do, will likely help reduce Periodicals
6 carrier route costs as well. See 65 Fed. Reg. 31506 (May 18, 2000). But since there
7 never was such a requirement for Periodicals, the lack of it explains nothing about
8 the historical cost increase.
- 9 • Bundle Breakage. Unger and O'Tormey both mention bundle breakage, the same
10 excuse that first came to Postal Service witness Moden's mind ten years ago when
11 asked to explain the then already anomalous increase in Periodicals costs. See,
12 Docket No. R90-1, Tr. 11/4945 (Moden). Bundle breakage has been around for a
13 long time. As discussed in Section V, it is a problem mainly with sacked mail, as
14 clearly shown by a recent MTAC survey. Since there has been a major migration of
15 Periodicals from sacks to pallets over the past decade, it is likely that the problem
16 used to be worse. Moreover, the same MTAC survey shows that bundle breakage
17 affects Standard A flats as much as Periodicals flats. See Section V.C below.
- 18 • Sacks Versus Pallets. Unger mentions the lower cost of palletized mail compared
19 with sacks. USPS-ST-43 at 5. But this is one reason Periodicals costs should be
20 lower today, with over 60% of the volume now on pallets. Both O'Tormey and
21 Unger mention skin sacks, which obviously do add to costs. But I remember
22 hearing Postal Service officials complain about skin sacks in 1980. According to the
23 Periodicals mail characteristics studies in this docket and the last, there were fewer

¹² See USPS-ST-42 at 11-13. The only new physical characteristic of flats may be the presence of polywrap on some of them. This has become a problem because the Postal Service approved and agreed to allow automation discounts for many types of polywrap materials and issued a list of approved materials. But many in the field have never heard of the list, and FSM operators pay no attention to it. Obviously the Postal Service needs to make up its mind on whether or not to support these materials. If it decides yes, then it must make sure that its employees respect that decision.

1 Periodicals sacks in FY98 than in FY96.¹³

2 Service. Unger and O'Tormey both talk about service, as postal managers usually
3 do when asked to explain runaway costs. But they produce no evidence that service
4 needs are more of a cost factor today than they always have been. In particular,
5 there is no evidence of "Hot Pubs" being more of a burden today than ten or twenty
6 years ago. Far more mail is now dropshipped directly to the DSCF or even the
7 DDU, mostly by mailers of so-called hot pubs. The percent of regular rate
8 Periodicals entered at the DSCF has gone from practically zero before R84-1, when
9 the first discount was introduced, to 15% in FY86, to over 35% in FY98. This
10 dropshipping saves the Postal Service substantial handling and transportation costs
11 and makes it easier to meet service commitments. If Periodicals service really has
12 improved -- and it is not clear that it has -- the improvement is mostly due to
13 mailers bypassing parts of the system and dropshipping their mail at facilities much
14 closer to its destination.¹⁴

15 Unger mentions one type of "service" that the Periodicals Review Team agreed the
16 industry does not want: "special arrangements" (e.g., sending a vehicle on an extra
17 unscheduled trip) to get a publication to the delivery units even when it misses the
18 normal processing deadlines. If this type of "service" provides an excuse for
19 heaping large cost increases on Periodicals, then the industry for the most part
20 would rather take the responsibility for meeting its own deadlines, and live with the
21 consequences if it cannot meet them. See testimony of Time Inc. witness O'Brien,
22 TW-T-2 at 16.

23 • Allied Labor Requirements Caused By OCR/BCR Additions. Unger appears to say

¹³ See LR-H-190 and LR-I-87. According to those surveys, carried out by the same USPS contractor, the number of regular rate Periodicals sacks in the system was 100.846 million in FY96 but only 88.903 million in FY98, a decline of 11%. The same surveys show the number of pallets used by regular and science of agriculture Periodicals increasing by 22%.

¹⁴ Unger refers to the Wall Street Journal, which often has a very short time between arrival and dispatch. USPS-ST-43 at 6. But one often heard the same complaint about the same newspaper in the 1970's. Since then, WSJ has pulled over half of its volume out of the postal system.

1 that FSM productivity has not really declined; it is only that with the addition of
2 BCR and OCR mailstreams there is so much extra allied labor, some (but certainly
3 not all) of which is being charged to the FSM's themselves. But what is the point of
4 flats automation if it requires additional allied labor whose costs exceed the savings
5 presumably produced by more efficient machines (not even taking into account the
6 increased costs of capital, maintenance personnel and physical space that the new
7 automation has imposed)? Did management really not foresee the difficulties that
8 serving multiple mailstreams with different sorting technologies would cause?

9 Assertions that technological improvements somehow explain Periodicals cost
10 increases suggest to me that Postal Service management may be addressing us from
11 the other side of the looking glass.

12 • FY98 Problems. Unger and O'Tormey refer to some special difficulties the Postal
13 Service experienced in FY98. First there was too much mail volume, caused by the
14 UPS strike. Then at the end of the year, there was less volume than they had staffed
15 for, due to overly optimistic forecasts. Unger suggests that the Postal Service used
16 the surplus staff to provide especially good service. It is not clear what any of this
17 has to do with Periodicals, whose volumes are quite predictable, would not have
18 been affected by the UPS strike and therefore cannot have caused the large volume
19 swings. Unger says the Postal Service was able to reduce the volume of delayed
20 mail, but was it Periodicals that had been delayed?

21 In any case, FY98 appears to have been a difficult year. That raises the question of
22 whether expectations that 2001 will be a more typical year are fully recognized in
23 the Postal Service's roll forward method.

24 In summary, it appears that O'Tormey and Unger were chosen by the Postal Service to
25 respond to Order 1289 without being fully informed of the magnitude of the problem
26 faced by Periodicals mailers, whose reported costs have increased at alarming rates for
27 many years, and without knowing any more about the underlying causes than Postal
28 Service witnesses chosen to address the issue in previous dockets.

1 **C. THERE EXISTS A SIGNIFICANT POTENTIAL FOR LARGE REDUCTIONS IN**
2 **PERIODICALS COSTS IN YEAR 2001**

3 Since the Postal Service filed its request for new rates in January, there have emerged a
4 number of possibilities for significantly reducing the Periodicals costs that the Postal
5 Service projected for the 2001 test year. Those opportunities are described
6 comprehensively by MPA witness Cohen (MPA-T-1).

7 But given the long history of costs that went up when they should have gone down, of
8 inexplicable increases in Periodicals costs even when costs declined for other mail
9 classes, the Commission must no doubt be asking why it should believe that this time
10 will be different, that the many new promises will not turn later into still more excuses
11 for even higher costs.

12 In my opinion, some things really are different this time. One difference is that the
13 technological solutions the Postal Service in the past has tried to apply to flat mail never
14 offered more than a marginal improvement over manual sorting, and that marginal
15 improvement tended to be outweighed by higher allied labor, maintenance and capital
16 costs. The AFSM-100 appears to be different - giving an order of magnitude
17 improvement that should at least begin to have a real impact similar to the impact
18 OCR's and BCR's have had on letter mail.

19 More importantly, most of the new cost reduction opportunities are, for a change, not
20 based on technology. They include new regulations that will require mailers to do
21 more work, as for example placing the pieces in a carrier route bundle in line of travel
22 sequence (LOT) or complying with the L001 labeling list. They also include areas
23 where the Postal Service easily can reduce Periodicals costs simply by paying more
24 attention to costs, e.g., by not placing Periodicals on airplanes. And they include
25 already ongoing joint industry/Postal Service efforts to, for example, reduce bundle
26 breakage costs.

27 But perhaps the biggest difference today is that, after being the Postal Service's
28 squeakiest wheel for more than ten years, after continuing to complain about rising
29 costs and rejecting Postal Service tendencies to think of them as just a public relations

1 issue, the Periodicals industry now really has gotten the attention of Postal Service
2 management.

3 The Postal Service members of the Periodicals Review Team were at least as shocked as
4 we were to find, especially during our early morning visits, rows of idle FSM's whose
5 crews always had just gone to lunch, during presumably busy processing intervals,
6 with piles of mail waiting to be sorted, in one facility after another. They were probably
7 at least as shocked to hear one facility manager after another reveal that cost was really
8 not something they were used to thinking about. Or to observe FSM "supervisors"
9 who might as well not have been there since they played no role either in identifying
10 problems or solving them, leaving the FSM crews to manage themselves.¹⁵

11 All of this has led to a flurry of initiatives expected to help reduce costs not only for
12 Periodicals but other mail classes. Although the wheel still grinds slowly, some
13 initiatives, such as the Package Integrity Task Force are proceeding and will help bring
14 about lower costs.

15 Because of the degree of inefficiency that had been allowed to build up, with costs
16 mostly imposed on flats mailers, the Postal Service has a large "latent capacity" for
17 processing more mail, which can be realized even without new technology. Any
18 significant dent in the "missing FSM crew" problem will lead to lower costs.

19 I therefore have only two main concerns. One is that with the Postal Service's costing
20 system being as it is, particularly the IOCS, even a real reduction in Periodicals costs
21 could be reported as an "increase," because of the system's tendency always to allocate
22 more costs to the least automated mail. I discuss mail processing cost issues in the
23 following section. The other concern is that Postal Service management could
24 gradually slip back to its old ways, pretending that the problems raised by Periodicals
25 mailers have already been solved. To avoid this, the industry needs to continue its
26 vigilance. The Commission can do its part by holding the Postal Service to all its
27 promises of lower costs and by providing only the revenues that the Postal Service

¹⁵ Similar recollections are described by Mr. O'Brien. TW-T-2 at 14-15 and 17-18.

1 really needs to continue to deliver mail.

2 IV. DISTRIBUTION OF MAIL PROCESSING COSTS

3 In this section I propose several ways to improve the MODS/IOCS based distribution
 4 of mail processing costs, using information that the Postal Service's method ignores.
 5 The changes I propose are implemented in a SAS program contained in library
 6 reference MPA-LR-3, producing the cost distribution used by MPA witness Cohen. In
 7 the following discussion I use several tabulations of IOCS tally data that I extracted
 8 from an ACCESS data base of mail processing IOCS tallies, contained in library
 9 reference TW-LR-1.¹⁶

10 Section A below summarizes my recommendations. Section B discusses the increasing
 11 inadequacy of the IOCS in the automated processing environment and the role a flawed
 12 costing method has played in producing increases in reported Periodicals cost. Section
 13 C analyzes the dynamic interaction between different mail processing cost pools and
 14 the unique characteristics of "allied" operations, which require a different costing
 15 approach from that used to model piece distribution operations.¹⁷ Section D explains
 16 why the nature of allied operations justifies a broader distribution of their not handling
 17 and mixed mail costs, at least until the limitations in current data systems are resolved
 18 and a fundamentally different costing approach that fits the automated processing
 19 environment has been developed.

¹⁶ Besides implementing the methodological changes described in this section, the SAS program in MPA-LR-3 assigns a lower volume variability than does the Postal Service's method in many cost pools where witness Bozzo (USPS-T-15) did not provide econometric estimates of variability. The rationale for assuming lower variability at many pools is explained by witness Cohen in MPA-T-1. While I believe, based on my observations, that many mail processing operations in today's environment must have costs that vary substantially less than 100% with their volume, my testimony does not address the estimation of volume variability factors.

¹⁷ The term "allied" is not always used consistently. For example, it sometimes includes a part of the work done at piece distribution operations such as a BCR or an FSM. In the following, when referring to MODS Function 1 offices, I use "allied" as a collective term for cost pools 1Bulk PR, 1Platform, 1OPNBulk, 1OPNPref, 1Pouchng, 1Sack_H, 1Sack_M and 1Scan, as defined in for example LR-I-106. In reference to NonMODS, I use the term to include the Allied and Misc pools, and for BMC's I refer to the PLA and OTHR pools. There are allied labor activities also in Function 4 pools such as LD43, but they are not identified in separate "pools."

1 Section E discusses the information recorded under IOCS Question 19 and shows that it
2 can be used in a MODS-based costing approach to provide more information about not
3 handling and empty equipment costs, thereby bringing the cost attribution a little
4 closer to real cost causality. In particular, use of Question 19 data can help improve
5 cost distribution in MODS Function 4 and allied and NonMODS cost pools.

6 Section F discusses some of the inherent biases in the current item/container sampling
7 system and suggests improvements in IOCS data collection procedures. Finally,
8 Section G proposes a different treatment of the so-called "migrated" and "support
9 pool" costs from that proposed by witness Degen.

10 A. SUMMARY OF RECOMMENDATIONS

11 The following recommendations, supported in later sections, will not make the IOCS a
12 perfect system. They will, however, move the distribution of mail processing costs a
13 little more in line with real cost causality. My recommendations do not depend on the
14 decisions the Commission may make on volume variability of mail processing costs.

- 15 • "Not handling" costs at allied MODS cost pools should be broadly distributed over
16 direct costs and distributed mixed mail costs in all MODS Function 1 cost pools, as
17 the Postal Service proposes. The justification for this approach, given the lack of
18 data supporting a more precise method, is that the large allied not handling costs
19 are mostly driven by the need to serve piece distribution pools.
- 20 • "Mixed mail" costs at allied MODS pools, including empty equipment costs, should
21 be broadly distributed over the direct costs in all Function 1 MODS cost pools. I
22 recommend that the Commission adopt the same approach it used for allied mixed
23 mail in its R97-1 Opinion. An alternative would be a broad distribution over pools,
24 but within the "item and container" categories in the current mixed mail sampling
25 system, as described by witness Degen in his response to MPA/USPS-T16-17 (Tr.
26 15/6515-32).
- 27 • Mixed mail and not handling costs in allied BMC and NonMODS cost pools should
28 be distributed broadly over all pools within the respective facility categories.

- 1 • The distribution of not handling and mixed mail costs in allied and support pools,
2 as well as Function 4 pools, can be enhanced by use of Question 19 data, i.e., by
3 distributing separately those not handling and mixed mail costs that are linked to
4 specific shapes and/or sorting technologies via Question 19 responses. In
5 NonMODS facilities, use of Question 19 data to define cost pools should be
6 extended to all tallies.
- 7 • The over \$80 million direct costs in so-called "support" pools should be distributed
8 according to the subclass or special service identification provided by IOCS clerks.
9 "Migrated" window service costs should be distributed as what they are, in
10 recognition of the fact that some classes use window service more than others.

11 **B. AS AUTOMATION OF MAIL PROCESSING CONTINUES, IOCS BECOMES**
12 **INCREASINGLY INADEQUATE AS A COSTING TOOL**

13 The IOCS was designed for cost distribution among subclasses and special services at a
14 time when almost all mail was handled manually. My testimonies in Dockets No. R90-
15 1, R94-1 and R97-1 explained why the system has become increasingly inadequate as
16 the Postal Service's processing environment has become more and more automated.
17 Due to automation and mechanization, the probability that a randomly selected postal
18 employee observed at a randomly selected point in time will be found holding mail in
19 his hand is less and less. With the declining number of "direct" IOCS tallies (tallies
20 allowing identification of specific subclasses or special services) and the sharp growth
21 in so-called "not handling" tallies, the interpretation of IOCS data for costing purposes
22 has come to rely more and more on unproven proportionality assumptions to distribute
23 costs associated with "mixed mail" and "not handling" tallies.

24 As shown in Table IV-1, "direct" IOCS tally costs in FY98 represent only 44.7% of the
25 total, whereas according to the Kearney Data Quality Study (at 73), the "direct" mail
26 processing tallies produced by IOCS were 77% of all tallies in 1969. The combination of
27 not handling tallies (43.4%) and empty equipment tallies (6.7%) in FY98 exceeds 50% of
28 all IOCS observations but was only 6% of the total in 1969. In NonMODS offices, which
29 are much less mechanized and automated than MODS offices and BMC's, direct costs

1 are still almost 62% of all tallies, and the not handling component is "only" 29.75%.¹⁸

2 But reduced statistical reliability, caused by extrapolating subclass information from
3 fewer and fewer "direct" tallies to more and more mixed mail, empty equipment and
4 not handling tallies, is not the only problem with the current IOCS, and perhaps not
5 even the most serious.

Table IV-1: Composition Of FY98 Mail Processing Tallies by Tally Type				
	MODS	NonMODS	BMC	All Facilities
Direct	41.77%	61.83%	30.10%	44.66%
Mixed Mail	5.30%	3.68%	10.13%	5.26%
Empty Equipment	6.86%	4.74%	11.50%	6.73%
Not Handling	46.08%	29.75%	48.26%	43.35%
Total	100.00%	100.00%	100.00%	100.00%

6

7 For example, IOCS shows that certain operations take more time today than they did
8 ten or twenty years ago and that employees at "allied" operations spend a large portion
9 of their time "not handling mail." But IOCS was never designed to explain why these
10 things occur. Clearly, when some postal operations, e.g. flat sorting, suddenly seem to
11 take much longer per piece than before, one suspects too many persons may have been
12 assigned to those operations. That could happen, for example, if unexpected efficiency
13 gains in one area (e.g., automated letter sorting) leave a facility with excess personnel
14 but management is reluctant to reduce staff levels to below its approved budget.
15 Historical coincidence and common sense indicate that this had something to do with
16 the large Periodicals cost increase that started in the late 1980's. But Postal Service
17 managers, at least those who have testified before this Commission, always deny that
18 this could possibly have happened, insisting that postal facilities never have excess
19 staffing, that facilities have every incentive to cut costs, and that if Periodicals costs are
20 higher it must be because mailers are doing something wrong.¹⁹ And since the IOCS
21 itself is incapable of providing any answer, the issue remains perpetually unresolved.

¹⁸ One reason the percent of "direct" tallies has not declined even more is that the Postal Service has considerably expanded the definition of "direct," for example through expanded use of the "top piece rule" and by including counted mixed items among the "direct" tallies. See Docket No. MC97-2, USPS-T-5 at 10 (Patelunas).

¹⁹ See e.g., Docket No. R97-1, USPS-RT-8 (Steele): Tr. 33/17843 et seq.

1 Faced with growing doubts about the accuracy of IOCS, the Postal Service introduced
2 two major new features to its costing system in the 1990's. One is the current way of
3 recording item and container type data for handling mixed mail and empty containers.
4 The other is the MODS-based costing, which groups tallies into cost pools according to
5 the MODS operation numbers sampled employees were clocked into. Both changes
6 have a certain intuitive appeal and can provide much useful information. But both also
7 rely on numerous unproven and sometimes inaccurate proportionality assumptions.
8 Both can lead to serious distortions of true cost relationships if applied carelessly or
9 without proper understanding of the dynamics that affect mail processing costs.

10 MODS-based costing takes advantage of the connection between MODS and the Postal
11 Service's pay system. Since the Postal Service knows exactly how much in wage costs it
12 incurs for each MODS pool, it can provide a more accurate weighting of the tallies in
13 each pool. This is important, because the work in one pool may require employees at a
14 higher wage level than the work in another pool, a fact the old IOCS method could not
15 detect. However, this particular benefit of using MODS data can be realized regardless
16 of the distribution keys used for mixed mail and not handling costs.

17 MODS-based "pools" are not hermetically sealed compartments whose costs are
18 defined only by events within the pools themselves. Excessive reliance on the cost
19 pools appears to have prompted an almost complete disregard for much of the other
20 information contained in IOCS tallies. Mr. Degen carries this propensity to the point of
21 absurdity when he proposes to ignore the fact that some employees were working at
22 postal windows or the fact that some employees were handling mail pieces with known
23 subclasses, just because they happened to be clocked into a "support" pool while doing
24 so.

25 My R97-1 testimony explained in detail my concerns about the numerous unverified
26 assumptions underlying the method introduced by witness Degen and the potential
27 systematic biases caused, for example, by treating pallets (which are used extensively
28 by Periodicals mailers) in a manner inconsistent with the treatment of other containers.
29 Most of the concerns I expressed then are just as relevant today.

30 In its R97-1 Opinion, the Commission adopted most of the proposed MODS-based cost

1 distribution method, including its use of item and container data. However, it rejected
 2 the Postal Service's proposed method in one important respect, concluding that it was
 3 more appropriate to distribute mixed mail costs (including empty equipment costs)
 4 recorded at "allied" cost pools broadly, over the direct costs in all MODS pools. The
 5 unique role played by allied operations in the flow of mail through processing facilities
 6 had been stressed in my rebuttal testimony. Docket No. R97-1, Tr. 36/19285-87
 7 (Stralberg); 19228-30 (Cohen).

8 The next two sections discuss the dynamic interactions between mail processing
 9 operations, the unique role of "allied" operations, and the reasons why a broad
 10 distribution of allied mixed mail and not handling costs is appropriate at this time.

11 **C. WHAT DRIVES THE COSTS OF MAIL PROCESSING IN POSTAL FACILITIES?**

12 The objective of postal costing is to identify causal links between accrued costs and mail
 13 subclasses. The easiest part of this exercise is to establish causal links for the "direct"
 14 costs incurred when employees handle specific classes of mail. There is little argument
 15 about the attribution of those costs to the classes that are being handled.²⁰

16 At some cost pools where units handled and operations performed are fairly uniform,
 17 e.g. those that distribute only pieces of a particular shape, it is also reasonable to
 18 assume that not handling and other indirect costs are caused by the different mail
 19 classes and subclasses in the same proportion as the direct costs. For example, if one
 20 subclass causes 50% of the direct costs at OCR's, it is reasonable to assume it also is
 21 responsible for 50% of the indirect OCR costs.

22 The question is far more complex, however, for the highly composite allied operations
 23 (platforms and opening/pouching units). These operations have much higher ratios of

²⁰ However, Periodicals flats may be saddled with an excessive portion of direct costs. They are often the first to be diverted to manual sorting when FSM's are occupied with First Class and Standard A flats and the first to be moved to annexes (generating extra costs for transportation back and forth to the main plants.) Some of these inequities may be possible to correct by changes in processing procedures. In this analysis, however, I focus on the distribution of indirect costs, which must be addressed through the costing system.

1 not handling to handling costs and perform a wide variety of different tasks.
2 Furthermore, because productivity at allied operations generally is not monitored, it is
3 probable that employees are often assigned to them when they are not needed
4 elsewhere.

5 The dynamics that drive postal costs are evidently still not well understood, even by
6 Postal Service management. Understanding these dynamics is essential both to
7 reversing the unfavorable cost trends for Periodicals and other flat mail and to
8 attributing costs properly.

9 As an active member of the Periodicals Review Team, I made many observations about
10 the factors that drive costs in mail processing facilities, most of which were shared by
11 other industry team members.

12 First, in a series of meetings with facility managers it became obvious that managers
13 have little or no incentive to reduce staffing levels, which in the long run is the only
14 way to substantially reduce costs, but have strong incentives to maximize service,
15 reflected both in higher First Class overnight delivery scores and reduced customer
16 complaints. For a facility manager to reduce staff below the complement he is allowed
17 means risking reduced delivery scores, more complaints from postal patrons and more
18 labor grievances, all of which could negatively impact his compensation.

19 Second, the need for high staffing levels in mail processing plants, particularly at allied
20 operations, appears to be driven by relatively brief, hectic bursts of peak activity
21 associated with: (1) arrivals of outgoing collection mail in the early evening; and (2)
22 critical dispatches, such as early morning dispatches to AO's, stations and branches.

23 Third, these peak periods of allied labor activity are driven not by the total amount of
24 allied labor required but by time constraints on that portion of the mail that requires
25 many consecutive operations within a limited time frame between arrival and dispatch.

26 When mail arrives at a processing plant, there is usually a burst of activity at the
27 platform, resulting in a fast unload followed by a lull until another truck arrives (except
28 when many trucks arrive almost at the same time). Some of the mail unloaded may be

1 in "direct" containers, including pallets, that simply need to be cross-docked and
 2 staged for loading onto outbound trucks. This activity takes little time. If all mail
 3 required just cross-docking, there would be no need for high platform staffing levels,
 4 since there normally would be ample time between mail arrival and dispatch.

5 The rest of the mail goes inside the facility to various opening units, where trays, sacks
 6 and presorted bundles in the unloaded containers are sorted, either mechanically or
 7 manually. Some of these trays, sacks and bundles, including all carrier route sorted
 8 bundles, are "directs" that after being sorted at the opening units are brought back to
 9 the platform and staged for dispatch to outbound trucks. Again, if all the mail were of
 10 this type, there normally would be ample time between arrival and dispatch, and both
 11 platforms and opening units could work at a more uniform pace, with lower staffing
 12 levels and much less "not handling" time.

