1 BEFORE THE
POSTAL RATE COMMISSION

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

5 Third Floor Hearing Room
Postal Rate Commission
6 1333 H Street, N.W.
Washington, D.C 20268

7

8 Volume XXX
9 Tuesday, July 18, 2000

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

12

13

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

17

18

19

20

21

22

23

24

25

1 APPEARANCES:

On behalf of the National Association of Letter
2 Carriers, AFL-CIO:
KEITH SECULAR, ESQ.
3 Cohen, Weiss & Simon
330 W. 42nd Street
4 New York, NY 10036

5 On behalf of the Newspaper Association of America:
ROBERT J. BRINKMANN, ESQ.
6 Newspaper Association of America
429 14th Street, NW
7 Washington, DC 20045

8 WILLIAM B. BAKER, ESQ.
Wiley, Rein & Fielding
9 1776 K Street, NW, Suite 1100
Washington, DC 20006
10
On behalf of the National Association of Presort
11 Mailers:
HENRY A. HART, ESQ.
12 Reed, Smith, Shaw & McClay, LLP
1301 L Street, NW
13 East Tower, Suite 1100
Washington, DC 20005
14
On behalf of the Classroom Publishers Association:
15 STEPHEN F. OWEN, JR., ESQ.
5335 Wisconsin Avenue, NW
16 Suite 920
Washington, DC 20015
17
On behalf of OCA-PRC:
18 KENNETH E. RICHARDSON, ESQ.
EMMETT RAND COSTICH, ESQ.
19 SHELLEY S. DREIFUSS, ESQ.
TED P. GERARDEN, DIRECTOR
20 Office of the Consumer Advocate
Public Rate Commission
21 1333 H Street, NW
Washington, DC 20005
22
On behalf of Hallmark Cards, Incorporated:
23 DAVID F. STOVER, ESQ.
SHELDON BIERMAN, ESQ.
24 2970 S. Columbus Street, Suite 1B
Arlington, VA 22206
25

1 APPEARANCES: (continued)
On behalf of ADVO, Incorporated; and the
2 Saturation Mail Coalition:
JOHN M. BURZIO, ESQ.
3 THOMAS W. McLAUGHLIN, ESQ.
Burzio & McLaughlin
4 1054 31st Street, NW, Suite 540
Washington, DC 20007
5
On behalf of the American Postal Workers Union,
6 AFL-CIO:
SUSAN L. CATLER, ESQ.
7 O'Donnell, Schwartz & Anderson, P.C.
1300 L Street, NW, Suite 1200
8 Washington, DC 20005

9 On behalf of the American Bankers Association:
IRVING D. WARDEN, ESQ.
10 1120 Connecticut Avenue, NW
Washington, DC 20036
11 On behalf of the Amazon.com:
WILLIAM B. BAKER, ESQ.
12 Wiley, Rein & Fielding
1776 K Street, NW, Suite 1100
13 Washington, DC 20006

14 On behalf of the Association of American
Publishers:
15 MARK PELESH, ESQ.
JOHN PRZYPYSZNY, ESQ.
16 Drinker, Biddle & Reath, LLP
1500 K Street, NW, Suite 1100
17 Washington, DC 20005

18 On behalf of the Alliance of Nonprofit Mailers;
American Library Association:
19 DAVID M. LEVY, ESQ.
CHRISTOPHER T. SHENK, ESQ.
20 Sidley & Austin
1722 Eye Street, NW
21 Washington, DC 20006

22 On behalf of the McGraw-Hill Companies,
Incorporated:
23 TIMOTHY W. BERGIN, ESQ.
Squire, Sanders & Dempsey, LLP
24 P.O. Box 407
Washington, DC 20044
25

1 APPEARANCES: (continued)
On behalf of the American Business Press:
2 DAVID STRAUS, ESQ.
MERCIA ARNOLD, ESQ.
3 Thompson, Coburn
700 14th Street, NW, Suite 900
4 Washington, DC 20005

5 On behalf of the Florida Gift Fruit Shippers Association:
6 MAXWELL W. WELLS, JR., ESQ.
Maxwell W. Wells, Jr., PA
7 14 E. Washington Street, Suite 600
Orlando, FL 32802
8
On behalf of the Association for Postal Commerce;
9 Pitney-Bowes and the Recording Industry Association; R.R. Donnelly & Sons Company:
10 IAN D. VOLNER, ESQ.
FRANK WIGGINS, ESQ.
11 HEATHER McDOWELL, ESQ.
Venable, Baetjer, Howard & Civiletti
12 1201 New York Avenue
Washington, D.C. 20005
13
On behalf of the Direct Marketing Association:
14 DANA T. ACKERLY, ESQ.
GERARD N. MAGLIOCCA, ESQ.
15 Covington & Burling
1201 Pennsylvania Avenue, NW
16 Washington, D.C. 20004

17 On behalf of Time Warner, Inc.:
JOHN M. BURZIO, ESQ.
18 TIMOTHY L. KEEGAN, ESQ.
Burzio & McLaughlin
19 1054 31st Street, NW, Suite 540
Washington, DC 20007
20
On behalf of ValPak Direct Marketing Systems,
21 Inc.; ValPak Dealers Association, Inc.; Carol Wright Promotions, Inc.; Association of Priority
22 Mail Users, Inc.; District Photo, Inc.; Cox Sampling; and Mystic Color Lab:
23 WILLIAM J. OLSON, ESQ.
JOHN S. MILES, ESQ.
24 William J. Olson, PC
8180 Greensboro Drive, Suite 1070
25 McLean, VA 22102

1 APPEARANCES: (continued)
On behalf of the United Parcel Service:
2 JOHN E. McKEEVER, ESQ.
WILLIAM J. PINAMONT, ESQ.
3 Piper, Marbury, Rudnick & Wolfe, LLP
3400 Two Logan Square
4 18th & Arch Streets
Philadelphia, PA 19103
5
On behalf of the Dow Jones & Company, Inc.:
6 MICHAEL F. McBRIDE, ESQ.
BRUCE W. NEELY, ESQ.
7 JOSEPH FAGAN, ESQ.
LeBoeuf, Lamb, Greene & MaCrae, LLP
8 1875 Connecticut Avenue, NW, Suite 1200
Washington, DC 20009
9
On behalf of the Parcel Shippers Association; and
10 E-Stamp Corporation:
TIMOTHY J. MAY, ESQ.
11 Patton Boggs, LLP
2550 M Street, NW
12 Washington, D.C. 20037

13 On behalf of Stamps.com:
DAVID P. HENDEL, ESQ.
14 Wickwire Gavin, P.C.
8100 Boone Boulevard, Suite 700
15 Vienna, VA 22182

16 On behalf of the National Newspaper Association;
and the Professional Football Publication
17 Association:
TONDA F. RUSH, ESQ.
18 King & Ballow
6054 N. 21st Street
19 Arlington, VA 22205

20 On behalf of Key Span Energy; Long Island Power
Authority; and Major Mailers Association:
21 MICHAEL W. HALL, ESQ.
34693 Bloomfield Avenue
22 Round Hill, VA 20141

23 On behalf of the Mail Advertising Services
Association International; and Smart Mail, Inc.:
24 GRAEME W. BUSH, ESQ.
Zuckerman, Spader, Goldstein, Taylor & Kolken, LLP
25 1201 Connecticut Avenue, NW
Washington, DC 20036

1 APPEARANCES: (continued)
On behalf of the Coalition for Religious Press
2 Associations:
JOHN STAPERT, ESQ.
3 1215 17th Street, NW
Washington, D.C. 20036
4
STEPHEN FELDMAN, ESQ.
5 Law Offices of Stephen M. Feldman
601 Pennsylvania Avenue, NW
6 Building SJE 900
Washington, D.C. 20004
7
On behalf of the Magazine Publishers of America:
8 JAMES CREGAN, ESQ.
ANNE NOBLE, ESQ.
9 Magazine Publishers of America
Suite 610
10 1211 Connecticut Avenue, NW
Washington, D.C. 20036
11
JAMES PIERCE MYERS, ESQ.
12 1617 Courtland Rd.
Alexandria, VA 22306
13
On behalf of the Mail Order Association of
14 America:
DAVID TODD, ESQ.
15 Patton Boggs L.L.P
2550 M Street, NW
16 Washington, D.C.

17 On behalf of Continuity Shippers Association:
AARON C. HOROWITZ, ESQ.
18 Cosmetique
200 Corporate Woods Parkway
19 Vernon Hills, Illinois 60061

20 On behalf of the Greeting Card Association:
ALAN R. SWENDIMAN, ESQ.
21 Jackson & Campbell, P.C.
1120 Twentieth Street, NW
22 Suite 300 South
Washington, D.C. 20036-3427
23
On behalf of USPS:
24 MARK W. RO, ESQ.
United States Postal Service
25 475 L'Enfant Plaza, SW
Washington, D.C. 20260-1127

1 On behalf of AISOP:
DONNA HANBERY, ESQ.
2 Hanbery, Neumeyer & Carney, P.A.
3725 Mulitifood's Tower
3 Minneapolis, MN 55402

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1 C O N T E N T S

WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
REVERAND ALVIN HORTON				
BY MR. FELDMAN	14341			
ORLANDO BARO				
BY MS. HANBERY	14369			
JOHN STAPERT				
BY MR. FELDMAN	14429		14525	
BY MR. REITER		14484		
RICHARD SMITH				
BY MS. HANBERY	14526			
WILLIAM TYE				
BY MR. BAKER	14685		15002	
BY MR. MCLAUGHLIN		14874/14993		
BY MR. TODD		14904/14982/14997		15003
BY MR. ALVERNO		14908		
BY MR. OLSON		14951/14996		

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Designated Written Cross Examination of Joseph E. Ball	14315
Additional Designated Written Cross Examination of Joseph E. Ball, USPS/FGFSA-T1-8	14328
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Designated Written Cross-Examination of Richard Smith	14537
Direct Testimony of Stephen E. Siwek	14556
Designated Written Cross-Examination of Stephen E. Siwek	14654
Written Direct Testimony of William B. Tye, NAA-T-1	14686
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Advo-XE-NAA-T1-1	14898
NAA-T-1-Tye	14944

1 E X H I B I T S

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1 P R O C E E D I N G S

2 [9:31 a.m.]

3 CHAIRMAN GLEIMAN: Good morning. We continue our
4 hearings to receive the direct cases of participants other
5 than the Postal Service in Docket R2000-1.

6 This morning we will begin by receiving the
7 testimony of Florida Gift Fruit Shippers Associations,
8 Witness Ball.

9 Mr. Ball was scheduled to testify on Friday, July
10 14th, but was taken ill. Counsel for the Postal Service and
11 United Parcel Service, both of whom had intended to conduct
12 oral cross examination, had agreed to submit additional
13 written questions for Witness Ball, in lieu of oral cross
14 examination.

15 To his credit, Mr. Ball managed to provide
16 responsive, or what I believe are responsive answers
17 yesterday. The Commission wants to publicly acknowledge its
18 appreciation to all the parties involved for their response
19 to this unfortunate situation.

20 And it is my understanding that no party will need
21 to cross examine Mr. Ball, orally, today, and that hopefully
22 he has recovered by now at home in Florida. We will proceed
23 in that manner.

24 Does any participant have another matter that they
25 would like to raise before we proceed?

1 [No response.]

2 CHAIRMAN GLEIMAN: We have seven witnesses
3 schedule to appear today. They are Witnesses Horton,
4 Stapert, Prescott, Smith, Baro, Siwek, and Tye. No
5 participant has submitted a request to orally cross examine
6 four of these seven witnesses, and is our practice, we will
7 introduce the written testimony of these witnesses before we
8 receive the testimony that is subject to cross examination.

9 As I mentioned before, the first order of business
10 is to receive the testimony of Witness Ball. Mr. Wells, do
11 you have two corrected copies of the Direct Testimony of
12 Joseph E. Ball, and an appropriate declaration of
13 authenticity?

14 MR. WELLS: Yes, Mr. Chairman, I have two copies
15 of the Direct Testimony of Joseph E. Ball, marked FGFSA-T-1,
16 with an appropriate declaration attached. With that, I will
17 hand two copies to the Reporter, and ask that it be received
18 into evidence.

19 CHAIRMAN GLEIMAN: Is there any objection?

20 [No response.]

21 CHAIRMAN GLEIMAN: Hearing none, the testimony of
22 Joseph E. Ball will be received into evidence. Mr. Wells,
23 if you would please provide two copies to the Reporter, I
24 will direct that it be transcribed into the record and
25 received into evidence at this point.

1 [Written Direct Testimony of Joseph
2 E. Ball, FGFSA-T-1, was received
3 into evidence and transcribed into
4 the record.]
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BEFORE THE

POSTAL RATE COMMISSION

DOCKET NO. R2000-1

Postal Rate and Fee Changes, 2000

TESTIMONY

OF

JOSEPH E. BALL

In Behalf of

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

MAXWELL W. WELLS, JR., ATTORNEY
MAXWELL W.WELLS, JR., P.A.
POST OFFICE BOX 3628
14 EAST WASHINGTON ST., SUITE 600
ORLANDO, FLORIDA 32802

Due Date: May 22, 2000

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DIRECT TESTIMONY OF JOSEPH E. BALL

I. IDENTIFICATION OF WITNESS

My name is Joseph E. Ball and I am the Executive President of Florida Gift Fruit Shippers Association, 521 North Kirkman Road, Orlando, Florida 32808-7645.

I received my Bachelor's Degree in zoology (pre-med) University of Arkansas in 1964 and a MBA in Personnel ministration from George Washington University in 1969.

I am a retired Captain, United States Naval Reserve.

From 1970 to 1982 I was employed with the Housing Division, University of Florida, Gainesville, Florida, and served as its Business Manager from 1976.

I have worked with the Florida Gift Fruit Shippers Association since 1982, serving as Associate Vice President until 1988, at which time I was elected as Executive Vice President of the Association I have served in that capacity to the present time.

I am a member of the Board of Directors of Parcel Shippers Association. I served as Chairman of the Parcel Sub Group of the Competitive Services Task Force and presently serve as a member of the parcels sub-committee of the Mailers Technical Advisory Committee, both of which were organized by the Postal Service. I previously appeared before the Postal Rate Commission as a witness in Dockets R90-1, MC93-1, and R97-1.

My duties and responsibilities have involved all aspects of transportation matters pertaining to gift fruit shipments and my work has included development of charges and rates for pickup, handling, line haul and delivery at destination. I participated with officials of the Postal Service, Canada Post and United Parcel Service in the

development of rates and charges for use in connection with the truck program administered by the Association (the truck program is described hereinafter) My duties include the general supervision and direction of the entire truck program of the Association.

The truck program presently administered by the Association was initiated in 1968 under the direction and supervision of William A. Stubbs, who was Executive Vice President of the Association from 1951-1988 and who now serves as Transportation Consultant to the Association.

II. IDENTIFICATION OF INTERVENORS

Florida Gift Fruit Shippers Association is a cooperative, the members of which are shippers of fresh citrus from Florida in gift packages.There are approximately 112 shipper members. The Association represents the industry in all matters dealing with transportation in the conduct of the gift fruit business. The Association also maintains and operates a transportation program to handle products for members of the Association. This transportation program is hereinafter referred to as the "truck program."

III. DESCRIPTION OF INDUSTRY

The gift fruit industry is a part of the Florida citrus industry and approximately 3,000,000 gift fruit packages are shipped from Florida during each fruit season, which runs from November to May. Gift fruit shipments essentially provide for delivery of quality fruit direct from the grove to the consumer. Sales result from mail orders,

1 tourists and vacationers in Florida, regular shipments by gift or purchase, Christmas
2 gifts by businesses and individuals, and other similar occasions. Marketing methods
3 and practices are varied, with no uniformity among all shippers. Marketing will differ
4 according to the sales method, location of point of sale, type of customer, and many
5 other factors.

6 Shipments of gift fruit are made in many different types of packages. These
7 depend on the type of fruit -- variety, straight or mixed, or size -- type of package --
8 carton, basket, wrapped or tray -- and type of content -- plain fruit, fancy or deluxe
9 combination. For shipment, however, all packages are standardized in rectangular
10 cartons of corrugated or fiberboard.

11 Generally, the shipment of fresh fruit may be separated into eight size
12 categories: 7 lbs., 10 lbs., 13 lbs., 15-18 lbs., 20 lbs., 26 lbs., 35 lbs., and 44 lbs.

13 The average weight per package of shipments of Florida gift fruit is
14 approximately 25 lbs. About 50% of the packages are over 20 lbs., with the 26 lb
15 .package accounting for approximately 22% of the total.

1 IV. TRANSPORTATION OF GIFT FRUIT PACKAGES

2 Florida gift fruit packages are shipped from Florida to destinations throughout
3 the United States and Canada with some shipments to European destinations. Pricing
4 by each shipper is varied with no uniformity.

5 For many years, gift fruit packages were shipped from Florida direct to the
6 consumer via Railway Express and the successor R.E.A. Agency. The service
7 provided by rail deteriorated with the result that delivery time worsened and damage
8 claims increased, with a higher degree of customer dissatisfaction. The deterioration in
9 service was coupled with continuing increase in rates. These factors contributed
10 substantially to the necessity for the development of a substitute method of
11 transportation. From this, the Association sponsored and developed what has
12 become a very efficient truck program.

13 The truck program carried on by the Association for the benefit of its members
14 may be divided into essentially four components; the pickup, classification and sorting,
15 the line haul, and destination delivery.

16 The Association provides pickup service as a part of the truck program for
17 ninety-eight of the members of the Association. Pickup service is provided throughout
18 the citrus-growing areas of Florida, which essentially include all of Central and South
19 Florida. Pickup service is provided by over-the-road tractor-trailer units or trucks,
20 which are routed to each member as required. The shipper marks each package with a
21 route number designated by the Association. After pickup, all packages are delivered
22 to the terminal facility maintained by the Association in Orlando.

23 At the Orlando terminal facility, all packages are unloaded on a conveyer and

1 sorted by route number in approximately twenty-two bays in the building. Packages for
2 a particular route number may be accumulated within a bay until a sufficient number of
3 packages are received or they may be direct loaded onto a trailer for the line haul
4 portion of the movement.

5 As each parcel is sorted into a bay, it is placed on a scale to determine weight.
6 While on the scale, the operator keys in the zip code from the parcel address and
7 electronically scans the bar code on the parcel reflecting the member number. The
8 computer calculates the appropriate rate for the parcel based on the zip code and
9 weight. This would include rating for intra-BMC, inter-BMC or DBMC. This process
10 includes an automatic classification between non-machinable and machinable parcels.
11 The computer then generates a label to be affixed to the parcel, which would include a
12 bar code for the parcel identification number and identification as to whether the parcel
13 is a DBMC rate or a schedule 400 rate. A second label is affixed to each parcel
14 destined for delivery in Arizona, California or Texas to show that the parcel was
15 processed in accordance with agricultural requirements concerning fumigation.

16 From the scale, each parcel is either loaded directly into an out-bound trailer or
17 placed on the floor in a bay for later loading into the trailer. For the parcels loaded on
18 each trailer, a postal Form 8125 is prepared, along with a bill of lading.

19 Since the 1992-1993 season, the Association has participated with the Postal
20 Service in a program for the determination of postage, which is referred to as the plant
21 verified drop ship program. The Postal Service sends a team of inspectors to the
22 Association's office to inspect, review and approve the system utilized by the
23 Association in the determination of postage for the parcels handled through the

terminal. This inspection includes the computer hardware and software programs, the rate schedule, and the quality control program designed to assure a correct determination of postage. This entire system was reviewed and approved prior to the beginning of the season and has been spot-checked by postal inspectors periodically to verify the operation and the sufficiency of the quality control verification.

In lieu of a printed manifest, the Association provides to the Orlando SCF a computer-generated floppy disk which reflects a manifest for each truck which has been loaded that day. The disk includes: the manifest number, the date and the truck number, and for each parcel, the parcel identification number, zip code, weight and postage. The total amount of postage is paid by check which accompanies the floppy disk.

Line haul transportation from the Orlando terminal to the point of destination delivery is provided by over-the-road tractor-trailer units. Transportation from Orlando to final destination city is a flat rate per trailer regardless of weight. Trailer loading usually approximates 41,200 lbs. with an average of 1,603 packages per trailer. For the 1999-00 season, typical flat rates per trailer to destinations in various post office zones are: Zone 5-$1,060 to $1,663; Zone 8-$3,034 to $3,922. In addition, there is a stopoff charge of $30.00 for stops for partial unloading enroute. Partial unloadings may be as many as six on a trip, but the average is less than three. As a general rule, the minimum number of packages to establish a stopoff for partial unloading is seventy-five.

Some of the larger shippers (members of the Association) have sufficient volume to certain destinations, mainly during December, to enable them to ship direct to

1 destination delivery facilities. The procedure used by the individual shipper is similar to
2 that described for the Association. Direct shipment is desirable since it reduces the
3 costs of delivery, time in transit and the number of handlings.

4 Destination delivery in the U.S.A. is accomplished by USPS using fourth class
5 parcel post. For destinations outside of continental U.S.A., delivery is by priority mail,
6 except in Canada, where destination delivery is by Canada Post. European delivery is
7 made by various carriers.

8 Factors taken into consideration of the selection of destination delivery points
9 are to use the respective local zone rate, if possible, to avoid higher zone rates, to
10 avoid the additional handling involved in an inter-BMC movement and to expedite
11 delivery time, and to meet the operational requests of the Postal Service. Parcel post
12 lowest zone is the preferred objective in selecting destination distribution points,
13 primarily as a result of the level of rates and charges compared to alternative modes of
14 delivery.

15 If Zone 1 and 2 rates apply, selection of the delivery carrier is determined by
16 several factors, including - service, unloading and rates.

17 During the season 1999-00, the total packages handled by the Association
18 terminal exceeded 1.12 million, including Canada.

19 Currently, the Association tenders parcels to a total of thirty-two postal
20 facilities, including all 21 BMC's. The Association cooperates with USPS by making
21 drop shipments at entry points designated by USPS, even though the cost to the
22 Association may be increased as a result. Parcels delivered to an SCF are for
23 distribution to AO's serviced by the SCF or to other SCF's having a direct link. These

parcels generally are not processed through a BMC_1 and avoid BMC handling cost and transportation cost from the BMC to the SCF. The BMC's, rather than SCF's, are used at the request of the Postal Service, because of diverse three digit zips served over a wide area. Parcels tendered to the BMC rather than the SCF avoid handling at the SCF and transportation to the BMC.

The rather complex system for delivery of parcels to the Postal Service at SCF's has been undertaken to expedite handling and delivery and to qualify for the lowest available rate.

Analysis of the gift fruit parcels handled by the Association for the 1999-00 season reveals volume by weight category as follows:

Size Package (lbs)	No. Pkgs. Shipped 99-00 Season	Percentage
	(1)	
Under 8	93,622	10.01
8 - 10	64,431	6.89
11 - 15	202,015	21.61
16 - 18	35,910	3.84
19 - 21	76,536	8.19
22 - 29	202,545	21.67
30 - 37	72,854	7.79
38 and over	186,929	20.00
Totals:	934,842	100.00

(1) Excludes Canada

Each delivery of parcels to a postal facility will include a mix of packages representing various weight categories. When given to the Postal Service at an SCF, all parcels are handled in the same manner with no distinguishment as to machinability. Actually, machinability is not a factor for most parcels, since at most SCF's sorting and

handling is manual rather than mechanical.

V. DISTRIBUTION OF PURCHASED HIGHWAY TRANSPORTATION COSTS

TRACS is the sampling system used by the Postal Service to develop the quarterly distribution keys for the costs of purchased highway transportation, C.S. 14. The distribution keys are based on the calculated cubic foot miles for each of the mail categories.

The TRACS system has been modified since the last rate case in several areas, including the selection of the samples for Intra-BMC transportation. Previously, the samples taken were heavily weighted, 68%, on the in-bound trip to the BMC This has now been changed so that only 51% of the samples are taken on the in-bound trip and 49% are taken on the out-bound trip. This change still does not cure the bias which exists in the selection of the samples. The mail volume out-bound from the BMC is considerably greater than the mail volume on the in-bound trip. This is evidenced by the utilization of the vehicles - 71.25% on the out-bound trip, but only 39.25% on the in-bound trip. (Response of Witness Xie to interrogatory, TR 6760) This selection of the TRACS samples does not reflect the relative mail volumes, and makes the sampling non-representative and biased.

The sampling system should measure the use of the transportation vehicles by each of the mail categories. However, TRACS continues to "expand" the sample for the empty space in the container and in the vehicle. The consequence of this "expansion" is to penalize the mail on the in-bound trip, which has a lower vehicle utilization and also has a lower volume of mail in the containers which are being

returned to the BMC.

As the Commission noted in the decision in Docket No. R97-1, paragraph 3391"

> It appears to the Commission that TRACS would better serve the purpose of supplying information for a rate proceeding if the data collection and reporting were kept separate from the imputation that is made when the contents of trucks and containers are "expanded" to full unused capacity.

The Commission went on the recommend modification of TRACS "so that the data collection and reporting omit the expansion calculation." Unfortunately, the Postal Service has not followed that recommendation

The TRACS samples are randomly selected, and the data produced by each sample should have equal weight in the development of the distribution key. The distribution key is applied against the total transportation cost, and should be a measure of the use by each mail category of the transportation system. The "expansion" procedure improperly alters data from each sample, and causes some samples to be more heavily weighted in the determination of the distribution key.

TRACS has other problems which make the results unreliable.

For example, the data for the Inter-BMC samples reflect a distribution key of 3.375% for DBMC parcels. By definition, a DBMC parcel does not use Inter-BMC transportation.

Similarly, the data for the Intra-BMC samples reflect a significant number of DBMC parcels on the in-bound trip. A DBMC parcel originates at the destination BMC for distribution to SCF and other postal facilities served by the BMC. The DBMC parcels cannot properly be found on the in-bound trip back to the BMC. These data can be attributed only to mis-reading of the postage indicia or a mis-direction of the

original sort of the DBMC parcel which requires it to be returned to the BMC for re-processing. Such Postal Service errors should not provide any support for the distribution of costs.

For Intra-BMC transportation, the TRACS developed distribution key shows a key of 20.477 for parcel post (which would include the final leg of the transportation of Inter-BMC trips), but only 11.533 for DBMC parcels. Since the volume of DBMC parcels, 209,409,172, is more than twice as much as Intra-BMC and Inter-BMC combined, a total of 103,250,331, (see USPS-T-26, Attachment E) the distribution key developed from the TRACS data is clearly wrong, and cannot be relied on for the distribution of transportation costs.

The TRACS developed distribution keys for Standard A mail, Standard B – Parcel Post mail and Standard B – DBMC mail are, averaged for the four quarters:

	Intra- BMC	Inter-BMC
Standard A	25.150	33.924
Parcel Post	20.477	19.924
DBMC	11.533	03.375

However, the record reflects that the estimated volume and cubic feet of each is materially different from these distribution keys. The cubic feet for each is:

	Intra-BMC	Inter-BMC
Standard A (a)	304,977	125,035
Parcel Post (b)	14,153	34,214
DBMC (b)	207,674	-0-

(a) Weight per USPS-T-27, attachment B, with density factor from

TRACS

(b) USPS-T-26, Attachment L

The distribution keys developed by TRACS for Standard A, parcel post and DBMC mail do not reflect the actual mail volumes and should be adjusted to conform with the known volumes and cubic feet of each of these mail categories. Cubic foot miles for Standard A does not seem to be available from the record, so I have shown only the cubic feet.

I recommend to the Commission that the purchased highway transportation cost distributed to these three mail categories be redistributed according to the cubic feet of each category.

I do not have the data to make similar analyses of the other mail categories.

VI. ATTRIBUTION OF PURCHASED HIGHWAY TRANSPORTATION COSTS

It has been well established that attribution of costs for postal rate-making is to be founded on a causal relationship with a class or subclass of mail For there to be attribution of costs, there first must be shown that the costs are variable. Variability is the changes in costs with changes in mail volume.

USPS witness Bradley, USPS-T-18, estimates the variability of the costs of Intra-BMC purchased highway transportation to be 98.3% and of Inter-BMC purchased highway transportation to be 97.9%. However, his estimate is made from an analysis of the cost of highway contract with the capacity being purchased.

He did not take into account mail volumes being transported or any changes in

1 the mail volumes. Vehicle capacity cannot properly be used as a proxy for mail
2 volumes. Actual or estimated mail volumes, and changes in those mail volumes, are
3 essential elements in the determination of variability or attribution of costs.

4 Without use of changes in mail volumes transported, there is no reasonable
5 method of measuring the variability of the costs of purchased highway transportation.

