

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

**NOTICE OF FILING OF ERRATA TO TESTIMONY AND  
RESPONSE TO INTERROGATORY USPS/NAA-T1-22 OF  
NEWSPAPER ASSOCIATION OF AMERICA  
WITNESS WILLIAM B. TYE**

**July 14, 2000**

The Newspaper Association of America hereby provides the following errata to the testimony of witness Dr. William B. Tye and his interrogatory responses.

Replacement versions of the affected pages are attached.

These errata, with one exception, correct typographical errors. The one exception is the deletion of certain text and an associated footnote from page 25 of Dr. Tye's pre-filed testimony. Parties were previously advised of this change in his response to interrogatory number USPS/NAA-T1-20.

In addition, the response to USPS/NAA-T1-22 is amended by deleting an extraneous word from the quotation from witness Moeller.

The particular errata are shown on the following pages. NAA is filing today corrected pages to Dr. Tye's testimony and interrogatory response.

Respectfully submitted,

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|                   | <b>Page</b> | <b>Line</b>   | <b>Correction</b>   |
|-------------------|-------------|---------------|---|
| Testimony NAA-T-1 |             |               |   |
| ii                |             | Heading IV(A) | Insert "The" between "From" and "Private"                               |
| 9                 |             | 18019         | Change "so unreliable to be useful": to "so unreliable as to be useful" |
| 11                |             | 8             | Change "datapoints" to "costs"  |
| 20                |             | 12-13         | Delete "estimates"  |
| 21                |             | 3-4           | Change "of a 'stealth'" to "of 'stealth'"                               |
|                   |             | 10-11         | Change "coverage cannot" to "coverage test cannot"                      |
| 25                |             | 13            | Delete "sponsored by witness Bernstein" and the accompanying footnote   |
| 26                |             | 10            | Change "that First" to "that the First"                                 |
| 27                |             | n.49          | Change the transcript cite to "Tr. 10/3869"                             |
| 43                |             | 3-4           | Insert "The" between "From" and "Private"                               |
| USPS/NAA-T-22     |             |               | In the third line, delete "direct" from the quotation.                  |

|      |   |    |
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1 distribution key analysis, there is no reason for the Commission to change its R97-1  
2 conclusion that:

- 3 • "Review of the evidence suggests that the Service's cost-weight  
4 study is not sufficiently reliable to support a substantial reduction  
5 in the pound rate."<sup>13</sup>
- 6 • "Rate reductions not firmly supported by reliable cost evidence  
7 that may jeopardize the visibility [viability] of small businesses,  
8 such as the alternative delivery services represented by AAPS,  
9 are not consistent with 39 U.S.C. § 3622(b)(4)."<sup>14</sup>
- 10 • "The Commission finds the lack of a reliable cost-weight study to  
11 be singularly frustrating. The Service has submitted the same  
12 basic cost study to the Commission since 1982, despite  
13 Commission requests for a more comprehensive analysis."<sup>15</sup>

14 Ms. Daniel's current distribution analysis is more of the same. Her improvement, while  
15 a step in the right direction, is insufficient to cause unreliable data to become reliable.

16 **2. Ms. Daniel herself admits her data are unreliable**

17 It is not surprising that witness Moeller does not place great reliance on the Daniel cost  
18 data. Indeed, witness Daniel herself concedes that her data are so unreliable as to be  
19 useful only for a broad view: "They are not necessarily intended to be an exact  
20 quantification of costs for every individual weight increment," but only provide "a general  
21 indication of the effect weight has on total volume variable costs."<sup>16</sup> She further notes  
22 that "[t]hus, while it is possible to analyze the data for guidance in rate design, it is

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<sup>12</sup> PRC R97-1 Opinion at page 402.

<sup>13</sup> PRC R97-1 Opinion at page 399.

<sup>14</sup> PRC R97-1 Opinion at page 403.

<sup>15</sup> PRC R97-1 Opinion at page 402.

<sup>16</sup> Daniel Testimony (USPS-T-28) at 3.