13 What defines the time constraints, however, and requires initial bursts of activity to get
 14 the mail unloaded and started on its processing, and later more bursts of activity to
 15 meet dispatch schedules, is the "working mail" that is separated from the direct mail in
 16 the opening units. This mail first requires various "prep" operations prior to sorting,
 17 including culling, facing, canceling, and for some letters remote barcoding, and then
 18 one or more piece sorts before it can finally be returned to the allied operations for
 19 dispatch.²¹

20 For example, the Periodicals Review Team watched an intense flurry of activity just
 21 prior to the 5 a.m. dispatch to AO's at the Charlotte SCF platform. A few minutes after
 22 these dispatches had left, however, the platform was completely empty and deserted.
 23 It was evident that direct pallets and containers of direct bundles had already been
 24 staged at the platform during an earlier, calmer period, and that all of the intense
 25 activity immediately preceding these dispatches was focused on the mail that had come

²¹ Perhaps the tightest time-constraint between arrival and dispatch is determined by letter mail which is DPS sorted. DPS sorting to a given 5-digit zone requires all letters that will be included in that day's DPS mail to be available; i.e., the outgoing and incoming primary sorts for these letters must be completed before the DPS sorting starts. Time constraints are even tighter when the same barcode reader is used for several zones, normally one zone at a time.

1 off the letter and flat piece sorting operations, i.e., the working mail.

2 In other words, it is the mail that requires the most processing steps, generally the
 3 "working mail," that drives the need for high staffing levels in allied operations in
 4 order to: (1) get the arriving mail unloaded, "prepped" and entered into the processing
 5 stream as soon as possible; and (2) get the mail whose sorting has just been completed
 6 pulled down and sent to dispatch. It can therefore also be said that this mail is most
 7 responsible for the extensive amounts of "not handling" and the often rather slow work
 8 tempo that one observes in between these critical periods.

9 These observations bear directly on the question of how to distribute allied "not
 10 handling" and "mixed mail" costs. That subject is discussed further below.

11 **D. A BROAD DISTRIBUTION OF NOT HANDLING AND MIXED MAIL COSTS**
 12 **AT ALLIED OPERATIONS IS THE MOST APPROPRIATE UNTIL THE**
 13 **DYNAMICS CAUSING THESE COSTS ARE BETTER UNDERSTOOD**

14 As illustrated above, "allied" operations in MODS facilities incur very large "not
 15 handling" costs, in spite of being much less automated than the piece distribution
 16 operations they support. These not handling costs are incurred in order to serve other
 17 operations effectively, e.g., getting the mail prepped and to piece distribution as
 18 quickly as possible. It is not known how much of the allied not handling costs are
 19 incurred in serving letter sorting operations, how much in serving flats and parcel
 20 operations or how much in serving the transit mail that requires little or no processing
 21 before being dispatched.²²

22 How then should one assign responsibility for these costs? Obviously they should be

²² We do know, however, that much of the work being done in the allied pools could instead be done at the piece sorting operations. Witness Unger argues, for example, that there is no clear distinction between FSM and allied operations and that one therefore should not pay too much attention to productivity changes. USPS-ST-43 at 14. My observation has been that allied functions such as cutting bundles may be done at the FSM's at some times in some locations, while being done elsewhere in other cases. The same applies to the many allied functions performed before and after letter mail is sorted on OCR's or BCR's.

1 distributed to the mail that causes them, but there appears to exist no appropriate
2 model with which to "correctly" determine causality. I do not believe it makes sense to
3 assign responsibility for these large not handling costs based only on the relatively
4 small direct costs in allied operations. The best solution is to distribute them broadly,
5 over all distributed direct and mixed mail costs in the given facility group (e.g.,
6 Function 1 pools in the case of MODS allied costs). That essentially is what the Postal
7 Service in this docket proposes to do.

8 However, there is a way to improve somewhat on the undifferentiated broad
9 distribution of allied not handling costs. As explained below in Section E, some of
10 these costs can be associated with specific shapes and piece sorting technologies
11 through responses to IOCS Question 19 and are therefore more appropriate to
12 distribute over the corresponding direct and mixed mail costs. The information
13 available from Question 19 indicates that allied not handling costs are more often
14 linked to letter operations than to flat operations and therefore that even a broad
15 distribution of allied not handling costs may attribute too much cost to flat mail.

16 There are equally strong reasons to distribute allied "mixed mail" costs broadly. Not
17 only are there relatively few allied direct costs upon which to distribute the mixed mail
18 costs, but it can easily occur that a container of mail is sampled as "mixed" in an allied
19 pool while the items it contains may be sampled in some other pool, or that an empty
20 container observed at the platform may have been observed as a full container
21 somewhere else. All this speaks in favor of simply distributing mixed mail costs
22 broadly, particularly at allied operations.

23 There are, however, at least two ways to implement the concept of broad distribution of
24 allied mixed mail costs. One, described by Mr. Degen in response to MPA/USPS-T16-
25 17 (Tr. 15/6515-32), is carried out in the same manner as the Postal Service's other
26 mixed mail distributions but across rather than within pools. That method performs
27 the distribution separately within the different item and container categories.

28 I prefer the alternative approach used by the Commission in its R97-1 Opinion. That
29 distribution is carried out both across pools and across item and container types. It
30 does, however, make use of the shape related information on a subset of the allied

1 mixed mail tallies, having activity codes 5610 (letters), 5620 (flats) or 5700 (parcels).
 2 Mixed mail allied tallies with any of these activity codes are distributed across pools
 3 but over the direct costs with shape letter, flat or IPP/parcel respectively.²³

4 While the item/container scheme used by the Postal Service is intriguing in many
 5 ways, I tend to favor the broader distribution for the many reasons I explained in my
 6 R97-1 testimony. Section F below describes specific reasons I find for still questioning
 7 the validity of the item/container scheme as currently implemented in IOCS.

8 **E. AN IMPROVED COST DISTRIBUTION IS POSSIBLE USING QUESTION 19**
 9 **SHAPE RELATED DATA THAT THE POSTAL SERVICE HAS IGNORED**

10 IOCS clerks are prompted to answer many questions about the activities of sampled
 11 employees, where they performed those activities and the type of mail handled, if any.
 12 Question 19 seeks to identify the type of operation at which the sampled employee was
 13 located. Exhibit 2 shows the possible combinations of answers. The initial question has
 14 20 possible answers (A-U). If A (manual) is chosen, a second list of nine possible
 15 selections is presented to the IOCS clerk. If, for example, the observed employee was
 16 working at a manual letter case, the Question 19 response would be the combination A
 17 A, where the first A indicates manual and the second indicates a letter case. Similarly,
 18 the combination A B indicates a manual flats case. The letter C by itself indicates the
 19 employee was working at a BCR/BCS (in this case there is no subsequent question), etc.
 20 Some additional choices are presented to the IOCS clerk if he indicates that the
 21 employee was operating transport equipment or sorting parcels.

22 The Postal Service's R97-1 cost distribution method ignored the Question 19 data
 23 completely (except for tallies without MODS numbers.) In the current proposal,
 24 Question 19 data are used to define IOCS-based cost pools in NonMODS facilities.

²³ In this docket the activity codes 5610, 5620 and 5700 have been removed from most of the tallies that would have had such activity codes in previous years. Response to TW/USPS-T17-7: Tr. 15/6607-09. However, the Question 19 data on which those activity codes were based are available, and can be used also to obtain shape related connections for many empty equipment and not handling tallies, as discussed in Section E.

1 The use of Question 19 data proposed below goes further in associating some tallies
 2 with specific shapes. On direct tallies, the shape of the mail piece handled is recorded
 3 separately and Question 19 cannot add to that information. But for some non-direct
 4 tallies in pools that are not identified with a unique shape, e.g., allied pools, Question
 5 19 data can provide information that adds more precision to the cost distribution. The
 6 only limiting factor is that such information is only available on some tallies.

7 Suppose, for example, that an opening unit or platform employee is observed handling
 8 an empty hamper near an FSM. This could very easily happen if, for example, he is at
 9 the FSM to retrieve empty equipment for use somewhere else. From the information
 10 used in the Postal Service's cost distribution method, one would know only that he was
 11 handling an empty hamper, the cost of which would be distributed over all mixed and
 12 direct hamper costs (assuming that one uses a broad mixed mail distribution within
 13 item and container type.) But from the Question 19 data we know that this was an
 14 empty hamper used in flats processing, which makes possible a more accurate
 15 distribution.²⁴

16 In the following I show how Question 19 data can help provide a somewhat more
 17 accurate cost distribution in the following types of pools:

- 18 (1) Function 4 pools (stations and branches of MODS offices);
- 19 (2) NonMODS pools; and
- 20 (3) Allied and "Support" pools.

21 1. Function 4 pools - Stations and Branches of MODS Offices

22 The Periodicals Review Team observed stations and branches of most of the main
 23 processing plants that we visited. We normally saw these offices in the early morning
 24 hours, when most incoming mail is received and distributed to carriers and P.O. boxes.

²⁴ The pre-R97-1 cost distribution method used Question 19 data to identify certain mixed mail and not handling tallies as being related to either letter, flat or parcel distribution and distributed those costs separately over direct costs for, respectively, letter, flat and parcel handling. Mixed mail and not handling costs identified as shape related in this way were given activity codes 5610, 5620 and 5700. In R97-1 I proposed continued use of these codes, and the Commission used them in its distribution of allied mixed mail costs.

1 Besides the carriers, most of the employees we encountered were clerks working under
 2 MODS number 240, also known as LD43, the largest Function 4 cost pool. The \$563
 3 million accrued LD43 FY98 processing costs are comparable with those of all BMC's.
 4 Together with the smaller LD41 (automated sorting - mostly DPS), LD42 (mechanized
 5 sorting - almost nonexistent) and LD44 (box distribution), LD43 represents most
 6 incoming mail processing at stations and branches.²⁵ Given LD43's size and the fact
 7 that it contains a mixture of letter, flat and parcel distribution as well as allied labor
 8 functions, I thought it worthwhile to see how much use of Question 19 data would
 9 impact its cost distribution.

10 LD43 has about \$295 million in direct costs with known shape. As shown in Table IV-2,
 11 the portions associated with letters, flats and IPP's/parcels respectively are 46.79%,
 12 34.57% and 18.64%. There are another \$261 million "not handling" costs in this pool.
 13 There is Question 19 information for 73% of these costs, of which 72%, or about \$136
 14 million, can be associated with specific shapes. But as shown in Table IV-2, the share of
 15 these costs that is associated with letters is far higher than for the direct costs (62.6%
 16 versus 46.79%). The share of not handling costs associated with flats, on the other
 17 hand, is only 20.18%, versus 34.57% of the direct costs. That means that if one
 18 distributes these shape related not handling costs over the direct costs for
 19 corresponding shapes, the portion attributed to flat mail will be considerably less than
 20 under the Postal Service's method, which treats all not handling tallies within a pool
 21 indiscriminately.

Table IV-2: LD43 Direct, Empty Container & Not Handling Tally Costs Per Shape				
	Letters	Flats	IPP/Parcels	Total
Direct Tallies	46.79%	34.57%	18.64%	100.00%
Empty Containers	45.74%	21.84%	32.42%	100.00%
Not Handling	62.60%	20.18%	17.22%	100.00%

22 I am not surprised that there appear to be higher not handling costs associated with
 23 letter mail. Although LD43 letter sorting is manual, it is affected by its association with

²⁵ The other Function 4 pools are LD49 (computerized forwarding), LD79 (business mail entry), separate pools for special services and Express Mail, and two "support" pools.

1 automated letter sorting at the main plant, which may on one day sort all letters on
2 automation and the next day leave a large volume to be sorted manually.

3 Question 19 data can also be applied to empty container costs. Of \$26.5 million in
4 empty container costs at the LD43 pool, \$15.7 million are associated with specific
5 shapes. And as Table IV-2 shows, the shape related percentages are different from the
6 "direct" percentages. Not surprisingly, the share of empty container costs associated
7 with IPP's and parcels is much larger than the corresponding shares of direct costs.
8 Flats, on the other hand, are associated with a smaller portion of the empty container
9 costs than of the direct tallies.²⁶

10 Based on these findings, I propose that the method used by witness Van-Ty-Smith
11 (USPS-T-17) to distribute empty container and not handling costs within the non-
12 support Function 4 cost pools be modified as follows:

- 13 • The costs of empty containers of a given type that are associated with specific
14 shapes through Question 19 data are distributed over only the direct and mixed
15 container data for the corresponding container type and shape.
- 16 • Not handling costs that are shape related are distributed over only the distributed
17 direct and mixed mail costs for the corresponding shape.

18 The method described above is implemented in the SAS program in MPA-LR-3. It
19 reduces the Function 4 costs attributed to Periodicals by over \$4 million, relative to the
20 Postal Service's method. My method does not associate all not handling or empty
21 container costs with specific shapes. One might think of the shape associated portion of
22 the empty container costs as the costs that occur at or near the distribution areas, e.g., a
23 letter or flat case or a parcel sort operation. The non-associated portion may occur
24 when the containers are brought back out on the platform, staged for return to the main
25 plant or for reuse locally, etc. Intuitively, it seems likely that the non-shape associated

²⁶ One interpretation might be that containers with parcels arriving at a station or branch are emptied rather quickly and thereafter become part of the "handling empty equipment" problem, whereas containers with flats may be used longer with mail in them.

1 costs have a shape distribution similar to those that can be identified by shape, since
2 they represent the same empty containers being handled in different parts of the local
3 office. There are, however, no shape specific data for the remaining empty container
4 costs.

5 Similarly, one might expect the portion of not handling costs that occur away from the
6 letter, flat and parcel distribution areas to have similar shape ratios, but there are no
7 data to prove such an assumption. Had I assumed that the shape affiliation for the
8 remaining not handling and empty container costs parallel the costs associated with
9 shape by applicable Question 19 data, then the redistribution referred to above would
10 have led to even lower Periodicals costs, and it would generally have raised the costs of
11 letter mail more. I have used the more conservative approach.

12 To summarize, not handling costs appear to be more letter related and less flat related,
13 and empty container costs appear to be more parcel related and less flat related, than
14 the direct and mixed mail costs. Given the high degree of letter mail automation and
15 the large bulk occupied by parcels, these conclusions make intuitive sense.

16 2. NonMODS Offices

17 The USPS proposal defines cost pools in NonMODS offices based mostly on Question
18 19 data. For example, a tally showing an employee to be at a manual letter operation,
19 defined by the combination A A in response to Question 19, is assigned to the MANL
20 cost pool. The combinations A B and A C are similarly assigned to the MANF and
21 MANP pools, and so on.

22 This approach would seem to accomplish essentially what the redistribution described
23 above accomplished for the MODS stations and branches data. There is, however, one
24 major difference. The Postal Service does not apply the Question 19 data to break time
25 tallies. Costs associated with those tallies are distributed proportionately on all other
26 NonMODS costs. But there is Question 19 information for the break time tallies, and
27 when it is applied rather than ignored it increases the costs at the MANL (letters) pool
28 by almost \$28 million, and reduces the allied and miscellaneous costs that are

1 distributed globally.²⁷

2 The SAS program in MPA-LR-3 uses Question 19 information to assign break time
3 tallies to NonMODS cost pools. Keeping those tallies separate and distributing them
4 proportionally to all other costs, as Van-Ty-Smith's method does, would be equivalent
5 to a completely global distribution of all break time costs in MODS offices.

6 3. In The Allied Pools, Available Question 19 Data Suggest That Even A "Broad"
7 Distribution Of Not Handling And Mixed Mail Costs May Overcharge Flat Mail

8 The methodological changes described below are applied in MPA-LR-3 to the MODS
9 Function 1, BMC and NonMODS allied and "support" pools. The following discussion
10 focuses on MODS Function 1 offices, which have by far the largest allied costs. In these
11 processing plants there tend to be much greater distances between operations than in a
12 small Function 4 delivery unit. Employees in the allied pools may be more mobile
13 overall than those in other pools, because their work is done in support of piece
14 distribution. An opening unit employee, for example, may bring hampers, APC's or
15 other containers of mail to an FSM or BCR operation to be sorted, and he may take back
16 with him either empty containers or containers full of mail that has been sorted and is
17 ready for an additional sort or for dispatch.

18 It follows that one would expect to see, in the Question 19 data, evidence of allied
19 employees working near shape specific distribution operations some of the time, but
20 not most of the time. In fact, of the roughly \$1.8 billion in allied and support pool not
21 handling costs, only about ten percent have a shape specific affiliation. It is unfortunate
22 that one cannot associate more of these costs with specific shapes, given that so many
23 allied employees appear to be involved in some type of moving or "prepping" mail of a
24 specific shape for piece distribution.

25 Table IV-3 illustrates the shape affiliation of direct MODS costs, which form most of the
26 distribution key for not handling costs. It divides MODS cost pools into the Function 4

²⁷ Witness Van-Ty-Smith conceded all of the above in her response to TW/USPS-T17-18 (Tr. 15/6621-24). In response to part d of that interrogatory, she provided a revised NonMODS cost distribution in which Periodicals costs were lower by over \$1 million.

1 pools and three categories of Function 1 pools. For each, it shows the percentage of the
 2 direct costs associated, respectively, with letters, flats and IPP/parcels, as well as those
 3 with no shape identified. The categories of Function 1 pools are:

4 Allied pools 1BULKPR, 1OPBULK, 1OPPREF, 1PLATFORM, 1POUCHING, 1SACKM
 5 and 1SACKH. They have only \$551 million in direct costs (tally dollars) but \$1,528
 6 million in not handling costs.

7 Function 1 Support includes the 1Misc and 1Support pools, for which the Postal Service
 8 proposes to ignore all shape and subclass information and distribute even the direct
 9 costs over the rest of Function 1.

10 Other Function 1 includes all Function 1 distribution pools, as well as the cancellation
 11 and SPBS and certain specialized pools. They represent 71.5% of all direct MODS costs
 12 (\$3.667 billion) but only 42.9% of the not handling costs.

13

Table IV-3: Shares Of Direct MODS Costs - By Shape						
Shape	Allied Pools	Other Function 1	Function 1 Less Support	Function 1 Support	Function 4	MODS Total
Letters	40.06%	60.81%	57.72%	63.80%	57.09%	57.65%
Flats	36.86%	31.36%	32.18%	20.08%	28.32%	31.49%
IPP/parcels	22.60%	6.56%	8.95%	9.90%	10.98%	9.27%
No Shape	0.49%	1.27%	1.16%	6.22%	3.61%	1.59%

14

15 As can be seen from this table, the broad distribution of allied not handling costs means
 16 distributing more of those costs to letter mail and less to flats and parcels than would
 17 result from a pool by pool distribution.

18 Question 19 data for the over \$1.8 billion in allied and support function not handling
 19 costs show that about \$173 million have shape related information. The mix of allied &
 20 support not handling shape affiliations is:

21 Letters: 61.53%

22 Flats: 23.86%

23 IPP/parcels: 14.61%

24 The \$173 million should be distributed neither within pools nor broadly over all costs,

1 but over the direct costs of the corresponding shape. It is noteworthy that the portion
 2 belonging to flats (23.86%) is much smaller than flat mail's share of the direct costs both
 3 overall and in the allied pools. The 23.86% that are flat affiliated are composed as
 4 follows:

- 5 • 15.53% are for allied employees observed at flats sorting machines (FSM's). These
 6 costs should be distributed over direct FSM costs, rather than all flats related costs.
- 7 • 7.4% are for allied employees observed at manual flats cases. These costs should be
 8 distributed over manual flat sorting (MANF) costs, rather than all flats costs.
- 9 • 0.92% are for allied employees observed at flats cancellation machines. These costs
 10 should be distributed over the direct costs of flats at the cancellation pool.

11 Unfortunately, evidence from Question 19 data is available to support the above
 12 distribution only for a small portion of all allied and support not handling costs. But it
 13 is reasonable to believe that the shape ratios indicated above apply to a much larger
 14 portion of the allied not handling costs. Time spent by opening/pouching unit
 15 employees on "not handling" mail when near a piece distribution operation is probably
 16 more than matched by the time they spend "not handling" as they wend their way back
 17 to their own base, or wait at their own base for further instructions.

18 Based on the above, I believe that the Commission should approve at least the broad
 19 distribution of allied not handling costs. I hope the Commission will improve on that
 20 distribution further, using Question 19 data as explained above. To summarize, my
 21 conclusions are based on the following:

- 22 • Preparation for piece distribution is the major task performed by allied operations,
 23 particularly opening units, which are often organized according to shape.
- 24 • The "direct" costs at the allied pools are small compared to the very large mixed
 25 mail and not handling costs, and the direct costs within each pool are therefore a
 26 poor basis for distributing such large mixed and not handling costs.
- 27 • IOCS provides no information related to shape or sorting technology for most allied
 28 not handling time.
- 29 • The allied not handling costs on which shape related information is available,
 30 however, indicate that the portion related to flat mail is much smaller than
 31 suggested by the shape distribution of direct costs.

32 A similar argument applies to the approximately \$260 million empty container costs

1 associated with the MODS allied, support and empty equipment pools. Question 19
 2 provides shape information for roughly 12% of these costs and the following shape
 3 distribution:

4 Letters: 53.81%
 5 Flats: 27.74%
 6 IPP/parcels 18.45%

7 This again is much different from the "direct" cost ratios in Table IV-3 and indicates
 8 that relatively fewer empty container costs should be charged to flat mail.²⁸

9 The alternative distribution described above of some allied not handling and empty
 10 container costs based on Question 19 data results in somewhat lower costs for
 11 Periodicals. But the most important point I hope to make with this analysis is that even
 12 a broad distribution of not handling costs at allied operations is likely to overstate
 13 considerably the amount of such costs that are caused by flat mail processing
 14 requirements. A within-each-pool distribution is even worse for Periodicals and for
 15 flat mail in general and would, in my opinion, distort the true causal links between
 16 mail volumes of different categories and mail processing costs.

17 **F. THE ITEM/CONTAINER SAMPLING SCHEME IS FLAWED AND SHOULD BE**
 18 **REDESIGNED FOR USE IN FUTURE RATE CASES**

19 I explained in my Docket No. R97-1 testimony the major problems I see with the Postal
 20 Service's scheme of item and container sampling. I realize it is difficult to design a
 21 perfect system, especially in a rapidly changing environment, but I nevertheless hope
 22 the Postal Service will fix the "bugs" in its current scheme before the next rate case.

23 I will not repeat all my previous arguments here, but I do wish to make some
 24 additional comments on the asymmetric way in which pallets are treated under the
 25 current system and the impact this has on Periodicals costs. Pallets carry flats bundles,

²⁸ For parcels, use of the not handling and empty container percentages indicated by Question 19 responses, as explained above, results in higher costs than the costs they receive from a broad distribution of allied not handling and empty container costs, but lower than they would in a strict within-each-pool distribution.

1 sacks, letter and flats trays, parcels - in short, all kinds of items and shapes. Logic
 2 seems to dictate that they be treated similarly to other "containers," such as hampers
 3 and APC's. Instead, pallets are classified as "items" and are treated in the same way as
 4 trays and sacks. Based on many observations I made during facility visits with the
 5 Periodicals Review Team, this has practical consequences more severe than I had
 6 previously thought.

7 When an IOCS clerk sees a mailer-prepared pallet with flats bundles, he can normally
 8 determine its contents rather easily.²⁹ But if a pallet instead contains sacks or trays,
 9 which it is often impractical to get to without tearing off the pallet's lid or shrinkwrap,
 10 there is no way for the IOCS clerk to record that fact (as he can do with containers),
 11 because pallets are "items." He would have to record a pallet that could not be
 12 counted. The associated costs would then be distributed over the costs of pallets that
 13 can be counted, almost all of which have Periodicals or Standard A, or perhaps bound
 14 printed matter (BPM), flats bundles on them.³⁰

15 A related problem occurs when a pallet carries empty trays (letter or flat trays), which
 16 appears to occur often. The IOCS clerk can record an "empty pallet" and be in accord
 17 with written instructions, but the costs incurred are actually caused by the trays, not the
 18 pallet. Still another problem is that a postal pack, which essentially is a pallet with a
 19 cardboard box on top of it, is treated as a container, except when it has been emptied of

²⁹ In fact, the information sheet that a mailer must include with every Periodicals pallet provides all the information the IOCS clerk needs, and there is no need to remove the lid or shrinkwrap on the pallet to record this information.

³⁰ When asked about this, witness Ramage answered for the Postal Service that some IOCS clerks might "solve" the problem by recording not a pallet with sacks or trays, which is impossible, but an "other container" with sacks or trays, or a "multiple items not in a container" type container. See answer to TW/USPS-T17-14, redirected from witness Van-Ty-Smith. In other words, he suggested that IOCS clerks on their own try to solve the dilemma posed by a flaw in the data collection scheme. But the fact that, when the written instructions don't seem to make any sense, IOCS clerks do creative things for which there is no basis in the written instructions, is in itself even more worrisome. One must wonder what other creative things IOCS clerks do for which there is no basis in their written instructions.