6 USPS witness Bradley outlined the various factors which are taken into
7 consideration in purchasing highway transportation, such as service commitments,
8 requirements of receiving postal facilities, numbers of containers normally transported.
9 Volume of mail is not known, and is not a factor taken into account in negotiating for a
10 transportation contract, new or renewal. There is no data available to evaluate the
11 considerations taken into account in negotiating new or renewal contracts.

12 It is known that 13% of the TRACS samples in Inter-BMC transportation, and
13 24% of the samples in Intra-BMC transportation reflect that there was no mail on the
14 vehicle at the time of the TRACS sample. These percentage of empty vehicles refute
15 the contention that the variabilities determined by Witness Bradley can be accurate.

16 In addition, the utilization of vehicles for transporting mail has been low for
17 several years, and continues to diminish. The vehicle utilization has continue to
18 decline from FY 98 to FY 99. (TR 6760) Attached is Table A for vehicle utilization for
19 BY98 and FY99.

20 I recommend that the variability and attribution of purchased highway
21 transportation cost be based on the vehicle utilization for Intra-BMC and Inter-BMC
22 transportation, as shown in Table A, rather than on the unsupportable estimates of
23 USPS witness Bradley.

1

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3 VII WEIGHT RELATED NONTRANSPORTATION HANDLING COSTS

4 The proposed rate structure for parcel post includes a two cents per pound
5 factor to cover weight related nontransportation handling costs.

6 However, notwithstanding repeated recommendation from the Commission for
7 further study of this issue, there are no studies to identify or quantify to effect of weight
8 on handling costs, and no one has been able to identify any such costs. In the
9 absence of any study or knowledge, there can be no justification of the use of this
10 factor in the rate structure. Except as noted below for size/cube related costs, all
11 nontransportation handling costs should be recovered by the per piece element of the
12 rate.

13 This per pound element of the rate structure results in rates for a 30# parcel to
14 include 60 cents for unidentified, unquantified costs, whereas a 10# parcel would
15 include only 20 cents for such costs. There is not shown, or known, to be any
16 justification for this difference, based solely on the weight of the parcel.

17 There may be some costs, such as floor space and number of parcels in a
18 container or sack, which differ according to the size, or cube, of the parcels. Such costs
19 are determined by the size, or cube, of the parcel, rather than the weight of the parcel.
20 The relationship between weight and cube has been established for transportation
21 costs, as shown in attached Table B, and that same curvilinear relationship should be
22 applied to apportion the weight related nontransportation costs.

23 I recommend to the Commission that the unidentified additional weight related

nontransportation handling costs be apportioned using the Table B cube/weight relationships. The amount to be recovered from this size/cube relationship can be the same arbitrary amount which has been used for the weight related cost allocation. Failure to use this weight/cube relationship will result in discriminatory treatment of the heavier parcels, charging those parcels with a greater portion of the costs than can be justified.

An alternative, since there has not been any study, and since the amount of weight related nontransportation handling cost has not been identified or determined, I propose that the rate factor be reduced from 2 cents per pound to only 1 cent per pound. This would serve to moderate the injustice and lack of any data in support of the rate element. I urge the Commission to again recommend that the Postal Service undertake a study to determine such weight related handling costs.

VIII. ASSIGNMENT OF INSTITUTIONAL COSTS

For postal ratemaking purposes, institutional costs are those for which there is no established causal relationship with any particular class or subclass of mail and which are not variable with volume. These are in the nature of overhead expenses which are incurred to maintain and operate the system.

Every piece of mail benefits from the system and the postage rate for every piece of mail should include some amount in excess of its attributable cost as payment for the benefit of participating in the system.

All mail does not equally benefit from the system, since some mail receives varying degrees of preferred or expedited service, and other mail is subject to a

1 deferred or slower level of service. Fourth class parcel post is in the latter category.

2 Value of service, both to the mailer and the addressee, should be taken into

3 account, necessarily on a judgmental basis, in determining the amount to be paid by

4 each piece of mail toward the total of institutional costs.

5 The amount to be added to attributable cost to establish the rate may be referred

6 to as the "mark-up" for institutional costs. The total mark-up for all mail must be

7 sufficient, in total amount, to cover all such costs.

8 An appropriate starting point for the determination of the mark-up is a uniform

9 amount for each piece of mail. From there, appropriate adjustments should be made to

10 reflect the relative benefits from participating in the system, the value of service, and

11 the ratemaking criteria of the Postal Reorganization Act.

12 Since parcel post, and other fourth class mail, is subject to deferral in delivery

13 and also is handled by surface transportation, which is slower than air transportation,

14 each piece of such mail should have a mark-up of less than a piece of first class mail.

15 However, the Docket No. R97-1 contribution to institutional cost per piece is

16 25.303 cents for parcel post and only 14.670 cents for first class letters. Except for the

17 expedited classes, such as priority mail and express mail, no other class of mail has a

18 higher per piece contribution to institutional costs than does parcel post. That does not

19 result in a reasonable allocation of the institutional costs.

20 Weight should not be a factor in determining the mark-up or the amount to be

21 paid toward institutional costs. A 30 lb. parcel receives no greater benefit from the

22 system than does a 5 lb. parcel, and there should be no difference in the amount of the

23 mark-up.

1 In the past, assignment of institutional costs has been made by the application of
2 a mark-up percentage to attributable costs. Differences in the cost of handling and
3 processing each piece of mail are reflected in the amount of attributable cost for that
4 piece. Those differences should not be compounded by the application of a mark-up
5 percentage for institutional cost. There is no relevant relationship between attributable
6 costs and institutional costs.

7 Continued application of this methodology means that, if the Postal Service
8 becomes more efficient in handling and processing a particular type of mail, with the
9 resultant lower costs, then, due to the improved service, that type of mail will make a
10 lower contribution to institutional costs.

11 Such a consequence is inconsistent with reasonable assignment of the
12 institutional costs, which brought about the improved efficiencies and cost reductions.

13 For all mail, the amount of attributable transportation cost increases with
14 distance. However, only for zone-related mail is the difference separately attributed
15 based on zone destination. I find no justification for a piece of mail destined to Zone 8
16 having a larger mark-up amount than a piece of mail destined to Zone 4. The only
17 difference between the two is the transportation cost. Transportation costs are not
18 a part of the system of operating the Postal Service, but rather are services purchased
19 from independent providers outside of the Postal Service. Attributable costs resulting
20 from purchased transportation should not be included in the base against which the
21 mark-up is applied.

22 Preservation of parcel post as an integral part of the postal system is vital to all
23 parcel mailers.

The steady decline of parcel post volume was curtailed by the creation of the DBMC rate in Docket No. R90-1. That has enabled the Postal Service to regain some of the volume of parcels from business mailers, who had previously diverted parcel volume to competitive delivery services. The recovery of volume, enabled by the DBMC rate, has been gradual, but is essential to assist in restoring volume which is necessary for efficient operation of the bulk mail system.

I recommend to the Commission a change in the process of allocating institutional cost, and begin with a uniform per piece allocation, to be adjusted upward or downward to reflect to ratemaking criteria of the Act.

The factors which have justified low cost coverage for parcel post in prior rate cases continue to apply. We urge the Commission to moderate the cost coverage for parcel post in this case so that the recovery of volume, principally through utilization of the DBMC, DSCF and DDU rates, can have the opportunity for success.

FGFSA – T – 1 TABLE A

T-1-22

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

CONTRACT TYPE	VEHICLE UTILIZATION				
BY98	FACCAT	PQ 1, 98	PQ 2, 98	PQ 3, 98	PQ 4, 98
INTER-BMC	1	65	62	64	63
INTER-BMC	2	74	64	68	60
INTER-BMC	3	66	74	68	53
INTRA-BMC	1	38	44	38	40
INTRA-BMC	2	76	61	56	47
INTRA-BMC	3	55	39	41	53
INTRA-BMC	4	76	74	75	73
INTRA-BMC	5	55	58	63	59
FY99	FACCAT	PQ 1, 99	PQ 2, 99	PQ 3, 99	PQ 4, 99
INTER-BMC	1	66	65	61	57
INTER-BMC	2	63	62	57	56
INTER-BMC	3	45	44	37	63
INTRA-BMC	1	36	45	39	37
INTRA-BMC	2	49	53	58	48
INTRA-BMC	3	41	69	36	57
INTRA-BMC	4	75	69	70	71
INTRA-BMC	5	62	50	58	49

FGFSA – T – 1 TABLE B

Summary of Cube-Weight Relationship Results

Parcel Post Cube-Weight Relationship by Rate Category

Model Specification: $LN(CF/PC) = a + b(LN(Lbs)) + c(LN(Lbs))^2$

	[1] Intra-BMC		[2] Inter-BMC		[3] DBMC
a=	-2.40267	a=	-2.095821	a=	-1.982081
b=	1.37654	b=	1.202857	b=	1.203941
c=	-0.14155	c=	-0.101297	c=	-0.092312

LBS	[4] Estimated CF/PC	[5] Estimated CF/PC	[6] Estimated CF/PC
2	0.21947	0.26962	0.30364
3	0.34603	0.40795	0.46263
4	0.46468	0.53634	0.61234
5	0.57473	0.65555	0.75312
6	0.67661	0.76660	0.88580
7	0.77103	0.87046	1.01120
8	0.85873	0.96795	1.13007
9	0.94039	1.05980	1.24307
10	1.01660	1.14659	1.35076
11	1.08789	1.22882	1.45362
12	1.15475	1.30693	1.55208
13	1.21756	1.38129	1.64650
14	1.27669	1.45222	1.73719
15	1.33246	1.52000	1.82445
16	1.38513	1.58488	1.90852
17	1.43497	1.64709	1.98962
18	1.48218	1.70680	2.06795
19	1.52697	1.76421	2.14369
20	1.56952	1.81945	2.21701
21	1.60997	1.87268	2.28804
22	1.64847	1.92402	2.35691
23	1.68516	1.97357	2.42376
24	1.72015	2.02146	2.48869
25	1.75355	2.06777	2.55179
26	1.78545	2.11259	2.61317
27	1.81596	2.15600	2.67291
28	1.84514	2.19808	2.73109
29	1.87307	2.23889	2.78779
30	1.89984	2.27849	2.84306
31	1.92549	2.31695	2.89698
32	1.95009	2.35432	2.94960
33	1.97370	2.39065	3.00099
34	1.99636	2.42596	3.05118
35	2.01813	2.46036	3.10024

Column [1]: Intra-BMC parameter estimates are from USPS LRI-104.
Column [2]: Inter-BMC parameter estimates are from USPS LR-I-104.
Column [3]: DBMC parameter estimates are from USPS LR-I-104.
Column [4]: Exp $(a + b * (LN(LBS)) + c * (LN(LBS))^2)$, using column 1 parameters.
Column [5]: Exp $(a + b * (LN(LBS)) + c * (LN(LBS))^2)$, using column 2 parameters.
Column [6]: Exp $(a + b * (LN(LBS)) + c * (LN(LBS))^2)$, using column 3 parameters.

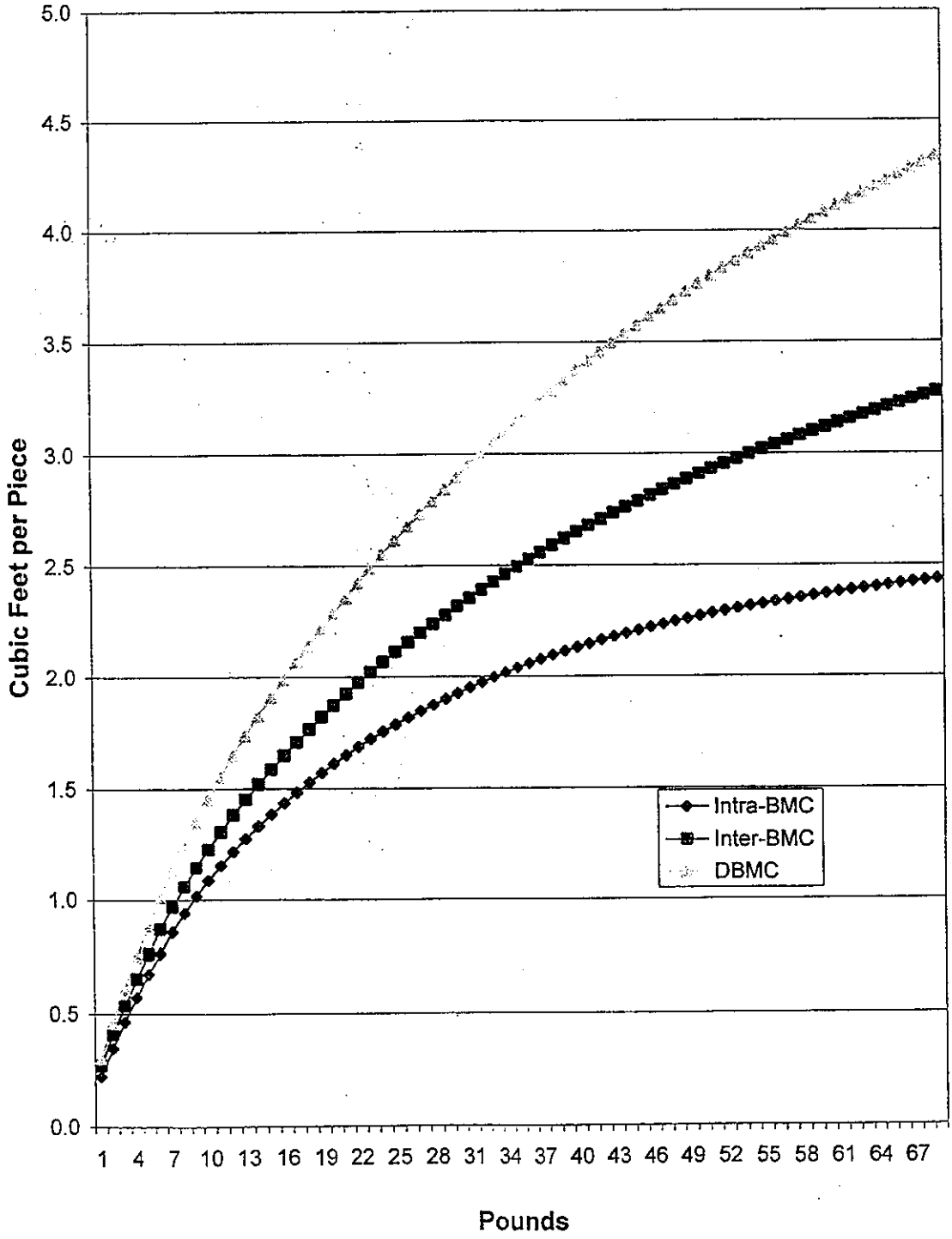
Summary of Cube-Weight Relationship Results

Parcel Post Cube-Weight Relationship by Rate Category (Continued)

LBS	[1] Intra-BMC Estimated CF/PC	[2] Inter-BMC Estimated CF/PC	[3] DBMC Estimated CF/PC
36	2.03905	2.49384	3.14820
37	2.05916	2.52644	3.19511
38	2.07850	2.55821	3.24100
39	2.09710	2.58919	3.28593
40	2.11501	2.61939	3.32991
41	2.13225	2.64885	3.37300
42	2.14885	2.67761	3.41521
43	2.16484	2.70568	3.45658
44	2.18025	2.73310	3.49713
45	2.19510	2.75988	3.53691
46	2.20941	2.78605	3.57592
47	2.22322	2.81163	3.61420
48	2.23653	2.83665	3.65177
49	2.24937	2.86111	3.68864
50	2.26177	2.88505	3.72486
51	2.27372	2.90847	3.76042
52	2.28526	2.93139	3.79536
53	2.29640	2.95384	3.82968
54	2.30715	2.97582	3.86342
55	2.31753	2.99735	3.89658
56	2.32756	3.01844	3.92918
57	2.33724	3.03911	3.96124
58	2.34659	3.05937	3.99278
59	2.35561	3.07923	4.02379
60	2.36433	3.09870	4.05431
61	2.37275	3.11779	4.08435
62	2.38089	3.13653	4.11391
63	2.38874	3.15490	4.14300
64	2.39633	3.17293	4.17165
65	2.40366	3.19063	4.19986
66	2.41074	3.20800	4.22764
67	2.41758	3.22505	4.25501
68	2.42418	3.24179	4.28196
69	2.43056	3.25824	4.30852
70	2.43672	3.27438	4.33470

Column [1]: Exp (a + b * (LN(LBS)) + c * (LN(LBS))^2), using column 1 parameters from page 1.
Column [2]: Exp (a + b * (LN(LBS)) + c * (LN(LBS))^2), using column 2 parameters from page 1.
Column [3]: Exp (a + b * (LN(LBS)) + c * (LN(LBS))^2), using column 3 parameters from page 1.

Parcel Post Cube-Weight Relationship
Average Cube/Piece vs. Weight Increment



DECLARATION

I, JOSEPH E. BALL, declare, under the penalties of perjury, that the matters and facts set forth in the foregoing are true and correct, to the best of my knowledge, information and belief.

Joseph E. Ball

Joseph E. Ball

Dated: July 15, 2000

1 CHAIRMAN GLEIMAN: Mr. Wells, have you reviewed
2 the Designated Written Cross Examination that was made
3 available this morning for Mr. Ball?
4 MR. WELLS: I have, and Mr. Ball has, and I have
5 two copies of the Designated responses, together with
6 appropriate declaration from Mr. Ball as to the accuracy of
7 those responses. I will hand two copies to the Reporter.
8 CHAIRMAN GLEIMAN: Yes, if you would provide those
9 copies to the Reporter, I'll direct that the material be
10 received into evidence and transcribed into the record.
11 [Designated Written Cross
12 Examination of Joseph E. Ball was
13 received into evidence and
14 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 FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS JOSEPH E. BALL
(FGFSA-T-1)

Party	Interrogatories
United Parcel Service	UPS/FGFSA-T1-1, 3, 5-6 USPS/FGFSA-T1-2, 5
United States Postal Service	USPS/FGFSA-T1-1-5

Respectfully submitted,

Cyril J. Pittack
Acting Secretary

INTERROGATORY RESPONSES OF
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
WITNESS JOSEPH E. BALL (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
UPS/FGFSA-T1-1	UPS
UPS/FGFSA-T1-3	UPS
UPS/FGFSA-T1-5	UPS
UPS/FGFSA-T1-6	UPS
USPS/FGFSA-T1-1	USPS
USPS/FGFSA-T1-2	UPS, USPS
USPS/FGFSA-T1-3	USPS
USPS/FGFSA-T1-4	USPS
USPS/FGFSA-T1-5	UPS, USPS

UPS/FGFSA-T1 – 1

Refer to page 19 of your testimony, where you state, "(a) 30 lb. Parcel receives no greater benefit from the (Postal Service's delivery) system than does a 5 lb. Parcel."

(a) Explain whether "benefit" may be reasonably measured by the amount or extent of a mailer's revenue or profit. If "benefit" may not be reasonably measured by the amount or extent of a mailer's revenue or profit, provide a precise definition of "benefit."

(b) Provide your best estimate of the amount of (i) revenue, and (ii) profit derived from selling a 5 pound gift box of Florida fruit through the Postal Service's delivery system.

(c) Provide your best estimate of the amount of (i) revenue, and (ii) profit derived from selling a 30 pound gift box of Florida fruit through the Postal Service's delivery system.

(d) Reconcile your answers to (a)-(c) with the cited statement on page 19 of your testimony.

Response:

(a) The value or profitability of the contents of a mail piece do not provide a reasonable basis to measure the benefits from using the postal system and having that system provide for the transportation and delivery of the mail piece. The costs which are characterized as "institutional costs" include the administration of the Postal Service, research, and the totality of postal operations, including the processing and delivery functions, for which there is no established causal relationship to any particular class or sub-class of mail or which are not variable with mail volume. Use of the postal system for delivery of a mail piece provides a benefit to the mailer. I believe that every piece of mail receives a benefit from the postal system, and that benefit does not vary with the size, weight, value or profitability of the contents of the mail piece. Some mail receives greater benefits from the service provided by the system. This would include the time and speed of delivery. Mail subject to deferred delivery and the use of slower transportation will receive less benefits than mail which receives expedited delivery and air transportation.

(b) The Association does not buy or sell gift fruit parcels, but merely arranges for and handles the transportation and delivery of parcels for members. I do not have access to the confidential information concerning the pricing or costs of gift fruit parcels sold by members of the Association.

(c) See response to (b) above.

(d) See the above responses. I do not believe that a conflict exists and, therefore, there is nothing to reconcile.

UPS/FGFSA-T1 - 3

On page 12, lines 13-14, of your testimony, you state that "The TRACS samples are randomly selected, and the data produced by each sample should have equal weight in the development of the distribution key."

(a) Define what you mean by "randomly selected," and indicate whether, in using that terms, you are referring to a "random sample."
(b) Is a simple random sample "randomly selected," as you use the term in the quoted passage?
(c) In using data from a simple random sample to make inferences about the population from which the sample is drawn, should each sample be given equal weight?
(d) Is a stratified random sample a "random sample" as you use the term in the quoted passage?
(e) In using data from a stratified random sample to make inferences about the population from which the sample is drawn, should each sample be given equal weight?

Response:

(a) The TRACS sampling process is fully explained by USPS witness Xie, and it appears to me that the process results in test sites being "randomly selected" which produces a "random sample"
(b) I do not understand the difference between a "simple random sample" and a "random sample". These appear to be technical terms used by economists and statisticians, and I am not familiar with the terms.
(c) I believe that each sample should receive equal weight.
(d) I do not understand the difference between a "stratified random sample" and a "random sample". These appear to be technical terms used by economists and statisticians, and I am not familiar with the terms.
(e) I believe that each sample should receive equal weight.

UPS/FGFSA-T1 – 5

Does the Postal Service pay contractors providing highway transportation on the basis of the volume of mail carried, or on the basis of the amount of capacity provided?

Response: See response to UPS/FGFSA-T1-4.

UPS/FGFSA-T1 – 6

List the principal factors that, in your opinion, prevent the Postal Service from achieving full (i.e., 100 percent) utilization of the highway transportation capacity that it uses.

Response: The Postal Service purchases excess capacity. The method of loading of the vehicles does not maximize utilization of the capacity. The heavy use of containers in the highway transportation vehicles does not permit full utilization.

UNITED STATES POSTAL SERVICE INTERROGATORIES TO THE FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION WITNESS BALL

USPS/FGFSA-T1-1. Please list all documents including testimonies, transcripts, library references, and Commission Opinions and Recommended Decisions from the current and prior proceedings that you reviewed in preparation of your testimony.

ANSWER: PRC OP Docket No. R97-1, Testimony and responses to FGFSA interrogatories by USPS witnesses, Xie, USPS-T-1, Bradley, USPS-T-18, Plunkett, USPS-T-36, and Eggleston, USPS-T-26, analysis of data contained in LR-I-52

USPS/FGFSA-T1-2. Refer to page Ii, lines 16-18. You state, "This selection of the TRACS samples does not reflect the relative mail volumes, and makes the sampling non-representative and biased." Please demonstrate the alleged bias using rigid mathematical formulae and describe the magnitude and direction of the bias.

Answer: I did not use a rigid mathematical formula. The cited response of Witness Xie demonstrates the bias of the sampling Intra-BMC 51% on the inbound trip and 49% on the outbound trip. The relative estimated mail volumes are shown on page 13 of my testimony.

USPS/FGFSA-T1-3. Refer to your discussion of Standard A, Parcel Post and DBMC mail on page 13, lines 11-22.

(a) Please provide programs, data sets, work papers and associated documentation showing the derivations of all the numbers in lines 14-16 and lines 20-22. Provide specific citations including page number and line number (whenever it's appropriate) for the sources of the data used in the calculation.

(b) Please confirm that the Standard A mail to which you refer includes Enhanced Carrier Route and Nonprofit Standard A mail. If you do not confirm, provide a list of mail categories included in the figures shown for Standard A mail on lines 14 and 20.

Answer:
(a)Lines 14-16 are the quarterly averages of the distribution keys shown in LR-I-52. The numbers shown in lines 20-22 are calculated using the data referenced in the footnote.

(b) Confirmed.

USPS/FGFSA-T1-4. Refer to page 11, lines 14-16 of your testimony. Please provide programs, data sets, work papers and associated documentation showing the derivation of the utilization of the vehicles -71.25 percent on outbound trip and 39.25 percent on the in-bound trip.

Answer: Response of USPS to interrogatory TR 6760.

USPS/FGFSA-T1-5. Refer to page 15, lines 12-13 of your testimony.

(a) Please provide specific citations for the sources of the 13 percent and 24 percent cited.

(b) Is it your understanding that these are the percentages for 'Zero-Volume Tests'?

(c) Is it your understanding that a zero volume test, by definition, reflects a situation in which no mail is unloaded from the vehicle when the test is performed?

(d) Consider the following hypothetical example. A truck arrived at a facility where a TRACS test was performed. The data collector observed that the truck was half full but no mail was unloaded from the truck. The truck only picked up mail. Is it your understanding that this test would be recorded as a 'zero volume test'? If not please explain your understanding of what constitutes a zero volume test.

Answer:
(a) TR 6768

(b) Yes

(c) No.

(d) No. I understand that a "zero volume test" is one where thre was no mail on the vehicle at the time of the TRACS test.

DECLARATION

I, JOSEPH E. BALL, declare, under the penalties of perjury, that the matters and facts set forth in the foregoing are true and correct, to the best of my knowledge, information and belief.

Joseph E. Ball

Joseph E. Ball

Dated: July 15, 2000

1 MR. WELLS: Pursuant to the continuation of Mr.
2 Ball's appearance, United Parcel Service had propounded and
3 additional interrogatory. A response has been prepared, and
4 was filed yesterday, and I would ask that two copies of the
5 response, which include a declaration of Mr. Ball, be
6 received into evidence as the Additional Designated Written
7 Cross Examination of Mr. Ball.
8 CHAIRMAN GLEIMAN: It is so ordered, and that
9 material also will be transcribed into the record.
10 [Additional Designated Written
11 Cross Examination of Joseph E.
12 Ball, USPS/FGFSA-T1-8, was received
13 into evidence and transcribed into
14 the record.]
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BEFORE THE

POSTAL RATECOMMISSION

Washington, D.C. 20268

DOCKET NO. R2000-1

ANSWERS OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION TO FOLLOW-UP INTERROGATORIES OF UNITED PARCEL SERVICE WITNESS BALL UPS/FGFSA-T1-8

Maxwell W. Wells, Jr.
Maxwell W. Wells, Jr., P.A.
P. O. Box 3628
Orlando, Fl 32802
Telephone 402-422-8250

Attorney for Florida Gift Fruit
Shippers Association

Dated July 17, 2000

UPS/FGFSA-T1-8. Refer to the Florida Gift Fruit Shippers Association website (<http://www.fgfsa.com>) section entitled "history", pages 1 and 2, a copy of which is attached hereto.

a. Confirm that the truck program involves the expedited pickup, sorting, line haul and destination entry of gift fruit packages into a substantial number of postal sectional centers or other postal facilities throughout the country. If not confirmed, please explain.

b. Confirm that the Association's members regard the dropshipment truck program in conjunction with the Postal Service's delivery of packages to be a valuable service. If not confirmed, please explain.

c. Confirm that "gift fruit packages are usually given to the Post Office at an average distance of only 35 miles to the consignee's address." If not confirmed, please explain.

d. Confirm that the Postal Service "only requires a short time period to make the final delivery" of the Association's parcels. If not confirmed, please explain.

Answer:

a. Confirmed. For a more complete description, see pages 6-11 of my testimony, FGFSA-T1

b. Confirmed.

c. Confirmed. Since the Postal Service has requested more parcels at BMC facilities, rather than SCF facilities, the average distance may now be greater.

d. Confirmed. The "short time" is a comparison of the delivery time after the drop shipping program, with the delivery time through the Postal Service for parcels entered in Florida, rather than in the destination area.

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION HISTORY

We founded the Florida Gift Fruit Shippers Association in 1946 for two basic reasons: To work toward upgrading the industry as a whole; and secondly, to do something about the rising cost of transportation which was threatening to put an end to the Gift Fruit Industry.

To accomplish the first objective, we have done many of the usual things performed by associations anxious to build and uphold an industry of integrity: newsletters, workshops, district meetings and conventions. We have attempted to bring shippers together so that they can mutually address the challenges of advertising, fruit quality and inspection, as well as guaranteeing that their product will be acceptable to the customer. Every package of fruit shipped by this us is guaranteed to satisfy the customer.

To accomplish our second objective, we actually had to start a transportation business. For years, the Railway Express Agency held a virtual monopoly of our business. Soon after the inception of our organization, we began to ship by truck. After a year of trial and error, the Association bought a piece of land to construct our own terminal. This terminal has grown from a building 140 feet long to one 486 feet long. The Association owns a fleet of 48 trailers, which we use to pick up packages from members all over the State of Florida. These packages are brought to our Orlando Terminal where they are then separated by destination and processed.