1 First, more tallies were recorded at that weight level than at lesser weights.<sup>20</sup> Thus the  
2 cost numbers in the 15-16 ounce weight category for ECR have greater support than  
3 those in many of the other heavy weight increments. Ms. Daniel suggested on cross-  
4 examination that the higher unit costs observed at the 15-16 ounce may be due to the  
5 influence of factors other than weight (e.g., transportation costs),<sup>21</sup> but this makes no  
6 sense. Her own data show increased mail handling costs to be the source.<sup>22</sup>

7 Closer examination of the rate schedules further suggests that at least part of the  
8 reason for high costs at higher weight levels is a discontinuity in rates between  
9 Standard A and Standard B. At 15-16 ounces and below, pieces are much cheaper to  
10 mail as Standard A than pieces weighing slightly over sixteen ounces, which must be  
11 mailed parcel post. This creates an incentive for mailers to lighten their pieces slightly  
12 to obtain a lower rate. This effect may result in more tallies in the 15-16 ounce range,  
13 which Ms. Daniel's analysis would suggest are very high cost pieces.

14 Furthermore, as shown in the figures below, all of the Standard A subclasses show  
15 rapidly increasing costs at the highest weights. The fact that every subclass shows this  
16 same pattern implies that it is not simply the result of sampling error arising from the low  
17 volume of traffic at the highest weight bracket, as the Postal Service intimates.<sup>23</sup> If it  
18 were sampling error, I would expect to see some subclasses to have very high costs

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<sup>20</sup> See Tr. 4/1306-1309, 1342-1344 (Daniel).

<sup>21</sup> See Tr. 4/1292-1293 (Daniel).

<sup>22</sup> See Library Reference USPS-LR-I-92, Section 2.

<sup>23</sup> See Tr. 4/1293-1294 (Daniel).

| <b>Cost Coverages for Piece-rated vs. Pound-rated<br/>First Class Single Piece</b> |                     |                          |                      |                    |                          |                      |
|--|---------------------|--------------------------|----------------------|--------------------|--------------------------|----------------------|
|  | <b>Before Rates</b> |                          |                      | <b>After Rates</b> |                          |                      |
|  | Unit<br>Revenue     | Daniel's<br>Unit<br>Cost | Implicit<br>Coverage | Unit<br>Revenue    | Daniel's<br>Unit<br>Cost | Implicit<br>Coverage |
| Piece-rated  | 0.33342             | 0.2024                   | 164.7%               | 0.34350            | 0.2024                   | 169.7%               |
| Pound-rated  | 0.94007             | 0.5082                   | 185.0%               | 0.97556            | 0.5082                   | 192.0%               |
| Difference   |                     |                          | -20.2%               |                    |                          | -22.3%               |
| Source: Tye Workpapers.  |                     |                          |                      |                    |                          |                      |

1

2 This could call for a *reduction* in the extra ounce charge to bring the cost coverages  
3 closer together. However, the Postal Service has actually proposed a 1 cent increase  
4 in the extra ounce charge from 22 cents to 23 cents. The Postal Service's proposal  
5 increases the differential in cost coverage from 20.2 percentage points to 22.3  
6 percentage points.

7

### **3. Witness Moeller does not apply his cost coverage "test" to nonprofit subclasses**

8

9 In addition to the above examples, it should be noted that the cost coverage  
10 comparison is not discussed at all for Standard A Nonprofit ECR. In the Nonprofit ECR  
11 subclass, witness Moeller has proposed an increase in the pound rate.

12

13

14

15

<sup>38</sup> Tolley Testimony (USPS-T-6) at 148.

1 Standard A subclasses, and pound rate increases in what are perceived to be less  
2 competitive Standard A subclasses. Although he denies any competitive rationale for  
3 his proposed pound rate changes, his proposals certainly conform to a pattern of  
4 "stealth" competitive reductions.