Furthermore, when that "other container" or the "multiple items not in a container" container is emptied, it becomes an empty pallet whose costs will be charged to the "direct" pallets. In any case, the IOCS handbook does not mention the type of solution that Ramage says is often used.

1 its content and the box on top has been removed. It then becomes an empty pallet, and
2 the costs of handling it are again attributed over the costs of "direct" pallets.

3 These are problems that the Postal Service could, and hopefully soon will, fix. I believe
4 that with some changes the item/container scheme can be substantially improved,
5 although I realize that the Commission adopted its use in all cases except for allied
6 mixed mail costs in R97-1. In the meantime, for the purpose of distributing allied
7 mixed mail costs in this docket, I recommend that the Commission stick with its R97-1
8 method for broad allied cost distribution.

9 **G. "SUPPORT" POOLS AND "MIGRATED" COSTS**

10 Postal Service witnesses Degen and Van-Ty-Smith refer to Function 1 pools "1MISC"
11 and "1Support" and Function 4 pools "LD48_ADM" and "LD48 OTH" as "support"
12 pools. Degen proposes to distribute all costs in these pools broadly over, respectively,
13 all other Function 1 and all other Function 4 pools. His proposal ignores the fact that
14 some of these "support" costs are from direct tallies showing specific subclasses or
15 special services, another example of Degen's unbending faith in MODS numbers as the
16 only cost indicators that matter.³¹

17 Table IV-4 shows the support pool costs in "tally dollars" and accrued dollars. Total
18 accrued costs are over \$622 million, of which \$83.191 million are direct costs that can,
19 and in my opinion should, be fully distributed directly to subclasses and special
20 services, as shown in Exhibit 3. The remaining volume variable costs in those pools can
21 then be distributed globally as proposed by Degen and Van-Ty-Smith.³²

22

³¹ The apparent source of this confusion is that certain employees are primarily assigned to support functions, including various administrative tasks, where a large portion of the "not handling" costs in fact are administrative costs, according to the activity codes that appear on the tallies. Evidently these employees are sometimes used to help out with actually sorting the mail and are seen doing so by IOCS clerks, but have omitted to change MODS number before they go to process mail.

³² These pools have a low overall volume variability (around 46%), due to the presence of large numbers of tallies representing activities that are considered fixed. The direct tally costs, however, are assumed 100% volume variable in Van-Ty-Smith's calculations of IOCS based volume variabilities.

Table IV-4: MODS Support Pool Costs					
	Function 1		Function 2		TOTAL SUPPORT
	1MISC	1SUPPORT	LD48 OTH	LD48_ADM	
Tally Costs:					
Direct	22,479,724	7,896,902	35,836,746	23,499,489	89,712,861
Mixed	12,079,045	2,987,335	9,344,602	3,140,125	27,551,106
Not handling	108,437,987	202,058,606	105,865,691	148,935,950	565,298,234
Total	142,996,756	212,942,843	151,047,038	175,575,564	682,562,201
Accrued Costs:					
Direct	21,529,619	6,824,717	33,252,312	21,585,330	83,191,979
Mixed	11,568,524	2,581,736	8,670,698	2,884,345	25,705,304
Not handling	103,854,857	174,624,547	98,230,989	136,804,324	513,514,717
Total	136,953,000	184,031,000	140,154,000	161,274,000	622,412,000

Another example of Degen's belief that MODS numbers outweigh and make obsolete all other information is his proposal that costs of window service and administrative activities be "migrated" to cost segment 3.1 (the mail processing cost segment) when employees performing those activities are clocked into mail processing MODS numbers. This "migration," eventually rejected by the Commission in R97-1, is proposed again in this docket, with minor modifications. The "migrated" costs are mostly of the "not handling" variety.

My concern about this is that when typical window service costs are distributed over regular mail processing costs, a portion of those costs will be assigned to Periodicals and other mail classes that generally do not use window service.³³

³³ Since this had been an issue in Docket No. R97-1, I took every opportunity when visiting Function 4 MODS offices with the Periodicals Review Team to ask the supervisors in charge whether mail processing clerks sometimes perform window service or administrative functions. Each supervisor confirmed that his mail processing clerks are also used, on an as needed basis, for tasks like window service and administrative functions. One said that although he ideally prefers to have most employees focus on one type of task, it is common that clerks go back and forth between different tasks during a day, for example relieving window clerks during lunch and later returning to mail processing. Clerks who move between tasks are of course supposed to clock in and out each time, but few in the field pretend that they always do. In fact, it is clear that they often do not, especially if they serve just as short term replacements (for example, when a window clerk needs to leave his position briefly for whatever reason). When these clerks do omit to clock out of one operation and into the other, the result is precisely that observed in R97-1 and again in this docket, namely tallies showing that employees are seen by IOCS clerks doing one activity, while clocked into a MODS number representing another.

1 In this docket, the window service costs proposed to be "migrated" represent \$77
2 million in "tally" costs or \$72 million in BY98 accrued costs. Over half of these are in
3 the two Function 4 support pools referred to above. Since Van-Ty-Smith's program
4 includes a window-service-based distribution key for Function 4 support pool costs, the
5 potential distortion caused by the presence of window service costs in cost segment 3.1
6 would appear to be less than in Docket No. R97-1. Most of the remaining migrated
7 window service costs are in cost pools LD43 and LD44. Ideally, the window service not
8 handling costs in those pools should be distributed separately, using a window-service-
9 based distribution key.

10 V. BUNDLE HANDLING AND BUNDLE BREAKAGE

11 Bundle breakage is not a new phenomenon. It has existed as long as there have been
12 presorted bundles. Opinions vary greatly, however, among postal workers, postal
13 managers and observers of the Postal Service as to the magnitude of the problem, its
14 impact on costs, who is to blame for it and whether it is getting worse or better. Until
15 very recently there were no solid data against which to evaluate the often farfetched
16 claims about bundle breakage.

17 Since the R90-1 rate case, when the Periodicals industry first complained about the
18 already anomalous increases in Periodicals costs, some Postal Officials have blamed the
19 rising costs on bundle breakage and failure of mailers to prepare bundles capable of
20 withstanding any degree of rough treatment. See Dockets No. R90-1, Tr 11/4945
21 (Moden); R97-1, Tr. 36/19350 (Degen); and R2000-1, USPS-ST-42 at 11 (O'Tormey); and
22 USPS-ST-43 at 4 (Unger). During the facility visits that I participated in with the
23 Periodicals Review Team, some facility managers called bundle breakage a minor or
24 irrelevant issue, affecting Standard A more than Periodicals, while others described it
25 as the issue and claimed it was the main culprit behind higher Periodicals costs.

26 In this case witness Yacobucci (USPS-T-25) has attempted to incorporate costs of bundle
27 breakage into the model he uses to estimate presort and automation cost differentials
28 for First Class, Periodicals and Standard A flats. The effort to apply, for the first time,
29 an analytical approach to bundle breakage is praiseworthy. However, Yacobucci's

1 model is severely flawed, primarily because he: (1) ignores the fundamental difference
2 between sacked and palletized mail; and (2) relies on an essentially worthless bundle
3 breakage survey, described in LR-I-88, that involved no actual observations but
4 amounted simply to averaging the guesses of some facility managers.

5 Yacobucci's approach greatly overstates bundle breakage costs of palletized mail,
6 which in reality experiences little bundle breakage, while understating the much more
7 severe problem with sacked mail, whose bundles break at an alarming rate. As a
8 result, Yacobucci overstates the costs of carrier route presorted mail, thereby distorting
9 the presort cost differentials that form the basis for witness Taufique's rate design.

10 Fortunately, the record in this docket contains a far more reliable database on bundle
11 breakage for Periodicals and Standard A flats, based on an MTAC survey last fall of
12 what happens as flat bundles are dumped on SPBS (small parcel and bundle sorters)
13 and manual sorting belts.³⁴ MTAC team members counted flats bundles in thousands
14 of Periodicals and Standard A containers, recording extensive information about
15 bundle make-up, breakage rates and other bundle damage. This database provides a
16 far more reliable source of information on the true extent and cost consequences of
17 bundle breakage than the meaningless numbers in LR-I-88.

18 I have modified Yacobucci's spreadsheet both to use the MTAC bundle breakage data
19 and to treat more accurately the mail flows associated with broken bundles and bundle
20 sorting. The revised spreadsheet is in library reference MPA-LR-2. I use it for two
21 purposes. One is to estimate potential savings in bundle breakage costs that will be
22 realized in the 2001 test year due to a variety of efforts by both the industry and the
23 Postal Service. I estimate that as a result of these efforts, regular rate and nonprofit
24 Periodicals will experience a test year cost saving of \$21 million that has not been
25 accounted for in the Postal Service's roll forward projections. The second model
26 application provides a new set of worksharing related unit costs for use in Periodicals
27 rate design, as discussed in Section VI. Witness Glick applies the revised model to
28 Standard A costs in his testimony PostCom, et al.-T-1.

³⁴ See response to TW/USPS-2 (filed April 13, 2000): Tr. 21/9281-83; and LR-I-297.

1 **A. THE DYNAMICS AND COST EFFECTS OF BUNDLE BREAKAGE**

2 Before describing the changes I propose in the flats mail flow model, let me summarize
3 the bundle breakage issue, based on my own observations, conversations with Postal
4 Service personnel both at headquarters and in the field, and a detailed analysis of the
5 MTAC "package integrity" data base. Some key facts to consider are:

- 6 • Bundles coming out of sacks break far more frequently than palletized bundles.
7 This is hardly news, but the extent of the difference revealed by the MTAC package
8 integrity data is probably greater than most observers, including myself, had
9 expected. For Periodicals pallets, the breakage rate is only 0.5% when pallets are
10 dumped on a belt in a mechanized SPBS operation. The rate may be higher on the
11 most mechanized SPBS "feed systems" installed in the largest facilities but even less
12 than 0.5% in manual bundle sorting operations. For Periodicals sacks, the MTAC
13 study found 16% of the bundles to be already broken when they came out of the
14 sacks.
- 15 • When a palletized bundle does break, however, cost consequences are often larger
16 than when a sacked bundle breaks. The reason is that many sacked bundles have
17 the same presort level as the sack itself. For example, a 3-digit bundle traveling in a
18 3-digit sack may be broken upon arrival at the opening unit where the sack will be
19 emptied, but since this typically is a 3-digit opening unit, there is no loss of piece
20 sortation. The loose pieces from the broken bundle will be taken to a 3-digit piece
21 sorting unit (incoming primary), which is where they would have been taken even
22 if the bundle did not break by itself. Palletized bundles, on the other hand, often
23 have a higher presort level than the pallet itself, and breakage of such bundles can
24 lead to loss of presort and therefore additional piece handlings.
- 25 • For pallets, there is a big difference between manual bundle sorting and sorting on
26 an SPBS. In manual sorting, the pallet contents are not "dumped." Instead,
27 sortation is done from the pallet itself. Bundles lifted from the pallets are practically
28 always still intact. If damage occurs, it is when they land in a recipient container
29 that typically represents a higher level of sort. For example, in manual bundle
30 sorting from a 3-digit pallet, bundles may be thrown into 5-digit containers. If one

1 of them breaks at that point, the pieces will have made it to the 5-digit sort level.
 2 The worst that can happen (if it is a carrier route bundle) is that the pieces will have
 3 to undergo a 5-digit (incoming secondary) piece sort that the bundle was meant to
 4 bypass. Under mechanized (SPBS) sorting of such a pallet, however, the pallet is
 5 dumped onto a belt from which bundles are carried to keying stations. If they break
 6 on that belt, the pieces may need to go to a 3-digit (incoming primary) sort
 7 operation, or even an ADC piece sort if dumped from an ADC pallet.

8 • In observing bundle sorting on SPBS machines with the Periodicals Review Team,
 9 we often saw loose pieces from broken bundles being keyed as individual pieces by
 10 SPBS operators rather than being taken to an FSM or manual flat case, which would
 11 be more efficient. It was also noted that SPBS operators had a built in incentive to
 12 key these loose flats, as an easy way to raise "productivity." The productivity rate
 13 on an SPBS is total items keyed divided by manhours spent, where the items keyed
 14 could be either bundles or loose flats from broken bundles. It is not known
 15 precisely how widespread the practice of keying flats on the SPBS was in FY98, but
 16 it appeared to be fairly pervasive as late as the first part of FY99, when most of the
 17 Periodicals Review Team's facility visits occurred.³⁵

18 • It appeared more recently, when I participated in the MTAC data collection in two
 19 facilities, that things have improved, that inappropriate keying of individual pieces
 20 no longer occurs and that SPBS employees are doing a better job of recovering
 21 partially broken bundles. Inasmuch as these apparent improvements seem to be
 22 linked to concerted efforts by USPS management, I am optimistic that bundle
 23 breakage costs in the test year will be considerably less than in FY98.

³⁵ For example, in one processing plant I observed the belt carrying bundles from the SPBS keying stations and noted that roughly every other item carried on the belt was a loose flat, presumably coming from broken bundles, with the other items carried being unbroken bundles. All items carried would be counted and reported in MODS as if they were bundles, thereby inflating considerably the reported "productivity" of the SPBS operation. For shrink-wrapped pieces from broken bundles, it appeared that keying them on the SPBS was almost routine in all facilities.

1 **B. MISTAKES IN YACOBUCCI'S MODEL**

2 Yacobucci's bundle breakage model does recognize the potentially higher cost
3 associated with breakage of a palletized bundle. But it fails to account for the much
4 higher breakage rate for sacked bundles. In assuming the same breakage rate (10% in
5 each bundle sort) for sacks and pallets, Yacobucci contradicts even the LR-I-88 survey
6 that he claims to rely on.

7 In that survey, various facility managers were asked to estimate the percentage of
8 bundles that inadvertently break for, respectively, Periodicals sacks, Periodicals pallets,
9 Standard A sacks and Standard A pallets. They were not asked to perform any kind of
10 count to support their guesses. A spreadsheet called BundleBreakage.xls in LR-I-88
11 lists 48 responses and calculates the averages. It is clear that many of the respondents
12 did not think very deeply before providing their answers. The responses range from
13 zero to 80% breakage for sacks and from zero to 40% breakage for pallets. A straight
14 average of these responses gives 8% for Periodicals pallets and 18% for Periodicals
15 sacks. Most respondents, however, indicated a pallet breakage rate of 5% or less, but
16 nonsensical responses from some drove the average to 8%.

17 While Yacobucci claims his model uses the breakage data from LR-I-88, he in fact
18 ignores the one thing that is consistent about these responses, namely that they, almost
19 without exception, indicated higher breakage for sacked bundles. Yacobucci assumes
20 10% for both. In fact, he assumes more, for of the 90% of bundles not broken in the first
21 bundle sort, he assumes that another 10% breaks if there is a subsequent bundle sort,
22 and another 10% of the remainder if there is a third sort, etc. Since palletized bundles
23 tend to have more secondary bundle sorts, Yacobucci effectively ends up assuming that
24 palletized bundles break more than sacked bundles, contrary to all evidence. This not
25 only distorts the cost relationship between sacks and pallets. It also severely distorts
26 the relationship between presort levels, leading to a sharply reduced estimate of
27 savings produced by carrier route presortation.

28 Before describing the details of the alternative model that I propose the Commission
29 use, let me discuss briefly the new bundle breakage data.

1 **C. THE MTAC PACKAGE INTEGRITY DATA**

2 The database resulting from the MTAC data collection in the fall of 1999 is contained in
 3 LR-I-297. I participated in this data collection at two of the six sites. While not perfect,
 4 I believe this database is by far the best available source of information at this time on
 5 which to base an analysis of the bundle breakage issue.

6 Basically, teams of Postal Service employees visited six different processing plants,
 7 spending three working days at each site examining bundles being dumped on sorting
 8 belts from sacks and pallets. Industry representatives were invited to participate as
 9 observers as well as data collectors. The six sites were widely dispersed in size and
 10 geographic location, but they did have in common that they use at least one SPBS
 11 machine to sort bundles. Altogether, the resulting database includes information on
 12 80,233 bundles coming out of 2,733 containers. Bundles were characterized in terms of
 13 class (Periodicals or Standard A), container type (sacks or pallets), detailed make-up
 14 characteristics (type and method of strapping, shrink-wrapping, etc.), characteristics of
 15 the individual pieces (size, glossiness, use of polywrap), bundle thickness and in terms
 16 of how well the bundles maintained their integrity during their first sorting operation.

17 Table V-1 summarizes the main findings from the MTAC survey. For Periodicals and
 18 Standard A, and separately for sacks and pallets, the table shows the percent of bundles
 19 that the data collectors identified as (1) broken or (2) suspect. The latter category
 20 represents bundles that sustained some damage without actually breaking. The Postal
 21 Service members of the data collection team felt that these bundles were at risk of
 22 breaking in subsequent handlings, i.e., if after being sorted on one SPBS machine into a
 23 recipient hamper or other container, that container were to be dumped on another belt
 24 for a further bundle sorting.

25

Table V-1: Bundle Breakage & Suspect Rates Per Class & Container Type				
	Periodicals		Standard A	
	Pallets	Sacks	Pallets	Sacks
Broken	0.50%	15.67%	1.26%	18.18%
"Suspect"	13.66%	19.64%	6.63%	14.37%

1 **D. REVISED FLATS MAIL FLOW MODEL ASSUMPTIONS**

2 The revised flats model treats the flow of individual flats and bundles essentially in the
 3 same way as the original Yacobucci model. The main differences concern the modeling
 4 of bundle breakage and its related handling costs, as described below. Certain other
 5 changes, dealing with assumed productivities, acceptance rates and wage rates in
 6 various flats piece sorting operations, have been made by witness Glick and are
 7 explained in PostCom, et al.-T-1.

8 The model has been organized so as to facilitate changes in key parameters that
 9 determine the degree of bundle breakage and its cost consequences. This makes it easy
 10 to determine the impact of improvements that are expected to have occurred by the test
 11 year. In this section I refer to the parameter values presumed to apply in the FY98 base
 12 year. Section E discusses the impact of expected changes in the test year.

13 I have assumed that in FY98 the percent of breakage shown in Table V-1 occurred when
 14 a container of mail encountered its first bundle sorting operation. In the case of manual
 15 bundle sorting from pallets, however, I assume that the breakage occurred only at the
 16 next sort level. This means, effectively, that no breakage is assumed on 5-digit pallets
 17 when their contents are manually sorted, which they normally are.

18 I have further assumed that bundles from sacks or pallets requiring a subsequent sort
 19 would experience a breakage rate indicated by the second row in Table V-1, i.e., that a
 20 "suspect" bundle would break if subjected to a second round of dumping and sorting.
 21 In the case of manual sorting from pallets, however, I assumed the "suspect" bundles
 22 would break only when subjected to a third level sort.³⁶ Unlike Yacobucci, I do not
 23 assume that bundles continue to break more and more if subjected to still further sorts.

³⁶ I realize there is no solid evidence that all "suspect" bundles would break completely in a second or even third sorting operation. Some probably would not break, especially if the subsequent sort is done manually, which is often the case. In fact, bundle breakage in subsequent sorts is an area that, as far as I know, has not yet been addressed in any type of survey. On the other hand, in experimenting with the model, I found that these secondary breakage ratios have little impact on the model results. Most damage appears to be done in the initial sort. Assuming that all "suspects" break in the second round may have the effect of slightly overstating the costs of bundle breakage and of understating the savings produced by presortation.

1 When a bundle breaks, I assume, as in Yacobucci's model, that the loose pieces are sent
 2 to a piece sorting operation corresponding to the presort level at which it breaks. E.g.,
 3 if a bundle breaks on a 3-digit opening unit belt, it is assumed that the pieces must go
 4 to an incoming primary sort, even if they previously were in a 5-digit or carrier route
 5 bundle.

6 However, in the case of bundles breaking during a mechanized bundle sort, I assume
 7 that a certain percentage of the loose pieces would be keyed individually on the SPBS
 8 rather than taken to the appropriate FSM or manual operation. I assume this
 9 percentage was 25% in FY98.³⁷

10 For broken bundles in manual bundle sorting operations, I assumed that the manual
 11 handling costs are three times higher than for other bundles. Postal Service officials I
 12 talked to said they thought the factor was "at least three, perhaps four."

13 I have made some other model improvements relating to bundle handling in general.
 14 The model now uses separate numbers of pieces per bundle for sacked and palletized
 15 mail, as confirmed by the mail characteristics study in LR-I-87. I corrected Yacobucci's
 16 treatment of carrier route sacks, where he had forgotten that the productivity rate he
 17 used was a per sack and not a per bundle productivity (TW/USPS-T25-1: Tr. 5/1461-
 18 63).

19 Finally, I de-averaged the manual bundle sorting productivities for 3-digit/SCF, ADC
 20 and mixed ADC bundle sorts. Yacobucci's own survey (LR-I-88) showed that they are
 21 dramatically different, but he chose to ignore the differences.³⁸

³⁷ It may have been higher. I remember seeing operators pulling pieces out of bundles that were not yet broken, that would have been called only "suspect" in the MTAC terminology. If this practice was fairly widespread, the extra costs incurred in FY98 could have been greater than assumed in my analysis.

³⁸ It is not surprising that they are different, with mixed ADC sorting being more expensive than ADC and 3-digit sorting. There are no "mixed ADC" pallets, or at least very few, so that a mixed ADC bundle sort would be sorting of sacked mail only. Manual bundle sorting of sacked mail is much more time consuming than for palletized mail, even though the difference is not revealed by the averaged productivity rates Yacobucci provides. The difference is due both to the extra time spent opening, shaking out and storing sacks, bundle breakage and the greater ease of locating the

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1 **E. ESTIMATES OF BUNDLE BREAKAGE COST SAVINGS**

2 With all the attention given to bundle breakage, both by the Postal Service and mailers,
 3 I believe there will be a substantial reduction in both the incidence of breakage and the
 4 cost consequences when breakage occurs. The Postal Service, however, has not
 5 included any reduction of these costs in its roll forward projections.

6 I performed a simple analysis using the model described above to estimate the
 7 potential savings, assuming the following changes would occur in the test year:³⁹

- 8 • Bundle breakage and "suspect" rates in Table V-1, assumed to apply in FY98, would
 9 be reduced to half in FY2001, due to various joint USPS/industry efforts, discussed
 10 in detail in the testimonies of MPA witnesses Cohen and Glick.
- 11 • In the test year, no loose pieces from broken bundles would be keyed individually
 12 on the SPBS machines, as emphasized in a recent written instruction from
 13 Headquarters to managers in the field. Response to MPA/USPS-T10-6, Attachment
 14 (filed February 23, 2000); see also Tr. 5/1707.

15 The results were as follows. For regular rate Periodicals, a change from base year to
 16 test year assumptions reduced the average modeled cost per piece from 5.754 cents to
 17 5.514 cents, a saving of 0.24 cents per average piece.⁴⁰ With the 7.352 billion after rates
 18 regular rate pieces assumed by witness Taufique (see Taufique's Periodicals rate design
 19 spreadsheet, LR-I-167), this translates into a total saving of \$17.64 million. For
 20 nonprofit periodicals, the modeled cost went down from 4.173 to 4.007 cents per piece,
 21 a saving of 0.166 cents per piece, which for 2.052 billion after rates pieces gives a test
 22 year saving of \$3.406 million per year.

address on bundles lifted from pallets with their orientation still intact.

³⁹ In MPA-T-2 witness Glick describes a similar analysis, applying the model to both Periodicals and Standard A mail. The model is not set up to analyze Standard A ECR mail, which I believe is also affected by bundle breakage and likely to benefit from the improvements discussed here.

⁴⁰ In the MPA-LR-2 spreadsheet, the modeled per piece costs under a given set of assumptions are shown in spreadsheet cell G54 on worksheet 'Sc Costs' as cents per average piece, excluding platform costs and the CRA adjustment.

1 For regular and nonprofit publications combined, I therefore project a test year saving
2 of approximately \$21 million. About 59% of these savings would result from an end to
3 inappropriate keying of loose pieces on the SPBS machines, even with no reduction in
4 actual breakage.

5 I am aware that witness O'Tormey thinks a \$15 million reduction in Periodicals bundle
6 breakage costs is a reasonable and realistic goal for the test year. Response to
7 MPA/USPS-ST42-10. While he may have used a different type of analysis to arrive at
8 his estimate, I am encouraged by the fact that O'Tormey's estimate at least is of the
9 same order of magnitude as mine.