At present, we have expeditious line-haul trucks stop at over 50 postal sectional centers throughout the country. This means that the citrus gift fruit packages are usually given to the Post Office at an average distance of only 35 miles to the consignee's address. Since the packages have already been weighed and postage applied at the Association's Orlando Terminal, the Post Office only requires a short time period to make the final delivery. In the past, it took 8-10 days for Railway Express to pick up and deliver a gift package. Our new expedited program now accomplishes this in half the time. Canadian buyers of Florida gift citrus are also assured rapid service with trucks sent directly to Montreal, Toronto and Vancouver. Virtually all of Canada is served through these through these three deposit points.

The Association shipped over 1.3 million packages during the '96 – '97 season. With area attractions bringing more tourists into Florida than ever before, we look for added growth in the Gift Fruit Industry and in our business with members of the Association. Approximately half of the gift fruit business comes from direct mail advertising and the balance from tourism. For the December holiday business, most members develop their own direct mail literature. An estimated forty-five million four-color brochures of this type are mailed annually. At various times of the season, shippers mail their customers citrus variety folders for Thanksgiving, Christmas, and other occasions. The Florida Department of Citrus has been most helpful in developing a direct mail program for these addition mailings. This wonderful agency provides approximately two and half million pieces of direct mail literature to our industry each year.

The transportation business makes our Association unique. Other functions are similar to those carried out by any Association. We have a three-day annual convention, educational programs, newsletters that advise members of developments affecting their business, industry programs representation before federal, state and local governing bodies mass

purchasing and services common to our industry. In addition, there are group programs for FGFSA members.

One of the things we are most proud of is that the Association has accomplished all of these objectives on its own, without outside assistance. Those in the industry are very proud of their Association and they look forward to continued growth and service enhancements.

| Order some fruit | Member Listing | Tradeshow | Mission / Vision Statement | History |

Members' Information | Friends of the Association | Citrus Fruit Season | Citrus Recipe of the Month |

| Orange Freight | SoftPax | Contact Us |

| HOME |

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webmaster: donnag@fgfsa.com

DECLARATION

I, JOSEPH E. BALL, declare, under the penalties of perjury, that the matters and facts set forth in the foregoing are true and correct, to the best of my knowledge, information and belief.

Joseph E Ball
Joseph E. Ball

Dated: July 15, 2000

1 CHAIRMAN GLEIMAN: We thank you. Do you have
2 additional materials?
3 MR. WELLS: And the United States Postal Service
4 also has propounded one additional interrogatory, for which
5 the answer has been filed yesterday and served, and I ask
6 that it also -- I have two copies to give to the Reporter
7 with an appropriate declaration of Mr. Ball, and ask that
8 they also be received into evidence and transcribed into the
9 record.
10 CHAIRMAN GLEIMAN: So ordered.
11 [Additional Designated Written
12 Cross Examination of Joseph E.
13 Ball, USPS/FGFSA-T1-7, was received
14 into evidence and transcribed into
15 the record.]
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BEFORE THE

POSTAL RATECOMMISSION

Washington, D.C. 20268

DOCKET NO. R2000-1

ANSWERS OF FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
TO FOLLOW-UP INTERROGATORIES OF UNITED STATES
POSTAL SERVICE
WITNESS BALL USPS/FGFSA-T1-~~6~~-7

Maxwell W. Wells, Jr.
Maxwell W. Wells, Jr., P.A.
P. O. Box 3628
Orlando, Fl 32802
Telephone 402-422-8250

Attorney for Florida Gift Fruit
Shippers Association

Dated July 17, 2000

USPS/FGFSA-T1-7. Please refer to your response to USPS/FGFSA-T1-3, which related to the two tables appearing on page 13 of your testimony.

a. Please confirm that in the top table, the TRACS distributions, the factors shown correspond to cubic foot miles. If you cannot confirm, please explain fully.

b. Please confirm that in the bottom table, the factors shown correspond to cubic feet. If you cannot confirm, please explain fully.

c. Please confirm that in the top table, the TRACS distributions, the column headings (Intra-BMC and Inter-BMC) are intended to reflect data groupings based on categories of transportation. If you cannot confirm, please explain fully.

d. Please confirm that in the bottom table, the column headings (Intra-BMC and Inter-BMC) are intended to reflect data groupings based on rate categories. If you cannot confirm, please explain fully.

e. Please confirm that each of the Standard A numbers in the second table (line20) in the product obtained when a number of pounds is multiplied by a density factor. If you cannot confirm, please explain fully.

f. For each of the two Standard A numbers in the second table, please reproduce the number of pounds utilized and the density factor utilized in making the calculation.

g. For each of the two Standard A numbers, please identify the page within Attachment B to USPS-T-27 where the pound figure utilized in your calculation appears. If the pound figure utilized in your calculation is the sum of a number of pound figures which appear in Attachment B, please identify each of the components of the sum, and the page of Attachment B where each component appears.

ANSWER:

a. Confirm that the factors shown correspond to calculated cubic foot miles of the "expanded" cubic feet of the sampled mail.

b. Confirmed.

c. Confirm that the TRACS distributions reflect data groupings by mail categories based on categories of transportation.

d. Confirm that the bottom table reflect data groupings by mail categories, including various rate categories included within a mail category, based on categories of transportation.

e. Confirm, subject to the explanation that the density factor is stated as lb/cuft, so that it must be inverted for the multiplication.

f. Refer to Attachment B, Table 1 to USPS-T27.
The numbers used came from:

Inter-BMC:	Flow Number 10	2,180,622 thousand pounds
Intra-BMC	Flow Number 11	5,151,790 thousand pounds
	Flow Number 12	167,010 thousand pounds
	Total	5,318,800

The number used for Intra-BMC apparently were understated and should have included Flow Numbers 4 – 7, which would have added 1,030,707 thousand pounds.

The density factor used was derived from USPS-LR-I-52, Appendix III, Table 1; Mail Codes and Density Factor. The density factor used in the calculation was 17.44, which is the average of the density factors for regular Standard A – 17.84 and for non-profit Standard A – 17.05. Perhaps a weighted average would have been preferable, but I did not have the information to develop a weighted average.

DECLARATION

I, JOSEPH E. BALL, declare, under the penalties of perjury, that the matters and facts set forth in the foregoing are true and correct, to the best of my knowledge, information and belief.

Joseph E. Ball

Joseph E. Ball

Dated: July 15, 2000

1 CHAIRMAN GLEIMAN: Thank you, Mr. Wells.

2 MR. KOETTING: Mr. Chairman, just to clarify, the
3 Postal Service did submit two interrogatories to Witness
4 Ball on Friday, and like you, we would certainly commend him
5 for the speed with which he came back with answers on
6 Monday.

7 We propounded Postal Service Interrogatories 6 and
8 7. Late yesterday, we got copies of those answers. We have
9 designated the response to USPS/FGFSA-T1-7, and submitted
10 that, and I believe that is what Mr. Wells just handed the
11 Reporter.

12 With regard to the Question Number 6, we have not
13 yet had time to examine that material that he cited in
14 there, and we would wish to reserve the right to both, if
15 necessary, submit followup interrogatories, and then, if
16 necessary, designated whatever responses we get at an
17 appropriate time.

18 MR. WELLS: To which we have no objection.

19 CHAIRMAN GLEIMAN: I appreciate the continued
20 spirit of cooperation, gentlemen. And I'd like to make note
21 of some special guests in the back of the room today. Mr.
22 Ball has some of his grandchildren here visiting.

23 I hope this doesn't mean they won't want to become
24 Administrative Law attorneys after they sit through a little
25 of this, Mr. Ball. These are fine looking young folks.

1 Mr. Feldman, is Witness Horton here today? As I
2 indicated, I think we'd like to proceed to introduce the
3 testimony of Witnesses who are scheduled today for whom
4 there has been no oral cross requested.
5 You can do this either by direct motion, or we can
6 swear the witness in, however you might prefer.
7 MR. FELDMAN: Actually, Reverend Horton was kind
8 enough to drive up from Richmond today, all the way up
9 through I-95 down 14th Street, so given that type of effort,
10 I would really like him to be sworn in as recognition of
11 that effort to get here.
12 CHAIRMAN GLEIMAN: Most certainly. I can
13 appreciate that. There are lots of us who have traveled up
14 and down I-95 in Virginia over the years, and we appreciate
15 the difficulties of that trek.
16 MR. FELDMAN: Thank you, Mr. Chairman.
17 Whereupon,
18 REVEREND ALVIN J. HORTON,
19 a witness, having been called for examination, and, having
20 been first duly sworn, was examined and testified as
21 follows:
22 THE WITNESS: I don't believe "drive" is the
23 appropriate term for what I did the last three hours. It
24 was kind of slowly move along.
25 [Laughter.]

1 CHAIRMAN GLEIMAN: I had dinner with my daughter
2 last night, and she was talking about some job opportunities
3 that she had, and some of them were in the District of
4 Columbia. Her comment was that they really were interesting
5 looking, but she'd much prefer not to have to commute into
6 the District of Columbia, so I'm sure you can appreciate her
7 thoughts on that.
8 THE WITNESS: Very much so.
9 DIRECT EXAMINATION
10 BY MR. FELDMAN:
11 Q Reverend Horton, I'm holding a document entitled
12 the Direct Testimony of Alvin J. Horton. It's designated as
13 CRPA-T-2.
14 Do you have a copy of that?
15 A Yes, sir.
16 Q And have you had a chance to review it?
17 A Yes, I did.
18 Q And did you prepare that document or supervise
19 portions of the preparation of that document?
20 A Yes, I oversaw the publication of this.
21 Q Yes, and are there any changes at this point that
22 you would like to make in that testimony?
23 A Well, there's one typographical correction I'd
24 like to make on page 2, and then I have a point of
25 clarification.

1 Q Yes, go ahead, please.

2 A On page 2, third line down from the top where it
3 says Boards and Agencies of the Virginia Conference, we need
4 to insert the word, of, so it reads of Boards and Agencies
5 of the Virginia Conference.

6 Q Are there any other written revisions you'd like
7 to make on the testimony?

8 A Other than just to clarify that wherever in this
9 document you see the word, Methodist, that it is referring
10 -- it's referencing the United Methodist Church. It's a
11 particular denomination. We have about nine million members
12 around the world, and it is different from just Methodist,
13 so as long as that can be clarified in the record.

14 Q So, other than those, the written editorial change
15 and your verbal clarification, there's no other changes you
16 would make to this document?

17 A No other changes; that's all correct.

18 MR. FELDMAN: Mr. Chairman, we've marked on two
19 copies, the editorial revision that Reverend Horton just
20 referred to, and I would like to move that Reverend Horton's
21 Direct Testimony, CRPA-T-2 be transcribed and entered into
22 the record as evidence.

23 CHAIRMAN GLEIMAN: If you would please provide the
24 Court Reporter with two copies of the corrected testimony of
25 Witness Horton, I'll direct that the material be transcribed

1 into the record and received into evidence.

2 [Written Direct Testimony of Alvin

3 J. Horton, CRPA-T-2, was received

4 into evidence and transcribed into

5 the record.]

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

CRPA-T-2

POSTAL RATE AND FEE CHANGES, 2000	)	Docket No. R2000-1

DIRECT TESTIMONY OF ALVIN J. HORTON

On Behalf Of

The Coalition of Religious Press Associations
Alliance of Nonprofit Mailers
American Business Media
Dow Jones & Co., Inc.
Magazine Publishers of America
The McGraw-Hill Companies, Inc.
National Newspaper Association
Time Warner, Inc.

Stephen M. Feldman
Law Offices of Stephen M. Feldman
601 Pennsylvania Ave, N.W.
South Building STE 900
Washington, D.C. 20004
Tel. 202-463-4960
Fax 202-463-4965
E-Mail sfeldman@justice.com

May 22, 2000

1 Direct Testimony of the Rev. Alvin J. Horton

2

3 1. Autobiographical Sketch

4

5 My name is Alvin J. Horton. I am testifying for the Coalition of Religious Press
6 Associations, the membership of which Witness Stapert describes, and for the publishing
7 organizations on the front cover of my testimony, which are designated as "Periodical Publishers"
8 I am a native of Mobile, Alabama, but now I reside in Richmond, Va. I am a clergy
9 member of the Virginia Annual Conference of The United Methodist Church, a regional
10 connection of 1,225 local Methodist congregations with more than 342,737 members. I have
11 been editor of the *Virginia United Methodist Advocate*, the official news magazine of the
12 conference for the last 14 years. Previous to that I was a local church pastor for more than eight
13 years. I am a graduate of the College of William & Mary. I have received degrees (M.Div. and
14 Th.M) from the Divinity School of Duke University.
15 I recently vacated the Presidency of the United Methodist Association of Communicators,
16 of which I've been a member since 1986. This is an association which is comprised of editors,
17 publishers, communications specialists and professionals with experience in every facet of
18 publishing. While our concerns are primarily improving the editorial excellence of Methodist
19 media to keep Church members up-to-date on Church news and charitable and religious activities
20 of our members, we also discuss practical problems like postal rates, printing and technology.
21 Increasingly, we analyze and trade information on how the Internet and e-mail can more
22 effectively disseminate Church news to our members and readers.

In addition to my responsibilities as an editor, I serve as director of communications for an office that provides communications resources to the local churches and the 18 districts and 37 boards and agencies of the Virginia Conference, the largest in the United Methodist denomination.

2. Scope and Purpose of Testimony

The purpose of my testimony is to discuss the impact of the Postal Service' proposed rates on nonprofit publications, in particular our Methodist press. I have been in touch with professional colleagues in other denominations, which participate in CRPA as we do, and I share their fears of the serious damage that will be caused by the pending rates for periodicals. We have had rate hikes before, and in recent years they have far exceeded the rate of inflation. The magnitude of this year's package however is unprecedented. It cannot help but cause less information to be created and sent to readers who depend on us, the religious editors, to transmit accurate information about what our respective Churches are doing, what we stand for, and how we can help in a variety of ways communities in this county and abroad.

3. The Virginia United Methodist Advocate

This magazine currently is issued 18 times per year. In addition to news about our organizations and member activities in Virginia, the *Advocate* carries news articles on national and international news of interest, for example an article in our January 3 issue on how Russian court rulings could benefit local churches in Russia. We address international crises like famine in Sudan and other nations. We provide, as do the state conference Methodist publications in other states, a channel for conference members to participate in charitable and church missions and to express

1 their humanitarian concerns in a concrete way.

2 4. The Impact of the Rate Increase

3 Throughout the course of my 14 years as editor of the *Advocate*, we have struggled with
4 the increasingly difficult task of sustaining reader interest in an information publication that can be
5 produced at a price that our typical reader is willing to pay. We have endeavored to produce a
6 quality product in a sufficiently contemporaneous time frame that is not beyond the cost of
7 constituent expectations. Our operating budget, which includes printing and mailing costs as well
8 as office rent and supplies has no fat in it. We have almost no money for marketing and very little
9 for improved content, to say nothing of the fact that we pay little or nothing for outside writers or
10 art contributors. Nevertheless we maintain high journalistic standards and quality writing appears
11 in our magazine. Of the $209,173 we spent on operations last year (1999), $170,714 (81.3%)
12 went to the printing and mailing of our publication and, of that, $36,479 (21.4%) paid for postal
13 charges. It is common for members of CRPA to spend 20% or more of their operating budgets
14 (minus editorial salaries) for nonprofit periodical postage.

15 It should be noted that salaries of our four-person office staff are not included in these
16 figures because they are funded separately by the conference. The conference provides this
17 subsidy because more than half of our time is spent on other conference communications projects,
18 such as other publications (not magazines), media relations, web maintenance, and
19 communications training. If salaries were included in our budget, our publication probably could
20 not exist. There is no subsidy, I would add, for postal rate increases.

21 We use all of the discounts and mail preparation techniques offered by USPS that a
22 relatively small, statewide magazine can take advantage of. We have only 15,000 subscribers so

1 even with our local geographic zone of distribution, we can't sort everything to carrier route or
2 enter the magazine in every city in Virginia. We do have a substantial number of copies presorted
3 to the five-digit, automation presort level, and we have about a third of our copies made up to
4 carrier route. This is a level of presortation that the majority of CRPA members cannot achieve
5 because of their national or regional distribution that is less dense than ours. We print in Norfolk,
6 where our printer hands over about 8,000 copies to USPS for distribution in the Tidewater area.
7 The balance of our circulation is trucked by our printer to Richmond where USPS distributes the
8 copies to the Richmond area and to Northern Virginia and other areas not served by Norfolk.
9 When the combined numbers are looked at, we mail about 17% within the Norfolk SCF
10 area (qualifying for SCF discounts), 46% to zone 1 and 2, and 35.4% to zone 3. The balance
11 consists of a very few copies that go out-of-state. Like practically all religious publications, we
12 carry relatively little advertising, only about 10-15% of our page space. Our publication is also
13 quite light, like other religious publications, averaging between 2 to 3 ounces a copy.
14 I understand that although publishers like us have gone to some expense to barcode,
15 presort, and to comply with ever-changing postal preparations rules which require software and
16 other pre-press expenses, the Postal Service continues to manually sort barcoded magazines and
17 newspapers to a large extent. Apparently, mail processing costs for periodicals have increased far
18 more than the costs of other mail classes, including flat-shaped mail in First class and Standard A.
19 I was very surprised to learn that USPS claims that it is the publisher-customers of the Postal
20 Service caused the failure of flats automation and thus are responsible for rising costs. Of course,
21 we have only done what the Postal Service and our printer tell us to do. I am pleased to know
22 that the Periodical Publishers intend to introduce expert testimony to show that periodicals are

1 paying their way and have done what they can do to reduce expenses for the Postal Service.

2 However, with all of the presortation and automation that our relatively tiny, 15,000

3 circulation publication accomplishes, our rates still would go up at least 12% if the proposed rates

4 are adopted. Of course this about 10% less than what most nonprofit national publications will

5 pay, but we have to go to a lot of preparation expense and have a relatively local profile in order

6 to have this "advantage". For us, however, a 12% increase come next January is no gift.

7 Rising printing and postage costs have dramatically affected our publication over the

8 years. Although we have maintained an average circulation of 15-16,000 subscribers over the last

9 decade and a half, several times over those years we have been forced to reduce the number of

10 issues per year and increase advertising and subscription rates. Since I became editor in 1986, we

11 have increased subscription rates from an initial $7.50 per year for 26 issues to today's $15.00 per

12 year for 17 issues. That constitutes a 100% increase in cost for 27% less product. Since postage

13 is a large part of our operating expenses, the significant increases religious and nonprofit

14 publications have had to absorb in the last five years have been a substantial factor in our

15 frequency reductions.

16 We cannot simply absorb another postal increase of this magnitude, which is coming on

17 the heels of the last increase only a year and a half ago. In 1998, our expenses exceeded our

18 income by $20,620. In 1999, after exhausting our reserves, we fell $19,281 in the red, prompting

19 us to increase our current subscription rates on March 1 of this year, several months ahead of

20 schedule. Advertising rates were increased on January 1. Suffice it to say, our budget cannot

21 continue to withstand unanticipated, and increasingly unprecedented, additions to our postal

22 expenses.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document in accordance with Section 12 of the Rules of Practice this 22nd day of May 2000

Stephen M. Feldman

1 CHAIRMAN GLEIMAN: To the best of my ability to
2 determine, there was no Designated Written Cross Examination
3 for this witness. Does anyone have any Designated Written
4 Cross Examination?
5 [No response.]
6 CHAIRMAN GLEIMAN: Is there any party who wishes
7 to cross examine this witness?
8 [No response.]
9 CHAIRMAN GLEIMAN: Questions from the Bench?
10 [No response.]
11 CHAIRMAN GLEIMAN: If not, then, Mr. Horton, that
12 completes your appearance here today. We appreciate your
13 testimony.
14 THE WITNESS: That was easy enough.
15 CHAIRMAN GLEIMAN: We appreciate your
16 contributions to the record. We thank you, and you're
17 excused.
18 [Witness Horton excused.]
19 CHAIRMAN GLEIMAN: If Mr. Todd is here, we could
20 put Witness Prescott's testimony into the record. Is it
21 your intention to enter his Direct Testimony by motion?
22 MR. TODD: Yes, Mr. Chairman. I move that the
23 Testimony of Roger Prescott on Behalf of the Mail Order
24 Association of America, identified as MOAA-T-1, be admitted
25 into the record at this time. An appropriate declaration

1 will be provided to the Reporter.

2 CHAIRMAN GLEIMAN: Is there any objection?

3 [No response.]

4 CHAIRMAN GLEIMAN: Hearing none, the Testimony of

5 Witness Prescott will be received into evidence and

6 transcribed into the record.

7 [Written Direct Testimony of Roger

8 E. Prescott, MOAA-T-1, was received

9 into evidence and transcribed into

10 the record.]

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DECLARATION

I, Roger C. Prescott, declare under penalty of perjury that the testimony that I have prepared on behalf of the Mail Order Association of America identified as MOAA-T-1, and filed with the Postal Rate Commission on May 22, 2000, is true and correct to the best of my knowledge, information and belief.

Roger C. Prescott

Roger C. Prescott

Date: July 15, 2000

RECEIVED
MOAA-T-1
MAY 22 1 53 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

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

POSTAL RATE AND FEE CHANGES, 2000	)	**Docket No. R2000-1**

DIRECT TESTIMONY
OF
ROGER C. PRESCOTT

On Behalf Of
MAIL ORDER ASSOCIATION OF AMERICA

Communications with respect to this document may be sent to:

David C. Todd
Patton Boggs, L.L.P.
2550 M Street, N.W.
Washington, D.C. 20037-1350
(202) 457-6000

Counsel for Mail Order
Association of America

Due Date: May 22, 2000

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III. DISCOUNTS FOR BPM ENTERED AT THE DDU 4

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Appendix A	Statement of Qualifications

DIRECT TESTIMONY

OF

ROGER C. PRESCOTT

My name is Roger C. Prescott. I am Executive Vice President of the economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, Virginia 22314. I presented testimony before the Postal Rate Commission ("PRC") regarding Third Class Bulk Regular ("TCBRR") and Standard (A) commercial mail rates in Docket No. R90-1, Postal Rate and Fee Changes, 1990 ("R90-1"), Docket No. MC95-1, Mail Classification Schedule, 1995 Classification Reform I ("MC95-1") and Docket No. R97-1, Postal Rate and Fee Changes, 1997 ("R97-1"). I also presented testimony before the PRC regarding the proposed mail service in Docket No. MC98-1, Mailing Online Service ("MC98-1"). I have on numerous prior occasions presented evidence before the Surface Transportation Board (formerly the Interstate Commerce Commission) on economic ratemaking and cost finding principles. My qualifications and experience are described in Appendix A to this statement.

I. PURPOSE OF TESTIMONY

In this current proceeding, the United States Postal Service's ("USPS") Witness James M. Kiefer (USPS-T-37) submitted proposed changes to the rates for Standard (B) Bound Printed Matter ("BPM") mail. These proposed rates, for the first time, include destination entry discounts for BPM mail. The cost savings for the destination entry discounts proposed by Witness Kiefer were based on the analyses presented by the USPS' Witness Charles L. Crum (USPS-T-27).

I have been requested by the Mail Order Association of America ("MOAA") to review the direct testimony and underlying workpapers of the USPS' Witnesses Crum and Kiefer in order to evaluate the reasonableness of the destination entry discount for BPM mail entered at the Destination Delivery Unit ("DDU"). The results of my analyses are summarized under the following topics:

II. Summary and Conclusions

III. Discounts for BPM Entered at the DDU

II. SUMMARY AND CONCLUSIONS

Based on my review and analysis of the USPS' proposed rates for BPM and the proposed discounts for BPM mail entered at the DDU, I conclude the following:

1. The calculation of the cost savings for BPM mail entered at the DDU as presented by the USPS in this proceeding equal $0.661 per piece and $0.088 per pound;

2. The USPS' proposed discount for BPM mail entered at the DDU equals $0.297 per piece which reflects a passthrough of 45 percent of the cost savings. The USPS' proposed discount per pound for BPM mail entered at the DDU equals $0.031 per pound which represents a passthrough of 35 percent of the cost savings; and,

3. Any passthrough of less than 100 percent of the cost savings results in a higher contribution to the USPS' institutional costs. The USPS goal in this proceeding is to better align rates with costs by proposing discounts which will encourage worksharing. While some uncertainty may exist regarding the level of the cost savings for the destination entry discounts, a modest increase in the passthrough percentage will serve to mitigate the large rate increase proposed for BPM mail entered at the DDU. Therefore, for this proceeding I propose that the passthrough for BPM mail entered at the DDU should be increased to 50 percent of the cost savings. When the passthrough is set to 50 percent, the discounts for BPM mail entered at the DDU equal $0.331 per piece and $0.044 per pound.

III. DISCOUNTS FOR BPM ENTERED AT THE DDU

In his testimony and workpapers, the USPS' Witness Crum summarizes the cost savings related to the dropshipping of BPM mail. The cost savings developed by Witness Crum were then used by Witness Kiefer to calculate discounts separately on a per piece basis and a per pound basis. [1/] Table 1 below summarizes the destination entry cost savings for BPM mail entered at the DDU provided by Witness Crum and utilized by Witness Kiefer:

Table 1
Summary of Cost Savings for
BPM Mail Entered at the DDU

Item	Per Piece[1/]	Per Pound[2/]
(1)	(2)	(3)
1. Cost Savings for Mail Entered at DDU	$0.661	$0.088

1/ USPS-T-27, Attachment I, Table 3 (revised 04/14/00) and page 17.
2/ Tr. 13/5286.

For BPM mail entered at the DDU, the cost savings equal $0.661 per piece and $0.088 per pound.

Based on these cost savings, Witness Kiefer developed his proposed destination entry discounts. Table 2 below compares the cost savings in Table 1 above with Witness Kiefer's proposed discounts. The passthrough percentage (Table 2, Line 3) is the ratio of the proposed discount to the cost savings.

1/ On April 14, 2000, Witness Crum provided an errata which increased his cost savings for mail entered at the Bulk Mail Center ("BMC") from $0.380 per pound to $0.385 per pound. When this revision is added to the cost savings (relative to the BMC) for BPM entered at the DDU of $0.276 per pound, the total cost savings equal $0.661 per pound.

Table 2
Comparison of Cost Savings, Proposed Discounts and Passthrough Percentage for BPM Mail Entered at the DDU

Item (1)	Amount Per Piece (2)	Amount Per Pound (3)
1. Cost Savings [1]	$0.661	$0.088
2. Proposed Discounts [2]	$0.297	$0.031
3. Passthrough Percentage [3]	45%	35%

[1] Table 1 above.
[2] Library Reference LR-I-325, WP-BPM-28 as summarized in Tr. 13/5286.
[3] Line 2 ÷ Line 1.

For BPM mail entered at the DDU, Witness Kiefer has proposed discounts of $0.297 per piece and $0.031 per pound (Table 2, Line 2). The passthrough of the cost savings for BPM mail entered at the DDU equals 45 percent for the per piece portion of the rate and 35 percent for the per pound portion of the rate (Table 2, Line 3).

This is the first time that the USPS has proposed destination entry discounts for BPM mail. As noted by Witness Kiefer "[t]aking advantage of these drop-ship discounts will, in many cases, also help mitigate the net impact of the rate increases." [2] The proposed discounts are "designed to recognize that the Postal Service enjoys cost and processing savings when mailers enter their

[2] USPS-T-37, page 3.

mail close to its delivery destination." [3] In addition, the institution of destination entry discounts "should send appropriate price signals that encourage these cost saving practices". [4]

Witness Kiefer justifies a passthrough percentage less than 100 percent "...in case the proxy cost savings turn out to be overly optimistic" [5]. For mail entered at the DDU, the difference between the cost savings and discounts equals $0.364 per piece and $0.057 per pound (Table 2, Line 1 - Line 2). This differential between the cost savings and the proposed discount provides a substantial increase in the contribution to the USPS' institutional costs and a wide margin of error for the USPS.

I have three comments regarding the USPS' proposed use of a conservative passthrough percentage. First, the use of a passthrough percentage of less than 100 percent of the cost savings will result in the USPS having a higher contribution to institutional costs for the mail utilizing the dropshipping than mail that does not use this option. This does not conform to the USPS goal to "better align rates with the costs of transporting, processing and delivering Bound Printed Matter". [6] Second, in light of the large increase in the rates for BPM mail entered at the DDU, I believe that for this proceeding a larger passthrough of the cost savings to "encourage these cost saving practices" is warranted. Therefore, I propose a passthrough of 50 percent of the cost savings for BPM mail entered at the DDU. Such a modest change from the passthrough percentage proposed by the USPS will not create major changes in the rates for BPM mail.

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[3] USPS-T-37, page 33.

[4] USPS-T-37, page 34 (footnote omitted).

[5] USPS-T-37, page 39.

[6] USPS-T-37, page 33.