5 It is readily apparent that witness Moeller presents the cost coverage comparison as  
6 evidence for a reduction in the ECR pound rate only when it coincidentally "illuminates"  
7 results that appear to support his proposal. Consistent application of the test across  
8 the rate proposals of witnesses Moeller and Fronk would give wildly different  
9 implications for the extra ounce and pound rates. Since Postal Service witnesses do  
10 not consistently use this test to support their rate proposals, the cherry-picked ECR cost  
11 coverage test cannot be a reliable basis for rate design.

12 ***D. Postal Service Witnesses Use Inconsistent Approaches To***  
13 ***Setting Rates For Heavier Mail***

14 Witness Fronk's proposals for the extra ounce in First Class mail and witness Moeller's  
15 proposed pound rate reductions in commercial Standard A stand in stark contrast to  
16 each other and illustrate the *ad hoc* nature of the Postal Service's approach to pricing  
17 heavier mail. There is no consistent approach; rather, data and analyses are  
18 expediently structured to support proposals. The rate proposals conform to a pattern of  
19 an enterprise seeking to use rate levels and rate design to shift volume from private  
20 enterprise competitors and to finance these rate structures with revenues from mail  
21 legally protected from competition.



1           **A. The Postal Service Is Proposing A Decrease In The Cost**  
2           **Coverage Of ECR Mail**

3       Witness Mayes at times appears confused as to whether she is, in fact, proposing to  
4       reduce the cost coverage of ECR mail. This confusion arises from the Postal Service's  
5       proposal to change the volume variability of large segments of costs, which results in  
6       increasing the overall system-wide cost coverage. Ms. Mayes does ultimately,  
7       however, concede that "the cost coverage being proposed in this case represented a  
8       higher markup but a lower markup index than did the Commission's recommendation in  
9       Docket No. R97-1."<sup>45</sup>

10       In fact, the Postal Service's proposals do represent a material reduction in cost  
11       coverage when compared with the Commission's R97-1 recommended markup, as the  
12       Postal Service's own direct case shows. The table below provides data from Library  
13       Reference USPS-LR-I-149.<sup>46</sup> Column A gives the cost coverages recommended by the  
14       Commission in Docket No. R97-1. Column C gives the cost coverages proposed by  
15       Postal Service witness Mayes, which "[reflect] Postal Service costing methodologies at  
16       the Postal Service's R2000-1 proposed rates."<sup>47</sup> Column B gives "normalized" cost  
17       coverages "reflecting PRC costing methodologies at

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(Mayes).

<sup>45</sup> See Tr. 11/4335-4336 (Mayes).

<sup>46</sup> [Footnote deliberately left blank – per July 14, 2000 correction].

<sup>47</sup> USPS-LR-I-149.

1 the Postal Service's R2000-1 proposed rates."<sup>48</sup> Columns A and B provide an apples-  
 2 to-apples comparison, as both those columns use a consistent costing methodology.

### Cost Coverages

|                        | PRC<br>Recommended<br>Cost Coverage<br>using PRC<br>Methodology<br>R97-1<br>(A) | USPS Proposed<br>Cost Coverage,<br>using PRC<br>Methodology<br>R2000-1<br>(B) | USPS Proposed<br>Cost Coverage,<br>using USPS<br>Methodology<br>R2000-1<br>(C) |
|------------------------|---|---|--|
| Standard Mail A        |   |   |  |
| Regular                | 134.6%  | 122.5%  | 132.9%   |
| Enhanced Carrier Route | 203.0%  | 195.8%  | 208.8%   |
| Total Mail & Services  | 155.3%  | 154.2%  | 168.0%   |

3 Source: USPS-LR-I-149.

4 This readily shows that the Postal Service's proposed ECR rates in fact have a lower  
 5 cost coverage than recommended by the Commission in Docket No. R97-1, when  
 6 properly normalized. This result is consistent with the Postal Service's explicit desire to  
 7 reduce ECR cost coverage, which it believes to be too high.

8 At the same time, the Postal Service is proposing to shift more of the institutional cost  
 9 burden to a monopoly subclass (First Class) from a competitive subclass (ECR).