10 Although the cost reduction targets described above may seem aggressive, the true test
11 year savings could be even higher than \$21 million, simply because I may have
12 underestimated the base year breakage related costs. It is possible, in fact likely, that
13 the bundle breakage percentages from the MTAC study, conducted in the fall of 1999,
14 do not reflect the full extent to which bundles were breaking during FY98. During the
15 Periodicals Review Team visits in the fall of 1998, it was noted that the frequency with
16 which palletized bundles break when dumped on an SPBS belt depended a great deal
17 on the skill and carefulness of the person operating the dumper. A gradual tipping of
18 the pallet, allowing only a limited number of bundles to fall off at a time, to be carried
19 away by the belt before more bundles fell, was observed to cause significantly less
20 breakage than a sudden dumping of the entire pallet content. The team urged sharing
21 of "best practices" in this area as a way to quickly reduce the breakage problem. That
22 may already have occurred, at least informally, by the time of the MTAC data
23 collection. See also witness O'Brien's observations on the effects different handling
24 methods appear to have on bundle breakage, TW-T-2 at 12-14.

25 For all of the above reasons, I recommend that the Commission include in its roll
26 forward projections a \$21 million Periodicals cost reduction, to be achieved by reduced
27 bundle breakage and by improved handling of the bundles that do break.

28 VI. RATE DESIGN ISSUES

29 This section proposes three improvements in the Periodicals rate design presented in

1 the Postal Service's rate request.

- 2 • I show that the worksharing related unit costs presented by witness Yacobucci
3 severely understate the true cost differentials between mail at different presort
4 levels. I present a revised set of unit cost estimates that should be used in rate
5 design. I also show that, even with the corrections I was able to make, the model
6 still has severe limitations and still underestimates presort savings.
- 7 • I point out an omission in the Postal Service's estimates of the savings when mail is
8 entered at the DDU, and show that the discount for DDU entry therefore should be
9 larger both in the piece and pound rates.
- 10 • I propose a two cents per piece discount for mail entered on 5-digit pallets at the
11 destinating SCF or delivery unit and explain why such a discount is both cost
12 justified and timely.

13 A. PRESORT & AUTOMATION COST DIFFERENTIALS

14 A corrected set of presort and automation related mail processing unit costs for regular
15 rate and nonprofit Periodicals is presented in Tables VI-1 and VI-2 in Exhibit 4. They
16 are in the same format as the corresponding tables in USPS-T-25. Witness Yacobucci's
17 original estimates are shown for comparison. I am convinced that the new estimates
18 are closer to actual cost differentials between different presort levels and between pre-
19 barcoded and non-barcoded mail. However, for reasons explained below, I believe the
20 true presort related cost differentials are even larger than these tables indicate.

21 The main reason the numbers have changed from those originally filed by Yacobucci is
22 the correction in bundle breakage assumptions explained in Section V, in particular the
23 adoption of data from a survey based on actual observations of breakage. The
24 estimates shown reflect Section V's test year assumptions regarding bundle breakage.⁴¹

25 The estimates in Tables VI-1 and VI-2 also show larger cost differentials between
26 barcoded and non-barcoded flats at each given presort level, particularly the basic and
27 3-digit levels. This is due to modified assumptions about productivity and accept rates
28 for barcoded and non-barcoded flats, explained by witness Glick in PostCom, et al.-T-1.

⁴¹ In other words, they are based on the assumption that the fairly aggressive goals for bundle breakage reduction outlined above will be realized. Use of base year assumptions (e.g., more bundle breakage) would raise the cost of basic presort and lower it for 5-digit.

1 While recommending that the Commission use these revised estimates of worksharing
 2 related savings in its Periodicals rate design, I believe the true presort related cost
 3 differences may be substantially larger. This belief is based on the following.

4 First, the mail flows in the current flats model exclude some of the allied labor that
 5 occurs after non-carrier route flats have undergone their first piece sorting. The easiest
 6 way to see this is in worksheet "MF Model Costs" in LR-MPA-2. The worksheet
 7 contains two main sections. The first section, in spreadsheet rows 7-19, calculates costs
 8 associated with bundle handling. It is essentially as created by Yacobucci, except that I
 9 have modified some of the equations dealing with bundle breakage and bundle sorting
 10 productivity.⁴²

11 The second, and largest, section (rows 22-59) computes the costs incurred in automated,
 12 mechanized and manual flats sorting, including the multiple sorts required by flats that
 13 start out at a low presort level. These costs are based mostly on MODS productivity
 14 estimates and correspond essentially to the costs incurred in the FSM and MANF cost
 15 pools in MODS Function 1 offices, and the MANF components in NonMODS and
 16 Function 4 offices.

17 Assume that a flat, after one FSM sort, ends up in a tray with some higher presort level
 18 but still needs further sorting in another FSM or manual operation. Somehow that tray
 19 has to get to the next sorting operation, and it is unavoidable that this will involve some
 20 allied labor beyond that provided by the FSM clerks.⁴³ These costs are not incurred by
 21 mail that travels through the system in carrier route presorted bundles. Thus, while it

⁴² This worksheet's precise look varies between each of the 94 different scenarios (47 for sacked mail and 47 for palletized mail) that the model's macro program calculates. All costs associated with a scenario are calculated on this sheet, and subsequently copied onto worksheet "Sc Costs," which determines and applies the CRA adjustment factor.

⁴³ Besides the physical movement of APC's and other containers on which the flats trays are loaded when swept by the FSM operators, for example, from the FSM to a dispatch area, the trays may need to be sorted. The Postal Service is hoping to reduce allied labor costs associated with handling of letter and flat trays by installation of computerized tray management systems. I watched one such system in action at the Charlotte main post office. It was impressive, but what it definitely did not do was to eliminate allied labor. If anything, it seemed to be concentrating the required allied labor in the period just preceding the critical dispatch. See also TW-T-2 at 14.

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1 appears that bundle handling and piece sorting costs are reflected in a quite complete
2 manner in the current model, the allied labor following piece sorting has not been
3 modeled at all.

4 I have not attempted to update the flats model to include this additional allied labor,
5 due to lack of time and resources and an apparent paucity of reliable data with which
6 to analyze these costs. But its existence clearly indicates that the cost differentials
7 produced by the model are conservative.⁴⁴

8 The second reason I believe presort differentials still are understated is the Postal
9 Service's assumption, introduced first in Docket No. MC96-2, USPS-T-4 (Seckar), and
10 unchallenged since, that its manual incoming secondary sorting rate in non-FSM
11 offices, which is where most such sorting occurs, is very high - at 846 pieces per
12 manhour (LR-I-90 at 32). Since this is higher than the productivity rates the Postal
13 Service achieves with most types of FSM sorting, the flats model currently seems to
14 imply that it would cost more to sort flats if there were enough FSM's to do all the
15 sorting by machine, eliminating manual incoming secondary sorting completely.

16 To see the impact of this assumption, I ran the model assuming that the manual
17 incoming secondary flat sorting productivity is the same in non-FSM offices as the 457
18 pieces per manhour that it is in FSM offices. The effect of this change would be to
19 increase the differential between carrier route presorted and 5-digit presorted flats by
20 1.5 cents per piece. Since I find it extremely unlikely that the 846 pieces per manhour in
21 manual incoming secondary sorting is being achieved in practice, the carrier route

⁴⁴ In his response to TW/USPS-T25-2j (Tr. 5/1467), Yacobucci argues that his model does include the costs referred to above, since through the CRA adjustment he pulls in all costs incurred in opening and pouching units. But here, as in some of his other responses, Yacobucci appears to have missed the point that a worksharing mail flow model is meant not just to account for all the costs but to de-average them. The CRA adjustment is meant to include costs not explicitly modeled, but it is based on the assumption that the costs not modeled are incurred by each of the mail categories under study in the same proportion as the explicitly modeled costs. Such an assumption is seldom completely true, and it therefore is better to try to include explicitly as many costs as possible. Ideally, one should aim for CRA adjustment factors that are fairly close to 1.

1 savings are probably severely understated by the results in Tables VI-1 and VI-2.⁴⁵

2 **B. DELIVERY UNIT DISCOUNTS**

3 In this section I show that the discounts the Postal Service proposes for Periodicals and
4 Standard A mail entered at the destinating delivery unit (DDU) are inadequate and
5 should be increased. My arguments focus on carrier route presorted regular rate and
6 nonprofit Periodicals, for which I propose a higher DDU discount. However, these
7 arguments could equally well be applied to Standard A ECR mail entered at DDU's.

8 The Postal Service offers DDU entry discounts for Periodicals, Standard A and
9 Standard B mail. But whereas the Standard B discounts are based on all costs that the
10 Postal Service avoids when mailers take their mail to the DDU, the same is not true for
11 Periodicals or Standard A mail.

12 When a mailer dropships to a DDU, the driver for the mailer is required to unload the
13 mail and place it on the DDU platform, thereby helping the Postal Service to avoid the
14 DDU unloading costs it would have incurred if the mail were not dropshipped. The
15 Postal Service's estimates of DDU dropship savings for Standard B mail explicitly
16 acknowledge the savings from avoided DDU unloading. Its corresponding savings
17 estimates for DDU entered Periodicals and Standard A mail, however, do not. This
18 inconsistency should be corrected, both in fairness and in order to encourage mailers to
19 perform more dropshipping when it is cost effective to do so.

20 There can be no doubt that mailers actually are required to unload their own mail
21 when they dropship to the DDU, and that this policy is being enforced in practice.

⁴⁵ In fact, the Postal Service has never verified whether it really is achieving these high manual rates. It just assumes so, based on the rates in a few MODS offices without FSM's. But most manual incoming secondary sorting is performed in associate offices and stations and branches, i.e., in Non MODS and Function 4 offices. When flat sorting productivity rates are measured in non-FSM offices, they are based on volumes obtained by multiplying estimated pounds or linear feet by assumed conversion factors. These conversion factors were changed in FY99, because the old factors overstated volumes and thereby productivity rates. The 846 estimate used in the flats mail flow model should be scaled down for that reason alone. Productivity rates based on conversion rates may be particularly overstated for Periodicals, which are thicker than most other flats.

1 Library Reference LR-I-296, titled "Drop Shipment Procedures for Destination Entry,"
2 spells out the driver's responsibilities at the DDU on page 20 in section 5.4.3. Time
3 Warner is at this time conducting a limited DDU entry experiment in the Los Angeles
4 area. It has found that its drivers indeed are being required to unload their own mail
5 and that every vehicle used for dropshipping must carry its own pallet jack.

6 The Postal Service's estimates of non-transportation savings brought about by DSCF
7 and DDU dropshipping are presented in this case by witness Crum, whose calculations
8 are contained in LR-I-175 as a series of Excel spreadsheets. Spreadsheets
9 AttachmentL.xls and AttachmentM.xls contain Crum's calculations for regular rate and
10 nonprofit Periodicals respectively. A review of these spreadsheets, basically similar to
11 those used in R97-1, shows that Crum calculates the DSCF and DDU savings, relative to
12 Zone 1&2 entry, based on avoided platform handling costs at SCF's and BMC's.
13 Unloading costs avoided at the DDU are not included.

14 I have created new versions of the two spreadsheets for Periodicals mail that correct the
15 deficiency described above. The revised spreadsheets are named respectively
16 AttachmentLrevised.xls and AttachmentMrevised.xls.. Each contains an extra
17 worksheet, named Table 5, that calculates the DDU costs avoided when mailers
18 perform the unloading at the DDU. The Table 5 sheets are created by first copying the
19 Table 3 sheets, which calculate SCF crossdocking costs, then removing the entries not
20 related to unloading and assuming that sacked mail receives manual unloading only.
21 Electronic versions are included in TW-LR-2.

22 Crum estimates, for regular rate Periodicals, that the DSCF and DDU non-
23 transportation savings relative to Zones 1&2 entry are 1.72 and 3.01 cents per piece
24 respectively, i.e., that the DDU savings relative to DSCF entry are 1.29 cents per piece.
25 By including savings at the DDU, I find the savings from DDU entry to be 3.56 cents
26 per piece relative to Zones 1&2 entry, or 1.84 cents relative to DSCF entry. However, I
27 have incorporated one additional correction to Crum's method. His estimates of per
28 piece savings are based on estimated numbers of pieces for all sacks and all pallets
29 respectively. But the only candidates for DDU dropshipping are 5-digit pallets and 5-
30 digit or carrier route sacks. According to the mail characteristics study (LR-I-87) 5-digit

CORRECTED 7/10/00

1 pallets tend to contain fewer pieces than the average for all pallets. The per piece
 2 savings from avoided crossdocking and DDU unloading therefore become larger when
 3 the calculations are focused on 5-digit pallets and 5-digit or carrier route sacks only.

4 Incorporating the above, I estimate the savings from DDU entry to be 3.74 cents per
 5 piece relative to Zones 1&2 entry or 2.02 cents relative to DSCF entry. Inserting these
 6 revised savings estimates in the Taufique rate design model gives a DDU piece
 7 discount 0.5 cents higher than proposed by the Postal Service, and a per advertising
 8 pound discount that also is 0.5 cents higher than the Postal Service proposes.

9 The Commission should adopt these higher DDU discounts. Doing so will encourage
 10 more mailers to take their mail directly to the DDU's, thereby avoiding all postal costs
 11 incurred before the DDU's and providing, as an additional benefit not included in the
 12 estimated savings, less congested conditions at SCF platforms, thereby less wasted
 13 time, less delay for all mail and in the long run less need for the Postal Service to
 14 expand its current plants. Additionally, since the current use of the DDU option by
 15 Periodicals Outside County mailers is so small, raising the DDU discount to reflect the
 16 full savings will have little if any impact on other mailers.

17 C. 5-DIGIT PALLETS SAVE SIGNIFICANT COSTS AND SHOULD BE 18 ENCOURAGED BY A DISCOUNT

19 Just about ^{every} ~~very~~ facility manager I have met in recent years expressed a wish for more 5-
 20 digit pallets, which can simply be cross-docked to the appropriate delivery unit. A 5-
 21 digit pallet can be brought directly to the DDU carrier section, where its bundles are
 22 handed directly to the carriers or left in designated slots for each carrier to pick up. 5-
 23 digit pallets avoid all bundle sorting except the final sort to individual carriers and
 24 eliminate the chance of premature bundle breakage completely. Some managers
 25 indicated that they would gladly take 5-digit pallets even with less volume than the
 26 current 250 lb. Minimum.⁴⁶

⁴⁶ Some years ago, when a general pallet discount was being considered seriously both by the Commission and the Postal Service, counterarguments were made to the effect that many delivery

1 However, it is unlikely that Periodicals mailers will ever produce many more 5-digit
2 pallets than they do today without some new incentive. One reason is that preparing
3 smaller 5-digit pallets is more costly for printers, who would rather put the mail on
4 2,000 lb 3-digit or ADC pallets than bother creating 5-digit pallets. Publishers therefore
5 need some incentive to persuade their printers. Another reason is that even very large
6 Periodicals simply lack the volume to make up even 250 lb. pallets for more than a few
7 delivery units. Resolving this requires co-mailing, co-palletization or some other
8 consolidation effort that will add to the mailers' costs. But if mailers can produce 5-
9 digit pallets at costs below what this would save the Postal Service, then a suitable
10 discount might reduce total costs for both sides.

11 A discount for 5-digit pallets would accomplish another desirable goal, by making it
12 feasible for more mailers to bring their mail directly to the DDU. Currently only a tiny
13 fraction of Outside County Periodicals is entered at DDU's. One reason is that current
14 DDU discounts reflect only what the Postal Service believes it saves by avoided cross-
15 docking of pallets or sacks at the DSCF. But if one compares that discount with the
16 discount offered for parcel post DDU or DSCF entry, it is clear that the parcel post
17 discount includes more than just avoided cross-dock costs; in fact it includes all
18 avoided costs, including that of parcel sorting. An analogous concept for Periodicals
19 would be a discount that includes the avoided cost of sorting bundles from a 3-digit
20 pallet or one with even less presort. The best way to do this is to offer mailers one
21 incentive for preparing 5-digit pallets, and another for taking them to the DDU.

22 I therefore propose the establishment in this docket of a two cents per piece discount
23 for entering mail on 5-digit pallet. To avoid concerns expressed by some operations
24 specialists at Postal Service headquarters, I would limit the discount to pallets that are
25 entered at either the destinating SCF or the destinating delivery unit and comply with
26 all existing regulations regarding the acceptance of 5-digit pallets.

27 Most of the mail on 5-digit pallets today is in carrier route presorted bundles. The cost

units might not be able to handle pallets. However, it has been my impression that this issue is irrelevant, simply because the few delivery units that cannot handle pallets are so small that no Periodicals mailer would have enough volume to fill up a pallet to them anyway.

1 savings estimates derived below are therefore explained with reference to carrier route
 2 bundles. However, the savings achieved by putting 5-digit presorted mail on a 5-digit
 3 pallet are about the same as for carrier route mail and I therefore propose that the
 4 discount be extended also to 5-digit mail on 5-digit pallets, subject to current
 5 regulations regarding commingling, etc.⁴⁷

6 To estimate the savings produced by 5-digit pallets, one can compare them either with
 7 3-digit pallets or with 5-digit sacks. In the following I will first compare 5-digit and 3-
 8 digit pallets. Then I will show that the cost differential between 5-digit pallets and 5-
 9 digit sacks is considerably larger. Most of the 5-digit pallet versus 3-digit pallet savings
 10 can be extracted directly from the flats mail flow model discussed above.

11 Four of the 47 Periodicals "scenarios" defined by Yacobucci are relevant to the
 12 following discussion. Each scenario is analyzed separately for sacks and pallets in the
 13 revised model. The scenarios are:

- 14 39. Carrier route bundles in 3-digit containers, non-machinable;
- 15 40. Carrier route bundles in 3-digit containers, machinable;
- 16 41. Carrier route bundles in 5-digit containers, non-machinable; and
- 17 42. Carrier route bundles in 5-digit containers, machinable.

18 The costs associated with these "scenarios" are shown on worksheet "Sc Costs" in rows
 19 44, 45, 50 and 51 respectively. The estimated mail processing costs (cents per piece) of
 20 each scenario are shown in columns N (sacks) and Q (pallets). The comparison
 21 between carrier route pieces on 5-digit and 3-digit pallets shows a cost differential of
 22 1.79 cents per piece (non-machinable) or 1.78 cents per piece (machinable).⁴⁸ Those are

⁴⁷ For example, if a mailer has enough pre-barcoded flats for a given delivery unit to meet the pallet weight minimum, but chooses not to make carrier route bundles, he could, by putting it all on a 5-digit pallet which can be taken directly to an FSM incoming secondary operation for that DDU, avoid considerable Postal Service costs relative to if the mail were on a 3-digit pallet or in 5-digit sacks.

⁴⁸ If instead one compares 5-digit bundles on 5-digit versus 3-digit pallets, the cost differential that can be read directly from the flats mail flow model is approximately 1.5 cents per piece. The additional savings described above also have a close analogy for 5-digit bundles. It is the difference between an FSM loading clerk having to pick bundles from different mailings that have lost rotation out of a hamper and rotate the flats so as to be readable for the keyer, versus taking neatly

1 the savings indicated by this rather primitive mail flow model. But I believe there are
 2 enough other differences, beyond what the model reveals, to justify at least a two cents
 3 differential between carrier route bundles arriving on a 3-digit versus a 5-digit pallet at
 4 an SCF. Let me mention just one difference. The bundles from the 3-digit pallet will
 5 probably arrive at the DDU in a hamper or APC, after having undergone a bundle sort
 6 at the SCF. In that hamper, they will normally have been thrown together with bundles
 7 of other publications, or other mail classes. In order to sort these bundles to carriers, a
 8 clerk has to pick up each bundle, orient it until the address can be read and then sort it
 9 to the appropriate carrier. On the other hand, bundles on the 5-digit pallet, when it
 10 comes time to sort them to carrier at the DDU, will have remained neatly stacked,
 11 already faced and oriented, so that sorting each bundle takes less time. In addition,
 12 mailers often arrange the bundles on a pallet in sequence, so that bundles to some
 13 carriers are all in the top layer, etc. This sequencing of bundles on pallets was
 14 mentioned several times during the Periodicals Review Team visits as a way mailers
 15 could help reduce costs, and often already do.⁴⁹

16 Let us now address the cost differential between 5-digit pallets and 5-digit sacks.
 17 Comparing model results for 5-digit pallets and 5-digit sacks, as I suggested above in
 18 the case of 3-digit pallets, actually gives a smaller difference. It shows 5-digit sacks as
 19 costing only 1.04 cents per piece more than 5-digit pallets.⁵⁰ But there are two other
 20 sources of cost differences between these container types, as explained below.

21 First, the flats model used to estimate presort and automation cost differentials, by
 22 design, does not include platform handling costs. In this case we are looking at a 5-
 23 digit sack versus a 5-digit pallet that would both have to be cross-docked at the SCF to
 24 the DDU. From the Crum spreadsheets referred to in the preceding section, or my
 25 versions of them, included in LR-TW-2, it can be inferred that the sack cross-dock

stacked bundles, all with the same rotation, from a pallet.

⁴⁹ The Postal Service could even, in order to be assured of getting the full savings from the 5-digit pallets, make some type of sequencing on the pallet a requirement for getting the discount.

⁵⁰ If I assume no bundle breakage cost reductions, then the modeled cost difference grows to 1.8 cents per piece. In fact, the cost difference that this model picks up is mostly based on bundle breakage.

1 would cost 2.3 cents per piece, while the 5-digit pallet cross-dock, assuming the average
2 number of pieces, would cost under 1 cent per piece. That is a difference of over 1.3
3 cents per piece. Adding it to the modeled 1.04 cents per piece referred to above already
4 gives a cost differential larger than that between 5-digit and 3-digit pallets.

5 Second, the mechanized and manual bundle sorting rates that Yacobucci provided are
6 averages for sacks and pallets and do not reflect the fact that sorting sacked bundles,
7 quite apart from the problems with bundle breakage, is far more expensive than sorting
8 bundles from pallets.⁵¹ Taking this into account will show a much larger cost
9 differential between 5-digit sacks and 5-digit pallets.

10 In any case, I believe the above arguments demonstrate sufficiently that 5-digit pallets
11 would save at least two cents per piece relative both to 3-digit pallets and 5-digit sacks,
12 and that a discount for Periodicals entered on 5-digit pallets at the destinating SCF or
13 delivery unit is justified at this time. Given the small percentage of Periodicals that
14 currently use 5-digit pallets, this discount will have little impact on the rates paid by
15 other mailers.

16 VII. CONCLUSIONS

17 I have attempted above to convey the total magnitude and severity of the cost increases
18 that have been attributed to Periodicals mail over the last fourteen years, particularly
19 for mail processing costs. The magnitude of the increases cannot be grasped without
20 realizing that in 1989 Periodicals processing costs already had increased 25% more than
21 clerk and mailhandler wages over just a three year period. Nor can it be grasped
22 without understanding how much mailers have improved their mail preparation in
23 ways that should have led to much lower costs, and the extent to which great advances

⁵¹ For example, before the contents of a sack can be sorted, it must be dumped on a table or sorting belt. The Postal Service uses an MTM based productivity rate for dumping from sacks equal to 99.4 sacks per manhour. Witness Eggleston indicates that, being MTM based, this productivity rate may be higher than those achieved in practice. Response to TW/USPS-T26-2b. Yet it can be verified that this productivity indicates a cost of over 40 cents per sack, which at roughly 30 pieces in a typical sack is well over one cent more per piece that must be added in any comparison between 5-digit pallets and 5-digit sacks.

1 in flat and bundle sorting technology also should have led to much lower costs.

2 Like past Postal Service witnesses who tried to "explain" the Periodicals cost increases
3 with simplistic arguments, witnesses O'Tormey and Unger ended up more or less
4 conceding that they do not understand the reasons for the long term trend, do not
5 understand postal costing and are unaware of any operational reason why Periodicals
6 costs have gone up instead of down.

7 The Postal Service will continue to lack an explanation for the cost increase until it
8 admits that there really are huge inefficiencies in its system, that facilities are being
9 staffed for peak periods with much unproductive time in between, and that its costing
10 system assigns a disproportionate share of that unproductive time to the mail that is
11 least automated, thereby inflating Periodicals costs.

12 In order to lessen the impact of an outdated costing system, I have proposed above
13 various modifications to the MODS-based system of attributing mail processing costs,
14 which are also supported and used by MPA witness Cohen. The key changes I propose
15 are the broad distribution of mixed mail and not handling costs at allied operations and
16 use of IOCS data that the Postal Service ignores, such as the answers to IOCS questions
17 18 and 19.

18 Of the many inefficiencies in the postal system, one whose cost effects can be reduced
19 substantially is premature bundle breakage. I have explained why the Postal Service's
20 initial attempt at "modeling" bundle breakage effects is severely flawed in its reliance
21 on both meaningless data and incorrect modeling assumptions. Correcting the relevant
22 sections of witness Yacobucci's flats mail flow model, together with reasonable
23 assumptions about joint industry/Postal Service efforts now underway to reduce
24 breakage, led me to conclude that costs of Periodicals bundle breakage will decline by
25 at least \$21 million in FY2001, compared to BY1998.