Finally, nothing has been presented in this proceeding to indicate that the calculated cost savings are overstated. However, even if the cost savings for BPM mail entered at the DDU are overstated, a 50 percent passthrough still leaves a wide margin of error.

Table 3 below calculates the destination entry discounts for BPM mail entered at the DDU based on my proposed passthrough percentage of 50 percent.

Table 3
Calculation of Discounts for BPM Mail Entered at the DDU Based on Passthrough of 50% of the Cost Savings

Item	Source	Amount Per Piece	Amount Per Pound
(1)	(2)	(3)	(4)
1. Cost Savings for Mail Entered at DDU	Table 1, Line 1	$0.661	$0.088
2. Proposed Passthrough Percentage of 50%	See Text	0.50	0.50
3. Revised Discount for BPM Mail Entered at DDU	Line 1 x Line 2	**$0.331**	**$0.044**
4. USPS Proposed Discount for BPM Mail Entered at DDU	Table 2, Line 2	0.297	0.031
5. Change in Discount	Line 3 - Line 4	**$0.034**	**$0.013**

If the passthrough of the cost savings for BPM mail entered at the DDU is increased to 50 percent, the discounts for BPM mail entered at the DDU equal $0.331 per piece and $0.044 per pound (Table 3, Line 3). These revised discounts reflect an increase over the discounts proposed by the USPS' Witness Kiefer of $0.034 per piece and $0.013 per pound (Table 3, Line 5). Based on the revised discounts shown in Table 3 above, 50 percent of the cost savings will go towards the contribution to institutional costs. Also, the per unit (i.e., per piece or per pound) differential between cost savings and proposed discount is larger for BPM mail entered at the DDU than the

per unit differential for BPM mail entered at the destination Sectional Center Facility ("SCF") or destination Bulk Mail Center ("BMC"). In summary, a 50 percent passthrough of the cost savings for BPM mail entered at the DDU will provide incentives for mailers to perform worksharing activities and better align the rates for BPM mail entered at the DDU with the costs incurred by the USPS for that mail.

STATEMENT OF QUALIFICATIONS

My name is Roger C. Prescott, I am Executive Vice President and an economist with the economic consulting firm of L. E. Peabody & Associates, Inc. The firm's offices are located at 1501 Duke Street, Suite 200, Alexandria, Virginia 22314.

I am a graduate of the University of Maine from which I obtained a Bachelor's degree in Economics. Since June 1978 I have been employed by L. E. Peabody & Associates, Inc.

I have previously participated in various Postal Rate Commission ("PRC") proceedings. In Docket No. R90-1, Postal Rate And Fee Changes, 1990, I developed and presented evidence to the PRC which critiqued and restated the direct testimony of the United States Postal Service ("USPS") as it related to the development of the proposed rate structure on behalf of third class business mailers. I submitted rebuttal testimony in PRC Docket No. MC95-1, Mail Classification Schedule, 1995 Classification Reform I, regarding recommendations of intervenors in response to the USPS' proposed reclassification of Third Class Bulk Rate Regular ("TCBRR") rate structure. I also submitted rebuttal testimony in Docket No. 97-1, Postal Rate and Fee Changes, 1997 regarding the development of rates for Standard (A) mail. In Docket No. MC98-1, Mailing Online Service, I submitted testimony regarding the USPS' proposed service and the impact of that service on competition.

The firm of L. E. Peabody & Associates, Inc., specializes in solving economic, marketing and transportation problems. As an economic consultant, I have participated in the direction and organization of economic studies and prepared reports for railroads, shippers, for shipper

associations and for state governments and other public bodies dealing with transportation and related economic problems. Examples of studies which I have participated in organizing and directing include traffic, operational and cost analyses in connection with the transcontinental movement of major commodity groups. I have also been involved with analyzing multiple car movements, unit train operations, divisions of through rail rates and switching operations throughout the United States. The nature of these studies enabled me to become familiar with the operating and accounting procedures utilized by railroads in the normal course of business.

In the course of my work, I have become familiar with the various formulas employed by the the Surface Transportation Board ("STB"), which was formerly known as Interstate Commerce Commission ("ICC"), in the development of variable costs for common carriers with particular emphasis on the basis and use of Rail Form A and its successor, the Uniform Railroad Costing System ("URCS"). In addition, I have participated in the development and analysis of costs for various short-line railroads.

Over the course of the past twenty-two (22) years, I have participated in the development of cost of service analyses for the movement of coal over the major eastern, southern and western coal-hauling railroads. I have conducted on-site studies of switching, detention and line-haul activities relating to the handling of coal. I developed the carrier's variable cost of handling various commodities, including coal, in numerous proceedings before the ICC/STB. As part of the variable cost evidence I have developed and presented to the ICC/STB, I have calculated line specific maintenance of way costs based on the Speed Factored Gross Ton ("SFGT") formula.

I have developed and presented evidence to the ICC/STB related to maximum rates, and "Long-Cannon" factors in several proceedings. I have also submitted evidence on numerous occasions in Ex Parte No. 290 (Sub-No. 2), Railroad Cost Recovery Procedures related to the proper determination of the Rail Cost Adjustment Factor.

In the two recent Western rail mergers, Finance Docket No. 32549, Burlington Northern, et al. -- Control and Merger -- Santa Fe Pacific Corporation, et al. and Finance Docket No. 32760, Union Pacific Corporation, et al. -- Control and Merger -- Southern Pacific Rail Corporation et al., I reviewed the railroads' applications including their supporting traffic, cost and operating data and provided detailed evidence supporting requests for conditions designed to maintain the competitive rail environment that existed before the proposed mergers.

1 CHAIRMAN GLEIMAN: We'd appreciate it if you'd
2 provide those copies to the Court Reporter.
3 I don't have any record of an Designated Written
4 Cross Examination for this witness. Is there anyone who has
5 Designated Written Cross for this witness?
6 [No response.]
7 MR. REITER: For Dr. Stapert?
8 CHAIRMAN GLEIMAN: No, for Witness Prescott. I'm
9 sorry, we're confusing people today by trying to get
10 everyone in who is not being crossed.
11 I take it that there is none, then?
12 MR. REITER: As far as I know.
13 CHAIRMAN GLEIMAN: For the witness that we're on
14 now?
15 MR. REITER: Sorry to jump ahead.
16 CHAIRMAN GLEIMAN: That's okay. I apologize for
17 creating a bit of confusion here this morning, more so than
18 usual.
19 Ms. Hanberry, is she in the room?
20 MR. BAKER: She stepped out.
21 CHAIRMAN GLEIMAN: Then we'll see if we can locate
22 Ms. Hanberry, and we'll take a couple-minute break here
23 until we see if she's available.
24 [Recess.]
25 CHAIRMAN GLEIMAN: Ms. Hanbery, is Witness Smith

1 here today, or is it your intention to introduce his direct
2 testimony by motion?
3 Excuse me, you have to -- we will give you a
4 moment. Take your time. I'm sorry, we are creating a
5 little bit of confusion this morning by changing the
6 anticipated order of witnesses.
7 MS. HANBERY: Mr. Smith is two blocks away with
8 his family, who are also Administrative Law Judges
9 in-waiting, ages five to nine, who are now hastening down
10 the block when I learned we were moving at lightning quick
11 speed with our other witnesses.
12 Mr. Baro is here and is prepared to proceed.
13 CHAIRMAN GLEIMAN: If that is the case then, we
14 can proceed with Mr. Baro, if you would like to call him to
15 the stand.
16 Whereupon,
17 ORLANDO BARO,
18 a witness, having been called for examination and, having
19 been first duly sworn, was examined and testified as
20 follows:
21 CHAIRMAN GLEIMAN: Please be seated, and if you
22 could flip your microphone on there.
23 THE WITNESS: Thank you.
24 CHAIRMAN GLEIMAN: In the process, we are giving
25 Dr Stapert a real workout. He thought he was going to be up

1 there giving his testimony, and he has been back and forth.
2 You have finished your cardio workout for the day,
3 Dr. Stapert.
4 DIRECT EXAMINATION
5 BY MS. HANBERY:
6 Q Mr. Baro, would you please state your name for the
7 record?
8 A Orlando Baro.
9 Q And where are you employed and in what capacity?
10 A At the Flyer in Miami, Florida, and I am director
11 of sales.
12 Q And I am going to hand you a document entitled
13 "Direct Testimony of Orlando Baro," marked for
14 identification as AISOP-T-2, submitted on behalf of the
15 Alliance of Independent Store Owners and Professionals. I
16 will actually be handing you two copies of that.
17 Was this document prepared by you or at your
18 direction?
19 A Yes, it was.
20 Q And do you have any corrections or changes you
21 wish to make?
22 A No, it is fine, I have read it over.
23 Q If you were to testify orally today, is this the
24 testimony you would wish to present to this Commission?
25 A Yes.

1 Q Do you adopt and sponsor this as your testimony
2 for this proceeding?
3 A I sure do.
4 MS. HANBERY: Mr. Chairman, I would ask that this
5 be received and transcribed by the reporter into the record.
6 CHAIRMAN GLEIMAN: Is there any objection?
7 [No response.]
8 CHAIRMAN GLEIMAN: Hearing none, the testimony of
9 Orlando Baro is received into evidence. And if you would
10 please provide two copies to the reporter, I will direct
11 that the material be transcribed into the record and
12 received into evidence.
13 [Direct Testimony of Orlando Baro,
14 AISOP-T-2, was received into
15 evidence and transcribed into the
16 record.]
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AISOP-T-2

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000	Docket No. R2000-1

DIRECT TESTIMONY OF

ORLANDO BARO

ON BEHALF OF

THE ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS

Communications with respect to this document may be sent to:

Donna E. Hanbery, Esq.
Executive Director
Alliance of Independent Store Owners
and Professionals
3725 Multifoods Tower
Minneapolis, MN 55402

May 22, 2000

DIRECT TESTIMONY OF ORLANDO BARO

PERSONAL BACKGROUND

My name is Orlando Baro and I am the Director of Sales for *The Flyer*, a free paper publication in South Florida, and one of the Harte-Hanks shoppers. I have worked in the free paper industry since 1982, both for *The Flyer* in Miami and for *The Tampa Flyer*, an independently owned publication that I watched grow from a start-up to a weekly mailed circulation of over 750,000.

My family came to the United States when I was three years old from Havana, Cuba. My parents were well educated with degrees in business. My father was the Senior Vice President for the Bank of Havana. My parents did not speak English. Before we left, everything we owned was taken. My mother's wedding rings were removed. We arrived with only the clothes on our back. But like many recent immigrants to this country, and many of the advertising customers I serve, my family had a work ethic and a drive to succeed that helped us overcome the lack of assets or English.

I grew up poor in a family that worked very hard. My mother and father each worked two separate jobs for most of my young life. Years later, my parents were able to resume careers that reflected their education and abilities.

I have spent the last 18 years of my life helping small businesses get in business, stay in business, and grow through cost-effective advertising in a shopper sent by saturation mail. I passionately believe that free papers and reasonably priced postal rates are essential to the success and survival of America's smallest, and in many cases newest, businesses.

I began working in retail while I was still in school. I started at *The Miami Flyer* in 1982 as a sales representative. I left Miami in 1989 to become the Director of Sales for a new paper in Tampa. My responsibilities over the years included all aspects of operations but with a primary focus in sales, recruiting, and training. In 1999, I returned to my original United States home taking the Director of Sales position at *The Miami Flyer*.

The Miami Flyer has a weekly saturation mail circulation of 1,175,000. There are 97 separate zones with a different version of our paper in each zone. I supervise 50 persons in outside sales. The customers we seek and serve are the local merchants that typically buy a single ad going to a single zone of approximately 12,000 homes.

Through my employment at *The Flyer*, we have belonged to and I have participated in trade associations including Association of Free Community Papers, Independent Free Papers of America, Southeastern Advertising Publishers Association, the Alliance of Independent Store Owners and Professionals, the Saturation Mailers Coalition, National Federation of Independent Business (NFIB), and various Chambers of Commerce including Tampa, South Tampa, Brandon, Miami, and Coral Gables.

PURPOSE AND SCOPE OF TESTIMONY

I am testifying for the Alliance of Independent Store Owners and Professionals (AISOP) because I welcome the opportunity to tell the Postal Rate Commission how important it is to maintain reasonable rates for Standard A Enhanced Carrier Route (ECR) mail, the kind of mail used by hundreds of free papers in this country, like *The Flyer*. The purposes of my testimony are to:

1. Describe the importance of advertising mail, and the services provided by saturation mailers like free papers, to the small business retailer, service provider, professional, and home-based business.

2. Show the price sensitivity of saturation mail. This section will show the different ways small and large customers respond to price increases and how small businesses are more dependent on the mail while larger concerns have other media choices.

3. To show how consumers value our paper.

HOW FREE PAPERS SERVE CUSTOMERS

Free papers provide geographically targeted advertising services to local merchants. Although the circulation of *The Miami Flyer* is large, our paper is divided into zones that are designed by shopping and traffic patterns with an average circulation of approximately 12,000 homes per zone. The heart, soul, and bulk of our business is the neighborhood "mom and pop" business. Approximately 75% of our business comes from customers with only one or two stores. We depend on them and they depend on us.

Free papers work by providing every household in a community with a predictable source of shopping and advertising information from local businesses. A shopper works best when it offers consumers a mix of advertising news and values from small, medium, and large businesses.

Our core customers are small businesses that need the targeting ability that a shared mail shopper provides to focus their limited advertising dollars on the households in their trade area--the ones more likely to patronize their businesses. It is this targeting ability that makes our mailed free paper cost-effective for small business.

But being cost-effective does not mean that our mail advertising is cheap. When calculated on a cost per thousand basis, advertising by mail is a premium priced mass media advertising method. For chain stores or franchises with multiple locations, everyone in the metropolitan area is a potential customer. Because of postal rates, the most cost-effective mass media ad program for big stores is usually the media mix that combines TV, radio, and newspapers.

Medium and larger advertisers may continue to use our paper in their most productive zones, for new store openings, and seasonal or special sales. But they also use other, less expensive media. For national retailers and chain stores, our costs are too high to even be in the running as a mass media choice. You will not find K-Mart, Wal-Mart, or national grocers in our paper.

We cater to the needs of the small business advertiser. For us to succeed in winning their business, and to hold onto some of our medium and large customers, we need to do more than just sell advertising space and distribution services.

We succeed by offering service and solutions. For *The Flyer* and our customers to succeed, we need to become our customer's advertising partner.

As a trainer, and a salesman, I can speak for the entire sales organization of both *The Tampa Flyer* and *The Miami Flyer*. We take a consultative, relationship building approach to sales. The first time we call on a customer, we do not try to sell an ad. We go in and ask about their business. What do you do? What do you sell? What are your goals in the future?

Most small business owners are experts on their products and their services. It is rare that a local merchant has any expertise in marketing.

With a new customer, our typical advertising sale does not occur until the third or fourth call. We invest time in the first one to three visits learning about the business. Who are their customers? How far do they drive? Where do they come from? Who is their competition? I teach our sales force to put themselves in the advertiser's shoes. We do not ask for an opportunity to do a presentation to a potential customer until we think we can design a good offer that will produce sufficient sales to cover their investment in advertising so that they will want to do business with us again and again.

The Flyer and our sales force serve as the marketing department for thousands of local businesses. We help our customers define their existing and potential customer base, design an offer that will draw those customers, create and print the ad. Just as we are our customers' partner in marketing, we strive to partner with the Postal Service in operations, preparation, and drop shipment of the mail so that we, and our customers, can earn the lowest possible postal rates.

Our consultative approach to selling includes services to show the merchant how to integrate our print advertising with other promotional efforts. Suggestions as basic as showing the merchant how to move an item featured in their ad from the back of the store to the front with a large display can help produce sales. We teach our advertisers how to get the most bang from their limited ad bucks. Running a special in *The Flyer*? We help them design a placard that displays their *Flyer* ad in their front store window to help draw walk-in customers. Opening a new store and doing an insert? We do overrun printing that the advertiser can place on the store's counter, place on cars in a mall parking lot, and mail to their regular customers.

We do a lot for our customers. We need to, to keep their business and their loyalty. Miami is a large and dense metropolitan market. Our small business customers depend more on cost-effective advertising mail than big business to stay in touch with consumers. We and other saturation mailers are all dependent on the Postal Service keeping its basic saturation rate affordable so that we can help small business get in touch and stay in touch with their customers.

PRICE SENSITIVITY OF SATURATION MAIL

In 18 years of dealing with advertisers, I have had ample opportunity to see how the market responds when prices go up. Small and large customers react differently when prices change. Significant price increases hurt small businesses the most. They simply do not have more advertising dollars to spend and are forced to cut back or eliminate their advertising. This hurts their business.

Our large customers have more media choices. When postal rates go up, we hear about the attractive deals they are offered by our nonpostal competitors. This is when we are most vulnerable to lose the medium to large customers that are also important to our paper. Because our distribution costs are based on postal rates and weight, we cannot cut prices and offer special deal to our biggest customers. As businesses grow and have the capital and multiple geographic locations for mass

media advertising, they are likely to pull more of their advertising budget out of the mail and into cheaper forms of distribution.

It is hard to tell a small business customer about a price increase. In most cases, our small business customers are already paying a higher percentage of their revenues to advertise than their big business competitors. For home-based businesses, service personnel, and tradesmen, advertising may be the single highest expense next to the business owner's "salary" or draw. Every increase in our ad rates comes right out of their pockets. For a retail location with only one or two stores, advertising may be the owner's second or third highest cost. It is not atypical for a retailer to pay as much for advertising as for rent. If a price increase is modest, we may succeed in persuading customers to continue their existing ad programs.

In prior years, when we saw double digit postal increases, we were forced to pass on our higher costs to our customers. Our small business customers simply refused to pay the higher prices. They did not have the money. Many of the start-up and home-based businesses (who were already buying our smallest one or two line commercial classified ads) dropped out of our paper. The majority of our other small business advertisers responded by telling their sales rep to "reduce the size of my ad." Their advertising budgets stayed the same in spite of our price increases. Our salespeople were directed to reduce the size or frequency of the ad program to stay within the small business budget.

For the medium to large size advertisers in our paper, they have more choices when postal rates go up. They will bargain hard to get the best deal they can from us, but they will also shop other media choices. Although *The Miami Flyer* is a big Postal Service customer, we do not get any discounts for volume or frequency. In other media, the bigger you are the more you save. Big stores have the power to bargain for and receive volume discounts in their printing, distribution, and frequency costs. Big stores can afford the production costs associated with electronic media and can

design a media mix that combines electronic and print media to reach all or most of their customers at the lowest combined costs.

I can best illustrate the price sensitivity of saturation mail advertising with a *Flyer* success story. When I first started at *The Flyer*, one of my customers was Martino Tire. Martino Tire is an auto repair store and Goodyear dealer. It was started by two Haitian immigrants, Andy and Sal Martino. When I started on their account, they had two locations. They could not afford newspaper distribution as it would cost too much and reach people that were outside their stores' trade areas. With *The Flyer's* targeted, zoned coverage, we were able to help them make a big impression at a price they could afford.

In the initial years of Martino Tire's business, *The Flyer* had their entire advertising budget. The Martino brothers worked hard and built the business. When a new store would open, we would help them design a promotion to have a big impact in their new neighborhood. They would buy a full page ad and would often buy the cover page. With our cover pages, and with other selected pages in the paper, we offer color. We can help small and modest size businesses look like big fish in their neighborhood pond.

Today, Martino Tire is the biggest Goodyear distributor in the State of Florida. They have 15 locations. Although the Martino brothers attribute much of their success to *The Flyer*, the bulk of their print advertising budget is now in the daily newspapers. As a big business, they no longer need to pay the higher prices per thousand of circulation for targeted distribution by mail. The basic insert price per thousand is cheaper in the daily newspaper for big volume customers than we can make available to our customers. Because newspapers do not price based on weight, the Martino brothers can design bigger, multi-page circulars, featuring more products and services, with newspaper inserts than we must charge for a run of press page, or an insert, in *The Flyer*.

The success of a free paper, and that of our advertising customers, depends on a mix of individual advertisers, small businesses, and medium to large businesses. Unreasonable price increases make us, and in turn the Postal Service, vulnerable to losing our larger customers to other media. This hurts postal revenues, mailers like *The Flyer*, and is the hardest on our smallest advertisers who have no other media choice. I hope the Commission's recommendation for saturation rates are no higher than the increase requested by the Postal Service. I also support the requested reduction in the pound rate as it would help us be more competitive in retaining our medium to large advertisers.

CONSUMERS LIKE AND VALUE FREE PAPERS

The Flyer works for our advertisers, because it is liked, read, and welcomed by consumers who watch for our weekly paper in their home mailbox. What do we do that consumers like? Let me give some examples as well as excerpts from readers' letters:

1. We are free. Readers do not have to pay anything to get shopping information from stores and individuals near their homes. The daily newspaper in our community, *The Miami Herald*, just raised its prices to $1.25. Although subscription rates may be cheaper, many of our readers live in demographic areas where every dollar counts. Low income households, single parents, and seniors need to stretch their dollars and shop for savings. They cannot afford subscription papers or magazines. With *The Flyer*, they do not have to spend money to save money.

2. We are a neighborhood publication that reflects the diversity of each community. The shoppers in the affluent Coconut Grove area have different needs and tastes than consumers in the more blue-collar Opa Locka area. Readers in Coconut Grove may be looking for a pool cleaner. Opa Locka readers may be more interested in the help wanted ads. Our papers reflect the needs and tastes of each unique neighborhood. Many of our papers are bilingual and we offer discounts to advertisers who want to run an ad in both English and an additional language.

3. Our publication helps consumers save time and money and is convenient to carry. In the words of one of our readers, "Your magazine is free, direct delivery to our homes, small enough to handle in the house as well as to take with you in our purse. Busy working mothers like I am do not have the time to stop, pay and pick up the unmanageable newspaper when you have tired kids in the car. I am glad our city has *The Flyer* which offers a valuable service in both Dade and Brower Counties to our daily trade/buying/selling needs. We are a struggling busy society and your magazine makes a continued effort to keep us buying/selling direct, we all save, we all gain."

4. As the testimonial above illustrates, many of our customers are both advertisers and readers. Our classified pages serve as an affordable flea market bazaar for new and used consumer goods, autos, and services.

5. *The Miami Flyer*, like most free papers, contributes free space for community events and readers. We run ads from our readers for free where consumers can announce a garage sale, give away kittens, or sell a dusty treadmill. We regularly sponsor and provide space to local community theaters and nonprofits. Recently, we partnered to raise money for MS by promoting the Break Away to Key Largo bike tour.

6. *The Flyer* is the consumer's best source for information on home repair and improvement services. Do you want to hurricane proof your windows? Stubborn weeds in your yard? Want an estimate to fix your air conditioner before you just give up and buy a new one at some big box appliance store? *The Flyer* provides answers and solutions for these common consumer questions.

Most consumers like, in principle, to spend their money at locally owned stores to keep their dollars working in our communities to pay for local taxes, services and schools, preserve jobs, and promote diversity. Given the choice, many would like to give the little guy a chance and would patronize the locally owned merchant rather than the national chain. But even the most community

conscious consumer does not want to pay more or get less. Consumers want to make informed choices and they turn to advertising information to plan how to spend their money. The big stores will always be able to dominate the traditional mass media markets of T.V., radio, daily newspapers, and magazines. Our locally targeted *Flyer* helps readers comparison shop between local businesses and the big guys. Given the opportunity to have their goods and services compared to their big store competitors, our advertisers can compete and can give consumers both value conscious and community conscious choices.

CONCLUSION

For my family, Florida was the new world. A land of challenges and opportunities where we started our lives over again. The State of Florida, and many other parts of this nation, have experienced an influx of new immigrants who are living the American dream of starting and building their own businesses.

The *Flyer* papers in Miami and Tampa have succeeded and grown by nurturing and serving these new and emerging businesses. Affordable postal rates help free papers, as well as coupon envelope and other shared mailers, serve as the needed marketing department for America's smallest retailers, service providers, professionals, tradespersons, and home-based businesses. Our services, combined with reasonable postal rates, can help level the playing field between big business and small business when it comes to contacting consumers with a cost-effective advertising program.

I appreciate the opportunity to address the decision makers who will be setting the postal rates that are so important to *The Flyer* and our customers. I respectfully ask that you consider the importance of affordable saturation mail advertising to small business in your decision in this case.

CERTIFICATE OF SERVICE

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

Donna E. Hanbery

May 22, 2000

1 CHAIRMAN GLEIMAN: Mr. Baro, have you had an
2 opportunity to review the packet of designated written
3 cross-examination that was made available earlier this
4 morning?
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, Ms.
11 Hanbery, if I could impose on you once more to provide the
12 court reporter with two copies of the designated written
13 cross-examination of Witness Baro, I will direct that the
14 material be received into evidence and transcribed into the
15 record.
16 [Designated Written
17 Cross-Examination of Orlando Baro,
18 AISOP-T-2, was received into
19 evidence and transcribed into
20 evidence.]
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 ALLIANCE OF INDEPENDENT STORE OWNERS AND
PROFESSIONALS
WITNESS ORLANDO BARO
(AISOP-T-2)

Party	Interrogatories
Advo, Inc.	AAPS/AISOP-T2-4-6 NAA/AISOP-T2-1, 4, 6, 8, 11, 13-20
Newspaper Association of America	AAPS/AISOP-T2-2-3, 7, 9 NAA/AISOP-T2-1-5, 7-12, 15, 19
United States Postal Service	AAPS/AISOP-T2-2-9 NAA/AISOP-T2-3, 5-20

Respectfully submitted,

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
ALLIANCE OF INDEPENDENT STORE OWNERS AND
PROFESSIONALS
WITNESS ORLANDO BARO (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
AAPS/AISOP-T2-2	NAA, USPS
AAPS/AISOP-T2-3	NAA, USPS
AAPS/AISOP-T2-4	Advo, USPS
AAPS/AISOP-T2-5	Advo, USPS
AAPS/AISOP-T2-6	Advo, USPS
AAPS/AISOP-T2-7	NAA, USPS
AAPS/AISOP-T2-8	USPS
AAPS/AISOP-T2-9	NAA, USPS
NAA/AISOP-T2-1	Advo, NAA
NAA/AISOP-T2-2	NAA
NAA/AISOP-T2-3	NAA, USPS
NAA/AISOP-T2-4	Advo, NAA
NAA/AISOP-T2-5	NAA, USPS
NAA/AISOP-T2-6	Advo, USPS
NAA/AISOP-T2-7	NAA, USPS
NAA/AISOP-T2-8	Advo, NAA, USPS
NAA/AISOP-T2-9	NAA, USPS
NAA/AISOP-T2-10	NAA, USPS
NAA/AISOP-T2-11	Advo, NAA, USPS
NAA/AISOP-T2-12	NAA, USPS
NAA/AISOP-T2-13	Advo, USPS
NAA/AISOP-T2-14	Advo, USPS
NAA/AISOP-T2-15	Advo, NAA, USPS
NAA/AISOP-T2-16	Advo, USPS
NAA/AISOP-T2-17	Advo, USPS
NAA/AISOP-T2-18	Advo, USPS
NAA/AISOP-T2-19	Advo, NAA, USPS
NAA/AISOP-T2-20	Advo, USPS

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-2. (a) Please confirm that the May 31, 2000 edition of *The Flyer* that is marked "The Trail" and "908" weighs approximately 3.7 ounces, including inserts. (b) Please confirm that the base publication consists of 44 pages, nearly all of which is advertising, and that it measures approximately 7 inches by 1 inches. (c) Please confirm (or explain why you cannot confirm) that this edition contains the following inserts: (1) a four-page glossy for Navarro Pharmacies measuring approximately 8½ by 11 inches, (2) a one-sheet glossy with a pizza ad on one side and two separate home improvement ads on the other side, measuring approximately 8½ by 11 inches, (3) a one-sheet glossy with a Camis restaurant ad on one side and a Pearle Vision ad on the other, measuring approximately 8½ x 11 inches, (4) a four-page Amigo Supermarket ad, folded to measure approximately 9 inches by 11 inches, (5) a four-page Popular Discount glossy ad, measuring approximately 9 by 10½ inches, (6) a one-sheet glossy for Navarro Pharmacies promoting hair care products on each side, measuring approximately 8½ by 11½ inches, (7) a four-page Sedano's Supermarkets ad, folded to measure approximately 9 inches by 11 inches and (9) an ad for Best Look carpet and upholstery cleaners, measuring approximately 3¾ by 11 inches. (d) At what rate (*e.g.*, ECR saturation) was this publication mailed, and what was the per-copy postage?