10 Ms. Mayes confirms that the First Class markup index is going up at Tr. 11/4347-48  
 11 (Mayes). She argues "the shift of some of this institutional burden to First-Class Mail,  
 12 particularly in view of the relatively small increase in First-Class Mail rates, was not  
 13 viewed as unfair." Tr. 11/4350 (Mayes). Note that the effect of this shift is that the First

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<sup>48</sup> USPS-LR-I-149.

1 Class share of non-volume variable costs has increased from the Postal Service's R97-  
2 1 proposal of 62 percent to the current proposal of 64 percent. Tr. 11/4351 (Mayes).  
3 This shifting of the institutional cost burden to a monopoly class is unjustified, and is  
4 something this Commission should not tolerate.

5 **B. The Low Proposed ECR Cost Coverage Creates Serious Rate**  
6 **Design Anomalies, As The Postal Service Tries To Maintain**  
7 **Desired Rate Relationships**

8 As noted above, despite recognizing the importance of establishing rate relationships  
9 that account for migrations across rate categories and encourage efficient mailer  
10 worksharing, witness Moeller proposes numerous rate anomalies that violate these  
11 principles.

12 Mr. Moeller claims that the anomalous passthroughs that he proposes are unavoidable  
13 consequences of adhering to the cost coverages which he takes as given from Witness  
14 Mayes.<sup>49</sup> In fact, the low cost coverage for ECR together with a desire to provide a  
15 proper incentive for ECR Basic Mail to convert to 5-digit Regular Automation mail make  
16 it impossible in this proposal to implement a rational discount structure for Standard A  
17 mail based on presort tiers.

18 **1. *Witness Moeller incorrectly blames the passthrough***  
19 ***anomalies on a need to maintain desired rate***  
20 ***relationships***

21 Mr. Moeller has proposed some passthroughs in this case that are simply astounding.  
22 The table on the next page shows witness Moeller's proposed passthroughs in R97-1,

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<sup>49</sup> See Tr. 10/3869 (Moeller).

1 targeting private competitors by lowering the cost coverage for ECR mail as well as the  
2 pound rate.

3 **A. Reducing The Pound Rate Will Increase Diversion Of Mail**  
4 **From The Private Sector, Which Witnesses Mayes And**  
5 **Moeller Ignore**

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6 Witness Moeller states "Despite the reduction in the pound rate, the percentage price  
7 change for pound-rated pieces is positive." This statement is seriously misleading, as it  
8 does not display how many weight categories of ECR mail will experience a net  
9 decrease in rates. The proposed decrease in the pound rate to 58.4 cents will result in  
10 drops in rates for many of the heavier-weight ECR categories. In fact, some ECR  
11 pound-rated mail is proposed to have their rates decreased by as much as 12.2% (as in  
12 the case of 16 ounce high density DDU pieces). See the table below.

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media." Also, at Tr. 10/3882, he states: "The lower pound rate is not intended to divert business from other entities involved in the delivery of advertising."

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE  
(revised July 14, 2000)

USPS/NAA-T1-22. Please see your testimony at page 27, footnote 49. Please provide the passage in the citation and highlight that portion of the quotation that addresses your contention that "Mr. Moeller claims that the anomalous passthroughs that he proposes are unavoidable consequences of adhering to the cost coverages which he takes as given from Witness Mayes."

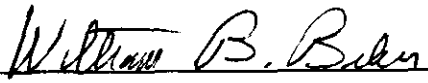
RESPONSE:

The correct reference is to NAA/USPS-T35-12 (Tr. 10/3869), where witness Moeller states, "The selection of the target coverage for ECR is beyond the scope of my testimony... The rate relationship can be maintained through a combination of passthrough selections in the ECR and Regular subclass, and cost coverage assignment in the ECR subclass."

**CERTIFICATE OF SERVICE**

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

July 14, 2000

  
\_\_\_\_\_  
William B. Baker