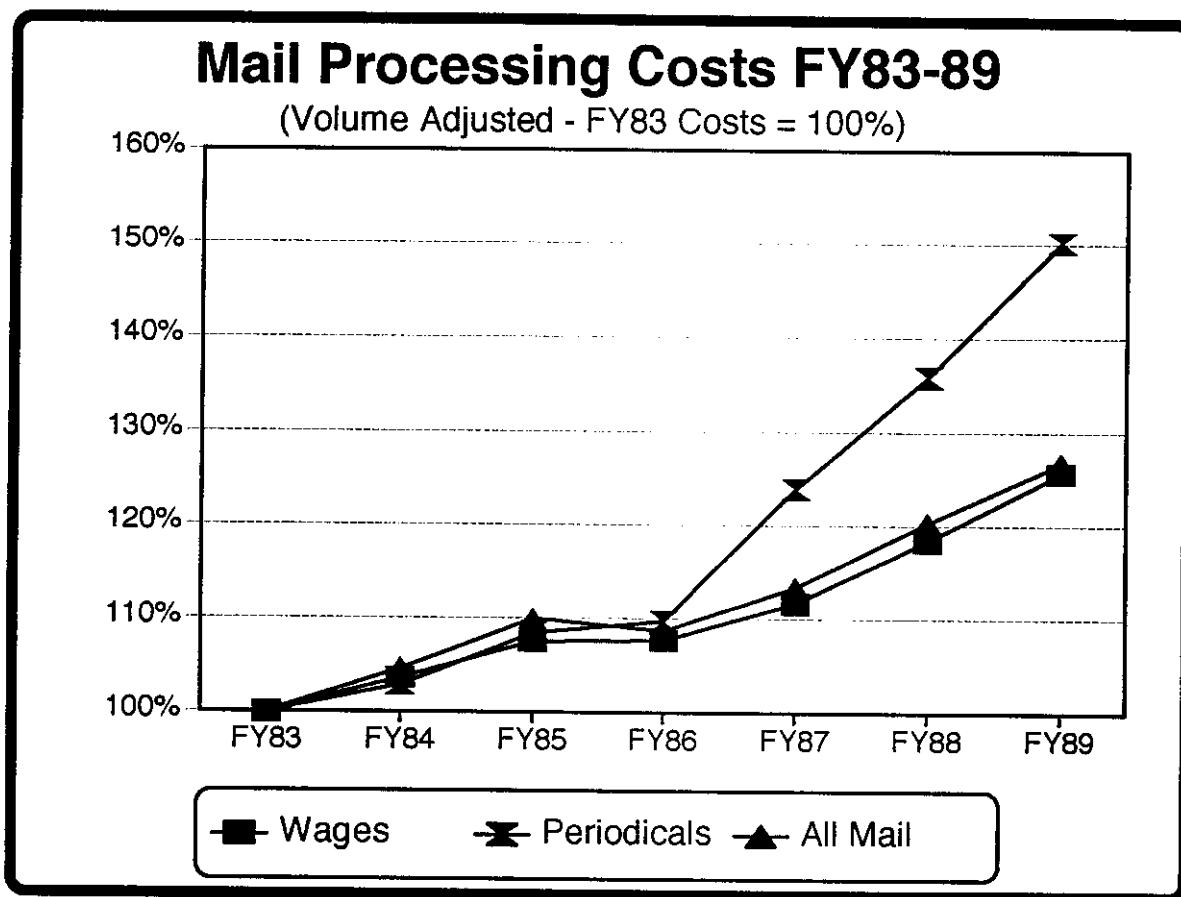
26 I urge the Commission to use in its rate design the presort and automation cost
27 differentials, presented in Exhibit 4, that result from the corrected flats mail flow
28 model. As demonstrated in this testimony, the corrected figures, although probably
29 still conservative, are closer to reality than the differentials produced by witness

1 Yacoubucci's original flawed model.

2 Finally, I have proposed establishment of a discount for 5-digit pallets entered at the
3 destinating SCF or DDU and an increase in the DDU dropship discount for Periodicals.
4 Neither change will have much impact on other mailers, but these initiatives together
5 will motivate some mailers to bypass Postal Service operations and thereby help reduce
6 the costs of the postal system.

Exhibit 1, P1 of 1

**TRENDS IN PERIODICALS AND ALL MAIL PROCESSING COSTS AND
CLERK/MAILHANDLER WAGES BEFORE AND AFTER FY86**



POSSIBLE ANSWERS TO IOCS QUESTION 19¹

F128	19	Manual/Mech./Auto. Operations	Manual	A
			OCR	B
			Mail Processing BCR/BCS	C
			Delivery BCR/BCS	D
			Carrier Sequence BCS	E
			MPLSM/SPLSM	F
			Letter Facer/Canceler	G
			Flat Facer/Canceler	H
			Sack Sorting Machine	I
			Parcel Sorting Machine	J
			Flat Sorting Machine	K
			Small Parcel/Bundle Sorter	L
			NMO Machine	M
			Multi-Slide	N
			ACDCS	P
			Central Banding	Q
			Culling Machine	R
			Remote Barcoding Terminal	S
			Transport Equipment	T
			All Other Equipment	U
F9211		Type of Manual Operation	Letter Case Distribution	A
			Flat Case Distribution	B
			Parcel Piece Distribution	C
			Coll. Cancel/Meter Mail Prep.	D
			Presort Mail Units	E
			Opening Units	F
			Pouch/Rack Units	G
			Platform Units	H
			Other Manual Operations	I
F9212		Type of Transp. Equipment	Manual Forklift	A
			Mechanized Forklift	B
			Tow Motor	C
			Other Powered Equipment	D
			Other Manl.-Propelled Equip.	E
F9602		Sorting To	Sacks	A
			Trays or Tubs	B
			Pallets	C
			Rolling Containers	D

¹ Extracted from the full table of IOCS records in Append-A.doc, LR-I-12.

"SUPPORT" COSTS THAT CAN BE ATTRIBUTED DIRECTLY

Table IV-5: Direct Accrued Costs in MODS "Support" Pools By Subclass And Special Service (\$1,000's)					
Subclass	Function 1		Function 4		Total Support
	1MISC	1SUPPORT	LD48 OTH	LD48_ADM	
1C LP	\$11,420	\$2,819	\$10,216	\$7,529	\$31,984
1C PR	\$2,175	\$665	\$3,503	\$1,898	\$8,241
PVTC	\$642	\$150	\$565	\$275	\$1,632
PRSTC	\$0	\$0	\$189	\$0	\$189
PRIOR	\$933	\$350	\$2,304	\$727	\$4,315
EXPR	\$368	\$269	\$661	\$702	\$2,000
2C2RE	\$321	\$392	\$1,558	\$348	\$2,618
2C2NP	\$222	\$0	\$233	\$55	\$510
3COZ	\$112	\$106	\$426	\$103	\$747
3CREC	\$143	\$94	\$2,232	\$335	\$2,805
3CROT	\$1,659	\$521	\$3,704	\$2,528	\$8,411
3CNEC	\$59	\$39	\$129	\$0	\$227
3CNOT	\$577	\$150	\$923	\$541	\$2,191
4CPCL	\$0	\$97	\$663	\$522	\$1,282
4CBPM	\$68	\$0	\$108	\$60	\$236
4CSPC	\$51	\$0	\$108	\$24	\$183
USPS	\$527	\$233	\$967	\$752	\$2,480
INTL	\$1,339	\$443	\$629	\$368	\$2,779
REGIS	\$152	\$0	\$115	\$275	\$543
CERT.	\$467	\$435	\$3,153	\$3,443	\$7,499
INS.	\$49	\$0	\$49	\$246	\$344
COD	\$0	\$0	\$217	\$294	\$510
OTHSV	\$244	\$60	\$536	\$561	\$1,402
5340	\$0	\$0	\$66	\$0	\$66
Total:	\$21,530	\$6,825	\$33,252	\$21,585	\$83,192


CORRECTED PRESORT/AUTOMATION COST DIFFERENTIALS FOR PERIODICALS MAIL

TABLE VI-1: Corrected Presort/Automation Related Costs Regular Rate Periodicals			
Method	Rate Category	Cents Per Piece	
		Original Estimate	Corrected Estimate
Cost Averages-Actual	Basic, Nonautomation	22.781	25.901
	Basic, Automation	21.493	22.765
	3-Digit, Nonautomation	18.332	20.786
	3-Digit, Automation	17.898	18.659
	5-Digit, Nonautomation	13.133	14.309
	5-Digit, Automation	13.572	14.192
	Carrier Route	8.640	7.430
Cost Averages-Normalized Auto-Related Savings	Basic, Nonautomation	24.115	27.145
	Basic, Automation	21.992	23.389
	3-Digit, Nonautomation	19.269	21.588
	3-Digit, Automation	17.755	18.465
	5-Digit, Nonautomation	13.720	14.549
	5-Digit, Automation	13.465	14.038

TABLE VI-2: Corrected Presort/Automation Related Costs Nonprofit Periodicals			
Method	Rate Category	Cents Per Piece	
		Original Estimate	Corrected Estimate
Cost Averages-Actual	Basic, Nonautomation	14.157	17.138
	Basic, Automation	11.989	13.080
	3-Digit, Nonautomation	11.438	13.967
	3-Digit, Automation	10.523	11.524
	5-Digit, Nonautomation	7.956	8.913
	5-Digit, Automation	8.039	8.772
	Carrier Route	5.008	4.220
Cost Averages-Normalized Auto-Related Savings	Basic, Nonautomation	14.399	17.118
	Basic, Automation	13.092	14.620
	3-Digit, Nonautomation	11.733	14.142
	3-Digit, Automation	10.694	11.852
	5-Digit, Nonautomation	8.141	9.014
	5-Digit, Automation	7.958	8.652

CERTIFICATE OF SERVICE

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



Timothy L. Keegan

May 22, 2000

1 CHAIRMAN GLEIMAN: Mr. Stralberg, have you had an
2 opportunity to review the packet of Designated Written Cross
3 Examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if those questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes. There are two minor
9 corrections which I'd like to mention. First of all, in the
10 last line of my response to USPS/TW-T1-12, Part (a), there
11 is a reference to an MPA Library Reference Number 8. That
12 should be MPA Library Reference Number 10. That was
13 indicated in an erratum filed by Time Warner on July 6th.

14 That Library Reference, by the way, replaces MPA
15 Library Reference 2.

16 The other correction is in my response to
17 USPS/TW-T1-13, on page 2 in the next to the last paragraph,
18 in line three of that paragraph, the word, nominator, should
19 be replaced by the word, numerator. That's all.

20 CHAIRMAN GLEIMAN: Have those corrections been
21 included in the copies?

22 THE WITNESS: Yes.

23 CHAIRMAN GLEIMAN: Counsel, if you could please
24 provide two copies to the Court Reporter, I will direct that
25 the material be received into evidence and transcribed into

1 the record.

2 [Designated Written Cross
3 Examination of Halstein Stralberg
4 was received into evidence and
5 transcribed into the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF TIME WARNER INC.
WITNESS HALSTEIN STRALBERG
(TW-T-1)

Party

United Parcel Service

United States Postal Service

Interrogatories

UPS/TW-T1-4-6

USPS/TW-T1-8, 16-17

UPS/TW-T1-1-6

USPS/TW-T1-1-24

Respectfully submitted,


Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
TIME WARNER INC.
WITNESS HALSTEIN STRALBERG (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
UPS/TW-T1-1	USPS
UPS/TW-T1-2	USPS
UPS/TW-T1-3	USPS
UPS/TW-T1-4	UPS, USPS
UPS/TW-T1-5	UPS, USPS
UPS/TW-T1-6	UPS, USPS
USPS/TW-T1-1	USPS
USPS/TW-T1-2	USPS
USPS/TW-T1-3	USPS
USPS/TW-T1-4	USPS
USPS/TW-T1-5	USPS
USPS/TW-T1-6	USPS
USPS/TW-T1-7	USPS
USPS/TW-T1-8	UPS, USPS
USPS/TW-T1-9	USPS
USPS/TW-T1-10	USPS
USPS/TW-T1-11	USPS
USPS/TW-T1-12	USPS
USPS/TW-T1-13	USPS
USPS/TW-T1-14	USPS
USPS/TW-T1-15	USPS
USPS/TW-T1-16	UPS, USPS
USPS/TW-T1-17	UPS, USPS
USPS/TW-T1-18	USPS
USPS/TW-T1-19	USPS
USPS/TW-T1-20	USPS
USPS/TW-T1-21	USPS
USPS/TW-T1-22	USPS
USPS/TW-T1-23	USPS
USPS/TW-T1-24	USPS

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED PARCEL SERVICE**

UPS/TW-T1-1. Refer to page 22 of your testimony, where you recommend that "[m]ixed mail and not handling costs in allied BMC and NonMODS cost pools should be distributed broadly over all pools within the respective facility categories."

- (a) Confirm that Non-MODS allied operations include the Misc cost pool. If not confirmed, explain fully.
- (b) If (a) is confirmed, provide a detailed description of how your SAS programs distribute the mixed tallies in the Misc cost pool.
- (c) If (a) is confirmed, explain why the composite volume variability factor of the sorting operations, recommended by MPA witness Cohen (MPA-T-1) as the upper bound for volume variability of the allied operations, was not used for the Misc cost pool.

UPS/TW-T1-1.

- a. Not confirmed. Please note that the "pools" into which NonMODS IOCS tallies are divided are IOCS based. As I understand witness Van-Ty-Smith's description of how these pools are formed, tallies where Question 19 information indicates that the observed employees worked in allied operations (e.g., platform, opening unit) are placed in the "allied" pool. Tallies with insufficient information to place them in any other pool are placed in the "Misc" pool. It therefore is not appropriate to refer to the NonMODS "Misc" pool as allied. Tallies in this pool appear to have no Question 19 information. Many of them have activity codes indicating work that traditionally has been considered not to be volume variable.

It is of course possible that some "Misc" tallies do represent allied labor, but there is no evidence linking them to allied labor.

- b. Not applicable.
- c. Not applicable. However, see MPA-T-1 at page 26, lines 22-23, where witness Cohen explains why she considered only one NonMODS pool to be allied.

UPS/TW-T1-2
Page 1 of 1

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED PARCEL SERVICE**

UPS/TW-T1-2. Refer to page 22 of your testimony, where you recommend that "[m]ixed mail" costs at allied MODS pools, including empty equipment costs, should be broadly distributed over the direct costs in all Function 1 MODS cost pools." Confirm that mixed allied tallies with known operation (tallies processed in "mdmxoper") are distributed over all direct tallies, not just Function 1 cost pools. If confirmed, explain why the distribution key was not limited to Function 1 cost pools. If not confirmed, explain why not.

UPS/TW-T1-2. This question appears to be based on a misunderstanding. In my proposed method, allied mixed mail and not handling tallies that can be linked to specific piece distribution operations based on Question 19 data are distributed as if they had been recorded under the given piece distribution operation. Since all those piece distribution operations belong to Function 1 pools, the distribution always occurs within Function 1. The filter restricting distribution to Function 1 pools is not used in program "mdmxoper" and is not needed there, because the distribution is restricted even more, to a single Function 1 pool. See also my response to USPS/TW-T1-20.

UPS/TW-T1-3
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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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UPS/TW-T1-3. Refer to page 22 of your direct testimony, where you recommend that "[n]ot handling" costs at allied MODS cost pools should be broadly distributed over direct costs and distributed mixed mail costs in all MODS Function 1 cost pools."

(a) Confirm that the distribution key used to distribute the "not handling" allied tallies with known operation (tallies processed in "mdnhoper") does not include distributed mixed mail tallies with unknown operation (tallies processed in "mod3alld"). If confirmed, explain why distributed mixed mail tallies with unknown operation were excluded from the distribution key. If not confirmed, explain why not.

(b) Confirm that the "not handling" allied tallies with known operation (tallies processed in "mdnhoper") are distributed over all cost pools, not just Function 1 pools. If confirmed, explain why the distribution key was not limited to Function 1 cost pools. If not confirmed, explain why not.

UPS/TW-T1-3(a)-(b). See my answers to UPS/TW-T1-2 and to USPS/TW-T1-20.

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UPS/TW-T1-4. On page 29, lines 2-3, of your testimony, you state, "(...)it is the mail that requires the most processing steps, generally the 'working mail,' that drives the need for high staffing levels in allied operations (...)"

- (a) In light of this statement, is it your understanding that labor costs in allied operations are determined by the volume of mail processed in direct MODS sorting operations?
- (b) If your answer to (a) is yes, explain how one might causally attribute these costs to the different MODS groups and describe the information that is available to perform that attribution. If your answer to (a) is no, explain in detail the basis of your response.

UPS/TW-T1-4.

- a I do not believe that costs in allied operations are determined only by the volume of mail processed in direct MODS sorting operations. They are of course affected also by the volume that appears in the allied operations themselves, as well as by scheduling requirements (e.g., critical dispatches), equipment availability, etc.

My argument in the part of my testimony that you quote from is that because of the tight schedules under which the Postal Service typically operates, it is the mail that requires the most handling steps before it is ready for dispatch, i.e., the "working" mail, that defines the "critical path" and therefore has the greatest impact on the scheduling and staffing requirements in a mail processing facility, including the scheduling and staffing of allied operations.

- b. The causal relationships among costs incurred at different MODS cost pools are highly complex and not yet fully understood. I do not believe the currently available data are adequate for accurately assigning cost responsibility for mixed mail and not handling costs to specific subclasses and special services. My testimony makes proposals that I believe at least move in the right direction and would produce cost attributions a little closer to the true cost causality. These include expanded use of Question 19 data and a broader distribution of allied mixed mail and not handling costs.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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UPS/TW-T1-5. On page 46, lines 8-10, of your testimony, you state, "In observing bundle sorting on SPBS machines with the Periodicals Review Team, we often saw loose pieces from broken bundles being keyed as individual pieces by SPBS operators. (....)"

- (a) Is it your understanding that an intact bundle processed on an SPBS machine is likely recorded as a single piece handling in the MODS data system?
- (b) If your answer to (a) is no, specify what you believe is likely to be the number of piece handlings recorded for an intact bundle sorted on an SPBS machine, and provide a range of likely numbers if you are unable to specify a single number.
- (c) Confirm that over the period 1993-1998, a broken bundle sorted on an SPBS machine may well have been recorded as multiple piece handlings in the MODS data system. If you do not confirm, explain the basis of your statement on page 46, lines 8-10, quoted above.
- (d) Explain what you believe is likely to be the number of piece handlings associated with a broken bundle sorted on an SPBS machine, or provide a range of likely numbers if you are unable to specify a single number.
- (e) Confirm that based on the MTAC data, approximately 35 percent of bundles break on SPBS machines. If you do not confirm, provide an interpretation of the data presented in the row entitled "Broken" in Table V-1 in your testimony.

UPS/TW-T1-5.

- a. It is my understanding that at the SPBS cost pools the recorded volume (TPH) is based on the number of items keyed at the keying stations, regardless of what those items are. In the "SPBS Priority" pool, the volume represents the number of Priority pieces that are sorted on the machines. In the "SPBS Other" pool, the items keyed are generally flats bundles, and the MODS volumes reflect counts of bundles keyed, except for the now apparently almost eliminated practice of keying individual pieces from broken bundles.
- b. Not applicable.
- c-d. Several things can happen to a broken bundle. Some can be and are recovered, for example by placing a rubber band around the individual pieces assuming they are still together. If a broken bundle is not recoverable, the appropriate action is to remove the pieces from the SPBS belt and send them for individual piece sorting, typically at an FSM. Such broken bundles are not keyed and are therefore not

included in the SPBS volume count. However, if, contrary to Postal Service policy, the individual pieces are keyed on the SPBS, each piece will cause the volume count to be incremented by one. Thus, a broken bundle can lead to a volume count of zero, one or more than one, depending on the factors described above.

- e. This question appears to result from a severe misunderstanding. What the "broken" row in Table V-1 in my testimony really shows is that, according to the MTAC data:
- If bundles from a Periodicals pallet are dumped on an SPBS feeding belt, then an average of 0.5% - one half of one percent - of those bundles break.
 - If bundles from a Periodicals sack are dumped on an SPBS feeding belt, then an average of 15.675% of those bundles are broken
 - If bundles from a Standard A pallet are dumped on an SPBS feeding belt, then an average of 1.26% of those bundles break.
 - If bundles from a Standard A sack are dumped on an SPBS feeding belt, then an average of 18.18% of those bundles are broken.

Note that the much higher breakage rate for sacked mail appears not to be caused by the dumping on the SPBS. Those bundles appear to have already been broken by the time they get to the SPBS, presumably by the rough treatment of sacks in the postal network.

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UPS/TW-T1-6. Based on your understanding of bundle breakage, what is the relationship between the frequency of bundle breakage and the volume of bundles that need processing? Is it the case that: (a) bundle breakage is more likely under congested conditions; (b) bundle breakage is less likely under congested conditions; or (c) there is no relationship between bundle breakage and the degree of congestion? Explain in detail the basis for your response.

UPS/TW-T1-6. I am not aware of any relationship between frequency of bundle breakage and the volume of bundles that need processing. I would find it rather odd if there were such a relationship. It is clear that most bundle breakage occurs for bundles that travel in sacks. There is little firm knowledge of what causes the bundles to break while in the sacks, but I have heard the opinion expressed that when a sack is full the bundles may be more protected from breakage than when there are only a few bundles in the sack. Obviously, the chance of breakage will be higher if a sack undergoes more handling steps, e.g., if a sack must be sorted through two BMC's instead of one.

The breakage that occurs when pallets are dumped on SPBS feeder belts appears to depend a great deal on the way the dumping is done. Dumping the whole pallet quickly may create an "avalanche" effect, which causes more breakage than if the pallet is dumped more gradually, putting only a limited number of bundles on the belt at any one time. Dumping a pallet more gradually need not affect the throughput of sorted bundles. The keying stations are the bottlenecks on the SPBS. It is easy to dump bundles from pallets faster than they can be keyed, but gradually enough to minimize breakage. The Periodicals Review Team noted that the degree of breakage varied substantially from one facility to another, based not on the backlog of mail but on the skill of employees operating the pallet dumpers. The team urged a sharing of best practices in this area.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-1. On page 28 of your testimony, lines 1-2, you say that "some of the mail unloaded may be 'direct' containers, including pallets, that simply need to be cross-docked and staged for loading onto outbound trucks. This activity takes little time." (emphasis added)

- a) What is the basis for this conclusion? Please cite all studies you have conducted or reviewed regarding the costs of cross-docking 'direct' containers.
- b) What is your understanding with respect to the average length of travel for cross-docked direct containers as compared to the average length of travel for containers being moved to opening units and sorting operations?
- c) Have you ever observed the staging of cross-docked containers inside the plant due to insufficient dock space?
- d) Has dock space at plants increased in proportion to cross-docked 'direct' containers?
- e) Has the staging of cross-docked direct containers added to the congestion of the dock area?
- f) What impact have the additional forklifts needed to move cross-docked pallets had on the level of congestion on the dock?

USPS/TW-T1-1. Let me first point out that these questions appear to result from a misunderstanding of the intent in my testimony. I do not suggest that crossdocking a pallet or other container of "direct mail" takes no time, or that platform congestion is not a significant problem in some mail processing facilities. That congestion, by the way, is caused by all mail, since both the working mail and the "direct" mail must cross the platform when it arrives and be staged on or near the platform prior to dispatch.

The intended meaning of the statement you quote is simply that the time used to cross-dock "direct" mail, both in work-hours and in elapsed time, is small compared with the much larger time taken by mail that requires handling bundle by bundle and piece by piece, sometimes in several iterations to achieve the required sort, and often involving substantial delays while the required sorting operation(s) are set up for the appropriate sorting scheme.

A corollary of this common sense observation is that if both the "working" mail and the "direct" mail are eventually to be dispatched on the same truck to the same destination, then it is the "working" mail that represents the "critical path" and therefore the major personnel scheduling problem in a processing facility.

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- a. See the general comments above regarding the intent of the statement you quote from my testimony. As to studies of the costs of crossdocking direct containers, what I do know is that there are two categories of data that often are used by the Postal Service in order to estimate costs of container operations. One of these has its origin in the science of industrial engineering and uses MTM (major time and motion) analysis which breaks down the individual movements involved in various repetitive tasks. MTM-based estimates are used in this docket at least in the testimonies of witnesses Crum (USPS-T-27) and Eggleston (USPS-T-26). In particular, witness Crum uses some MTM standards in his estimates of savings produced when Periodicals and Standard A sacks and pallets bypass cross-docking in intermediate facilities due to mailer dropshipping. A broader set of MTM-related standards can be found in the so-called "planning guidelines," a copy of which is included in an attachment provided by witness Eggleston with her response to TW/USPS-T26-1d. I myself have used some of these standards, for example in testimonies supporting the establishment of a pallet discount in Dockets No. R87-1, R90-1 and MC91-3. See in particular my R87-1 rebuttal testimony (TW-RT-2, Ex. F).