RESPONSE:

You requested of AISOP's counsel that I send you a "typical" copy of *The Flyer*. I did forward to you the May 31, 2000 zoned *Flyer* for the area known as "The Trail." I did not weigh the paper or measure the inserts in the publication before I sent it. The description and dimensions set forth in your question appear accurate but I cannot swear to each item as personal knowledge. I also forwarded a copy of the paper I sent to you to AISOP's counsel and this will be brought with me to Washington when I testify. The postal rate that this publication was mailed at would be the applicable ECR saturation rate for pieces entered at the DDU.

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-3. You testify at page 2 that it is important to "maintain reasonable rates" for ECR mail. When was the last time that the rates for saturation ECR pieces like *The Flyer* were increased, and what was the percentage increase?

RESPONSE:

January, 1995, 14.2%

The rates for saturation ECR flats did increase in January, 1999, but we were able to offset the increase by drop shipping our papers at the DDU.

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-4. When you testify at page 3 that 75% of your business comes from customers with only one or two stores, does that percentage refer to the number of customers or to the amount of revenue?

RESPONSE:

Approximately 75% of our revenue comes from customers with only one or two stores. If I was to calculate the number of our customers, including consumers, more than 95% of our customers are individuals, small businesses, or advertisers with no more than one or two stores.

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-5. You testify that ads for K-Mart, Wal-Mart and national grocers cannot be found in your paper. Can they be found in ADVO shared mail sets or other mailed products?

RESPONSE:

I have not seen K-Mart or Wal-Mart in the ADVO shared mail pieces that I receive. In my market, ADVO does carry some light weight pieces for Win Dixie, Publix, and Albertson's. I am more likely to see national grocers, or major or national retailers like K-Mart or Wal-Mart, in a newspaper insert or in a shared mail product offered by a newspaper TMC.

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-6. You testify at page 4 that you are your customers' partner. If the Postal Service's proposed rates are approved, by how much will you reduce the advertising charges your customers pay?

RESPONSE:

If the Postal Service's proposed rates are approved, our basic piece rate for saturation mail delivered to the DDU would increase by 5.3% and we would see a small reduction in the rates we pay for pieces weighing more than 3.2985 ounces. Based on these changes, I would not assume that we would reduce all of our advertising charges as implied by your question. Our advertising charges would need to be adjusted to reflect changes in our costs of postage, as well as other costs and competitive conditions.

It is likely that the modest reduction we would receive for heavier pieces would allow us to be more competitive with some of our major accounts for the distribution of their insert advertising. I know that some of the most favorable rates proposed by the Postal Service in this case are for Enhanced Carrier Route high density mailers that enter at the DDU. Our daily newspaper competitors that offer a mailed TMC program would see a rate increase of only .8% in their basic rate under the Postal Service proposal, as compared to our rate increase of 5.3%. This would allow our newspaper competitors to offer very favorable pricing to all of their customers and I am certain we would reflect these competitive conditions in our advertising charges.

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-7. You testify at page 5 that you are dependent upon the Postal Service's "keeping its basic saturation rate affordable." (a) Would that rate cease to be affordable if it were to increase no more rapidly than the CPI? (b) Is it your testimony that saturation rates never should be increased?

RESPONSE:

(a) It could. CPI may or may not reflect the competitive conditions that we face in the marketplace.

(b) No.

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-8. You testify at page 5 that significant price increases hurt small businesses. By how much would you be required to raise your prices to small businesses if the current saturation postage rates remain unchanged for the next three years?

RESPONSE:

I do not know. Certainly, postage rates are a big part of *The Flyer's* expense budget. Approximately 27% of our revenues are paid to the post office. If current postage rates remained unchanged, we might not need to raise our prices for small business. But the prices we offer our smallest customers depend on other competitive conditions and our costs. If, for example, we continue to lose some of our larger customers to other media, we might need to raise all of our prices including the prices paid by small business to make up for the loss of revenue. This is one of the reasons why I hope the Postal Rate Commission approves the reduction in the pound rate so that we can retain more of the business of our successful and growing small business customers. Under the current rate scheme, it is frustrating for me to develop a small business customer into a successful, medium to large business only to have that customer then become a desirable target for my competitors.

AISOP WITNESS BARO RESPONSES TO AAPS

AAPS/AISOP-T2-9. If, as you state at page 5, your customers are offered attractive deals by nonpostal competitors, why doesn't *The Flyer* shift to nonpostal delivery?

RESPONSE:

See my answer to AAPS/AISOP-T2-8. I am not stating that all of our customers are offered attractive deals by our nonpostal competitors. It is our large customers that are fought for in the marketplace by other media and nonpostal competitors.

The Flyer prefers to have the Postal Service as its delivery provider so that we can focus on being publishers and advertising and market consultants and not a door hanger or delivery company. In my experience in attending meetings where other free papers are involved in both publication and delivery of their paper, the focus is split. Much of the energy and talent of management and business goes into growing the delivery business--seeking new and different customers other than traditional advertisers in the paper (like sample delivery, directories, etc.). Once you build the delivery machine, there is the compulsion to fill it and your management focus and company mission are divided.

As I hope is demonstrated in my testimony, *The Flyer* does an excellent job of providing cost-effective advertising services for individuals and small business. The sales force I supervise has a passion for this business. It is our primary mission. If we can continue to work on what we do best, and have the Postal Service be a cost-effective distribution supplier for us, this is the best solution for us and our customers.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-1. In your testimony you portray yourself as a small businessman and *The Flyer* as a small, independent business.

a. Please confirm that *The Flyer* is owned by Harte-Hanks, one of the nation's leading multi-media companies.

b. Please confirm that you are an executive of Harte-Hanks (either the main corporate entity or a Harte-Hanks subsidiary).

RESPONSE:

a. I believe pages 1 and 2 of my testimony accurately portrays my background as a salesperson who worked at *The Miami Flyer* until 1989, went to *The Tampa Flyer* for 10 years which I described as an "independently owned publication that I watched grow from start-up to a weekly mailed circulation of over 750,000." Ten years of my recent business life was working for *The Tampa Flyer*, an independently owned shopper that is not owned by, or affiliated with, Harte-Hanks. I testified that I returned to *The Miami Flyer* in 1999, that it was "one of the Harte-Hanks shoppers" and had a "weekly saturation mailed circulation of 1,175,000." I do not believe my testimony portrays *The Flyer* as a "small, independent business." *The Flyer*, and its employees like myself, do make it our business mission to focus on the needs of small, independent business.

I do confirm that *The Flyer of South Florida* is owned by Harte-Hanks, Inc. and that Harte-Hanks was ranked according to an Advertising Age web page of the 100 leading media companies by U.S. media revenue as number 87 for the most recent ranking shown. I would like to point out that according to that same Advertising Age web page the two main newspaper competitors of *The Flyer of South Florida* are *The Miami Herald*, owned by Knight-Ridder, which was ranked as number 14 of the 100 leading media companies with total media revenue for 1998 (the most recent year reported) of $2,950,300,000. Knight-Ridder's revenues were 11 times those of Harte-Hanks in 1998. Our next significant competitor is *The Sun Sentinel* in the Fort Lauderdale area which is

owned by The Tribune Company. The Tribune Company was ranked number 19 according to this Advertising Age web page with 1998 revenues of $2,515,600,000. Harte-Hanks Communications is smaller today than it was in 1998. I believe our two main competitors have grown even larger. Even with 1998 figures, our competitors were 10 times larger than Harte-Hanks Communications or the Harte-Hanks shoppers.

b. Not confirmed. I am the Director of Sales for *The Flyer* in Miami.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-2.

a. Please confirm that the circulation of *The Flyer* is approximately 1,175,000.

b. Are you aware that, according to the *2000 Editor and Publisher International Yearbook*, the Monday-Saturday circulation of *The Miami Herald* is approximately 349,114?

c. Are you aware that, according to the *2000 Editor and Publisher International Yearbook*, the Monday-Saturday circulation of *The Washington Post* is approximately 714,945?

RESPONSE:

a. Confirmed.

b and c. I am not aware of the circulation figures published by the *2000 Editor and Publisher International Yearbook* for Monday-Saturday circulation for either of these papers. I assume by your question that you are referring to paid circulation or subscription numbers. I am aware that both *The Miami Herald* and *The Washington Post* operate TMC programs where insert advertisers can have some advertising delivered in the paper and other advertising delivered to nonsubscribers. *The Miami Herald* reports that its circulation through its TMC program is "approximately 725,000 subscriber and nonsubscriber households in Miami-Dade and Broward." The geographic area covered by *The Miami Herald's* TMC program is smaller than the geographic area we cover. *The Miami Herald* also publishes a separate, Spanish language paper named *El Nuevo Herald* that *The Miami Herald* reports reaches "113,000 Hispanic subscriber households" or it can be used to reach "260,000 subscriber and nonsubscriber households." (Quotes taken from *The Miami Herald* rate card information filed as library reference AISOP-LR-1.

I would point out that when we sell against any daily paper to advertisers they primarily recite their Sunday circulation figures or their "readership" figures. The main source advertisers look to for verified circulation numbers is promulgated by ABC Audit, an independent company that audits and verifies circulation numbers.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-3. With respect to *The Miami Flyer*:

a. What is *The Flyer's* annual gross revenue?

b. What is *The Flyer's* annual postal bill?

RESPONSE:

a and b. My employers at *The Flyer* consider information about its annual gross revenues and specific expense questions to be confidential and proprietary. I can state that approximately 27% of the gross revenues of *The Miami Flyer* is spent on postage.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-4. Please refer to page 3 of your testimony, where you state that one "will not find K-Mart, or national grocers in our paper."

a. Please confirm that *The Flyer's* carries advertising by Sedano's, South Florida's third largest food store and your number one customer?

b. What percentage of The Flyer's revenue is from Sedano's?

c. Will one find K-Mart, Wal-Mart, or national grocers in ADVO shared mail packages?

d. Please refer to page three of your testimony. You appear to say that your costs are too high to attract K-Mart, Wal-Mart, or national grocers business. Do you know if ADVO typically has the same costs as you do/ If your answer is yes, why is it that in many sections of the nation ADVO can attract that business and you cannot?

RESPONSE:

a and b. Not confirmed. *The Flyer* does carry advertising of Sedano's and Sedano's may be South Florida's third largest food store, depending on how you define the area of South Florida. To prevent this answer or question from being misleading, I would add that if national grocers, or all grocers in Florida are considered, Sedano's would not be considered a large regional or national grocer. Sedano's has 30 stores with 28 in Dade County and two in Broward County. Their market concentration matches our saturation geographic coverage in Dade County and the areas Sedano's wants to cover in Broward County.

Sedano's ranking as a customer of *The Flyer* and our revenue from Sedano's is considered confidential and proprietary. I will acknowledge that Sedano's is one of our largest customers and is a valued and major account.

There is an additional reason why Sedano's favors advertising in *The Flyer* rather than distribution that might actually be less expensive on a cost per thousand basis in the daily paper. Sedano's is owned by Hispanics and caters to the Dade County market that is approximately 70% Spanish speaking people. Many of the products and specials offered by Sedano's are more like a

local Cuban grocery than a large regional or national grocer. The readership of the *Daily Herald*, and its market penetration, is not strong among Spanish speaking people.

Sedano's also advertises with a light weight piece. If Sedano's did a heavier or larger advertisement, like the larger grocery stores routinely found as an insert in the newspaper, Sedano's might not find *The Flyer's* distribution cost effective.

b. In the ADVO packages I have seen in my market, I have never seen K-Mart or Wal-Mart. I have seen some lighter weight pieces from the major grocery store chains of Winn Dixie, Publix and Albertsons. Most of the national retailers, chain stores, franchises, and stores like the examples I gave in my testimony of K-Mart, Wal-Mart, and national grocers are carried as inserts in the Sunday paper or in a paper's TMC program.

c. I do not know ADVO's cost structure. I presume their postage rates are the same as ours. See answer to 4c above.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-5. With respect to *The Flyer*:

a. Does *The Flyer* typically pay Standard A ECR saturation or high density rates with either SCF or DDU discounts?

b. What proportion of *The Flyer's* mailings pay the Standard A ECR piece-rate? The Standard A ECR pound rate?

c. Do you know whether ADVO typically pays postage for its shared mail packages at the same presortation, destination entry discount, and piece-rate versus pound-rate levels as does *The Flyer*?

RESPONSE:

a. All of our mail is Standard A ECR saturation mail entered at the DDU.

b. Our weekly mailings typically are 40% at the piece rate and 60% at the pound rate. At times, as much as 75% to 80% of our mailings are at the pound rate.

c. I do not know.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-6. Please refer to page 6, bottom paragraph, of your testimony, where you complain that you do not get postal discounts for volume or for frequency and that in the private sector, "the bigger you are, the more you save."

a. Is it your position that government services should be offered on a discounted basis so that the bigger you are, the more you save on government services?

b. Is it your position that you would not object if the government offered ADVO services at fees lower than those the government forced you to pay for the same services?

c. Is it your position that *The Flyer* should have paid more for postage when it was an independent business and less after Harte-Hanks acquired it "since the bigger you are, the more you should save"?

RESPONSE:

I believe the quotation you excerpt from my testimony is out of context. What I said on page 6 is as follows:

> For the medium to large size advertisers in our paper, they have more choices when postal rates go up. They will bargain hard to get the best deal they can from us, but they will also shop other media choices. Although *The Miami Flyer* is a big Postal Service customer, we do not get any discounts for volume or frequency. In other media, the bigger you are the more you save. Big stores have the power to bargain for and receive volume discounts in their printing, distribution, and frequency costs. Big stores can afford the production costs associated with electronic media and can design a media mix that combines electronic and print media to reach all or most of their customers at the lowest combined costs. (Emphasis added.)

It is my position that the Postal Service, and the Postal Rate Commission, should take into account the competitive realities of the marketplace where volume and frequency discounts are a fact of life and reflect discounts and savings routinely offered by our nonpostal competitors. Other than the worksharing discounts we earn from the Postal Service, we can do nothing to control or reduce a cost item that makes up 27% of our revenues. This makes us less competitive in holding on to the business of our medium and large customers. Volume and frequency discounts are a matter of common business practice in our industry and most businesses. Cost-effective government services

can and should fairly reflect the efficiencies and cost savings of higher volume, and more predictable, transactions like private providers.

In my experience in the marketplace, discounts or savings based on volume or frequency are not based on the size of the buyer but on the amount of the business done and the cost savings realized by the provider. The Postal Service or the Postal Rate Commission could fashion an approach to postal discounts for volume or frequency that gave local, high volume or frequent mailers cost savings regardless of the size of the mailer. This would be similar to what our nonpostal competitors do when they offer advantageous contract rates for advertisers making agreed to commitments for volume and frequency. Under this approach, *The Flyer*, whether independently owned or after Harte-Hanks acquired it, and a company as big as ADVO, would be on an even footing with the Postal Service at the local level when acquiring postal distribution services and all mailers would be more competitive with nonpostal media in the rates and services we can offer to our advertisers. For the small business customers and consumers, that are the primary customers we serve, they would benefit from a lower cost advertising supplier.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-7. With respect to *The Flyer*:

a. Please list all community newspapers you compete against and their circulation.

b. Do you compete against ADVO? If yes, what is their distribution volume, and how many zoned areas do they sell?

c. Who else do you consider the *Flyer's* competition?

RESPONSE:

b. Yes. I do not know ADVO's distribution volume but I know that ADVO operates a weekly saturation mail program that covers all households in Dade and Broward Counties, the same general coverage area of *The Flyer*. I do not believe ADVO sells zones as such but has the ability to offer advertisers targeted distribution based on the demographic and geographic characteristics of a particular carrier route.

a and c. I could not possibly list all of the various media *The Flyer* competes with in Dade and Broward Counties without spending hundreds of hours researching the topic.

All media are competitors of *The Flyer* for the advertising dollars of our customers. As explained in my testimony, many different kinds of media are not cost-effective competitors for the small business person. For our larger customers, every type of media is a potential form of competition.

For our smaller customers, our competition includes not just other media but all of the other demands placed on the small advertiser's budget. Based on my own experience with new advertisers, I know *The Flyer* is competing with fixed expenses like labor, rent, costs of good sold, and discretionary items for the small business like capital improvements to the store, buying a new truck, or the owner's personal draw.

AISOP WITNESS BARO RESPONSES TO NAA

To answer your question as completely and accurately as possible with the information available to me, I can provide the following as a non-exhaustive list of the "community newspapers" with which we compete and our other competition:

In Dade County where the City of Miami is located, our primary newspaper competitor is the family of papers owned by the Knight-Ridder Media Company (ranked by the Advertising Age web page as #14 on the list of top 100 U.S. media companies by U.S. revenue) doing business as *The Miami Herald, El Nuevo Herald,* and a host of special sections, community papers, and editions operated by *The Miami Herald* including special inserts and sections like "The Weekend," "Business Monday," "Miami Herald International," "Domingo Social," "Home Town Herald," "Miami-Dade Neighbors," "TV Week Feature," "Parade Plus," and "Retail Directories." The individual circulation for each of these different sections or editions is not known to me but the published circulation information given out by *The Miami Herald* has been filed by us as library reference AISOP-LR-1.

The Miami Herald operates a TMC program known as "The Herald Values" which it advertises "reaches 725,000 (annual average) subscribers and nonsubscribers through Miami-Dade and Broward Counties." *The Miami Herald* also offers a variety of internet services known as "Herald On-line Services" that offer more than a dozen different on-line sites.

Although *The Miami Herald's* primary market area is in Dade County, it also overlaps our geographic coverage for part of Broward County.

The Flyer's primary print competitor in Broward County is *The Sun Sentinel* owned by Tribune Publishing (ranked by the Advertising Age web page as #19 on the list of top 100 U.S. media companies by U.S. revenue). *The Sun Sentinel* is the major daily newspaper of Broward County and advertises that it reaches "600,000 readers daily and more than 850,000 on Sundays." *The Sun Sentinel* offers advertisers a variety of daily and community-based print media choices and

sections including a local news section, lifestyle section, "Your Business," "Show Time," "City Link," "South Florida Parenting," and a magazine called *Vital Signs*.

The Sun Sentinel offers a total market coverage vehicle called Special Delivery that is delivered through its paid circulation and direct mail. *The Sun Sentinel* has six separate zoned editions in Broward County that have daily circulation ranging from 19,200 to 40,200 and Sunday circulation ranging from 27,300 to 62,900. This information is taken from the published advertising promotional material of *The Sun Sentinel*. *The Sun Sentinel* offers a variety of specialty products in sections within its paper, owns other community papers including *El Semanal*, *The Jewish Journal*, and offers a variety of direct mail services including geographically and demographically targeted TMC services, data base marketing, list services, and other direct mail services. Sun Sentinel Direct Marketing Services states in its promotional materials that it can operate as a "one stop source for all your laser and lettershop service needs."

In addition to the print media offered by *The Miami Herald* and *The Sun Sentinel*, *The Flyer* competes with a large variety of local newspapers, free specialty advertising papers, mailed products, and directories. Some of these print media competitors are listed below. I would point that I have not even attempted to list the competition we have with billboards, specialty advertising, electronic media like local broadcast, cable, and internet advertising. Print media in our community includes: *The New Times*, *The Miami Times*, *The Diario*, *Las Americas*, *El Clarian*, numerous local papers published under the banner of Gazette such as *Kendall Gazette*, *Homestead Gazette*, *Coral Gables Gazette*, etc., *El Sol De Hialeah Exito*, *Homestead Newspapers Inc.*, *The Women's Business Journal*, *La Opinion*, *La Verdad News*, *Courier Newspaper*, *Miami Daily Business Review*, *El Avisador*, *Miami Laker*, *Miami Today*, *Noticias Miami Dade*, *El Saro Newspaper*, *El Nuevo Patrica*, *South Dade News Leader*, *South Florida Business Journal*, *The Weekly News*, *Your Hometown Newspaper*, *The Florida Journal*, *The Key West Citizen*, *The Digest*, *Broward Informer*, *Broward News*, *Coral*

AISOP WITNESS BARO RESPONSES TO NAA

Springs/Parkland Forum, The Sun Post, Miami High Riser, Hiahleah-Opa Locka News, Florida Keys Keynoter, Cutler Courier, Coral Springs City News, The Keys Advertiser, Margate/Coconut Creek Forum, Around Town, North Miami News, Tamarac/North Lauderdale Forum, numerous foreign papers including *Brazilian Post, Caribbean News, Jamaican Observer, Islander News, Korean American Journal, El Colombiano,* etc. Other free papers include *Loafer's Choice, The Keys Advertiser, Pennysaver,* and *The Sun Post.* Alternate and specialty publications include *City Link, West Side Gazette, Florida Photo News and Image, Seminole Tribune, TWN, Contax Guide, Senior News, South Florida Parenting, and Florida Baby Magazine.* Rack and specialty publications include *Show and Sell Real Estate, Auto Trader, Car and Truck Buyer's Guide, Harmon Homes, Cordoco Homes, Apartment Rentals, Unique Homes Magazine,* and numerous other specialty car, vacation, and travel print media. The primary direct mail media in our area, besides ADVO named above, include Val-Pak, Money Mailer, United Coupon, Super Coups, Tri-Star, Value Pack, The Clipper, The Mailman, and other smaller local mailed products. We compete with major telephone directories, such as *The Yellow Pages*, and localized directories, Chamber of Commerce monthly newsletters and directories, and other directories or papers put out by schools, community organizations, and nonprofits.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-8. Please refer to page 3 of your testimony, where you state that advertisers use other less expensive media.

a. What are these "less expensive media?"

b. Please provide a full comparison of their rates and your rates.

c. If these media are less expensive, why aren't the small businesses that use your publication using them.

RESPONSE:

I believe you are quoting my testimony out of context. What I say on page 3 of my testimony is, "Medium and larger advertisers may continue to use our paper in their most productive zones, for new store openings, and seasonal or special sales. But they also use other, less expensive media."

a. Within the context of my testimony, for medium and larger advertisers who can choose from a wide variety of print and electronic media, less expensive media measured on a cost per thousand basis could include ROP or insert advertising in a daily paper, distribution in a newspaper TMC delivered by private carrier or by mail, and electronic media such as radio, television, or the internet. As explained on page 6 of my testimony, larger advertisers can bargain for and receive volume discounts in printing, distribution, and frequency costs. These large advertisers often can afford the production costs necessary to make electronic media costs effective and can design a media mix that combines electronic and print media to reach all or most of their customers at the lowest combined cost.

b. See my answer to NAA/AISOP-T2-7. It is not possible for me to give a "full comparison" of all media with which we compete. In some circumstances these media, particularly for the larger advertisers, will be "less expensive" than *The Flyer*. For many specialty, free publications, like rack distributed give-away publications, such as specialty auto and home buying publications, where our competitors have little or no distribution costs, their media prices will be

cheaper for both small and large advertisers. For comparison of our rates and the rates of *The Miami Herald*, please see library references AISOP-LR-1 and AISOP-LR-2.

c. You are taking portions of my testimony out of context. I am not saying that the media that is less expensive for our large customers is also less expensive for small business. I am making the point that traditional print and electronic media are too expensive for small business and that this is one of the reasons they choose *The Flyer*. Once we have seen a small business grow and develop to a medium or large size business, they are more likely to be called upon and solicited by our competitors and the rates of our competitors for large advertisers, or the combined rates by using different media that a big advertiser can achieve through a well designed media mix, are likely to be less expensive than the cost per thousand we must charge.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-9. Please refer to page 3 of your testimony, where you state that free papers provide geographically-targeted advertising services to local merchants.

a. Do daily metropolitan newspapers, through their paper and Total Market Coverage Programs (TMC), provide geographically-targeted advertising services to local merchants?

b. Do paid-circulation community newspapers, through their paper and Total Market Coverage Programs (TMC), provide geographically-targeted advertising services to local merchants?

c. Do free-circulation community newspapers provide geographically-targeted advertising services to local merchants?

RESPONSE:

a, b, and c. Daily metropolitan newspapers, paid circulation community newspapers, and free circulation community newspapers, all have the ability to offer very targeted TMC programs for inserts and zoned ROP advertising services for "local merchants." It has been my experience that paid circulation daily papers with zoned versions of the paper generally have zones that have circulation coverage that is anywhere from two to four times the zone size available to advertisers in *The Flyer* and have geographic coverage that may be ten times larger than the territory of our zones.

With the exception of some community newspapers and free circulation community papers, I do not believe that daily papers provide "geographically targeted advertising services to local merchants." In my testimony, I make it clear that we are not order takers. We engage in consultative selling where we cater to the needs of small business. We help them understand their advertising needs, design and plan their ad, and, if cooperative dollars are available, we help them pay for their ad, and provide other advice and assistance to market their business. The daily and larger paid circulation community newspapers may provide services like this to their larger advertisers, but they do not provide this full range of geographically targeted advertising **services** to the smaller, local merchant.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-10. With respect to *The Flyer*:

a. How many individuals are on the staff of *The Flyer*?

b. How many reporters or editors are on the staff of *The Flyer*?

c. What percentage of the space in your paper is devoted to national, and/or local news reporting and sports reporting?

d. Does your advertising revenue cross-subsidize the editorial activities of your paper?

RESPONSE:

a. 190.

b. None.

c. None.

d. It does not cross-subsidize news, reporting, and editorial/opinion activities. It does cross-subsidize the community-related and free reader ads we give to consumers.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-11. With respect to *The Flyer*:

a. How far down--i.e., zip code, postal carrier route, zip+4--does *The Flyer* zone ROP ads? inserts?

b. What is the smallest "buy" an advertiser can make in *The Flyer*?

c. To the best of your knowledge, how far down does *The Miami Herald* zone for advertising ROP "buys"? For free-standing insert buys?

d. To the best of your knowledge, what is the small "buy" an advertiser can make in the *Herald*?

e. To the best of your knowledge, how far down *The Miami Herald's* Total Market Coverage Product (TMC), operated by *Herald Direct*, zones?

f. To the best of your knowledge, what is the smallest insert "buy" an advertiser can make in the *Herald's* TMC program, operated by *Herald Direct*? If your answer is yes, please provide that information.

g. To the best of your knowledge, how many copies a week does the *Herald's* TMC program mail?

h. What is the typical (not rate card) price per thousand for an insert that *The Flyer* charges for one zone?

i. To the best of your knowledge, what price per thousand for an insert does *The Miami Herald's* TMC program charge for one zone?

j. What is the price for a 4x4 one zone distribution ROP ad in *The Flyer*?

k. What is the price of a full-page one zone ROP ad in *The Flyer*?

l. To the best of your knowledge, what is the price for a 4x4 one zone ROP ad in *The Miami Herald*?

m. To the best of your knowledge, what is the price for a full-page one zone ad in *The Miami Herald*?

n. Does *The Flyer* offer or provide for solo mail programs?

o. To the best of your knowledge, does *Herald Direct* offer or provide for solo mail programs?

AISOP WITNESS BARO RESPONSES TO NAA

RESPONSE:

a. *The Flyer* zones its ROP ads and inserts as finely down as one of our individually zoned shopper booklets. The smallest size zone, in terms of circulation numbers, is less than 6,000 homes per week. As stated in my testimony, we divide our paper into zones that are designed by shopping and traffic patterns with an average circulation of approximately 12,000 homes per zone.

b. An individual line classified ad in a single zone. As noted in my testimony, we run noncommercial ads for individual readers and consumers for free so that the smallest "buy" in our paper may actually be free. A paid classified ad may cost as low as $5.00.

c, d, e, and f. My best knowledge would all be based on the information printed in *The Miami Herald's* rate card. We are filing a copy of *The Miami Herald* rate card and *The Flyer* rate card as library references AISOP-LR-1 and AISOP-LR-2.

g. I do not know how many copies *The Herald Direct's* TMC program mails. It promotes this program as having 725,000 total circulation in Dade County and portions of Broward County.

h. Because our insert prices must all be based on weight, we do not have a "typical" price per thousand for an insert in *The Flyer* for one zone. This question suggests that our rate cards do not accurately reflect our typical or actual rates. This is not true. Our "typical" rates are the prices reflected in our published insert advertising rates for *The Flyer*. Our insert rates priced per thousand based on weight for a single zone vary from a low of $20.90 for a piece weighing .05 ounces to a high of $76.00 for a one ounce piece. Although this is the range of weights shown on our rate card, I would point out that I have never seen a piece with a weight as low as .05 ounces. The "typical" lightest weight single pieces I usually see are for one-fifth or .2 ounces where the lowest rate is $29.60 for a single zone buy with frequency of 1 to 11 times per year. Because it is so unlikely or rare, due to the high costs of postage, that an advertiser would mail a piece weighing

more than one ounce, our printed advertising rate booklet does not include rates for pieces weighing more than one ounce.

i. According to *The Miami Herald* rate card, a copy of which is being filed by us as library reference AISOP-LR-1, the price per thousand for an insert ad in *The Miami Herald* TMC for a single zone ranges from $35.00 for a single sheet to $83.00 for a 44 page tabloid size piece. I would estimate a 44 page tabloid piece (which is substantially larger in outside dimensions than our flexie sized *Flyer* booklet) weighs between four and five ounces. *The Miami Herald's* prices are not based on weight but are based on page count.

j. It is difficult for me to address your question as asked as *The Flyer* does not quote its ROP rates, designed for the use of small businesses, by quoting prices in column inches. Our one-quarter page vertical ad measures 3 1/16th inch by 4 ½ inches and is one-fourth of a page. A quarter-page, one zone, single insertion ROP ad in *The Flyer* pays our highest "open rate" of $10.00 per thousand. In a typical zone of 12,000 homes, this would translate to a cost of $120.00 for a quarter-page ad.

k. A full-page, one zone, single insertion ROP ad in *The Flyer* pays our highest "open rate" (with no discounts for multiple zones or frequency) of $26.00 per thousand for one page. For a typical zone of 12,000 homes, this would translate to a cost of $312.00 for a full-page ad.

l. It is difficult for me to answer your question as phrased as the rate card I have reviewed for *The Herald Direct* zoned edition known as *Miami-Dade Neighbors* does not show modular ads of 4x4 in its rate card. The closest thing in appearance to a 4x4 ad or a quarter-page ad in *The Flyer* would be somewhere between a buy of 2/10ths of a page (two columns by six inches) or 3/10ths of a page (three columns by six inches). I would like to point out that the same size ad in *The Herald Direct* will make a different impression than the same size ad in *The Flyer*. *The Flyer* is a smaller paper than *The Herald Direct*. An ad of 16 square inches in *The Flyer* will take up much

more of the page than 16 square inches in *The Herald Direct*. To the best of my knowledge, based on my interpretation of *The Miami Herald* rate information, a copy of which has been filed as library reference AISOP-LR-1, rates for zoned ROP ads in *The Miami Herald* will also vary depending on the zone purchased if the advertiser is buying a single insertion, one zone buy, in the Miami-Dade Neighbors section. These zones have circulation running from a low of 21,720 to 46,573 with higher circulations on Sunday. The geographic areas covered by these zones appear, on average, to be approximately 10 times greater than the geographic zones of *The Miami Flyer* (there are 56 Miami-Dade county zones in *The Flyer* and only 5 zones in *The Miami Herald*). I am not able to determine a price for a 4x4 one zone, ROP ad in *The Miami Herald* zoned Miami-Dade Neighbors section based on its published rate information.

m. To the best of my knowledge, the price for a full-page one zone ad in *The Miami Herald* neighborhood sections would run from as low as $605.15 for the lowest circulation zones of approximately 21,000 to 23,000 to a high of $1,485.25 for the zones with higher circulation. As I explained in my answer to subparagraph l above, the geographic territory of the 5 zones covered by *The Miami Herald* in Dade County are approximately 10 times bigger than the geographic territory of *The Flyer's* 56 Miami/Dade County zones.

n. No.

o. I do not know.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-12. Please provide the answers to the following in table form. Please consider the community newspapers that compete with *The Flyer*.

a. To the best of your knowledge, how far down do these community newspapers zone for advertising "buy"?

b. To the best of your knowledge, what is the smallest "buy" that an advertising can make with each of these community newspapers?

c. To the best of your knowledge, what is the price per thousand for an insert in each of these community newspapers?

d. To the best of your knowledge, what is the price for a 4x4 ROP ad in each of these community newspapers?

e. To the best of your knowledge, what is the price of a full-page ad in each of these community newspapers?

RESPONSE:

Please see my answer to NAA/AISOP-T2-7. Because there is so such a large number of community newspapers that compete with *The Flyer* and they have such a wide variety of pricing their products, most of which pricing information is not known to us other than general knowledge, I cannot answer this question for all of the print media that could be considered community newspapers that compete with *The Flyer*.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-13. Please refer to page 7 of your testimony, where you state that Martino Tire started out advertising with you, and ultimately shifted to daily newspapers. Would you agree that it is *possible* that Martino Tires shifted advertising venues because it found the different environment of newspaper advertising more suited to their needs than a mailed shopper?

RESPONSE:

No, I would not agree. The owner of Martino Tires told the president of *The Flyer* that the reason he was shifting his advertising from our paper to the newspaper was because *The Herald* was offering Martino Tires a better price for their distribution than we could offer. Martino Tires made the decision to shift their advertising at a time when we were attempting to implement a rate increase that reflected, in part, the higher postal rates we were paying as more of our booklets were being mailed at the pound rate. They refused to pay any higher rates and took much of their insert distribution business to a cheaper provider. Martino Tires does its advertising in *The Herald Direct* TMC program. Many of their ads are not delivered in the "environment" of a newspaper but in a wrap that is more closely akin to the environment of an ADVO mailed piece. Martino Tires switched because it could have its advertising delivered at a lower cost per thousand than we could offer.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-14. Might it also be true that K-Mart, Wal-Mart and national grocers are not in *The Flyer* because they have found the environment of Sunday newspapers more conducive to successful sales at their stores?

RESPONSE:

I do not believe this is true. K-Mart, Wal-Mart and national grocers are not choosing the Sunday paper because they like its "environment" but are in the Sunday paper because it has the highest circulation distribution, at the lowest cost per thousand, of the paper for any day of the week. If advertisers had their choice, they might prefer to have their advertisements reach consumers on Thursday, Friday, or Saturday so that readers could plan shopping and home projects based on the advertising information they receive.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-15. Please refer to page eight of your testimony, where you state that the *Miami Herald* just raised its price to $1.25.

a. Please confirm that the $1.25 price is the price for a newsstand, non-subscription, single copy sale.

b. Do you know that the typical price of a subscriber to the *Miami Herald* is less than 34 cents per day?

c. You say that low income households, single parents, and seniors cannot afford to buy a subscription to a newspaper. What, if any, is the difference in area penetration of *The Miami Flyer* in Coconut Grove versus what you define as "low income households"?

RESPONSE:

a. Confirmed.

b. I do not know the "typical price" of an annual subscription to *The Miami Herald.*

c. My exact statement was:

> The daily newspaper in our community, *The Miami Herald*, just raised its prices to $1.25. Although subscription rates may be cheaper, many of our readers live in demographic areas where every dollar counts. Low income households, single parents, and seniors need to stretch their dollars and shop for savings. They cannot afford subscription papers or magazines. With *The Flyer*, they do not have to spend money to save money.

According to the penetration figures put out by *The Miami Herald*, its penetration in Coconut Grove is 33%. This is substantially higher than its penetration in "low income areas" which may be as low as 2%. In Opa Locka, the community I refer to in my testimony, *The Miami Herald* has penetration of 17%. In other low income areas such as Coral Park and Westchester, its penetration is 10% to 18%. It is 7% in Little Havana and 14% in Grapeland.

I would point out that my reference to these communities was in a section of my testimony where I stated, "We are a neighborhood publication that reflects the diversity of each community," and "Our papers reflect the needs and tastes of each unique neighborhood. Many of our papers are bilingual and we offer discounts to advertisers who want to run an ad in both English and an

additional language." One of the reasons many of our advertisers prefer *The Flyer* to *The Miami Herald* is that *The Miami Herald* does not have good penetration or readership in communities that are largely Hispanic.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-16. Please refer to page 5 of your direct testimony where you state that you cannot cut prices and offer special deals to your biggest customers. Is it your testimony that your largest advertiser pays the same rate as smaller customers? Please provide a copy of your current rate card, plus written contracts between your company and your top five advertisers, to support your answer.

RESPONSE:

No, it is not my testimony that our largest advertisers pay the same rate as smaller customers. I would hope that when read in context page 5 of my testimony is clear that when postal rates go up, our largest customers are offered attractive deals by our nonpostal competitors that we cannot match due to the fixed costs (27% of our gross revenues) we must pay for postage. We are filing a copy of our advertising rate booklet as library reference AISOP-LR-2. As the charts in our rate booklet show, we offer more attractive rates to advertisers based on their volume and frequency. For example, an advertiser wanting to do an insert of a very light weight single sheet would pay for one-fifth of an ounce at $29.60 per thousand for a single mailing. Our advertiser would receive a better rate if it increased its circulation and frequency. An advertiser doing a .20 ounce piece for one zone per year who commits to 12 mailings will get a rate of $24.60 per thousand. If that same advertiser commits to circulation of 200,000 12 times per year, the rate per thousand is $19.60. These rates are not based on the size of our customers but on the size of their advertising buys with *The Flyer*. Our rate charts range from circulation for inserts of one zone to 200,000 because this is the range of advertising done by the vast majority of our customers. For our largest accounts, where we face the most competition from other media, including nonpostal distribution where the distribution costs of our competitors are lower, rates are not on our "rate chart" but are negotiated and need to reflect our costs. This is where we are at a disadvantage with nonpostal print media because they do not have the high fixed distribution (postal) costs based on weight that we do. We consider these negotiated rates highly confidential and proprietary and will not provide written contracts between our company

and our top five advertisers. Please see my response to NAA/AISOP-T2-13 where I explain that at the time we were raising the rates for Martino Tires we were vulnerable to losing them to competition and, indeed, lost them to the TMC program offered by *The Miami Herald*.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-17. Please compare the ROP and preprint distribution prices that you charged your advertisers in July 1996 with your current prices. In particular, please address whether your prices to advertisers have risen, declined, or stayed the same over the course of that period.

RESPONSE:

The rates at *The Flyer* in Miami for July, 1996 and current rates cannot be addressed without reference to the changes in rates and prices that took place in January, 1995. In January, 1995, paper prices were very high and there was a postal rate increase of over 14%. Although there were variations between classified, ROP, and insert rates, our average rate increases after January, 1995 ranged from 6% to 8%. Although *The Flyer* promptly increased its advertising rates when postage rates went up, it had substantial difficulty passing on these higher rates to major advertisers. In July, 1996 when postal reclassification resulted in a reduction of *The Flyer's* postal rates, *The Flyer* did not change its published advertising rates book (which, as explained in my answer to NAA/AISOP-T2-16, only covers insert buys up to a circulation of 200,000) but promptly had negotiations for rate reductions with our major accounts, who were well aware of the change in our postal rates. Although we consider the individual rates paid by our major accounts to be confidential and proprietary, I would note that the major grocery account, Sedano's, that was the subject of your inquiry in NAA/AISOP-T2-4, is paying approximately 17% less today than it did prior to July, 1996.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-18. Please refer to page 6 of your direct testimony. In what "prior years" did you see "double digit postal increases"? Please specify the percentage of the "double digit postal increases." During these years, how much did the rates that you charge advertisers increase? Please specify your answer in actual dollars and as a percentage based upon the previous year's rates.

RESPONSE:

In the 1980s, when I was a salesperson at *The Miami Flyer* and at *The Tampa Flyer*, I remember years where there were double digit increases in postal costs that we needed to pass on to our customers and we raised their rates. I cannot recall or specify the percentage of these postal increases or the amount of change in the rates to our advertisers. I can affirm based on my experience at *The Miami Flyer* and *The Tampa Flyer* that in the face of these large increases we experienced a big buy down in advertisers where they would either drop out of the paper or reduce their circulation. Those advertisers that remained in the paper, responded to significant price increases by keeping their advertising budget the same but by reducing the size of their ad, reducing the zones where their ad was run, or reducing their circulation.

I am aware that postage rates went up by over 14% in January, 1995. Although I did not work at *The Miami Flyer* at that time, *The Miami Flyer* responded to this postal rate increase by immediately raising its advertising rates in the range of 6% to 8% and by laying off $400,000 in payroll to cut its own costs. This was done because major advertisers would not pay large increases, but would switch or threaten to switch to other media, and the small to medium advertisers would drop out of the paper or cut their ads as described above.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-19. Please refer to page 7 of your direct testimony. In the top paragraph, you mention that "newspaper distribution. . .would cost too much and reach people that were outside their stores' trade area." In the bottom paragraph, you refer to a "higher prices per thousand of circulation for targeted distribution by mail" [presumably a reference to your free shopper] and further state that the "insert price per thousand is cheaper in the daily newspaper for big volume customers than we can make available to our customers." Does newspaper TMC insert distribution of comparable print pieces "cost too much" or cost less than your *Flyer*?

RESPONSE:

Your question quotes from different paragraphs and portions of my testimony. Yes, it is true that newspaper distribution can cost too much for the small advertiser so that a targeted, geographically zoned mailed shopper is the best, most cost-effective advertising method for small business. This is because the average zone size, and media buy, for the small advertiser is approximately 12,000 homes per zone in our paper. Many daily papers and community papers do not offer any zoned products for their advertisers. For those papers that do offer zoned products, the zoning option may only be available one or two times a week, may be in a section of the paper that is not well read or highly regarded, and generally goes to a geographic area that is approximately ten times larger than the typical geographic zone offered by a free paper. (For example, in Dade County *The Miami Herald* offers five zones in its Neighborhood zoned section. We offer 56.)

For the large advertisers, who want to reach a big geographic area at the lowest cost per thousand, newspaper distribution, either through inserts received only by subscribers or through a TMC product delivered by private carrier or mail, will always have lower costs for the newspaper to deliver than our postal distribution costs. For the small to medium insert advertisers, who are not doing big circulation and are sending light weight pieces, we attempt to offer insert distribution prices that are competitive with daily newspaper distribution. Although our actual costs per thousand are likely to be higher, we are often able to attract these customers because our zoning options are more finely tuned. For the large volume major accounts, that do cover a big circulation

on a frequent basis, our insert prices are likely to "cost too much" for the advertiser. They "cost too much" because the advertiser, like the example given in my testimony for Martino Tires, can get a better deal by taking its larger advertising budget, and regular and predictable frequency program, to a nonpostal competitor and get a better deal. For heavier pieces, our insert prices for all of our customers will always "cost too much" when compared with the daily newspaper because we must price based on weight. It is for this reason that our advertising rate charges do not even include a rate for pieces weighing more than one ounce because we are so uncompetitive for heavier pieces.

AISOP WITNESS BARO RESPONSES TO NAA

NAA/AISOP-T2-20. Please refer to the discussion in your testimony beginning on page 4, second paragraph ("We succeed by offering. . .") through the second full paragraph on page 5. Please confirm that the services which you describe your sales staff as offering to your customers are excellent selling techniques employed by most professional advertising sales staffs in an effort to acquire and retain the majority of advertisers budgets? If you cannot confirm, please explain.

RESPONSE:

Not confirmed.

I agree that our paper offers our customers "excellent selling techniques" but I strongly disagree that such techniques are employed by "most professional advertising sales staffs." As I tried to explain in my testimony, the free paper industry, and the papers where I have worked in Tampa and Miami, are highly focused on the needs and success of our small business customers. I consider our business very different from the professional advertising staffs of our major competitors in print, the daily newspapers, and electronic media. In the free paper industry, the advertising staffs of our competitors are often referred to as "order takers" when it comes to all but their largest accounts. Indeed, the corporate mission of *The Miami Flyer* is, "We choose to deliver a level of service that others are either unwilling or unable to deliver."

Our sales staff does not engage in efforts "to acquire and retain the majority of advertisers' budgets." We spend much of our time convincing small businesses that they should create and develop an advertising budget to market their business and grow. Unlike much of our competition, where the professionals are chasing the existing advertising budgets of major accounts, our sales force spends much its time convincing the small store owner that he/she should advertise. We persuade non-advertisers to become advertisers. As described in my testimony, we often make two to three sales calls before we sell the first ad. I do not believe the typical newspaper "salesperson" would spend one hour with a small business to get a $100 ad. Based on my experience, the typical newspaper salesperson would not bother to create a $50 spec ad for a customer (which means the

salesperson would design and create "on spec" an ad for the advertiser to consider running at a cost of $50) and return to the customer with a sample of the ad in the hopes of getting a $50 sale.

Free papers cater to and focus on the needs of the smaller advertiser. The majority of our new customers are businesses and individuals that have never advertised before. We are their partners because we persuade them to advertise and will only succeed if they see results from their investment with us.

Our competitors in print and electronic media may spend this type of time and effort on their larger customers, but most large customers already understand advertising and have a dedicated advertising budget. They do not need, or want, assistance in design or laying out the ad, determining their best geographic coverage area, and other marketing techniques. Large customers have their own professional advertising staffs and are shopping different distribution media largely based on price.

This is why it is so frustrating for me to see the small business advertisers that we nurture to become larger, more successful businesses leave our paper because we cannot compete with the lower costs and prices offered by our competitors.

In support of this conclusion, I would point to a statistic cited by Dick Mandt, the original owner and publisher of *The Miami Flyer*. In its first few years, *The Miami Flyer* grew to a $30 million business. Mandt states that 95% of this business was new business. 5% or less of this business came from existing customers of *The Miami Herald*.

1 CHAIRMAN GLEIMAN: Is there any additional
2 designated written cross-examination for this witness?
3 [No response.]
4 CHAIRMAN GLEIMAN: To the best of our ability to
5 determine, there was no request for oral cross-examination.
6 Does anybody here today wish to cross-examine the witness?
7 [No response.]
8 CHAIRMAN GLEIMAN: If not, then, Mr. Baro, I want
9 to thank you for your appearance here today and your
10 contributions to our record. We appreciate it. You are
11 excused. Thank you.
12 THE WITNESS: Thank you, Mr. Chairman.
13 [Witness excused.]
14 MS. HANBERY: If I could request that the
15 Commission take Mr. Smith when he arrives, we will --
16 CHAIRMAN GLEIMAN: We will take Mr. Smith when he
17 arrives, as long as it is not in the middle of somebody
18 else's testimony.
19 MS. HANBERY: Thank you.
20 CHAIRMAN GLEIMAN: Let me see if I can get my
21 score card corrected now. Mr. Feldman, would you like to
22 call Dr. Stapert to the stand?
23 MR. FELDMAN: That seems like an excellent idea.
24 The Coalition of Religious Press Associations is pleased to
25 call Dr. John Stapert to the stand.

1 Whereupon,

2 JOHN C. STAPERT,

3 a witness, having been called for examination and, having

4 been first duly sworn, was examined and testified as

5 follows:

6 CHAIRMAN GLEIMAN: Welcome.

7 THE WITNESS: Thank you.

8 CHAIRMAN GLEIMAN: Officially.

9 THE WITNESS: I have made several attempts

10 actually.

11 DIRECT EXAMINATION

12 BY MR. FELDMAN:

13 Q Dr. Stapert, do you have before you a document

14 entitled "CRPA-T-1, Direct Testimony of John C. Stapert"?

15 A I have.

16 Q And did you prepare that document or supervise

17 portions of the preparation of that document?

18 A I did.

19 Q And if you had to give this testimony today,

20 verbally, before this Commission, would this be your

21 testimony?

22 A It would be.

23 Q You have no changes to the testimony?

24 A No changes to the testimony.

25 MR. FELDMAN: Mr. Chairman, I would therefore

1 request that the direct testimony of Dr. Stapert be
2 transcribed and entered into the record.
3 CHAIRMAN GLEIMAN: Is there an objection?
4 [No response.]
5 CHAIRMAN GLEIMAN: Hearing none, I will direct
6 counsel to provide two copies of the direct testimony of Dr.
7 Stapert to the court reporter and that testimony will be
8 transcribed into the record and received into evidence.
9 [Direct Testimony of John C.
10 Stapert, CRPA-T-1, was received
11 into evidence and transcribed into
12 the record.]
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BEFORE THE
POSTAL RATE COMMISSION CRPA-T-1
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000	)	Docket No. R2000-1

DIRECT TESTIMONY OF JOHN C. STAPERT

On Behalf Of

The Coalition of Religious Press Associations
Alliance of Nonprofit Mailers
American Business Media
Dow Jones & Co., Inc.
Magazine Publishers of America
The McGraw-Hill Companies, Inc.
National Newspaper Association
Time Warner, Inc.

Stephen M. Feldman
Law Offices of Stephen M. Feldman
601 Pennsylvania Ave, N.W.
South Building STE 900
Washington, D.C. 20004
Tel. 202-463-4960
Fax 202-463-4965
E-Mail sfeldman@justice.com

May 22, 2000

Direct Testimony of John C. Stapert
(CRPA-T-1)

AUTOBIOGRAPHICAL SKETCH

My name is Dr. John C. Stapert. I am appearing as a witness in this proceeding on behalf of the Coalition of Religious Press Associations and on behalf of the group of publishers listed on the front cover of my testimony, which in this testimony will be referred to as the "Periodical Publishers".

From 1990-98, I served as executive director of the Associated Church Press (ACP). I continue as a member of the ACP, currently serving on its Postal Affairs Committee.

Prior to my work for the Associated Church Press, I served for seventeen years as editor and publisher of *The Church Herald*, a magazine which serves the members of the Reformed Church in America. I was also among the founding editors of *Perspectives*, a theological journal established in 1986; I served that publication as managing editor from 1986-1994. These two publications were (and remain) members of both the Associated Church Press and the Evangelical Press Association.

Representing the religious press, I was a member of the United States Postal Service's Mailer's Technical Advisory Committee (MTAC) from 1978-1990. I brought testimony before the Postal Rate Commission on behalf of the Coalition of Religious Press Associations (CRPA) in Dockets R87-1, R90-1, R94-1, MC95-1, and R97-1.

My education is that of a clergyman and a research psychologist, with subsequent study in

1 clinical psychology. I earned a B.A. in psychology at Hope College in Holland, Michigan, (1963),
2 an M.Div. At Fuller Theological Seminary in Pasadena, California, (1966), and M.A. and PhD
3 degrees in psychology at the University of Illinois (1968, 1969).

4 I have taught psychology at the college level, including the teaching of research design and
5 statistics. On a part-time basis, I worked in psychiatric medicine at the psychiatric Medical Unit in
6 Grand Rapids, Michigan, 1991-1994. In mid-1994, I relocated to Arizona, where I now maintain
7 a clinical practice in Scottsdale.

8 INTRODUCTION, SCOPE AND PURPOSE

9 I am the coordinator of the eight-member Coalition of Religious Press Associations
10 (CRPA). CRPA is a broadly ecumenical and interfaith group whose members share a
11 commitment to contribute to the moral and ethical fiber of this nation. Appendix A provides a
12 summary of the postal activities of the association which have come together for the purpose of
13 assisting the Commission in evaluating the proposed postal rates for preferred-rate, Periodicals-
14 class mailers.

15 Taken individually, the periodicals in CRPA are small. More than half have circulations of
16 20,000 or less. Thee-quarters have circulations under 50,000 copies per issue. Despite these
17 small circulations, many CRPA periodicals seek to serve readerships spread across the United
18 States; this means thin distribution rather than dense distribution of copies. Thus, in many
19 instances, CRPA's members are not in a position to take advantage of postal discounts designed
20 and used by high-density periodicals.

21 Yet, the aggregate circulation of CRPA's member periodicals is substantial. The
22 American Jewish Press Association's periodicals reach 4.5 million readers. The Associated

Church Press' members have a combined, per-issue circulation in excess of 8.4 million readers. The Catholic Press Association's publications go to 26.5 million subscribers. The Evangelical Press Association's subscribers approximate 20 million. The Association of State Baptist Papers counts a per-issue circulation of 1.7 million. The total yearly circulation of Seventh Day Adventist periodicals is 46.2 million copies. Methodist conference papers' aggregate circulation exceeds 24 million pieces.

SUMMARY OF TESTIMONY

CRPA, like all periodical mailers in this case, finds itself faced with significant rate increases for the periodicals published by the religious organizations that it represents. Cost increases in categories like mail processing, purchased transportation, and city delivery carrier costs, among others, have driven the increases. For the combined subclass, Outside County, proposed by USPS, the average increase is 12.7%, which follows an increase in January 1999 as a result of R97-1 The postal cost increases exceed normal inflation during a period of time when low inflation, as well as a healthy economy, characterized the U.S. economy.

The effect on nonprofit publications of these excessive and unacceptable cost increases is two-fold: (1) Nonprofit organizations would have to budget for 20%+ increases in periodicals postage, which is the tremendous amount many publications with high editorial content and low weight would have to pay if the Commission does not stop the worsening trend of attributable periodical costs which have, at best, tenuous connections to those costs and (2) the cost

1 explosion in the Periodicals class has caused anomalies, recognized by the Commission in MC99-
2 3, which resulted in some cases in regular rate postage's being less expensive than nonprofit
3 postage, and which (3) in this case has resulted in a USPS proposal, which relies on as yet
4 unrealized Congressional action to authorize the Commission to merge, for rate-making purposes,
5 regular, classroom, and nonprofit subclasses, and to create a 5% discount for classroom and
6 nonprofit periodicals within the new combined subclass, in order to cure the anomaly . Whether
7 the legislation passes by the time this case ends or not, the result for nonprofit periodicals under
8 the cost attributions of USPS is unjustified under either a merged subclass or distinct subclass
9 scenario.

10 CRPA supports the testimony of the MPA and of other periodical interveners which
11 exposes the relentless and unjustified escalation of costs supposedly caused by periodicals.
12 Removing these flawed attributable costs from periodicals is not only fair and equitable, but
13 correct allocation will put an end to the present absurd situation where periodicals contribute little
14 or nothing to institutional costs, yet pay some of the highest rate increases of any subclass. The
15 cost over-attribution has sharply circumscribed the discretion of the Commission to moderate
16 proposed increases for periodicals, because there is such a narrow margin between attributable
17 costs levels and the rates that periodicals pay. The flexibility of the Commission to moderate cost
18 coverages because of ECSI, for example, or other non-cost factors of sec. 3622(b)(3) of the
19 Postal Reorganization Act barely exists for periodicals.

20 At the same time, service for periodicals is inconsistent and unsatisfactory. Even if there
21 were a markup of significance for periodical mail, it should be lowered to allow for the actual
22 service received by this class. The USPS witnesses who addressed this question have conceded

that USPS does not monitor periodical service, and does not know whether or not periodical service standards are met.

Moreover, there is little if any justification for a 2.5% contingency allowance of nearly $1.7 billion. USPS financial performance has exceeded expectations in recent years, and despite the Internet expansion that began since the Commission's last omnibus rate decision, volume in First class and Standard A continues to grow. Periodical volumes however, especially for nonprofit publications, have declined. The proposed increase for nonprofit publications will drive volume out of the Postal Service. The members of nonprofit organizations will have less communication with each other and with the organizations they choose to support.

In the last rate case, USPS held out the prospect of savings for flats processing. These savings have not happened, and USPS total factor productivity remains barely positive.

USPS' management failures permit USPS to request a bloated "contingency" of 2.5% of the revenue requirement. This $1.7 billion item, when combined with a $268 million request to cover prior- year losses, means that approximately two-thirds of the $3 billion requested increase has nothing to do with current service and delivery requirements. Periodicals will pay double-digit rate increases in large part because USPS cannot budget expenses competently for a test year, 2001, that begins in a little more than six months from now.

I. Attributable Costs Are Excessive For All Periodicals

Publishers have complained about the inexplicable and excessive increases in mail processing and transportation costs for several past rate cases. The Commission, in Order 1289 in this case, graphically illustrated the comparative escalation of periodical costs compared with

other flat-shaped mail, and with letters. The Commission has insisted that the Postal Service explain this long-standing phenomenon. Periodical Publishers' witnesses Cohen, Glick, Stralberg and Nelson review the history of this controversy, and offer thoughtful and informed alternatives to the model used by USPS. Despite some tinkering with cost allocation, USPS has yet to solve the cause of the supposed periodical cost growth, and legitimate questions about how USPS ascertains attributable costs for periodicals remain unanswered. This state of uncertainty not only causes almost predictable and cyclical litigation costs for the publishing industry, but more importantly it results in the industry's spending tens, if not hundred of millions of dollars of publishing revenues on postage which is calculated by unreliable costing methods. These expenses could be otherwise spent on continued improvements in the dissemination of information to subscribers.

II. Proposed Postal Increases Would Affect Nonprofit Periodicals Disproportionately

Periodical Publishers' and CRPA Witness Horton will present actual examples of how proposed rate increases for nonprofit periodicals are far higher than the "average" increases stated in USPS testimony, which combines nonprofit and regular rate publications into one subclass (Outside County Periodicals). Witness Mayes, USPS-T-32, projects an average 12.7% increase for the combined subclass.[1] Based on Witness Horton's testimony, USPS billing determinants, (see, USPS Library Reference-LR-I-203, spreadsheets NP-A-N), and my own extensive experience as an editor and as a nonprofit/religious publisher association executive, I would say

[1]The submitted subclass is composed of approximately 7.5 billion pieces per year of regular-rate periodicals, 58.2 million classroom periodicals, and approximately 2 billion nonprofit pieces. Ex. USPS-32C, p.1 of 2.