The other set of standards, also frequently used by some Postal Service witnesses, originates with the R84-1 testimony of USPS witness Byrne (Docket No. R84-1, USPS-T-14) and is based on an analysis of processing rates at the San Francisco BMC and the Buffalo ASF.

- b. The average length of travel for both cross-docked and "working" containers will vary with the layout of a particular facility. I don't believe one can make any general statement as to one being longer than the other. What can be said with certainty, however, is that once the "direct" container has been cross-docked, it is ready for dispatch as soon as the truck it will go on becomes available. For the mail in a "working" container, on the other hand, being brought to the opening unit is only the initial step in a process that may involve multiple handlings as well as long waiting periods. Mail with a particular presort may, for example, need to wait until the machine on which it will be sorted becomes available to do the particular sorting scheme that is appropriate for that mail. Regarding the total distance traversed

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within a given facility, I believe it is obvious that the "working" mail will on average have traveled much further by the time it finally is ready for dispatch.

- c. I have seen mail staged almost everywhere in postal facilities, both on the platform and inside the building. Insufficient platform space is undoubtedly a serious problem in many facilities. It is a problem in BMC's, for example, because those facilities were built at a time when the Postal Service apparently was thinking only in terms of sacks and parcels on conveyor belts rather than modern containerization methods. A large part of the congestion on postal platforms is, in my observation, caused by empty equipment, including APC's, hampers, nutting trucks, BMC containers, etc. Empty equipment in a given facility is of course not caused by containerized "direct" mail that is just cross-docked through the particular facility.
- d. This question appears to need further specification. For example, what period of time does it refer to, and to what types of facilities? Further, does it refer to total platform area or the area that is available for staging of cross-docked containers? But whatever the question means, I believe the Postal Service itself would be in the best position to answer it.

In recent years there has been a substantial increase in dropshipping by mailers, which means that many "direct" containers now avoid cross-docking by being entered at their destinating facilities.

- e. Obviously, everything that comes across the platform in a mail processing facility adds to the congestion on that platform. I think it needs to be understood, however, that almost everything that arrives at and is dispatched from Postal Service platforms nowadays is in some kind of container. Even sacks, trays and parcels tend to be transported in containers such as hampers, APC's, BMC containers and postal paks. In my observation, only a small portion of these are "direct" containers, and as the "working" containers are emptied of their contents they tend to create a formidable "empty equipment" problem that causes congestion practically everywhere, not only on the platforms.
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This fact is shown clearly by the IOCS data (USPS-LR-I-12), according to which mail processing employees spend about as much time handling empty containers as they spend handling containers with mail in them. According to the same data, there do not seem to be many "direct" containers, except for pallets, which the IOCS doesn't even call containers.

If the Postal Service believes Periodicals pallets in transit are the cause of crowded platform conditions, the best way to address this problem is stronger incentives for mailers to dropship pallets directly to the destinating facilities.¹

- f. I am not sure that I understand this question. Forklifts are an integral part of modern material handling methods. They are used in mail processing facilities to move pallets, postal paks and other containers, across platforms as well as to a variety of other operations.

The question seems to assume, nonsensically in my opinion, that there would be fewer forklifts required, and less platform congestion, if pallets with high degree of presort, which can be cross-docked, were to be replaced with pallets of lower presort (e.g., ADC pallets), which need to be broken at an earlier stage and have their bundles sorted into postal containers such as postal paks and hampers.

I have however, tried to arrive at some idea of how much of forklift operator time might be spent on handling cross-docked pallets. This is possible because operations of mechanized forklifts can be identified on an IOCS tally from the Question 19 data. I found \$69.627 million (tally costs) of mechanized forklift operations in MODS facilities according to the FY98 IOCS. Of that amount, \$58.475 million was incurred by employees clocked into the Platform operation. Of the \$58.475 million, 61.9% was identified as "not handling." That is slightly less than

¹ In the mail flow models he uses to estimate processing cost avoidances under DSCF and DDU dropshipping, witness Crum uses industrial engineering productivity standards that assume ideal work conditions. Had he included a "congestion" component to represent the extra costs the Postal Service seems to believe are caused by cross-docked pallets, then the resulting dropship savings would no doubt be much larger. The same applies, of course, to the modified model for DDU dropship savings that I included in my present testimony. That is, in both instances, the costs avoided by drop shipping are understated.

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the 64.2% not handling for all MODS platform costs. Of the rest, 9.4% is "direct" costs and 28.7% is "mixed mail" costs, including costs of empty equipment handling.²

In other words, the "direct" forklift costs are less than one fourth of the total forklift-related handling costs. Of these direct forklift costs, 63% (or 5.9% of all forklift costs) represent pallet handling. Note that "direct" costs in IOCS refers to tallies where subclass could be identified by the IOCS clerk. That would include both "direct" and "working" pallets of flats bundles prepared by Periodicals and Standard A mailers, since subclass information is easy to extract from the placards that come with such pallets. The time spent by forklift drivers in cross-docking "direct" pallets is therefore only some subset of 5.9% of forklift driver time. I conclude that there simply is no basis for the theory that direct Periodicals pallets are major contributors to congestion on Postal Service platforms.³

² A tally represents operation of a mechanized forklift if it has a "T" in field F128 and a "B" in field F9212. See Exhibit 2 in my testimony. If there is an "A" in field F9212, the tally represents a manual forklift. Total manual forklift costs at MODS platforms were \$14.830 million, only 4% of which were "direct" costs.

³ Of the much larger "mixed mail" portion of forklift driver platform costs, only 21% represents pallet handling. The rest is for handling of various other container types, particularly postal paks and APC's.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-2. On page 28 of your testimony, lines 13-16, you say that "What defines the time constraints, however, and requires initial bursts of activity to get the mail unloaded and started on its processing, and later more burst[s] of activity to meet dispatch schedules, is the 'working mail' that is separated from the direct mail in the opening units."

- a) Is it your contention that there would be no exigency to unload or load a truck that would only contain 'direct' containers of mail?
- b) Please reconcile your conclusion that working mail alone creates the bursts of activity on the platform with the testimony of witness Degen (USPS-T-16) at page 50, lines 11-12 where he describes the limited unloading and loading time required to keep the trucks on schedule.

USPS/TW-T1-2.

- a. No. However, the "exigency" would in many cases be substantially less.
- b. Witness Degen's testimony speaks for itself. It has always been my impression, however, that to the extent facilities do plan their processing schedules and their staffing requirements, the predominant driving need is the need to meet critical dispatches. Mail processing schedules essentially are based on working backwards from the critical dispatches and thereby determining when the different operations must start and the staff is required at each operation. Obviously, the more processing steps that need to be executed before the mail is ready for dispatch, the tighter is the available time-window between arrival and dispatch.¹

¹ In 1973 I wrote a proposal on behalf of Universal Analytics Inc.(UAI), in response to a Postal Service request for proposal to develop a manpower staffing and scheduling program for an automated post office, as it was conceptualized at that time. I proposed to base this program on a "back loading" algorithm, which would start with critical dispatches and work backwards, attempting to meet all work scheduling requirements with the minimum manpower. UAI was granted the contract over several better known bidders, and I was told later that this was because it had been felt that the "back loading" concept came closest to the way that postal managers actually do determine their staffing needs. The program we developed (called first STAMPS and later MPCM) was never used for live scheduling, due at least in part to union concerns that it might lead to fewer jobs. However, since then I have talked to hundreds of postal managers at all levels and never been given any reason to doubt that critical dispatches in fact are what drives staffing requirements in mail processing facilities.

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Your question appears to suggest, as does the referenced portion of Mr. Degen's testimony, that staffing requirements at postal platforms are based not on critical dispatch requirements but on the need to unload certain trucks as fast as possible so that they can get on their way to the next scheduled stop. I do not doubt that some trucks arriving at mail processing facilities need fast unloading in order to keep on schedule. The question is, however, whether a facility manager would plan extra staff to unload certain individual trucks faster if there were not also a need to get that mail into the processing stream. Obviously the need for fast unloading is not a determining factor for the many vehicles that bring collection mail to an SCF in the late afternoon or early evening. Nor do I believe it is a consideration when mailers bring in their drop-shipments. It might be a factor for some "star routes" that stop at multiple SCF's, but if there is only one truck at a given time that needs fast unloading, a small crew could empty the truck of mail (which doesn't take much time anyway when the mail is containerized) and then worry about getting it into the mailstream after the truck has gone.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-3. If a forklift picks up a pallet and moves it from point A to point B, then returns to point A with nothing on its forks, what proportion of the time would that forklift driver be observed not-handling mail?

USPS/TW-T1-3. The answer to this question depends on several factors. For example, if points A and B are close, then the time spent lifting the pallet up and setting it down could be a substantial portion of the total time. This could occur if pallets have been staged near an SPBS and the forklift driver is moving the pallets from the staging area to a pallet dumper, or if pallets were previously staged for loading onto a given truck and the forklift driver is in the process of moving them from the staging area onto the truck, or if pallets are being unloaded from a truck and staged nearby.

In the case where pallets are moved by forklift over a substantial distance, the answer to your question would depend on how much the weight of the pallet affects the speed with which the forklift moves. That in turn would be affected by factors such as the degree of congestion when the move occurs, or whether the forklift driver is under some pressure, knowing that he has a number of other pallets to move, or instead, for example, he stops on the way back after setting down one pallet to chat with other employees.

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USPS/TW-T1-4. If a platform worker is waiting for a truck, what portion of that waiting time would we expect to observe him/her handling mail?

USPS/TW-T1-4. That depends on what you mean by "waiting for a truck." If you mean that the platform worker is waiting for an already arrived truck to back all the way in to the platform, perhaps signaling to the driver when to stop, then one would not expect that worker to be handling any mail during that short period.

If, on the other hand, you refer to a situation where a truck is expected to arrive in about an hour, then one would hope that management has arranged for the workers to have something productive to do in the meantime. For example, they could work on the mail that came in on previous trucks, e.g., moving direct containers to their outbound trucks, sorting sacks and trays, moving the working mail to its respective opening units, dumping "working" sacks on opening belts, or doing other things that mailhandlers can do.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-5. On page 29 of your testimony, lines 14-16, you say that "As illustrated above, 'allied' operations in MODS facilities incur very large 'not-handling' costs, in spite of being much less automated than the piece distribution operations they support."

- a) Please indicate the approximate amount of time that you believe workers clocked into platform operations should be observed not handling mail.
- b) What does being less automated than piece distribution operations have to do with the expected amount of not-handling time in platform and other allied operations?
- c) Do you mean to imply that allied operations have the same essential nature as piece sortation operations, except that they are less automated? If your answer is yes, please indicate the piece distribution counterpart to waiting for trucks.

USPS/TW-T1-5.

- a. I don't understand what you mean by "should" in this context. Obviously, the percentage of not handling time indicated by IOCS data for MODS platforms (64.2% in FY98) is very high and should if possible be reduced through more efficient use of personnel.

It is also obvious that if facility management decides to keep a very large workforce on the platform in order to be prepared for any workload peak that might occur, then a lot of idle time will result in between peaks, and this will be reflected in IOCS samples as "not handling" time.

This is not necessarily wrong in all circumstances, since management may have good reasons to want to be able to meet all workload peaks without causing delays. Assume, for example, that a Postal Service study indicated that by doubling the staffing on MODS platforms, the overnight First Class delivery percentage could be raised from, say 95%, to 99.995%. Assume further that a survey indicated such a high reliability of First Class delivery would persuade many people to keep using letter mail rather than switch all their communications to the Internet. In such a hypothetical case, Postal Service management might be justified in deciding to "overstaff" in order to protect its First Class volume.

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The problem is that current postal costing does not consider the impact management decision-making has on costs. An IOCS sample may record the fact that an employee was not handling mail. It may also record where he was at the time and what kind of other activity he may have been engaged in. It cannot, however, record that this employee was where he was because management wanted him there in order to be better prepared for workload peaks or other emergencies. Instead, IOCS attributes the cost of such not handling in proportion to direct costs based on an unverified and almost certainly incorrect proportionality assumption.

- b. Let us start with the widely acknowledged fact that "not handling" time, as a percentage of total time spent by mail processing employees, has grown a great deal over the last 15 years. It is hard to escape the conclusion that this must have something to do with the switch to an automated environment. Indeed, Postal Service witnesses, among others, have argued all along that one should expect less direct handling and more "not handling" in an automated environment, where employees are more likely to be handling or monitoring equipment, rather than touching individual mail pieces. See, e.g., Docket No. R94-1, Tr. 1237-39 (responses of USPS witness Barker to questions at hearing from Chairman Gleiman).

This argument, however, implies that most not handling time should be found at the highly automated operations. Since platform employees have always had to "wait for trucks," one would not expect that particular form of not handling to take much more time than it used to.

Based on these considerations, I would have expected the increased "not handling" time to be concentrated in the most automated operations. That the opposite is true is to me an indication not of the predictable or necessary consequences of automation but of overstaffing and inefficiency in the allied operations.

- c. I don't know what you mean by the "essential nature" of a mail processing operation. I believe I have made it very clear in my testimony in this docket as well as in Docket R97-1 that I consider allied operations to differ in many respects from operations that only sort pieces of a particular shape.

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Of course, there are also many similarities and interrelationships between allied and piece sorting operations. Platform operations are perhaps the most distinct. In the major opening and pouching units, in my observation, most employee time is spent preparing mail for piece sorting, or preparing mail that has been piece sorted for dispatch or a subsequent piece sorting operation; many operations performed on letters and flats can be performed either at the piece sorting or opening unit operations. See USPS-ST-43 at 9 (Unger). It is unfortunate that insufficient information is available to determine exactly how much of the not handling and empty equipment time spent by opening unit personnel is related to letter, flats and parcel operations respectively. My testimony indicates what can be concluded about the shape affiliation of some allied not handling and empty container costs.

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USPS/TW-T1-6. On page 29, lines 2-8, you say that "'working mail' drives the need for high staffing levels in allied operations" and that "this mail is most responsible for the extensive amounts of 'not-handling'." Please specify the mail processing cost pools corresponding to your use of the term 'allied operations.'

USPS/TW-T1-6. See footnote 17 on page 21 in my testimony.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-7. On page 29, lines 9-10, at the end of section C of your testimony, you say "These observations bear directly on the question of how to distribute allied 'not-handling' and 'mixed mail' costs." Please indicate how the observations you make in section C of your testimony bear on the issue of mixed mail costs.

USPS/TW-T1-7. See in particular the discussions on page 30, starting at line 16 though page 31, line 7, on page 34 at lines 3-9, and in section IV.F of my testimony.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-8. On page 4, lines 3-6 of your testimony you say that "In visits to postal facilities in the preceding years I had become concerned that the rapid move to letter automation would lead to claims of great savings, which the Postal Service would only be able to justify by reporting higher costs for non-automated mail." Please list the changes that the Postal Service has made to the CRA methodology that have led to "reporting higher costs for non-automated mail." Please be specific with respect to the changes and your reasoning as to why each change has reduced the CRA costs for automated mail, while increasing the costs for non-automated mail.

USPS/TW-T1-8. See my testimony on Periodicals mail processing costs in Dockets No. R90-1, R94-1 and R97-1 as well as this docket, where I discuss these issues in greater detail than is possible here.

To summarize, the Postal Service did not need to change its CRA method in order for this effect to occur. All it had to do was to demand that facility managers demonstrate savings from the automated equipment they were receiving. Managers knew that to do so they would need to reduce the manhours spent sorting letters, a task made easy by the order of magnitudes increase in sorting speed provided by the new equipment. At the same time, however, managers did not want to give up any more staff than necessary, which is understandable because having more staff enables a facility to respond better to unusually heavy volumes or other emergencies. Also, excess staffing makes life easier for managers, who do not have to plan staffing schedules within constraints as tight, or urge their workers to work as hard, as they otherwise would have to do. Employees no longer needed for letter mail sorting were therefore assigned to other operations, including flat sorting and in particular opening units where productivity normally is not monitored.

Between FY86 and FY89, when the first big push towards automation of letter sorting occurred, the total USPS work force grew right along with claims that automation was producing savings. In that period, Periodicals costs grew by leaps and bounds, as demonstrated in my testimony (see Exhibit 1). Then in the summer of 1989 a hiring freeze was imposed. The growth in Periodicals processing costs gradually slowed in the next few years and the costs actually dipped downward in FY92. But they resumed

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growing in FY93 and have continued to grow in excess of general inflation and increases in mailhandler wages ever since. Periodicals costs never recovered from the huge increase that occurred between FY86 and FY90.

As a result of these developments, the Postal Service appears to have been saddled with huge inefficiencies in some of its manual operations, particularly manual opening units where a lot of time appears to be wasted; at least that was the impression shared by industry members of the Periodicals review team. The IOCS reflects this inefficiency as large amounts of "not handling" time, both at platforms and in opening units.

When I say that there was no need to change the CRA in order to achieve the effect described, I am referring particularly to the various proportionality assumptions imbedded in the IOCS, whether it is interpreted through the previous LIOCATT program or the new MODS-based cost distribution program introduced in Docket No. R97-1. These proportionality assumptions practically guarantee that mail which incurs large direct handling costs also will be charged with large "not handling" costs, even though the growth in not handling costs may have been caused by the mail whose direct costs went down as a result of automation. The introduction of MODS-based costing in R97-1, while it did not cause this effect, has only magnified it.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-9. Please refer to the mail processing unit costs on the worksheet entitled 'CRA Cost Pools' within MPA-LR-2.

- a) Please confirm that these mail processing unit costs are identical to the mail processing costs on the worksheet entitled 'CRA Cost Pools' within USPS LR-I-90. If you do not confirm, please explain.
- b) Please confirm that these mail processing unit costs do not reflect any changes due to proposed volume variability, cost reduction program, cost allocation, or cost distribution differences. If you do not confirm, please explain.
- c) Please confirm that, if these mail processing unit costs reflected any changes due to proposed volume variability, cost reduction program, cost allocation, or cost distribution differences, then the proposed presort/automation cost differentials calculated from MPA-LR-2 would, in all likelihood, be different. If you do not confirm, please explain.
- d) Please confirm that platform handling costs are included. If you do not confirm, please explain.

USPS/TW-T1-9.

- a-c. Confirmed. I am well aware that changes in cost allocation and/or volume variability for different cost pools, including changes proposed in my testimony and the testimonies of other Periodicals industry witnesses, will impact the presort cost differentials that eventually are used by the Commission to set rates. It is my assumption that the Commission will make the necessary changes in the worksharing models after it has decided all cost attribution issues, as it did in Docket No. R97-1.
- d. Platform handling costs are defined as "not worksharing related" both in MPA-LR-2 and in USPS-LR-I-90. That means that platform costs have no impact on the computed presort cost differentials. Nor do platform costs have any impact on my estimates of costs associated with bundle breakage or on my estimates of the difference in unit costs between 5-digit pallets and 3-digit pallets.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-10. Please refer to your testimony at page 50 at 15-16 where you state that you "corrected Yacobucci's treatment of carrier route sacks" and to cell C20 in the worksheet entitled 'Productivities' in MPA-LR-2. Also, please refer to the response to TW/USPS-T25-1 subpart (f): Tr. 5/1463 which states the following. "Please note that the model uses the productivity for both Periodicals Regular Rate and Periodicals Nonprofit mail. Thus, if a packages per hour productivity is used in the analysis, either a weighted-average packages per hour productivity or two distinct packages per hour productivities should be used for cost modeling purposes [emphasis added]."

- (a) Please confirm that your correction uses a conversion factor of 1.4 packages per Periodicals Regular Rate sack. If you do not confirm, please explain.
- (b) Please confirm that the model uses the conversion of 1.4 packages per Periodicals Regular Rate sack in developing costs for Periodicals Nonprofit mail. If you do not confirm, please explain.
- (c) Please confirm that your correction does not reflect the number of packages per Periodicals Nonprofit sack. If you do not confirm, please explain.
- (d) Please provide the weighted-average packages per Periodicals Regular Rate and Nonprofit sack.
- (e) Please provide the number of packages per Periodicals Nonprofit sack.

USPS/TW-T1-10. Please note that the correction you refer to was relevant only for carrier route sacks. I will assume in the following that your questions regarding the number of packages per sack for regular rate and nonprofit Periodicals refer to carrier route sacks only. Please also note that the methodology used in USPS-LR-90 effectively assumes that each carrier route sack contains exactly one package.

- a. Confirmed, referring to carrier route sacks.
- b. Confirmed, referring to carrier route sacks. I also confirm that this was an oversight, and that it would have been more correct to use the nonprofit packages per sack number to analyze nonprofit Periodicals. To do so, all one needs to do prior to running an analysis of nonprofit Periodicals is to replace the formula 99.4×1.4 in cell c20 on the 'Productivities' spreadsheet page with the formula 99.4×1.184 .
- c. Confirmed.

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Page 2 of 2

- d. According to the numbers presented in LR-I-87, it appears that the weighted-average number of packages per Periodicals Regular Rate and Nonprofit carrier route sack is 1.35.
- e. According to the numbers presented in LR-I-87, it appears that the average number of packages per nonprofit carrier route sack is 1.184.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-11. Please refer to your testimony at page 47 at 25-26 where you state that assuming 10% of bundles break in subsequent bundle handling operations "severely distorts the [cost] relationship" and to your testimony at page 49, footnote 36, where you state that "I found these secondary breakage ratios have little impact on the model results." Please reconcile the two statements.

USPS/TW-T1-11. I think you may have misread the paragraph from which you quote on page 47 of my testimony. The severe distortion I refer to is that caused by assuming the same bundle breakage ratio for sacked and palletized mail. The paragraph also states that since palletized bundles tend to have more secondary sorts, the net effect is to assume that they break more than sacked bundles. That does not contradict my later observation which you also cite, that the primary breakage ratio is the one with by far the largest cost consequence.

There appear to be at least two main reasons why the primary breakage ratio is the one with most consequences. First, many bundles go through only one bundle sort before they need to be broken anyway. Second, when a bundle breaks at an early stage, e.g., a carrier route bundle on an ADC pallet breaking as it is dumped on an ADC sorting belt, the pieces from that bundle may have to go through several piece sorting operations. If a bundle breaks later, it will already have made it to a higher sort level where fewer piece sorts remain to be performed.

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USPS/TW-T1-12. Please refer to cell BA94 in the worksheet entitled 'MF Model' in MPA-LR-2 and to cell BA94 in the worksheet entitled 'Mailflow Model' in USPS LR-I-90,

(a) Please confirm that, starting with 10,000 Periodicals Regular or Nonprofit pieces, the following number of pieces are finalized within MPA-LR-2. If you do not confirm, please explain and provide the number of pieces finalized.

	SCENARIOS	PIECES
i.	29 8 30 sacked	9,989
ii.	29 & 30 palletized	10,171
iii.	39 & 40 sacked	10,183
iv.	39 & 40 palletized	10,046
v.	45 & 46 palletized	9,977

(b) Please confirm that, starting with 10,000 Periodicals Regular or Nonprofit pieces, 10,000 pieces are finalized for scenarios 29, 30, 39, 40, 45, & 46 within USPS LR-I-90. If you do not confirm, please explain and provide the number of pieces finalized.

(c) Please explain why each of the finalized pieces listed in subpart (a) above (from MPA-LR-2) does not equal 10,000.

(d) Please provide the number of pieces that are finalized for the scenarios in subpart (a) for which the worksheet 'MF Model Costs' within MPA-LR-2 develops costs.

USPS/TW-T1-12.

a. Not Confirmed. The number of pieces finalized, when starting with 10,000, is exactly 10,000 in each scenario and for each container type. The formula in cell BA95 on spreadsheet page 'MFModel' is incorrect when applied to scenarios with carrier route bundle presort. Since this formula only provides a check on the pieces finalized, there is no impact on the presort or automation related unit costs computed by my model.

The apparent problem results from the fact that the verification formula in cell BA95, essentially the same formula as that used in LR-I-90, is inconsistent with the improved methodology for modeling bundle breakage that is introduced in MPA-LR-2. Specifically, the formula does not recognize the distinction between first entry breakage percentage and first entry "suspect" percentage, which I have used

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as a proxy for the breakage rate in secondary bundle sorting. Nor does it recognize the distinction I make between breakage in manual and mechanized sorting of palletized bundles.

A modified version of the spreadsheet in MPA-LR-2, where the formula in cell BA94 has been corrected, will be filed as ^{MPA-LR-10.}~~MPA-LR-8.~~

- b. Confirmed.
- c. See my answer to subpart (a) above.
- d. See my answer to subpart (a) above.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-13. Please refer to cells AD11:AD14 in the worksheet entitled 'MF Model Costs' within MPA-LR-2.

- (a) Please confirm that the total pieces and bundles calculation sums the number of intact bundles, broken bundles, and pieces from broken bundles. If you do not confirm, please explain.
- (b) Please confirm that the total pieces and bundles calculation should only sum the number of intact bundles and pieces from broken bundles. If you do not confirm, please explain.
- (c) Please confirm that, when bundles break and the pieces are keyed on the SPBS, your total pieces and bundles calculation (as discussed in subpart (a)) overstates the number of total pieces and bundles which then incorrectly decreases the adjusted mechanized bundle sort productivity. If you do not confirm please explain.

USPS/TW-T1-13.

- a. Not confirmed. The pieces which are added to the sums in cells AD11-AD14 are those pieces from broken bundles that are individually keyed on the SPBS, rather than being sent to a proper flats sorting operation. The latter is considered by far the more efficient method if the bundles themselves cannot be recovered. Since it is assumed that the practice of keying individual flats from broken bundles on the SPBS will have been eliminated by the test year, in compliance with Headquarters instructions issued on December 30, 1999 (see response to MPA/USPS-T10-6), there are in fact no pieces to add to the sum in cells AD11-AD14, except when the model is used to estimate the likely test year reduction in bundle breakage costs.

b&c. I cannot confirm, for the following reasons.

The mechanized bundle sorting productivity rate provided by USPS witness Yacobucci and used also in MPA-LR-2 is based, essentially, on dividing the SPBS machine counts of total items keyed by the manhours clocked into SPBS operations. If a bundle breaks before it reaches the SPBS keyer, it will not be keyed and therefore not counted as SPBS volume. In that sense, the productivity rate used in LR-I-90 could be said to overstate the cost per unbroken bundle, since some SPBS hours are caused by broken bundles that are not included in the SPBS machine count, even though they may incur costs equal to or higher than the bundles which

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do not break. On the other hand, if individual pieces from some broken bundles are also keyed, thereby inflating the machine count, then the per bundle SPBS productivity estimate could be too high. That is, the cost per unbroken bundle may be more than assumed in LR-I-90.

Stated differently, several types of entities are handled in the SPBS operation, including intact bundles, broken bundles and those pieces from broken bundles that are keyed individually on the SPBS. The first and last groups contribute to the SPBS read count. All three groups use up manhours and thereby incur costs. Absent further studies, which I hope the Postal Service will undertake soon, one cannot know with certainty whether the true SPBS productivity rate per unbroken bundle is equal to, higher than or lower than the rate used in USPS-LR-I-90 and MPA-LR-2.

My objective was simply to get a rough estimate of the costs added when pieces from broken bundles are keyed individually on the SPBS. I do this by modifying the LR-I-90 productivity rate by a factor whose ^{numerator}~~nominator~~ is total bundles entered for bundle sorting at a given presort level and whose denominator is total bundles entered for sorting plus the pieces from broken bundles that are keyed individually on the SPBS. Your question appears to suggest that the total bundle count in this formula should be replaced by the number of bundles that remain intact, both in the nominator and denominator. That would have the effect of slightly lowering the factor applied to the productivity, and thereby slightly increasing the estimated cost of keying pieces individually on the SPBS. I don't think there exist sufficient data to be able to assert that one method is more accurate than the other.

See also my response to USPS/TW-T1-14.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-14. Please refer to your testimony at page 50 at 10-11 which discusses broken bundles in manual bundle sorting operations and to cells AH8:AN14 in the worksheet entitled 'MF Model Costs' in MPA-LR-2.

- (a) Please explain your manual productivity adjustment.
- (b) Please confirm that you adjust the manual productivities downward to account for the costs of handling broken bundles. If you do not confirm, please explain.
- (c) Please confirm that the response to TW/USPS-T-25-2 subpart (i): Tr. 5/1466 states the following. "The model uses manual package handling productivities from USPS LR-I-88. These productivities were derived by measuring the time it took to handle observed packages, even if that handling involved some form of package recovery. Hence, these productivities account for any package recovery." If you do not confirm, please explain.

USPS/TW-T1-14.

- a. The adjustment assumes that when a bundle breaks in a manual bundle sorting operation, it incurs handling costs that are three times larger than if it did not break. The extra costs would be incurred performing activities such as removing the individual pieces from the opening belt, facing the pieces if necessary and placing them in some type of container that subsequently is taken to piece distribution. In addition, if a bundle has a presort level higher than the operation at which the bundle sort occurs, then the pieces will require more piece sorting than if the bundle had remained intact. The assumed factor of three can be varied by adjusting cell b22 in the 'Control Sheet' worksheet.
- b. Confirmed.
- c. Confirmed that you have quoted correctly from witness Yacobucci's response to TW/USPS-T-25-2 subpart (i). The following are some comments on your implied argument that the manual bundle sorting productivity rates used already include the extra costs of broken bundles.

If one could assume that the manual bundle sorting productivity rates in USPS LR-I-88 were accurate under the FY98 degree of bundle breakage, if one could determine accurately what the extra handling cost per broken bundle is, and also determine

with accuracy what the percent of broken bundles is at manual bundle sorting operations at each sort level, then one could also obtain accurate estimates of what the bundle sorting costs would be, at each bundle sort level, if there were no premature bundle breakage. Were this possible, the ideal model of flat piece and bundle handling costs would start with somewhat higher manual productivity rates and then account explicitly for the additional cost of broken bundles. The result would have been a slightly lower estimate of the costs of bundle breakage, and slightly higher estimates of the cost differentials between presort levels.

I did not attempt to make this type of adjustment because it would only lead to an illusion of accuracy that is not really justified. The effect of such an adjustment would be very small compared with the effect of the inaccuracy that results from, for example, not having separate bundle sorting productivity estimates for mail in sacks and on pallets (bundle sorting of sacked mail is in reality considerably more expensive, whether done on a SPBS or manually). It would also be very small compared with the distortion caused by averaging the bundle sorting productivity rates in 3-digit, ADC and mixed ADC sorting, as is done in USPS-LR-I-90, or by the totally misleading bundle breakage percentage used in USPS-LR-I-90.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY
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USPS/TW-T1-15. Please refer to your testimony at page 50 at 19-21 and to footnote 38 which discuss the deaveraged manual bundle sorting productivities. Please also refer to TW/USPS-T25-3: Tr. 511468-1470.

(a) Please confirm that the Outgoing Primary manual package handling productivity is developed based on one observation. If you do not confirm, please explain.

(b) Please confirm that the ADC manual package handling productivity is developed based on three observations. If you do not confirm, please explain.

(c) Please provide the complete footnote 38.

USPS/TW-T1-15.

a & b. Confirmed that according to the answer provided by USPS witness Yacobucci to TW/USPS-T-25-3, the LR-I-88 estimate of mixed ADC manual bundle sorting productivity resulted from observations made in one facility, and the estimate of ADC bundle sorting productivity rates was based on observations made in three facilities.

It is unfortunate that the LR-I-88 study only looked at one and three manual opening units performing mixed ADC and ADC bundle sorting respectively. However, that does not justify averaging the results for different sort levels when doing so has the effect of blurring that which the model was meant to estimate, namely the cost differentials between mail with different presort levels. As pointed out in my testimony, I do not find the large difference in bundle sorting productivity between the three sort levels to be surprising. It is what one would expect, given the predominance of sacked mail in the mixed ADC sorting operation. Pallets must be presorted to ADC or finer, and palletized bundles, which cost much less to sort than sacked bundles, would therefore not appear in a mixed ADC bundle sorting operation.

It also is not unprecedented to set postal rates based on observations from just a few facilities, or even just one. For example, in Docket No. R80-1, rate distinctions between inter-BMC and intra-BMC parcel post, and a non-

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machinable parcel surcharge, were established based on a study that I had performed in just one facility, the San Francisco BMC. In Docket No. R84-1, that study was expanded to three facilities, including two BMC's and one ASF, as described in USPS-T-14 from that docket, and continued to form part of the basis for parcel post rates.

- c. Due to an editing error, the final line of footnote 38 was dropped from page 51 of the filed version of my testimony. The complete text of the footnote is as follows:

"It is not surprising that they are different, with mixed ADC sorting being more expensive than ADC and 3-digit sorting. There are no "mixed ADC" pallets, or at least very few, so that a mixed ADC bundle sort would be sorting of sacked mail only. Manual bundle sorting of sacked mail is much more time consuming than for palletized mail, even though the difference is not revealed by the averaged productivity rates Yacobucci provides. The difference is due both to the extra time spent opening, shaking out and storing sacks, bundle breakage and the greater ease of locating the address on bundles lifted from pallets with their orientation still intact."

A corrected page 51 is attached to this response.

Corrected
6/26/00

TW/USPS-T1-15(c)
Attachment

1 **E. ESTIMATES OF BUNDLE BREAKAGE COST SAVINGS**

2 With all the attention given to bundle breakage, both by the Postal Service and mailers,
3 I believe there will be a substantial reduction in both the incidence of breakage and the
4 cost consequences when breakage occurs. The Postal Service, however, has not
5 included any reduction of these costs in its roll forward projections.

6 I performed a simple analysis using the model described above to estimate the
7 potential savings, assuming the following changes would occur in the test year:³⁹

- 8 • Bundle breakage and "suspect" rates in Table V-1, assumed to apply in FY98, would
9 be reduced to half in FY2001, due to various joint USPS/industry efforts, discussed
10 in detail in the testimonies of MPA witnesses Cohen and Glick.
- 11 • In the test year, no loose pieces from broken bundles would be keyed individually
12 on the SPBS machines, as emphasized in a recent written instruction from
13 Headquarters to managers in the field. Response to MPA/USPS-T10-6, Attachment
14 (filed February 23, 2000); see also Tr. 5/1707.

15 The results were as follows. For regular rate Periodicals, a change from base year to
16 test year assumptions reduced the average modeled cost per piece from 5.754 cents to
17 5.514 cents, a saving of 0.24 cents per average piece.⁴⁰ With the 7.352 billion after rates
18 regular rate pieces assumed by witness Taufique (see Taufique's Periodicals rate design
19 spreadsheet, LR-I-167), this translates into a total saving of \$17.64 million. For
20 nonprofit periodicals, the modeled cost went down from 4.173 to 4.007 cents per piece,
21 a saving of 0.166 cents per piece, which for 2.052 billion after rates pieces gives a test
22 year saving of \$3.406 million per year.

address on bundles lifted from pallets with their orientation still intact.

³⁹ In MPA-T-2 witness Glick describes a similar analysis, applying the model to both Periodicals and Standard A mail. The model is not set up to analyze Standard A ECR mail, which I believe is also affected by bundle breakage and likely to benefit from the improvements discussed here.

⁴⁰ In the MPA-LR-2 spreadsheet, the modeled per piece costs under a given set of assumptions are shown in spreadsheet cell G54 on worksheet 'Sc Costs' as cents per average piece, excluding platform costs and the CRA adjustment.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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USPS/TW-T1-16. Please refer to your testimony at page 26, footnote 20. You state that Periodicals are "the first to be moved to annexes." Please describe fully the basis for your statement. Please provide detailed citations to studies and/or reports, and describe in detail and provide any other data and/or analysis, that you use to support your position.

USPS/TW-T1-16. The possibility that significant additional costs may be attributed to Periodicals when postal facilities move part of their operations to annexes as a short term "fix" for space capacity problems caused by mail volume growth was noted by the Periodicals Operations Review Team. Its report, which can be found in LR-I-193, stated:

Issue 10: Mail Processing Annexes. Plant managers, faced with crowded conditions due to rapidly increasing mail volume, often choose to "solve" the problem by farming out Periodicals processing to separate annexes. The result is added transportation and handling costs for Periodicals. While the best long term solution may be to build new and larger plants, we recommend steps be taken to mitigate the immediate problem.

As noted by witness O'Brien (TW-T-2), the Team encountered three facilities that had recently expanded to annexes located some distance from their main plants. In each of these cases, the processing of flats bundles had been moved in order to allow more space for the remaining activities in the main plant. In each case, it was also clear that substantial additional transportation and handling costs were being incurred as a result of the processing in separate facilities.

One hopes, of course, that these quick fixes are only temporary and that in the long run the Postal Service will respond to volume growth by creating new and more efficient plants under a single roof.¹

¹ I believe this is what normally does occur. For example, in 1978 I helped the Postal Service conduct a data collection in 18 mail processing facilities (17 SCF's and one BMC) to determine the characteristics of all arriving mail. Two of those facilities were "split," using annexes whose major assignment was to serve as opening units for flats bundles. A few years later, however, I learned that these facilities had moved into newer and better quarters and had once again consolidated all processing under a single roof.

Some of the extra cost of using an annex can probably be avoided by more efficient organization. The three annexes encountered by the Periodicals Review Team received their mail from the main plants and sent it back to the main plants for final processing prior to dispatch to the DDU's. It was noted that considerable transportation and platform handling costs could have been avoided simply by directing mailers who dropship to bring their mail directly to the annexes, rather than to the main plants.

But even if such operational issues were addressed more efficiently, the processing of mail in separate annexes would probably continue to create some additional costs. The apparent unfairness of attributing these costs to subclasses whose volume has not grown and therefore did not cause the need to expand to annexes, was an issue raised by the Team.

During the Team's discussions of this issue it was noted by some Postal Service officials that annexes of many types are used by the Postal Service, many of which handle other classes of mail than Periodicals. I do not know how relevant this point is, since many of those other annexes apparently exist in order to provide more efficient handling and transportation, not as a temporary fix for volume overflow. It makes perfect sense, for example, to have separate facilities located near major airports to handle mail that is transported by air, thereby avoiding the need to transport such mail to plants that may be located far from the airport.²

It was my understanding that the Postal Service, as a first step towards getting a better grip on the problem with annexes, intended to compile a list of the annexes it uses today, and the function of each. As far as I know, such a list has not yet been produced.

² For example, in Los Angeles the ADC distribution for letter mail is performed at the World Way processing plant, located right next to the international airport. In this way, most letters that arrive by air never need to be transported to the main post office, which is 10-15 miles away in South Central Los Angeles.

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USPS/TW-T1-17. Please refer to your testimony at page 27, lines 2-4. You state, 'Furthermore, because productivity at allied operations generally is not monitored, it is probable that employees are often assigned to them when they are not needed elsewhere.'

- a. Please explain your use of the term "probable" in the statement quoted above. Specifically, does it indicate speculation on your part as to whether, or to what extent, employees "not needed elsewhere" are assigned to allied operations? Please explain.
- b. Please specify the non-allied labor activities or operations you believe to have (or generate) the surplus labor or employees you reference in the quoted statement. Please cite all studies, reports, and/or data that support your answer.
- c. Please specify the allied labor activities or operations to which you believe the surplus labor or employees you reference in the quoted statement are assigned. Please cite all studies, reports, and/or data that support your answer.

USPS/TW-T1-17.

- a. The fact is, productivity at piece sorting operations is monitored, through MODS reports in mail processing facilities. If a facility has more employees than it needs at a particular point in time, and if management feels pressured to show high productivity rates, especially at its most automated operations, there are not really many other places people can be sent to besides the "allied" operations.

I understand that the Postal Service may believe that it has enough flexibility in manpower assignments to avoid ever having idle employees, and Postal Service witnesses may have testified to that effect in the past. Quite frankly, I do not believe it. Neither, apparently, does Mr. Unger, who explained during cross-examination how the Postal Service was stuck with a large number of casual employees during a period when mail volume turned out to be less than anticipated. If the Postal Service does not have flexibility when it comes to the use of its casual employees, then it would seem to follow that it has very little flexibility, period.

I first became aware of the general tendency to send employees not needed elsewhere to operations whose productivity is not being monitored (e.g., opening and pouching units) in 1977 and 1978, when I spent considerable time in postal

facilities and was able to talk with numerous clerks, mailhandlers, supervisors and managers at many different levels.

b-c. I am referring to piece distribution operations in general as generating a need for a large workforce at some times and a much smaller one at other times, and to opening and pouching units as the main "buffer" for these variations.

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USPS/TW-T1-18. Please refer to your testimony at page 20, lines 20-22. You make a claim of "the system's tendency always to allocate more costs to the least automated mail."

- a. Please specify whether the antecedent of "the system" is IOCS or the Postal Service's mail processing costing system as a whole.
- b. Would you expect the "least automated mail" to be more costly to process, other things held equal, than more automated mail? Please explain fully any negative response.
- c. Do you contend that the "tendency" to which you refer in the quoted statement is equally strong for every mail processing cost pool? Please explain fully.

USPS/TW-T1-18.

- a. The IOCS by itself is just a system for collecting information. The information currently collected in IOCS, even when combined with MODS data, is not sufficient to fully determine mail processing costs caused by each subclass and special service.

The main problems with the current method of attributing costs to subclasses and special services based on interpretations of IOCS data are in my opinion:

- (1) Excessive reliance on unproven and often erroneous assumptions about proportionality and about the independence of each MODS pool from all other MODS pools; and
- (2) Failure to consider the impact that management decisions have on costs.

See also my responses to USPS/TW-T1-5 and USPS/TW-T1-8.

- b. By other things held equal, I assume you have in mind a comparison where shape, presort level, weight, etc. are the same for automated and non-automated mail. If we consider the evidence that has accumulated to date, there seems to be little doubt that automation has worked for letter mail; automated letter mail costs less to process than non-automated letter mail.

The evidence is much less convincing in the case of flats. In fact, it appears that flats were being processed faster when all processing was manual than they are today.

One reason for that may be that what up to now has passed as “flats automation” is not really a breakthrough technology and does not offer the order of magnitude improvement over manual sorting that the letter automation technology does. That, however, does not explain why flats seem to cost more to process today. To understand why, one needs to consider that automation has fundamentally changed the mail processing environment, leading to large pools of “not handling” time that the costing system erroneously concludes must be caused mostly by the mail incurring the most “direct” costs, which generally is the least automated mail.

- c. Some MODS cost pools, by definition, handle automated mail only, and so the question of whether automated or non-automated mail gets the “best deal” at those pools is meaningless. Under the current MODS-based method of interpreting IOCS data, it clearly is the allied operations, such as opening and pouching units, that represent the biggest challenge in terms of a fair and accurate cost attribution.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-19. With respect to your proposed distribution for the mixed mail and the not-handling tallies in the Function 4 pools:

a. On p.34, you indicate that:

"The costs of empty containers of a given type that are associated with specific shapes through Question 19 data are distributed over only the direct and mixed container data for the corresponding container type and shape."

Program MODSHAP codes seem to indicate that the distribution for the costs of empty containers associated with specific shapes are not done by container type, but only by shape within each Function 4 cost pool. Please reconcile your statement with Program MODSHAP SAS codes.

- b. Confirm that there are no differences between how the not-handling costs associated with specific shapes through Question 19 data are distributed within each Function 4 cost pool, and how the costs of empty containers in a. above are distributed. If you do not confirm, please explain what those differences are and indicate which SAS program codes are relevant to that distribution.
- c. Confirm that the distribution key for the not-handling costs with no Q.19 shape association includes, in addition to the handling tallies in that cost pool, the distributed not-handling tallies with Q.19 shape information in b. above. If you do not confirm, please explain what is included in the distribution key and indicate which SAS program codes are relevant to that distribution.

USPS/TW-T1-19.

a-b. Confirmed. It was my intention to present a method for distributing Function 4 mail processing costs that corresponds with the Postal Service's method except for: (1) the additional use of shape related Q.19 data; and (2) removal of window service related not handling data, which I believe are more appropriate to distribute over the other window service data in cost segment 3.2. Because I did not write the SAS program that implements these changes myself, and because of the short time frame in which this had to be done, the SAS program in MPA-LR-3 actually provides a different treatment of empty container costs with shape related information, as described in your questions above.

To determine the impact of this difference in the treatment of shape-related empty container costs, I have implemented both distribution approaches in the format of a spreadsheet, which is being filed concurrently with this answer as TW-LR-3.

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In the spreadsheet, there is a page for each of the four Function 4 cost pools where there exists a significant amount of Q.19 data (pools LD41, LD42, LD43 and LD44). The final distribution of accrued costs to subclasses and special services, using USPS volume variability assumptions, is in column DJ of each spreadsheet. Control variables in cell DF1 and DF2 let one respectively: (1) choose whether or not to distribute window service costs within the pool, and (2) select whether to distribute related empty container costs within each container type or more broadly over all direct and mixed costs at the given pool (but within shape category when applicable). As can be verified, the approach chosen for distributing the shape related empty container costs has little impact. In either case, the effect of applying the Q.19 information is to reduce Periodicals costs. Distribution of empty container costs within container type as well as shape category appears to lead to slightly lower Periodicals costs in these pools.

- c. Confirmed. Please note that in the spreadsheet calculations described above, shape-related and not-shape-related not handling costs are distributed simultaneously.
-

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-20. With respect to your proposed distribution for the mixed mail and the not-handling tallies in the allied cost pools

- a. Confirm that the allied cost pool mixed mail costs (items and containers, including empty equipment handling) associated with a Q.19 piece distribution operation are distributed over the direct tallies of the corresponding piece-distribution cost pool. If you do not confirm, please explain how these costs are distributed and indicate which SAS program codes are relevant to that distribution.
- b. Confirm that allied cost pool not-handling costs associated with a Q.19 piece distribution operation are distributed over the direct and distributed mixed mail tallies of the corresponding piece distribution cost pool. If you do not confirm, please explain how these costs are distributed and indicate which SAS program codes are relevant to that distribution.
- c. Confirm that none of the direct tallies in the allied cost pools that are associated with a Q.19 piece-distribution operation are used in a. and b. above. If you do not confirm, please explain how those direct tallies are used and indicate which SAS program codes are relevant to that distribution.
- d. Confirm that direct tallies in allied cost pools (including those associated with a Q.19 piece distribution operation) are aggregated with direct tallies for all Function 1 and LDC 79 cost pools (excluding the special service cost pools) to distribute the mixed mail costs that do not have a Q.19 piece-distribution operation association. If you do not confirm, please explain how those direct tallies are used and indicate which SAS program codes are relevant to that distribution.
- e. Confirm that the distribution key for the not-handling costs with no Q.19 shape association includes, in addition to the handling tallies for all Function 1 and LDC 79 cost pools (excluding the special service cost pools), the distributed not-handling tallies with Q.19 shape information in b. above. If you do not confirm, please explain what is included in the distribution key and indicate which SAS program codes are relevant to that distribution.

USPS/TW-T1-20. Confirmed for a-e. When Q.19 data for an allied tally associate it with a particular piece distribution, I assume that the sampled employee actually was working at that piece distribution operation and that the most appropriate distribution key is therefore the direct costs incurred at that operation.

One could argue, as you appear to suggest in subpart c, that allied direct tallies whose Q.19 data indicate a specific shape and sorting technology should be included in the distribution key for corresponding allied mixed mail and not handling tallies. I did not include this in my proposed alternative method for the following reasons.

First, it would make little difference. For example, in USPS LR-I-12 there are 8083 direct MODS tallies where the Q.19 data indicate that sampled employees were working at FSM's. Of those, 7571 tallies (93.7%) show the sampled employees actually clocked into the FSM cost pool. Only 256 tallies (3.2%) show employees clocked into Function 1 allied pools.¹ Obviously, those few tallies will have little impact on the distribution key formed primarily from the FSM direct tallies. On the other hand, distributing allied mixed mail and not handling tallies based on allied direct tallies only, or on all direct tallies, while ignoring information indicating where those employees were actually working, can lead to a considerable distortion.

Second, one might argue that to be consistent with your implied suggestion, the direct tallies in a given piece distribution pool whose Q.19 information indicate that the employees actually were working somewhere else should ideally be removed from the distribution key used for mixed and not handling tallies with corresponding Q.19 data.

Finally, the use of Q.19 data providing shape and sorting technology association for a subset of the allied mixed mail and not handling tallies is only a partial solution to a much bigger problem. Most allied employee time, especially in opening unit and pouching operations, is spent serving the mail that will be sorted or already has been sorted in specific sorting operations. Most of this time is "not handling," and the inability of the IOCS to relate most of that not handling time to the piece operations actually served is one of the major weaknesses of the current costing system. The Q19 data can be used in those instances when allied employees are actually seen at a piece distribution operation, as when the allied employee, for example, brings mail that is ready for piece sorting to an FSM or an OCR. But that only occurs some of the time, and there currently seems to be no way to accurately associate the remaining allied not handling time with specific piece operations.