1 that a typical nonprofit publication, including but not limited to members of CRPA, weighs about
2 4 ounces (or less), presorts more pieces to three-digit zip codes than to other presort categories,
3 (which are also used), and applies a barcode to qualify for automation discounts. It rarely carries
4 more than 20% advertising per issue. Non-local, national nonprofit publications generally use
5 only one postal entry point, with postal zones 4 and 5 representing the largest concentration of
6 volume, as measured by distance traveled. CRPA members and most other nonprofit
7 publications, are very small circulation periodicals, with circulations under 30,000 or even 20,000
8 copies per issue quite common. There are nonprofit and religious publications of large
9 circulations, e.g., over 200,000 copies per issue, but these are the exception, not the rule.
10 We used these assumptions to create a "composite" periodical which CRPA believes fairly
11 represents most of the publications that our members publish. Under current rates, that periodical
12 (zone 4, 3 digit barcode, 80% editorial, 4 oz.), pays 19.3 cents per copy; under the USPS Outside
13 County rate schedule (including the 5% discount), it would pay 23.5 cents per copy or an
14 increase of 21.8%, not the 12.7% "average" projected by USPS. Under the separate and
15 hypothetical nonprofit rate schedule produced in response to Presiding Officer's Information
16 Request (POIR) No. 2, question 1, the publication would pay 24.4 cents per copy per copy or an
17 increase of 26.3%.
18 Because USPS has not been able to demonstrate credible causal relationships between its
19 costs and its pending rate package, and periodical rates as a consequence would soar, the
20 proposed solution has been the proposed extinction of the nonprofit subclass, assuming

1 authorizing legislation so passes.[2] Whether the discussed legislation passes or not, however,
2 either alternative, i.e., current rate design using USPS-developed costs or the new proposed rate
3 design relying on the same costs, results in a disaster for nonprofit and religious organizations.
4 This disaster will occur unless new analyses of cost allocation, like those presented by the
5 Periodical Publishers, are accepted. When the systemwide rate increase is 6.4%, the increases
6 that nonprofits face because of dubious costs, are unacceptable. The Commission must put an
7 end to years of USPS stalling and obfuscation on the problems of periodical cost increases. These
8 significant increases will accelerate the already steady decline of nonprofit periodical mail.
9 Witness Taufique considers impact of the rate design change for nonprofit publications in
10 terms of total pieces in the subclass, TR 17/7026; I instead look to how many mailers, i.e.,
11 churches, charities, universities, foundations, etc., are adversely affected by the pending Outside
12 County combined subclass. The subclass is made up primarily of smaller sized publications, and it
13 is the aggregate of the users which presents the argument that nonprofit mail, as Congress decided
14 in 1917 and thereafter, should have distinct rates and a distinct classification. Witness Taufique
15 and USPS unfortunately have no idea of how many publishing organizations, for-profit or
16 nonprofit, will be adversely affected by the large rate increase. TR.17/7028 . ("I have no way of
17 knowing what percent of these mailers are being affected by my proposal that I am going to take
18 to the Commission.").
19 Once nonprofit rates are calculated in accordance with sound cost causation principles, as

[2]The Presiding Officer wrote an April 7, 2000 letter to the President of the Senate, Vice-President Gore, in which he stated that the USPS proposed rate design change prior to legislative action was "unprecedented", and "seeming to create a nexus between the Commission's administrative proceedings and the legislative process". The Commission has to deal with the law as it is when the recommended opinion and decision is issued.

well as regard for the important editorial content they carry, these rates will stand again in reasonable relationship with regular rate periodicals. At that time, which I hope will be the day this Commission issues its opinion and the new rates will be implemented by the Governors, *Congress' intention that nonprofit publications pay one-half of the markup of comparable regular* rate periodicals can be fulfilled, and the existence of a separate nonprofit subclass would be assured.

III. Purchased Transportation Is An Egregious Example of Overcharging Periodicals

Nonprofits, although high in editorial content, do have an interest in fair zoned advertising rates. Witness Taufique's workpapers, LR-I-203 , spreadsheet NP-H shows billing determinants for periodical nonprofit zones. Only 24.87% of advertising pounds are delivered by the publisher to the SCF entry or to the DDU. On the other hand, 51.93% use zoned rates 4-8, with heavy concentration in zones 4 and 5. Thus nonprofit periodicals are a very small subclass, about 1% of total USPS mail volume. They cannot take up very much space in USPS transportation, (especially at 4 oz. per average publication). Nevertheless, in the test year, after rates, USPS has attributed $60,977,000 of attributable purchased transportation costs to nonprofit periodicals, which represent 15.4% of the volume-variable costs of these periodicals. Oddly, regular rate periodicals, which do more dropshipping than nonprofits, and utilize DDU and SCF entries more than nonprofits, pay 15.2% of their test year after rates volume variable costs to purchased transportation, almost the same proportion as nonprofits which have a very different transportation profile. Current data in the latest Financial & Operating Statements, A/P 8, PFY 2000, p. 8, show transportation costs (total mail volume) as 13.3% year-to-date above the same period last year. This is many times over the year-to-date 2.5% volume increase over 1999.

1 Nonprofit volumes of course are lower than last year, and will be lower still after a rate hike of the
2 magnitude that is under consideration. Amazingly, USPS **planned** to spend over 13% more this
3 year than last year for transportation, since these costs are 4.6% **below** plan (so rising fuel costs
4 this year can't be the reason). This is a system which is broken, and needs to be fixed. In the
5 meantime, small circulation publications, whether regular rate or nonprofit, which predominantly
6 rely on USPS for transportation, should not pay for the cost of this inefficiency. Magazine and
7 newspaper circulations are relatively stable and predictable because of the periodicals' stated
8 frequencies and the rate of subscription renewals, so large increases in USPS transportation
9 capacity cannot be traced to these volumes..
10 In its R97-1 opinion, Vol. I, pp. 215-18, the Commission noted several problems with the
11 sampling used to allocate purchased transportation, in particular highway transportation, to the
12 various subclasses. The TRACS system, as described by USPS Witness Xie, USPS-T-1, samples
13 containers and loose mail in trucks, and in rail. However the tests occur on portions of a truck's
14 route, for example, at a time when the contents of the truck could well vary from the contents by
15 class, and the space taken up in the truck, at another stop. In addition, the empty space above a
16 sack, pallet or bedloaded bundles or other containers is allocated to the mail directly below the
17 space, i.e., the empty space above the floor on which the mail is placed. Four-year contracts with
18 postal contractors, usually renewed, determine the routes served and the type of vehicle used.
19 These contracts (except for specialties like Priority Mail, Express Mail and Alaska air) are not
20 designed for the transport of any particular class of mail. The size of a truck for example is
21 determined by the peak day of the week during which the largest volume of some subclass or
22 subclasses requires transportation.

1 The relatively high attribution of transportation costs to periodicals, based on an
2 inadequate TRACS system, [3] should be reconsidered by the Commission. This is a system which
3 does not record the actual utilization of space by different subclasses, especially by periodicals.
4 The data collectors of TRACS are not full-time statistical analysts, in fact, according to witness
5 Xie, "there is [sic] no TRACS data collectors" because these are individuals who are part-time
6 TRACS samplers, employees who also do IOCS tests, RPW samples, as well as temporary
7 employees. TR. 17/6824. I assume that the degree of knowledge about the difference between
8 subclasses and the ability to accurately identify subclasses by this eclectic group greatly varies.
9 CRPA agrees with USPS Witness Bradley, who calculated volume-variability for the
10 different subclasses based on the TRACS sample data, that there is a "mismatch" between his
11 statistical cost base and the TRACS system of allocating transportation space, and thus cost
12 responsibility, to different mail classes. USPS-T-18, at 54-5, also, TR 6/2524-5: "And, in fact, as
13 you said, TRACS often will take just one leg of HCSS. And that's what I meant by the mismatch,
14 is that to do a volume variability analysis, we'd like to know the volume on the contract cost
15 segment, and all that TRACS can give us is one leg of that contract cost segment, at best."
16 [testimony of USPS witness Michael Bradley].
17 USPS has no "customized computer or analytical models that it uses in transportation cost
18 management." TR.21/8923.(MPA/USPS-17). Also, although Postmaster General Henderson
19 recently promised major cost reductions which would affect revenues within the next several

[3]When asked by CRPA counsel why TRACS sampling does not distinguish between nonprofit and regular rate periodicals, whereas other subclasses within a class are identified by transportation accounts, Witness Xie had no explanation other than "Yes. That's in TRACS sampling we do not ask data collectors to record subclass level for periodical." TR.17/6841.

years, transportation will not be among the areas studied. See,OCA/USPS-99, TR.21/9153-6. However, seemingly a seemingly contrary statement was made by USPS in its response to MPA-17, above, when it stated, "The Postal Service has recently begun a study of transportation utilization. It is expected that this study will lead to reductions in unutilized capacity." It would have been more useful if USPS had conducted this study, which its transportation witnesses failed to mention, prior to this case. Certainly, this is not a new problem . Purchased transportation costs for periodicals increased an average of 6.5% per year from 1995-8, USPS LR-I-217, p.3. Publishers, like nonprofit and religious organizations, which use the USPS transportation system for national distribution of their periodicals, require effective relief from this unfair burden now.

IV. Methods of Estimating Nonprofit Volumes Lack Important Data

Neither witness Tolley nor Thress included user costs borne by publishers in their econometric equations used to predict periodical subclass volumes. First class and Standard A user costs were measured, but not periodicals of any subclass. TR9/3613, (Tolley) and TR9/3794, (Thress). User costs are costs like mail presortation and other necessary steps to mail a piece. In Witness Thress' words, "In the case of periodical mail, we were not asked by the Postal Service to forecast periodical mail by presort of [sic] automation level, and, therefore, had no occasion to do so.", TR. 3794. Witness Thress then pointed out that "if you included user costs in the price, then the effect of price would be higher, which means that independent of changes in user costs, looking at a fixed point in time, for example, comparing before rates to after rates in the test year, you would be starting from a higher before rates price because some user costs added in." Thus it appears that USPS econometric equations to calculate periodical

volumes did not include data that would have reflected even higher prices and lower volumes than the declining volumes of nonprofit mail noted by Witness Tolley, USPS-T-6, p.96-7.

Nonprofit periodicals have an elasticity of -0.236, id, compared with an elasticity of -0.148 for regular rate periodicals, id, p.103. Witness Tolley testified that the proposed increase would reduce nonprofit periodical volume over a five year period [assuming no further rate increase] by 2.25%.

The continuing decline of nonprofit periodical volume is not a "good" thing, but its relatively higher elasticity than other periodicals and USPS' probable underestimation of the full effects of the proposed increase on periodicals presents another compelling argument for rooting out unnecessary and doubtful costs from nonprofit periodical attributable costs.

Moreover, in his analysis, Witness Tolley assumed that periodicals receive "expeditious distribution, dispatch, transit handling and delivery". USPS-T-6, p. 84. However in response to a CRPA interrogatory, Witness Tolley admitted that "No information on the extent to which the Postal Service adheres to these provisions [in the domestic mail manual] was necessary for this purpose and I have none." TR.9/3609. Other USPS witnesses also admitted that USPS has no evidence as to whether USPS achieves service goals for periodicals. Witness Mayes, USPS' pricing witness, admitted that she had no idea if actual service monitoring studies for periodicals existed. TR. 11/4582, and that her assumptions about the intrinsic value of service for periodicals were based not on actual performance by USPS, but by service targets created by the Postal Service. Id. Witness Taufique responded to an interrogatory by the Professional Football Publication Association that USPS does not currently maintain any ongoing objective measurement of Periodicals delivery performance, as it does for First class mail. TR. 17/7000.

1 Should the Commission determine that USPS' attribution of costs to periodicals is inordinate, and
2 thus the Commission reduces those costs, the resulting cost coverage which would then be
3 calculated from a lower cost base should not be increased on the assumption that periodicals have
4 a high intrinsic value of service.
5
6 V. The Proposed Contingency Allowance Is Not Required
7 CRPA endorses the testimony of William Morrow of Crain Communications, an ABP and
8 MPA member, on behalf of the Periodical Publishers in connection with the proper amount and
9 the application of the contingency allowance. Therefore I will make but several additional
10 observations about the facts concerning the contingency which struck me as particularly peculiar.
11 Basically, USPS witness Tayman was unable to articulate, why USPS needs nearly $1.7 billion in
12 a contingency allowance at a time when USPS continues to collect revenues in excess of costs.
13 On pp. 43-44 of his testimony, he stated that "the outlook for the future is even more challenging"
14 to justify the test year contingency, and he then stated that "The Postal Service's financial
15 performance is under much greater pressure and is subject to substantially greater risks than it was
16 at the time of the last two omnibus rate cases." In response to DMA/USPS-T-9-47, Mr. Tayman
17 conceded that the latter statement is "subjective and intuitive", and that he did not "perform any
18 studies relative to greater risk in this rate case than in the last two rate cases." A glance at the
19 results of the last two omnibus cases is instructive: Witness Tayman's Ex.USPS-9L shows
20 cumulative positive earnings of $15,653,000,000. Hopefully USPS will take the same "risk" in
21 this case as it did in those cases insofar as a low contingency is concerned.
22 Another matter that makes me doubt that USPS needs all the money it requests, especially

1 a contingency, is my reading of the latest USPS financial and operating statement through
2 Accounting Period 7, which reports that year-to-date, USPS has generated $1,069,500,000 of
3 revenue in excess of cost. Total revenue and total expense are both 3.5% above last year's figures
4 (year-to-date.) While revenue is somewhat below plan, and expense is higher than plan, it may be
5 that the plan is deficient, not the financial condition of USPS.

6 It should be remembered that it was only 15 months ago that higher rates went into effect.
7 Nonprofit mail also absorbed an increase in October, 1998, when the final revenue foregone
8 subsidy ceased, and nonprofit publishers also absorbed significant additional software, fulfillment
9 and printing costs in 1997, as a result of "reclassification" in MC96-2. The impact of all those
10 rates and costs are just being fully absorbed. In reality, the contingency sought by USPS is for
11 "many uncertainties" (unnamed), USPS-T-9, p.44. The contingency is a cash account which will
12 be spent, regardless of cost or revenue conditions in the test year. See, Answer of Witness
13 Tayman to ANM/USPS-T-9-29, "In both the before and after rate scenarios, it is assumed that the
14 amount included for the contingency provision is spent... As reflected in the Postal Service's cash
15 flow forecast (LR I-127 p.232) *the contingency is reflected as a test year expense and cash*
16 *requirement*." [Emphasis supplied}. It is a certainty that USPS will spend every dime it can get,
17 which hardly promotes efficiency. Hard-pressed nonprofit publishers should not be required to
18 fund this unnecessary expense.
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CONCLUSION

CRPA supports the alternative costing models presented by the various experts of the Periodical Publishers. These alternatives will properly reduce the tremendous increase for nonprofit and other periodicals. This result in turn will permit the Commission again to take full account of the ECSI factor and other ratemaking factors which are vitiated when cost alone determines a rate. Adoption of the USPS periodical rate schedule will ensure the continued volume decline of nonprofit publication volume, and will discourage the commencement of new journals and periodicals. I strongly request needed and justified rate relief for the nonprofit and religious press from the exorbitant USPS propounded periodical rates.

APPENDIX A
DESCRIPTION OF COALITION MEMBERSHIPS
COALITION OF RELIGIOUS PRESS ASSOCIATIONS (CRPA)

American Jewish Press Association

The American Jewish Press Association (AJPA) represents more than 175 member periodicals with a combined readership of 4.5 million. Between 65 and 70 percent of AJPA's members are not-for-profit, and they send their periodicals as Periodicals-class, preferred-rate mail.

Associated Church Press

The Associated Church Press (ACP) has approximately 175[1] member periodicals located in thirty-one states and the District of Columbia. Their combined per-issue circulation exceeds 8.4 million. ACP member periodicals produce 130,000,000 issues per year. Fully 60 percent of the ACP's members have circulations of 16,500 or fewer, and an additional 22 percent have circulations between 16,500 and 50,000 per issue. Thus, although a few ACP members have large circulations, more than 82 percent of the ACP's member periodicals have circulations of 50,000 or fewer. All but a few ACP members are not-for-profit. The ACP's members are primarily magazines and newspapers that use Periodicals-class mail, but some members use Standard A mail—both at preferred rates

1. One member, a news service with 20,000,000 subscribers—mostly electronic—has been excluded from the ACP's figures because its use of the Postal Service is relatively small and because the inclusion of its data significantly distorts the general picture of ACP members.

Association of State Baptist Papers

The Association of State Baptist Papers (ASBP) consists of thirty-nine Baptist state papers ranging in circulation from 2,000 to nearly 300,000 and with a combined per-issue circulation of 1.7 million. Most of these papers are weeklies. Twenty-two of the thirty-nine have circulations of 20,000 or fewer. The average circulation is between 40,000 - 45,000 per issue. ASBP publications place nearly 80,000,000 copies of their newspapers the mail stream each year, all at nonprofit rates in Periodicals or Standard-A class. These Baptist papers are the principal means through which more than 14 million Southern Baptist Church members are informed of their mission work and benevolent ministries.

Catholic Press Association

The Catholic Press Association (CPA) includes some 600 Catholic newspapers, magazines, and newsletters in the United States with a combined per-issue circulation of 24.3 million. The average circulation per publication is just under 43,000 per issue. Almost all CPA members are not-for-profit. Many of the CPA's newspaper-members are diocesan (locally circulated), but most of the CPA's 250 U.S. magazines are mailed nationwide.

Evangelical Press Association

The Evangelical Press Association (EPA) consists of approximately 300 member periodicals and 100 individual writers. The periodicals have a combined, per-issue circulation of approximately 20 million. EPA members are located in thirty-five states and

the District of Columbia. The EPA's circulation profiles resemble those of other religious press associations: Well over half have circulations of 20,000 or fewer per issue; three-quarters have circulations of 50,000 or fewer. All but a few EPA members are not-for-profit. Its members primarily use Periodicals-class mail, but some members use Standard A-class—both at preferred rates.

Episcopal Communicators

The Episcopal Communicators Association's membership is 178 individuals, most of whom are editors, writers, or public-information officers of various Episcopal dioceses or institutions. Their publications are all not-for-profit and use either Periodicals- or Standard-A-class mail.

Seventh Day Adventist Press

The Seventh-day Adventist Publishers (SAP) are comprised of two North American facilities: Review and Herald Publishing Association in Hagerstown, Maryland, and Pacific Press Publishing Association in Nampa, Idaho. They jointly produce sixty-five Adventist periodicals. The most prominent publications are the *Adventist Review* with a weekly circulation of 45,000 (mailed Periodicals class) and an additional monthly distribution of 300,000 (mailed Standard A class); *Signs of the Times* with a monthly circulation of 216,000; *Liberty* magazine with a bimonthly circulation of 300,000; and *Ministry*, which is mailed monthly to 16,000 Adventist clergy and additionally to 70,000 non-Adventist clergy bimonthly. The total yearly circulation of SAP periodicals is 46.2 million copies; 39.5 million are mailed Periodicals class and 6.7 million are

mailed Standard A class, and all qualify for preferred rates.

United Methodist Association of Communicators

The United Methodist Association of Communicators represents some 60 annual conference (i.e. geographically regional) publications whose circulations range from 2,500 to 45,000. Publication frequencies range from weekly to monthly, but the combined annual volume of these regional Methodist publications exceeds 24 million pieces.

CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document in accordance with Section 12 of the Rules of Practice this 22nd day of May 2000

Stephen M. Feldman

1 CHAIRMAN GLEIMAN: Dr. Stapert, 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, 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: With one change, yes, Mr. Chairman,
9 and the change is on Number 16, USPS/CRPA-T1-16. There is a
10 typographical error that makes a real difference. In my
11 response in line 2, the printed text says FY 2000, and that
12 should be corrected to 2001. I have appropriately emended
13 the text of the two copies I have before me.
14 CHAIRMAN GLEIMAN: That being the case, counsel,
15 if I can impose on you to provide two copies of the
16 corrected designated written cross-examination of the
17 witness to the court reporter. I will direct that the
18 material be received into evidence and transcribed into the
19 record.
20 [Designated Written
21 Cross-Examination of John C.
22 Stapert, CRPA-T-1, was received
23 into evidence and transcribed into
24 the record.]
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 COALITION OF RELIGIOUS PRESS ASSOCIATIONS
WITNESS JOHN STAPERT
(CRPA-T-1)

Party	Interrogatories
United States Postal Service	USPS/CRPA-T1-1-21

Respectfully submitted,

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
WITNESS JOHN STAPERT (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
USPS/CRPA-T1-1	USPS
USPS/CRPA-T1-2	USPS
USPS/CRPA-T1-3	USPS
USPS/CRPA-T1-4	USPS
USPS/CRPA-T1-5	USPS
USPS/CRPA-T1-6	USPS
USPS/CRPA-T1-7	USPS
USPS/CRPA-T1-8	USPS
USPS/CRPA-T1-9	USPS
USPS/CRPA-T1-10	USPS
USPS/CRPA-T1-11	USPS
USPS/CRPA-T1-12	USPS
USPS/CRPA-T1-13	USPS
USPS/CRPA-T1-14	USPS
USPS/CRPA-T1-15	USPS
USPS/CRPA-T1-16	USPS
USPS/CRPA-T1-17	USPS
USPS/CRPA-T1-18	USPS
USPS/CRPA-T1-19	USPS
USPS/CRPA-T1-20	USPS
USPS/CRPA-T1-21	USPS

RESPONSE OF CRPA WITNESS STAPERT
(CRPA-T-1) TO USPS INTERROGATORIES

USPS/CRPA-T1-1. Please refer to page 3, lines 16 and 17 of your testimony where you state that "postal cost increases exceed normal inflation during a period of time when low inflation, as well as a healthy economy, characterized the U.S. economy."

(a) Please state the time period to which you refer.

(b) Please provide your definition of "low inflation" and a "healthy economy".

(c) Is it possible that the U.S. economy in FY 2001 will not be characterized as a period of low inflation and a healthy economy? If your answer is anything other than yes, please explain fully why this is not possible.

RESPONSE:

(a) The time period which is considered in the USPS rate filing, i.e., 1998-2000.

(b) I believe that Witness Buc, DMA-T-1, describes the low inflation and healthy economic conditions that have characterized recent history and the present. DMA-T-1, at 15, Table 3, and at 16, Table 4. Unfortunately, "low inflation" in the economy as a whole and in subclasses with significant letter volumes has not extended to Periodical Class mail, as PRC Order 1289, at Attachment A, p.4 , demonstrates. The answers to this disparity are yet to be found, the testimonies of witnesses Unger and O'Tormey notwithstanding:

> In summary, it appears that O'Tormey and Unger were chosen by the Postal Service to respond to Order 1289 without being fully informed of the magnitude of the problem faced by Periodical mailers, whose reported costs have increased at alarming rates for many years, and without knowing any more about the underlying causes than Postal Service witnesses chosen to address the issue in prior dockets.

Direct Testimony of Halstein Stralberg, TW-T-1, at 18.

(c) Anything is possible, but the assumption that anything is possible is, in my opinion, hardly the

basis for a $3 billion rate hike. The relevant data on which the instant proposal must rest consist of the U.S. economy's recent performance and reliable projections of the short-term future.

USPS/CRPA-T-1-2. Please refer to Table 8 on page 13 of USPS-T-9.

(a) Please confirm that city deliveries and rural boxes and route miles, are projected to increase during the period FY 1999-2001. If you do not confirm, please explain your answer.

(b) Please confirm that increasing deliveries results in additional workload, which results in higher costs. If you do not confirm, please explain fully.

RESPONSE:

(a) Confirmed. It is interesting that USPS projects *identical* increases in FY 1999, FY2000 and in the Test Year, for each of the three non-volume workload factors referred to in the interrogatory. I assume that this means that studies of how much annual workload in the cited categories actually increases (or decreases) are not available.

(b) I am not in a position to confirm the higher costs that the Postal Service claims from increasing deliveries, except to say that I would expect any such changes, whether increases or decreases, to be nonlinear. I would hope that USPS is looking at ways to increase deliveries at a lower cost per delivery and that the Commission makes appropriate adjustments in how delivery costs, both city and rural, are allocated. See, e.g., Direct Testimony of Rita Cohen, MPA-T-1, at 28-31.

USPS/CRPA-T1-3 Please refer to USPS-9C.

(a) Please confirm that mail volume is projected to increase during the period FY1999-2001 before rates. If you do not confirm, please explain your answer.

(b) Please confirm that increasing mail volume results in additional workload, which results in higher costs. If you do not confirm, please explain fully.

RESPONSE:

(a) While the aggregate of all classes of mail shows a projected increase according to USPS-9C, I have noticed considerable variation among the classes with respect to before-rates projections. For nonprofit mail, like the kind which CRPA members mail to millions of subscribers, decreases in volume, not increases, are projected. We hope that USPS shares CRPA's concern and that of other publishers about the diminution of religious, cultural, literary and social information that proposed periodical rates will cause. See, e.g., Direct Testimony of George Tolley, USPS-T-6, at 97, Table A, (periodicals volumes decline from the base year from 2,136,552 millions pieces to 2,095,805 millions pieces, test year before-rates.) Dr. Tolley projects an additional 2.25% decline in nonprofit periodical volume in the after-rates test year model. USPS-T-6, at 96.

(b) USPS cost increases are not uniformly linear. The degree of linearity is a matter of controversy among the parties and USPS in several large cost segments in this case.

Also, investments like automation are meant to decrease the costs of increased workload.

I agree with ANM witness John Haldi, ANM-T-1, who states, in connection with the efficient deployment of automation equipment, as follows:

> Hence, barring any drastic shift in the composition of a mail class, or a significant change in its makeup that would make it more difficult or costly to produce, there is no reason why the real (i.e., inflation-adjusted) cost of processing the mail would increase under efficient management.

ANM-T-1, at 39

USPS/CRPA-T1-4. On p.5, lines 3-4, of your testimony, you state: "[T]here is little if any justification for a 2.5% contingency allowance of nearly $1.7 billion. USPS financial performance has exceeded expectations in recent years, and despite the Internet expansion that began since the Commission's last omnibus rate decision, volume in First class and Standard A continues to grow."

(a) Please confirm that the purpose of the contingency is to protect against the adverse impact of unforseen events and forecasting variances in the test year. If you do not confirm, please explain fully.

(b) Please explain how you determined that Postal Service financial performance has exceeded expectations in recent years and specifically what time period is covered by your reference to recent years.

(c) Please confirm that favorable financial performance in the past does not preclude the possibility that adverse events and losses may occur in the future. If you do not confirm, please explain why.

(d) Is it your testimony that growth in First-class and Standard A mail volume precludes the need for protection against the unknown in the test year?

(e) Regarding the relationship you have assumed between mail volume growth and the contingency:

(i) How much growth over what period of time relates to what value of contingency?

(ii) How did you determine any purported relationship between mail volume growth and the contingency?

(iii) Is it possible to have mail volume growth and incur financial losses? If your answer is other than yes please explain why.

RESPONSE:

(a) Confirmed, with an emphasis on the word "unforeseen".

(b) First, I would refer you to USPS Press Release #99096, December 7, 1999, entitled "Postal Service Posts Fifth Year of Net Income". The release states in part: "The U.S. Postal Service posted a net income, far exceeding expectations, of $363 million on revenues of nearly $63 billion during its 1999 fiscal year". Also, despite formidable cost challenges and increases in addresses for which deliveries would have to be made, former Chief Financial Officer Richard Porras told the Governors, according to the same press release, that "We are committed to posting six consecutive years of net income. We will continue doing what is necessary to meet this goal." Going back to Docket R97-1, the Postal Service may recall that due to better- than-projected financial results, the Commission reduced the Service's proposed revenue requirement.

(c) As I read in almost every promotional presentation of mutual-fund performance, "past performance does not guarantee future performance" or words to that effect. But what is at issue here is the appropriate characterization of the Postal Service's history of financial projections.

(d) I believe that when volume projections are made, the so-called "unknown" is taken into consideration in calculating the volume projections themselves, and substantial additional protection becomes redundant.

In fact, the "unknown" can be better-than-expected performance, particularly if as MPA witness Cohen cogently demonstrates, opportunities for additional costs savings in a variety of segments

are seriously pursued.

(e-i) I do not think that USPS demonstrated any correlation in witness Tayman's testimony between the contingency and mail volume growth. In my testimony, I do not, as this interrogatory claims, assume any particular relationship between volume growth and the contingency. I did want to contrast witness Tayman's somewhat pessimistic and undocumented fears about the future with what actually is happening. USPS has had some successes; it is odd that it would neglect or downplay those successes just because a rate filing has been made.

(e-ii) Like witness Tayman, I do not have any precise model or equation to correlate the appropriate contingency amount with volume growth.

(e-iii) USPS like other organizations which sell products can sell more and lose money, or sell less and make money. One would have to know what the productivity of the organization is, what it will be after capital and technology investments are made, whether or not all product lines will be continued or not, and whether new and perhaps more efficient product lines would be introduced. I do not think that discussion of volume increases alone, without reference to the organization's purpose and its structure, means very much.