¹ Similar relationships apply to other piece distribution operations. It is perhaps least clear for the OCR pool. There are 2297 direct MODS tallies where the Q.19 data indicate that the sampled employees were working at an OCR. Of those tallies, 243 (10.6%) indicate that the employees were clocked into allied operations, and only 1517 (66%) indicate that the employee actually was clocked into the OCR pool. Another 476 (20.7%) indicate employees clocked into the BCS pool.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-21. With regard to the "support" pools and "migrated" costs:

- a. On p.41, at lines 17-20, you propose to distribute the direct tallies to the specific subclasses or special services. What volume-variability factors do you apply to those direct tallies?
- b. Please explain how you distribute the costs for the non-direct "migrated" tallies.

USPS/TW-T1-21.

- a. It is my understanding that the SAS program in MPA-LR-3 simply uses the average variability, as calculated by the Postal Service's method, and applies it to both the direct and indirect portions of the support pools.

As explained in the part of my testimony that you refer to, my intent was to assign full volume variability to the direct costs in the "support" pools. That does not reflect a conclusion on my part that these costs necessarily are 100% volume variable but simply the fact that, in witness Van-Ty-Smith's estimates of volume variability for pools where the variability is not determined econometrically, direct costs are assumed to be fully volume variable. See USPS LR-106 at II-40-41, description of program MODIVARB. The non-direct costs in these pools would then have a correspondingly lower variability, due to the presence of many tallies representing activities considered to have fixed costs in the traditional approach to volume variability analysis.

- b. The method of distributing the remaining volume variable "support" pool costs in MPA-LR-3 is essentially the same as in Van-Ty-Smith's program.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-22. Please refer to your testimony at section IV part C, pp.58-62, which discusses your proposed 5digit pallet discount.

- a. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit piece volumes that are currently prepared on 5-digit DSCF pallets and on 5-digit DDU pallets.
- b. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit piece volumes that would be prepared on 5-digit DSCF pallets and on 5-digit DDU pallets if your proposed 5-digit pallet discount was in effect.
- c. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit carrier route piece volumes that are currently prepared on 5-digit DSCF pallets and on DDU pallets.
- d. Please provide the percentages of Periodicals Regular Rate and the percentages of Periodicals Nonprofit carrier route piece volumes that would be prepared on 5-digit DSCF pallets and on 5digit DDU pallets if your proposed 5-digit pallet discount was in effect.
- e. Please provide, by current presortation and containerization, separate Periodicals Regular Rate and Periodicals Nonprofit piece volumes that would migrate to 5-digit DSCF pallets and to 5digit DDU pallets to qualify for your proposed 5-digit pallet discount.
- f. Are you familiar with the proposed DMM rules that require carrier route mail to be on separate pallets from 5digit mail? If so, please explain the impact these rules would have on your proposal.
- g. Please quantify the revenue "leakage" due to your proposed 5digit pallet discount.
- h. What would be the increase in other rate cells for Regular and Nonprofit Periodicals if your 5digit pallet discount was in effect? Please provide all the calculations and the resulting rates.

USPS/TW-T1-22. This interrogatory asks for estimates of what pallet volumes would be under certain hypothetical conditions. I am unable to make such estimates. The Postal Service itself may be in a better position to do so, considering the extensive amount of Mail.dat files and other survey information, provided by mailers, that went into Christensen Associates' recent preparation of the material in USPS LR-I-332. Instead of projections that I am not in a position to make, I discuss below some of the factors most likely to affect future 5-digit pallet volumes.

- a. I assume that by "currently" you mean in BY98. According to the data tabulated in USPS LR-I-87, regular rate pieces entered on 5-digit pallets were 6.56% of total regular rate Periodicals pieces in BY98. The 6.56% included 0.74% on 5-digit

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"automation" pallets. For nonprofit, the percentage on 5-digit pallets was estimated at 5.33%.

According to the entry point estimates tabulated in LR-I-332, which I understand is based on the same Christensen Associates survey as the numbers quoted above, 77.99% of 5-digit pallets are entered at the DSCF and 3.32% at the DDU. That would indicate that the percentages entered on 5-digit pallets at the DSCF and DDU are as follows:

Regular rate: DSCF: 5.12% DDU: 0.22%

Nonprofit: DSCF: 4.16% DDU: 0.177%

- b. I do not have this information. See, however, my comments under subpart e below.
- c. According to the survey data tabulated in USPS LR-I-87, 15.16% of carrier route presorted regular rate Periodicals pieces are entered on 5-digit pallets. Assuming that this is accurate and applying the entry point estimates quoted in my answer to subpart a above, the percent of carrier route presorted regular rate Periodicals pieces that are entered on 5-digit pallets at the DSCF is 11.82%, and the corresponding percentage for DDU entry is 0.5%.

For nonprofit Periodicals, a similar estimating methodology gives 6.86% for DSCF entry and 0.29% for DDU entry.

- d. I do not have this information. See, however, my comments under subpart e below.
- e. I do not have this information. A number of factors are likely to impact the extent of the migration. Some may have an immediate impact and others a more gradual impact.

First, since my proposal specifies that the discount will apply to 5-digit pallets prepared according to Postal Service regulations, and since the Postal Service recently has proposed making those regulations more difficult to comply with, as discussed in subpart f below, it is possible that some mail currently entered on 5-digit pallets will have to migrate back to 3-digit pallets, thereby adding to the Postal

Service's bundle sorting, bundle breakage and other materials handling costs. As explained in my answer to subpart f, I consider this an unfortunate development, but it nevertheless must be considered if one wants to estimate future 5-digit pallet volumes.

Another factor, which may work in the opposite direction, is the recent availability of the L001 list, which allows the combining of mail going to two or more 5-digit zones if the zones are served by the same DDU. This will make feasible many more 5-digit pallets, but I do not know whether it will be enough to outweigh the possible adverse impact of the regulation change discussed above.

Further possible migration will come in the short run from cases where mailers who palletize have between 250 and 500 pounds going to certain 5-digit zones and currently do not elect to make 5-digit pallet to those zones. Because many printers are concerned about the extra work involved in preparing mail on pallets with finer presort, some of the proposed discount will no doubt go towards reimbursing printers for the extra work, which helps avoid Postal Service costs. Printers may need some time to figure out how to organize their work in such a way that they can provide pallets with high presort without incurring substantial extra costs.

In the longer run, a discount for 5-digit pallets will provide added incentives for co-mailing and co-palletization which will increase the potential volume on 5-digit pallets. The discount is also likely to encourage more mailers to bring their carrier route presorted Periodicals directly to the DDU.

- f. I assume you refer to the regulation change proposed in the Federal Register notice dated February 29, 2000 (65 FR 10735) and the amendment to that notice on March 30, 2000 (65 FR 16859). Yes, I am familiar with that proposal. Both notices are very long and difficult to read, but as I understand it the Postal Service essentially proposes no longer to permit carrier route and 5-digit packages to be placed on the same 5-digit pallet, except pallets going to delivery units that still perform their own incoming secondary sortation of flats mail. Presumably, the Postal Service would maintain and continuously update a list of the ZIP codes where this sortation is done at the DDU.

Before discussing how this might affect the 5-digit pallet discount proposed in my testimony, let me point out some serious problems with the proposed regulations.

First, if the Postal Service believes that this change will add significantly to the mail available for automated sorting, it is likely to be disappointed. According to the tabulation in USPS LR-I-87, only 3.1% of the mail on 5-digit regular rate Periodicals pallets is in 5-digit bundles that require incoming secondary sortation. About half of that is non-automation 5-digit mail. Given that only about half of the automation compatible flats requiring incoming secondary sorting actually are sorted on FSM's, the amount of extra mail that the Postal Service will be able to sort by automation through this proposed regulation change is small indeed. Put another way, only 0.37% of the regular rate 5-digit automation mail is entered on 5-digit pallets.

For nonprofit Periodicals, only 1.3% of the mail on 5-digit pallets is in 5-digit bundles. And almost all of that is non-automation mail. Only 0.04% of the 5-digit nonprofit automation mail is on 5-digit pallets.

If one can assume that the LR-I-87 survey data are reasonably accurate, then it is difficult to understand what the Postal Service thinks it will accomplish by the proposed regulation change. Field managers generally appear to want more 5-digit pallets that they can just cross-dock. Some even express willingness to take 5-digit pallets with substantially less than the 250 lb. minimum weight. The available cost data fully support the proposition that more 5-digit pallets will reduce Postal Service costs, and that the small number of 5-digit bundles that might miss the opportunity for automated incoming secondary sorting is insignificant compared with the costs saved by 5-digit palletization.¹

Second, even though the proposal will add very little to the 5-digit volume available for automated sorting, it will in many instances make it difficult for mailers to meet

¹ The preamble to the FR notice claims feedback from both field managers and the Report of the Periodicals Review Team as support for its proposal to require the separation of carrier route and 5-digit bundles on 5-digit pallets. As I recall, the Team heard far more sentiment in favor of increased use of 5-digit pallets than the opposite.

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the weight minimum required to make up a pallet to a particular DDU. The largest impact may occur for heavy magazines. Magazines weighing more than a pound per piece need fewer pieces to a given DDU to meet the weight minimum, but a 5-digit pallet with fewer pieces is more likely to include 5-digit bundles, because there may not be six or more pieces to every carrier route. Disallowing the mixing of carrier route and 5-digit bundles is therefore more likely to affect such magazines. But flats weighing over a pound are, as I understand, unlikely to be sorted on the AFSM-100 machines and more likely to be sent to the FSM-1000 machines, which so far seem to be used little for incoming secondary sortation. Since these magazines are likely to be sorted manually anyway, the net result will simply be increased Postal Service costs.

Simulations on actual mailings performed by Time Inc. have indicated that the greatest loss of ability to make 5-digit pallets will occur for very heavy magazines, e.g., Fortune and In Style. These simulations also indicate that the result will be higher postal costs, even assuming that all the 5-digit mail no longer allowed on 5-digit pallets would receive automated incoming secondary sorting.

While the Postal Service obviously must try to make the fullest use of all its automated equipment, it must also pay attention to where its costs are increasingly concentrated, namely in materials handling functions at platforms and opening units. Denying itself the opportunity to have more mail bypass platform handling and bundle sorting at the DSCF is in my opinion shortsighted.

Nevertheless, my proposal is to provide a discount for 5-digit pallets that comply with all Postal Service regulations. If the new regulations eliminate the 5-digit pallets where the Postal Service is least convinced of real cost savings, there is even more reason to encourage those 5-digit pallets that still are possible.

- g. There will of course not be any net loss of revenue, but I assume you refer to rate design terminology where "revenue leakage" usually means the total amount of a discount. In this case, that is simply two cents multiplied by the volume likely to be on regular rate and nonprofit 5-digit pallets in the test year. A rough estimate can be obtained as follows. Assume that, as estimated in my answer to subpart c above,

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the combined DSCF and DDU 5-digit pallet entry is 12.32% of the regular rate carrier route volume. Assume further that carrier route is 39% of all regular rate volume. With 7.2 billion regular rate pieces per year, a two cent 5-digit pallet discount translates into roughly \$6.9 million per year.

For nonprofit, a similar calculation indicates that the total amount of the discount would be about \$1.6 million per year.

- h. There are several issues that the Commission must settle before it determines Periodicals rates in this docket. There may also be more than one way to fit into the rate schedule a two cents per piece discount for Periodicals flats on 5-digit pallets entered at the DSCF or DDU.

Assume, however, that 12.32% of the regular rate carrier route presorted flats currently are on 5-digit pallets and that it is decided to implement the 5-digit pallet discount for carrier route mail as an adjustment within the carrier route rate category. It can easily be shown that one then would have to raise the rate for carrier route mail not on 5-digit pallets by an amount of $2 \times 0.1232 = 0.2464$ cents per piece over what the rate would otherwise have been. This would be rounded either down to two tenths of a cent or up to three tenths of a cent. For nonprofit carrier route mail, a similar approach would raise the rate for carrier route mail not on 5-digit pallets by 0.153 cents over what it otherwise would have been. This would be rounded either up to two tenths or down to one tenth of a cent.

A similar approach might be used to set the 5-digit pallet discount for 5-digit bundles. But since there currently is very little such mail on 5-digit pallets, there might not need to be any adjustment in other rates.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-23. Please answer USPS/TW-T1-22, subparts a - h above, assuming, for discount eligibility, a required pallet minimum of 250 pounds..

USPS/TW-T1-23. Current pallet regulations require that mailers who palletize make up a pallet with a given presort when there are 500 pounds or more to a given area. Each pallet generally must contain 250 pounds or more. In order for the answers to this interrogatory to differ from the answers to USPS/TW-T1-22, I assume you mean that a mailer who uses pallets and has 250 pounds or more to a given 5-digit area would be required to make up a 5-digit pallet.

If that indeed is the assumption you want me to make, it of course does not affect the answers to the subparts where you ask about current 5-digit palletization (subparts a and c). Nor does it change the fact that I do not have sufficient information to predict what the volume of 5-digit palletization would be. On the other hand, it can be said that the discount I propose in the short run would have no impact on the volume entered on 5-digit pallets, because mailers would essentially have to make up 5-digit pallets each time they had the volume to do so. This would undoubtedly reduce Postal Service costs, but it would be achieved at substantial extra expense to mailers and printers, for which they would not be reimbursed. Large volume mailers would be required to subsidize other mailers to a greater extent than already occurs today.

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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
UNITED STATES POSTAL SERVICE**

USPS/TW-T1-24. Please answer USPSKW-T1-22, subparts a - h above, assuming, for discount eligibility, a required pallet minimum of 500 pounds.

USPS/TW-T1-24. Current pallet regulations require that mailers who palletize make up a pallet with a given presort when there are 500 pounds or more to a given area. Each pallet generally must contain 250 pounds or more. In order for the answers to this interrogatory to differ from the answers to USPS/TW-T1-22, I assume you mean that the Postal Service would only accept pallets containing at least 500 pounds.

If that indeed is the assumption you want me to make, it of course does not affect the answers to the subparts where you ask about current 5-digit palletization (subparts a and c). Nor does it change the fact that I do not have sufficient information to predict what the volume of 5-digit palletization would be. On the other hand, this would reduce sharply the volume that Periodicals mailers would be able to place on 5-digit pallets. It would also cause a considerable increase in the Postal Service's bundle sorting and other materials handling costs. It would be a step backwards both for the Postal Service and the Periodicals industry.

1 CHAIRMAN GLEIMAN: Is there any Additional
2 Designated Written Cross Examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. I thin we established a moment ago that the Postal
6 Service is the only party that wishes to cross examine this
7 witness, but just for the record, let me ask, is there
8 anyone else?

9 [No response.]

10 CHAIRMAN GLEIMAN: There doesn't appear to be.
11 Ms. Duchek, you can proceed when you're ready.

12 MS. DUCHEK: Thank you, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MS. DUCHEK:

15 Q Good afternoon, Mr. Stralberg.

16 A Good afternoon.

17 Q Would you please turn to page 14 of your
18 testimony, Table 3-1?

19 A I have it.

20 Q What was the source for the wage rates contained
21 in that table?

22 A The wage rates, I believe were the payroll summary
23 data filed by the Postal Service. National Payroll Summary
24 Report, Accounting Period 13 for each year.

25 Q Would you now turn to page 23 of your testimony?

1 I am referring specifically to the statement on lines 27 and
2 28, where you indicate that not handling and empty equipment
3 tallies accounted for 6 percent of all IOCS observations in
4 1969, and more than 50 percent in FY '98, is that correct?

5 A That is what it says, yes.

6 Q Is it your testimony that there have not been any
7 changes in IOCS data collection rules since 1969?

8 A No, there have been certain changes.

9 Q In particular, is it your understanding that there
10 have been changes to the data collection rules pertaining to
11 the recording of direct tallies?

12 A Yes, there have been certain changes. Actually, I
13 don't know how that -- whether there was a top piece rule at
14 all in 1969, but it was liberalized a few years ago, so that
15 they would tend to record more tallies as direct tallies.
16 And there may have been certain other changes as well.

17 Q I am referring to, I think, what is known as the
18 snapshot instruction. Are you familiar with that?

19 A Maybe -- I haven't heard that term.

20 Q Okay. It is where data collectors are instructed
21 to take the IOCS reading as a snapshot of the activity they
22 observe at the time of the reading. And this instruction
23 was implemented in the late 1980s. Are you familiar with
24 that?

25 A Yes.

1 Q Okay. Would you please turn to your response to
2 Postal Service Interrogatory Number 2 to you?

3 A Number 2. Okay.

4 Q And I am looking in particular at page 2. And in
5 particular, the sentence beginning, it is about midway
6 through the page, "Obviously, the need for fast unloading is
7 not" -- do you have that?

8 A Yes, I have that.

9 Q Okay. You state there in Number 2, page 2, "The
10 need for fast unloading is not a determining factor for the
11 many vehicles that bring collection mail to an SCF in the
12 late afternoon or early evening." Have you ever seen trucks
13 with collection mail arriving between approximately 6:00 and
14 8:00 p.m. at an older inner city facility with limited yard
15 space and in-bound dock doors?

16 A Yes, there tend to be a lot of vehicles arriving
17 at approximately the same time. And so, in that sense, one
18 obviously has to unload one in order to get to the next one.

19 Q And in those circumstances, have you seen trucks
20 backed up and waiting for a dock door to become available?

21 A Yes, I believe I have seen that happen. Yes.

22 Q We are still on Number 2, page 2, and I believe it
23 is the following sentence, and I am quoting, this following
24 sentence of your response, and I quote, "Nor do I believe it
25 is a consideration when mailers bring in their drop

1 shipments.", end quote. I am assuming the "it" refers to
2 the need for fast unloading of trucks, correct?

3 A Well, it actually refers to the need to unload the
4 trucks so that the trucks can meet their schedule to the
5 next stop. The facility may have a need to unload the truck
6 in order to make space for some other truck. But I am
7 referring to a specific point which I think the
8 interrogatory started with, that certain trucks are on a
9 schedule where they have to -- they stop at one facility and
10 then they have to -- then the trucks have to leave in order
11 to go to the next facility. So, there is a difference
12 between the need of the driver and the need of the facility.

13 Q Have you ever attempted to schedule a drop
14 shipment at a BMC using the drop ship appointment system
15 during the fall mailing season?

16 A I have never worked in any capacity that would
17 enable me to do that.

18 Q Have you heard from mailers anything about how
19 difficult it might be at particular times of the year, such
20 as the fall mailing season, to schedule a drop ship
21 appointment?

22 A I am aware that that is an ongoing process. I am
23 not at all sure what you mean by difficult to schedule.

24 Q Well, would you agree that, in general, when the
25 demand for docks is greater than dock availability, then the

1 trucks have to be unloaded?

2 A Obviously.

3 Q Quickly

4 A Obviously.

5 Q And that this is a benefit to the Postal Service?

6 A Obviously, they want to unload as fast as possible
7 under those circumstances, in order to make room for the
8 next truck that also needs to be unloaded. So, in that
9 case, one would not expect a lot of platform not handling.
10 In other words, you would expect the platform employees to
11 be continuously employed. It is not so clear in cases
12 where, you know, there is one truck and then there is
13 another truck coming sometime later.

14 Q And when there is a backlog of trucks needing to
15 be unloaded, obviously, the fast unloading that is of
16 benefit to the Postal Service is also of benefit to the
17 mailers, is that not correct?

18 A Of course.

19 Q Are you aware that mailers dropping off First
20 Class, Priority or periodicals do not have to have drop ship
21 appointments?

22 A Yes, I understand they don't normally need drop
23 ship appointments.

24 Q And in certain circumstances, this could also
25 contribute to a backlog of trucks needing to be unloaded, is

1 that correct?

2 A Yes. Also, most of the First Class mail tends to
3 arrive at certain times.

4 Q Would you turn now to your responses to Postal
5 Service Interrogatories 3, 4 and 5?

6 A Which one?

7 Q Why don't you take a minute to look at all three
8 of them together, and then we will walk through them one by
9 one?

10 A Okay.

11 [Pause.]

12 THE WITNESS: Well, they all deal with platform
13 costs, or platform handling.

14 BY MS. DUCHEK:

15 Q Would you look specifically -- well, reading all
16 three responses together, is my understanding of your
17 testimony correct that you believe that the percentage of
18 not handling tallies in allied operations is too high?

19 A Yes. It would be, I think, helpful if the Postal
20 Service would find a way to reduce it.

21 Q Would you look specifically at your response to
22 number 3, please?

23 A Okay.

24 Q We had asked you a question about a forklift
25 picking up a pallet, moving it from point A to B, then

1 returning to point A with nothing on its forks. And do you
2 have an opinion in that situation what the proper percent of
3 not handling tallies should be?

4 A No, I really don't. I understand that the
5 question seems to be formulated inviting the answer that the
6 forklift spends 50 percent returning, and that will be not
7 handling, and 50 percent -- 50 percent actually carrying
8 something and 50 percent not carrying something. Then I
9 added that there is, of course, also time spent lifting it
10 up and setting it down and so on, and it is not at all
11 obvious that the time it takes to travel with a heavy load
12 is the same as without a heavy load. So, I don't really
13 know what the percentage is, I think will be less than 50
14 percent.

15 Q Would you look, please, at your response to Number
16 4?

17 A Yes.

18 Q And in that question the Postal Service posited
19 the situation of a platform worker waiting for a truck, and
20 do you have an opinion in that situation of what the proper
21 percent of not handling would be?

22 A Well, you know, the picture of a platform worker
23 waiting for a truck, as if that was all that was going on,
24 one worker waiting for a truck -- that is not really what
25 happens on the platform, of course.

1 Normally, today almost all the trucks are
2 containerized. What comes off the trucks either on pallets
3 or in wheeled containers, and the unloading goes fairly
4 fast.

5 There is additional work to be done after that,
6 after the truck has already been unloaded, that can be done
7 on the platform, so -- for example, they have to take sacks
8 out of BMC containers and distribute them and so on.

9 Ideally the work on the platform should be
10 organized in such a way that there should not be that much
11 "not handling" time except maybe walking from one place to
12 another.

13 Q But you would agree in the situation where a
14 worker is waiting for a truck that that would be not
15 handling?

16 A If he has nothing else to do and all he does is
17 wait for the truck, then obviously he is not handling it, is
18 he?

19 Q Mr. Stralberg, if you believe that the overall
20 percent of not handling for allied operations is too high,
21 do you have an opinion on what the proper overall percent
22 should be?

23 A I believe you asked me that question already, or
24 maybe you asked it just about platforms.

25 I don't really think there is one percentage that

1 one can say should be under all circumstances. Generally
2 it's something one should -- in terms of cost minimization
3 one would obviously try to arrange the work in such a way
4 that people are busy most of the time.

5 Now I did also mention that the Postal Service may
6 want to have additional people available for peak
7 situations.

8 In that case, a facility manager might decide to
9 staff with more people than he really needs most of the time
10 and that would of course lead to some not handling at other
11 times.

12 Q Are you saying that the observed not handling is
13 wrong or just that it could or should be lower?

14 A I am not saying it is wrong. I believe the IOCS
15 actually -- accurately reflects the fact that there is a lot
16 of not handling time.

17 Of course, the real question is how that not
18 handling time should be attributed and distributed.

19 Q Mr. Stralberg, one final question. When you
20 responded before to my first question, which concerned Table
21 3-1 on page 14, you had said that you had used the -- I
22 believe you said you obtained the wage rates from the
23 National Payroll Hour Summary Report.

24 Do you recall if that was the clerk and mail
25 handler composite wage from the National Payroll Hour

1 Summary Report?

2 A I have been collecting statistics on both, both on
3 clerks and mail handlers, and composite. I believe what I
4 have here is a composite number.

5 MS. DUCHEK: Thank you. I have no further
6 questions.

7 CHAIRMAN GLEIMAN: Is there any follow-up?

8 [No response.]

9 CHAIRMAN GLEIMAN: Questions from the bench?

10 [No response.]

11 CHAIRMAN GLEIMAN: If there are no questions from
12 the bench and no follow-up, then it brings us to redirect.

13 Would you like some time with your witness?

14 MR. KEEGAN: No, thank you, Mr. Chairman. We have
15 no redirect.

16 CHAIRMAN GLEIMAN: If that is the case, then Mr.
17 Stralberg, I want to thank you for your appearance here
18 today and your contributions to our record and you are
19 excused.

20 THE WITNESS: Thanks.

21 [Witness excused.]

22 CHAIRMAN GLEIMAN: That concludes today's hearing.

23 We will reconvene tomorrow, Tuesday, the 11th, at
24 9:30 a.m., and we will receive testimony from Witnesses
25 Haldi, Luciani, and -- if I get this wrong today, I'll get

1 it right tomorrow I'm sure -- Witness Ewen -- E-w-e-n -- so
2 somebody can tell me if I have pronounced that wrong and
3 correct me for tomorrow.

4 You have a good afternoon.

5 [Whereupon, at 12:50 p.m., the hearing was
6 recessed, to reconvene at 9:30 a.m., Tuesday, July 11,
7 2000.]

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