USPS/CRPA-T1-5 Please refer to page 9, line 20, of your testimony. You state that "current data in the latest Financial and Operating Statements, A/P 8, PFY 2000, p.8, show transportation costs (total mail volume) as 13.3% year-to-date above the same period last year." Is it your testimony that growth in transportation costs should relate exclusively to mail volume growth? If so, please explain fully and include in your answer an explanation of why inflation including the cost of fuel would not influence transportation costs.

RESPONSE:

No. I am alarmed however that while USPS seeks to improve its control of transportation costs in the future, e.g., TR. 9155, it now has double-digit inflation in those costs.

USPS/CRPA-T1-6 Please refer to page 10, line 2, of your testimony where you state that "amazingly, USPS planned to spend over 13% more this year than for last [year] for transportation, since these costs are 4.6% below plan (so rising fuel costs this year can't be the reason)." Please confirm that page 6 of the A/P 8 Financial and Operating Statements reflects that year-to-date transportation costs are 4.6% over plan.

RESPONSE:

Confirmed. Both the plan and the recent actual results show transportation costs far in excess of inflation.

USPS/CRPA-T1-7. Please refer to page 14, line 11, of your testimony where you state that "USPS witness Tayman was unable to articulate, why USPS needs nearly $1.7 billion in a contingency allowance at a time when USPS continues to collect revenues in excess of costs."

(a) Please confirm that the contingency applies to the test year. If you do not confirm, please explain what year or period of time is applicable to the contingency and why.

(b) Please refer to Exhibit USPS-9A and confirm that USPS projects that costs will exceed revenue in the test year and a net loss of $1.7 billion will be incurred. If you do not confirm, please explain fully.

(c) Please refer to pages 43-45 of USPS-T-9. Is it your testimony that these pages do not articulate why the Postal Service feels it needs a 2.5% contingency for the test year in this case? If your answer is other than no, please explain fully.

RESPONSE:

(a) Confirmed.

(b) I confirm what is printed in Ex USPS 9A, but I would point out that witnesses Cohen, Buc and Stralberg and other witnesses in this case have made strong demonstrations that the proposed revenue requirement does not take into account likely increases in productivity and foreseeable cost reductions which will affect both this year (2000) and the test year (2001). Moreover, it remains unclear to me at least as to whether the Postmaster General's recent statements about cost reductions mean that cost reductions not included in the R2000-1 filing will in fact be implemented, at least in part, by the test year. See, Response of United States Postal Service to Presiding Officer's Information Request No. 13, Question 1 (June 8, 2000).

(c) Yes. I think that Mr. Tayman presents conclusions about possible challenges USPS may face,

but he provides little, if any, substantiation of his position. DMA witness Buc and ANM witness Haldi, as well as OCA witnesses Burns and Rosenberg, provide mathematic and economic backing for my view.

USPS/CRPA-T1-8 Please refer to your testimony on page 14, line 18, where you state that "a glance at the results of the last two omnibus rate cases is instructive: witness Tayman's Ex.USPS 9L shows cumulative positive earnings of $15,653,000,000."

(a) Please confirm that each dollar amount listed in the box labeled "R94-1 Cumulative FY 95-98" is a cumulative amount, e.g., the $5.152 billion amount shown for FY 98 reflects the total net income for the period FY95-FY98. If you do not confirm, please explain why.

(b) Please confirm that the total of the net incomes earned or estimated for the period FY95-00 is $5.581 billion. If you do not confirm, please explain why.

(c) Please confirm that the $15,563,000,000 figure you have calculated overstates the amount of net income realized during the period FY95-00 by approximately $10.0 billion. If you do not confirm, please explain why.

RESPONSE:

(a) Confirmed.

(b) I confirm that the addition of the numbers in the "Net Income" column of USPS 9L for the years 1995-2000 yields a sum of $5.581 billion.

(c) The $15,563,000,000 figure, as used in my testimony, does not overstate anything. It is an accurate sum of the cumulative surplus accrued by USPS as a consequence of rate increases in R94-1 and R97-1, classification changes that raised many mailers' rates including nonprofit publishers during that period, and management efforts to control costs. As witness Buc correctly states, in FY 1999, after USPS achieved a net income of $363 million, "it further improved its equity position so that equity improved for the fifth year in a row, to negative $447 million, from a low of almost negative $6 billion at the end of 1994." See, DMA-T-1, at 12.

USPS/CRPA-T-9 Please refer to page 14, line 20, of your testimony where you state "hopefully USPS will take the same 'risk' in this case as it did in those cases insofar as a low contingency is concerned."

(a) Please define "low" in this context.

(b) Please confirm that the cases to which you referred are Dockets R97-1 and R94-1. If you do not confirm, please provide the cases to which you referred.

RESPONSE:

(a) In this context, "low" refers to the level of risk represented by the contingencies proposed by the Service in R94-1 and R97-1.

(b) Confirmed.

USPS/CRPA-T1-10. On page 14, line 7 of your testimony you state that "CRPA endorses the testimony of William Morrow of Crain Communications, an ABP and MPA member, on behalf of the Periodical Publishers in connection with the proper amount and application of the contingency allowance."

(a) What is the total proper amount of the contingency recommended by Witness Morrow which you endorse?

(b) Please explain how the total contingency recommended by witness Morrow relates to your statement at page 14, line 20, of your testimony that "hopefully USPS will take the same 'risk' in this case as it did in those cases insofar as a low contingency is concerned."

RESPONSE:

(a) Witness Morrow does not recommend, as you put it, "a total proper amount" of contingency allowance. I endorse Mr. Morrow's position in that, if the contingency percent is 2.5% of total costs, there should be no contingency allowance added to the costs of Periodicals. Other intervenor witnesses to whom I have referred in my prior responses about the contingency allowance have established why an overall contingency of no more than one percent is justified. As to Mr. Morrow's effort to reduce an excessive contingency imposed on all mailers, but on periodical publishers in particular, since periodicals represent but 3% of USPS costs, a zero contingency for periodicals would be in his words, "a *de minimus* reduction for the Postal Service but a significant reduction in the rate increase faced by magazine publishers." I would only add that small-circulation national, nonprofit publications appear so far, based on evidence to date, to face the largest rate increase of all of the sectors of the publishing world.

(b) Mr. Morrow proposes that the proposed contingency not apply to Periodicals, given circumstances unique to that class. As he explains, significant cost reductions for periodicals ought to result if joint USPS-publisher efforts to reduce extraordinary periodical costs and effective automation of periodical flats are implemented, as USPS has agreed to do. He treats these cost reductions as positive contingencies, which would be deducted from that portion of the contingency otherwise allocable to Periodicals. I endorse either his solution, should the contingency remain at 2.5%, or an overall reduction to 1% allocable to all subclasses, as proposed by Witness Buc and the OCA witnesses.

USPS/CRPA-T1-11. Please refer to page 15, lines 1-3, of your testimony where you point out that the Postal Service realized a net income of $1.0695 billion through A/P 7 PFY 2000 and speculate that the reason net income is below plan is because the plan may be deficient.

(a) Please confirm that this amount is as of A/P 8, not A/P 7.

(b) Please explain the basis for your inference that the plan is deficient, and provide all calculations and other documentation supporting your statement.

(c) Please refer to Tr. 21/9218-19 and confirm that the Postal Service plan for FY 2000 reflects a net income of $100 million. If you do not confirm, please explain why.

(d) Is it possible the FY2000 plan is not deficient? If your answer is other than yes, please explain why this is not possible.

(e) If the plan is assumed not to be deficient, is it possible the Postal Service could incur a loss in FY 2000? If your answer is other than yes, please explain why this is not possible.

RESPONSE:

(a) Confirmed.

(b) My verb "may be" (CRPA-T-1, p.15 at 4-5) was an attempt to suggest that both the Postal Service's volume-and-revenue performance and its prognostication performance merited review in light of the discrepancy between the two.

(c) Confirmed.

(d) Anything is possible, including USPS' more effectively using automation and other efficiency methods proposed by mailers to improve productivity, prevent unnecessary operational losses and consequentially higher rates for mailers.

(e) Perhaps, although eight accounting periods into USPS' FY 2000, the Postal Service has an

excess of $1.069 billion of revenue over expense. The difference between this surplus and the budget for FY 2000, is, in the terminology of the Financial and Operating Statement for A/P 8, "NM", i.e., not meaningful. I would hope and have confidence in senior management that USPS would focus on keeping itself in the black, and not in the red , as your question seems to imply. Stated another way, if the plan is not deficient, then there should be more revenue collected than spent.

USPS/CRPA-T1-12. Please refer to page 15, lines 11 and 12, of your testimony where you state that "the contingency is a cash account which will be spent regardless of cost or revenue conditions in the test year."

(a) Please confirm that the basis for your statement is Tr. 2/176, where witness Tayman stated that "the contingency is reflected as a test year expense and cash requirement." If you do not confirm, please explain the basis for your contention that "the contingency will be spent regardless of cost or revenue conditions in the test year."

(b) Is it possible the contingency might not be used in the test year even though the Postal Service has assumed that it will be used for purposes of estimating interest expense and rate design? If your answer is other than yes, please explain why it [sic] not possible the contingency may not be used.

RESPONSE:

(a) Confirmed.

(b) According to witness Tayman, it seems likely that the contingency would be used for paying salaries or any other operations expense. Prior to the quoted portion of witness Tayman's response to ANM/USPS-T9-29, which you refer to in part (a) of this question, there is another sentence, also quoted in my testimony at 15, which states: "In both the before and after rate scenarios, *it is assumed* that the amount included for the contingency provision is spent." (Emphasis added).

RESPONSES OF CRPA WITNESS STAPERT
TO USPS INTERROGATORIES
USPS/CRPA-T1-13-21

USPS/CRPA-T1-13

Please refer to your response to USPS/CRPA-T1-1(a).

(a) Please confirm that the time period which is considered in the rate filing is FY 1998-2001 and not FY 1998-2000, as you stated. If you do not confirm please explain.

(b) Please refer again to page 3, lines 16 and 17 of your testimony where you state "postal cost increases exceed normal inflation during a period of time when low inflation, as well as a healthy economy, characterized the U.S. economy." Since some of the time considered in the rate filing is in the future, please explain how you can describe this period by using past tense, *i.e*, "a period of time when low inflation, as well as a healthy economy, *characterized* the U.S. economy" (emphasis added) ?

RESPONSE

USPS/CRPA-T1-13 (a)

Not confirmed. The period FY 1998-2001 is one period that the Commission is considering among others, see, Commission Order 1294 (May 26, 2000; Presiding Officer Ruling No. R2000-1/71 May 26, 2000).

USPS/CRPA-T1-13(b)

The answer to which you refer perhaps should have read: "characterized the years from the R94-1 decision to the filing of this case, characterizes the present situation, and based on both Congressional and Administration sources, will characterize the U.S. economy during the test year which starts in only six months".

USPS/CRPA-T1-14

Please refer to your response to USPS/CRPA-T1-4(d), where you state that "when volume projections are made, the so-called "unknown" is taken into consideration in calculating the volume projections themselves, and substantial additional protection becomes redundant." Please explain how all totally "unknown" adverse events are taken into consideration in the volume forecast in this Docket? Please provide citations or other documentation to support this statement.

RESPONSE

Your question incorrectly assumes that I stated that "all totally unknown adverse events are taken into consideration" etc. I never used the word "all" and I never used the word "totally" in the actual response which you cite. Therefore it is impossible to clarify an answer which was never made.

USPS/CRPA-T1-15

Please refer to your response to USPS/CRPA-T1-3(e)(i), where you state: "I did want to contrast witness Tayman's somewhat pessimistic and undocumented fears about the future with what is actually happening."

(a) Do you believe that considering the possibility that adverse events could occur during a future test year and providing for this contingency to be pessimistic? Please explain your answer.

(b) When you say "what is actually happening," are you referring to the present or the future?

RESPONSE

USPS/CRPA-T1-15(a)

It appears that you mean to refer to my prior response to USPS/CRPA-T1-4(e)(i).

I do not believe that the consideration of adverse events during a future test year is pessimistic per se. However when the contingency is as large as it is here, as a percentage of the amount of the increase requested, I would expect a detailed, serious explanation to justify the increase, particularly given the significant portion of the increase due to the contingency request. As I stated in my testimony, and as Witness Buc and others have demonstrated in their written testimonies, no such explanation was given. The adverse events to which USPS-T9, pp. 43-45, refer are either too vague to evaluate or are costs which the revenue requirement ought to include exclusive of the contingency. Alleged significant cost increases in mail processing and transportation for example are projected for periodicals in the test year, but those increases are contained within the revenue requirement without the contingency factor. So it remains unclear what unknown events would trigger the need for a 2.5% contingency factor, given what we know about the present and what would appear likely for a one-year period that begins only six months from now.

USPS/CRPA-T1-15(b).

Please see my response to USPS/CRPA-T1-13(b).

USPS/CRPA-T1-16

Please refer to your response to USPS/CRPA-T1-(7)(b) [sic]. Have you or any of the witnesses you have cited presented evidence that suggests the Postal Service will not incur a loss in FY2001 without an increase in rates? If your answer is yes, please provide citations. If your answer is no, please explain the statement on page 14, line 11 of your testimony that "USPS continues to collect revenues in excess of costs" during the test year.

RESPONSE

USPS/CRPA-T1-16

To my knowledge, no witness has disputed that USPS might suffer a loss in ~~FY2000~~ FY2001, what has been disputed is the amount of a loss, the need for a contingency of 2.5% and what USPS might do to reduce its losses. In any event, I do not know whether or not USPS would have filed a request for higher rates if the projected operating loss alone were the object of a rate increase, instead of the operating loss plus prior year losses plus the contingency of 2.5%. As for the excerpt from my testimony which you quote selectively, the entire sentence reads as follows: "Basically, USPS witness Tayman was unable to articulate, why USPS needs nearly $1.7 billion in a contingency allowance at a time when USPS continues to collect revenues in excess of costs." . I did not state, as you propound, that "'USPS continues to collect revenues in excess of costs"' during the test year".

USPS/CRPA-T1-17

Please refer to your response to USPS/CRPA-T-8(c) [sic] and witness Tayman's Exhibit USPS-9L. Please also refer to the box labeled R94-1 Cumulative FY 95-98.

(a) Please confirm that the second number in the box is $3.337 billion, which is the total of FY 95 net income of $1.770 billion and FY96 net income of $1.567 billion. If you do not confirm, please explain.

(b) Please confirm that the third number in the box is $4.602 billion, which is the total of FY 95 income of $1.770 billion, FY96 net income of $1.567 billion, and FY97 net income of $1.264 billion. If you do not confirm, please explain.

(c) Please confirm that the sum of the four numbers in this box counts the FY95 net income four times, the FY96 net income three times and the FY97 net income twice. If you do not confirm please explain.

(d) Please confirm that the sum the cumulative numbers you have added to arrive at $15.563 billion overstates the cumulative net income earned or estimated to earned during the period FY95-2000 by approximately $10 billion. If you do not confirm, please explain why each year's income should be counted more than once to determine the total net income earned during the period FY 1995-2000.

RESPONSE

USPS/CRPA-T1-17(a-d)

Confirmed. Thank you for clarifying the meanings of the numbers in USPS-9L. There were annual surpluses in the wake of R94-1 and R97-1, although less than appeared in my initial reading of Witness Tayman's exhibit. Missing, though, from USPS 9L, is any explanatory note to indicate that in FY97 USPS incurred a non-operating expense of $258 million in POD workers' compensation, mandated by Congress. Setting that non-operating expense aside, the FY97 operating surplus becomes $621 million.

USPS/CRPA-T1-18

Please refer to your response to USPS/CRPA-T-9(a) [sic] where you describe a low contingency as one that assumed "the level of risk represented by the contingencies proposed by the Service in R94-1 and R97-1."

(a) Please confirm that the Postal [sic] proposed contingencies of 2.0% and 1.0% in Docket Nos. R94-1 and R97-1, respectively. If you do not confirm please explain.

(b) Please confirm that the Postal Service took some risk in proposing low contingencies in Docket R94-1 and R97-1. If you do not confirm please reconcile your response to your statement on page 14 line 20 of your testimony that "hopefully USPS will take the same 'risk' in this case as it did in those cases insofar as a low contingency is concerned."

RESPONSE

USPS/CRPA-T1-18(a)

Confirmed.

USPS/CRPA-T1-18(b)

Not confirmed. I cannot say what risks USPS did or did not take in R94-1, which was an unusual case in that uniform, across-the-board increases were proposed for different subclasses. As for R97-1, the Postal Service overstated its revenue requirement in that proceeding. The Commission reduced that requirement in light of contemporary data that demonstrated that USPS had understated its revenues in its rate filing.
A fair reading of the portion of my testimony, which you cite, would be that I was and am skeptical about the degree of risk claimed by USPS whenever it asks for a contingency requirement.

USPS/CRPA-T1-19

Please refer to your response to USPS/CRPA-T-11(b) [sic], where you suggest that there is a discrepancy between the Postal Service's "volume and revenue performance" and its "prognostication" performance". Please give numerical citations that document and explain your meaning of "volume and revenue performance" and "prognostication performance".

RESPONSE

"The Postal Service reported net income of $1.264 billion for FY 1997, although it forecast net of only $636 million in its rate case filing in July of 1997". Postal Rate Commission, Opinion and Recommenced Decision, Docket R97-1, V. I, p. 24.

"The Postal Service posted a net income, far exceeding expectations, of $363 million on revenues of nearly $63 billion during its 1999 fiscal year, the Postal Service Board of Governors was advised today at its regular monthly meeting." USPS Press Release #99096, "USPS Posts Fifth Straight Year of Net Income".

USPS/CRPA-T1-20

Please refer to your response to USPS/CRPA-T-11(e) [sic], where you state: "The difference between this surplus and the budget for FY 2000, is, in the terminology of the Financial and Operating Statements for A/P8, "NM", i.e., not meaningful."

(a) Please confirm that the "NM" to which you refer is reflected in the % variance column. If you do not confirm, please explain.

(b) In you [sic] opinion is the Y-T-D A/P 8 adverse variance from the net income plan of $333.1 million meaningful? If your answer is other than yes, please explain what amount of variance would be meaningful.

(c) You also state in your response that "if the plan is not deficient, then there should be more revenue collected than spent." Does this mean your definition of a "deficient" plan is one that reflects a net (loss)? Is this true for each accounting period or only the annual plan? Please explain your answer.

RESPONSE

USPS/CRPA-T1-20

(a) Confirmed.

(b) Within the kind of religious and nonprofit organizations for which I have worked for many years, not only would $333.1 million of revenues be meaningful, it would be considered miraculous. USPS however is an organization where this sum, vast to small businesses, to practically all nonprofit organizations, and to the great majority of the American people, is only .5% of its annual budget. Apparently, the Finance office of USPS, or whoever prepares the report for USPS, does not consider the amount meaningful. So I take the report at its word.

(c) An annual plan could have a planned or unplanned deficit. However depending on capital investment plans, which could enhance productivity and cut costs in the future, I could envision stretching out the planning and spending process for a massive organization like USPS, over a longer period than one year. For example, USPS designs a five-year "Strategic Plan". So there could be a USPS deficit in one year, pursuant to a satisfactory plan, with net income in following years because (1) rates were not raised the first year, thus retaining customers and (2) wise investment produced net income greater than costs which would have been higher had the investment not been made.

One example of a deficient plan is the current USPS flats automation program based on past planning, which seems to have raised, not lowered flats processing costs.

USPS/CRPA-T1-21

Please refer to your response to USPS/CRPA-T-12(b) [sic], where you ascribe the following statement to witness Tayman: "According to witness Tayman, it seems likely that the contingency would be used for paying salaries or any other operations expense."

(a) Please confirm that these are your words and not witness Tayman's and that the word "likely" was not used by witness Tayman in this context. If you do not confirm please provide the specific cite to support your statement.

(b) Please confirm that if proposed new rates were not designed to generate revenue sufficient to cover total test year expenses including the contingency, there would be no contingency. If you do not confirm please explain.

RESPONSE

USPS/CRPA-T1-21

(a) Confirmed that I paraphrased witness Tayman's response to an interrogatory.

(b) It is impossible for me to confirm or not confirm the question as worded. What I would say, based on my effort to understand your question, is that if USPS did not propose rates designed to generate revenue sufficient to cover total test year expenses, whether or not a contingency is included, then USPS would incur, for the year in question, a net operating loss.

USPS could spend allocated funds on planned programs in an inefficient manner, and thus run over budget, contingency or no contingency. I do not understand the contingency to exist because of poor planning or execution of operating programs.

In reality, whether the Postal Service operates efficiently or not, or whether or not unforseen events occur which cause costs to exceed planned revenue, USPS appears to be ready to spend the contingency under the plan presented in this case. Witness Tayman's response to an ANM interrogatory assumes that the contingency is spent just like revenue from any other source. (I am not aware of any segregated fund or reserve into which the funds allocated for a contingency are deposited.) In the words of witness Tayman, as quoted at p.15 of my testimony: "In both the before and after rate scenarios, it is assumed that the amount included for the contingency is spent... As reflected in the Postal Service's cash flow forecast (LR I-127, p.232) *the contingency is reflected as a test year expense and cash requirement.*"

1 CHAIRMAN GLEIMAN: Is there any additional
2 designation of written cross-examination?
3 [No response.]
4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross-examination. The Postal Service is the only party
6 that has requested oral cross-examination.
7 Mr. Reiter, it is time.
8 MR. REITER: Thank you, Mr. Chairman.
9 CHAIRMAN GLEIMAN: Thank you.
10 CROSS-EXAMINATION
11 BY MR. REITER:
12 Q Good morning, Dr. Stapert.
13 A Good morning, Mr. Reiter.
14 Q I would like to ask you to turn to your testimony
15 at page 11, please.
16 A Yes.
17 Q And direct your attention to footnote 3.
18 A Yes.
19 Q There you say that Witness Xia had no explanation
20 for why TRACS sampling does not distinguish between
21 nonprofit and regular rate periodicals, other than to say
22 that TRACS data collectors are not asked to record the
23 subclass level, is that correct?
24 A You are reading the footnote?
25 Q That's correct.

1 A I believe -- your reading is correct, yes.

2 MR. REITER: Mr. Chairman, if I might, I have

3 copies of the transcript page to which Dr. Stapert refers in

4 that footnote, that I would like him to be able to refer to.

5 I have copies for the bench and for counsel.

6 CHAIRMAN GLEIMAN: Certainly. Proceed.

7 BY MR. REITER:

8 Q There are two pages there, pages 6840 and 6841

9 from Volume 17 of the transcript of this proceeding.

10 Dr. Stapert, if I could direct your attention to

11 page 6840.

12 A Yes.

13 Q Beginning at line 10 --

14 A Yes.

15 Q I almost gave away my last copy here. Your

16 counsel asked Ms. Xie about her Table 10 and she identifies

17 at lines 18 and 19 of the transcript as the classes of --

18 she identifies that table as showing the classes and

19 subclasses that TRACS provides a distribution key for. Do

20 you see that?

21 A Yes.

22 Q Now if you turn over to page 6841, beginning at

23 line 8, you will find the question your counsel asked Ms.

24 Xie that you quote your reply to in your testimony. He

25 asked, "Can you explain why of the mail categories listed in

1 your Table 10 the only mail category that is not divided
2 into subclasses is 2C Periodicals?" -- do you see that?
3 A I see it.
4 Q And then Ms. Xie replied with the sentence that
5 you quote in your Footnote 3, is that right?
6 A Yes.
7 Q So the question your counsel asked Ms. Xie was
8 actually why her list of distribution keys in Table 10 did
9 not break down periodicals into subclasses, is that not
10 right?
11 MR. FELDMAN: Excuse me, Mr. Chairman. This is
12 just a clarification. Could Postal Counsel identify where
13 in this transcript the word "distribution key" is mentioned?
14 MR. REITER: I thought we just did that -- on page
15 6840, line 19, after you asked her about her Table 10, she
16 says, "That --" -- I'm sorry, she says, "Right. That is the
17 class and the subclasses that TRACS provides a distribution
18 key for."
19 MR. FELDMAN: Yes, but the question to Dr. Stapert
20 at the moment is on TR 6841, lines 8 through 12 and I don't
21 see distribution key at that point.
22 MR. REITER: I would be happy to give everyone a
23 minute to read through the next few lines until they get
24 there if there is any doubt that you were asking about the
25 same thing.

1 MR. FELDMAN: That might be a good idea. Thank
2 you.
3 MR. REITER: If that is all right with you, Mr.
4 Chairman.
5 CHAIRMAN GLEIMAN: I have no problem. It is
6 important that counsel understand the question that is being
7 put to his client, his witness.
8 MR. REITER: I can't disagree with that.
9 CHAIRMAN GLEIMAN: Mr. Feldman, you'll let us know
10 when you have had an opportunity to read the material.
11 MR. FELDMAN: I have read the entire portion now.
12 Mr. Chairman, that was helpful. Thank you.
13 MR. REITER: Thank you.
14 THE WITNESS: If you would pose the question so I
15 can have it freshly in mind, please.
16 MR. REITER: I certainly will, Dr. Stapert.
17 BY MR. REITER:
18 Q I think we established that in that cross
19 examination your counsel was asking Ms. Xie about her list
20 of distribution keys in Table 10.
21 A Yes.
22 Q Okay. You are with me on that? And he asked her
23 to explain why that list showed 2C Periodicals as the only
24 class not divided into subclasses, is that right?
25 A Yes.

1 Q He didn't actually ask her why TRACS does not
2 distinguish between subclasses, did he?
3 A Not in this portion of the transcript.
4 Q And I believe right after that he says, "Thank
5 you, I have no further questions." Do you see that?
6 A Yes.
7 Q Do you know whether the Postal Service requires
8 periodicals mailers to endorse their publications with an
9 indication of the subclass under which they are mailed?
10 A My experience editing Second Class or now
11 Periodicals Class Not-for-Profit suggests that the
12 endorsement that we put in those Not-for-Profits was Second
13 Class Entered At -- without an indication of the subclass.
14 Q Okay, thank you. Do you know whether bulk mailers
15 in other classes are required to endorse their pieces with
16 the subclass name or some indication of the subclass?
17 A There are alternatives available for what was
18 Third Class and is now Standard A as to what the endorsement
19 and indicia might include. Some of those do specify
20 Not-for-Profit.
21 Q Do you know how TRACS data collectors determine
22 the subclass of nonperiodicals pieces that they encounter?
23 A I do now know that.
24 Q Do you know how an IOCS data collector would
25 determine the subclass of the piece that they are examining?

1 A My impression is that the IOCS data collector
2 looks at the piece that he or she is holding and examines it
3 for appropriate endorsements, evidence, volume number, that
4 sort of thing that would be on a periodical.
5 Q So -- I was asking you about nonperiodicals, but I
6 do now want to ask you about periodicals, so if I understand
7 your answer, for nonperiodicals it is your understanding
8 that they look for an endorsement of some kind.
9 A Yes.
10 Q Now for a periodicals piece, tell me your
11 understanding of how they determine the subclass.
12 A The subclass?
13 Q Yes.
14 A I'm not sure that in every case an IOCS data
15 collector could do that, although there would be generous
16 evidence available in the piece of mail.
17 For example, you know, if the word "church" or
18 "synagogue" or something like that religious is in the title
19 of the publication, and the content of it is obviously
20 religious, and it is entered as Second Class Matter, it has
21 that Second Class endorsement.
22 A reasonable inference would be that that would be
23 a Not-for-Profit or Preferred Rate piece of mail.
24 Q I suppose that is one way to do it, although they
25 might -- I assume you recognize it would be difficult in

1 others.

2 I think actually you were onto it before. If I

3 heard you correctly you said that they would write down the

4 name of the publication?

5 A Yes.

6 Q Is that something you are aware of or --

7 A I have not observed it, so I can't testify on my

8 own knowledge to that.

9 Q But you had it in your head, obviously, because

10 you did say it before. You had some awareness of that.

11 A What I have been -- what has been described to me

12 is that IOCS data collection activity involves Postal

13 Service personnel holding specific pieces of mail and

14 examining them for their characteristics so as to determine

15 which class or subclass of mail they are holding.

16 Q And presumably in the case of a periodical where

17 the subclass is not endorsed, would it seem plausible to you

18 that by name or ISSN number or some method such as that, the

19 class could later be identified by the Postal Service?

20 A Yes.

21 Q Now would that be possible in a TRACS data

22 collection environment?

23 A I don't think I know the answer to that.

24 Q Do you know if TRACS data collectors look at

25 individual pieces?

1 A I do not know.

2 Q Do you know what they are actually looking at in

3 terms of trying to collect data on, what their goal is?

4 A What I think of, what comes to mind when the TRACS

5 system is mentioned and other associated things is actually

6 the result of the data having been collected and how those

7 data seem to match or not match the realities that I do know

8 about.

9 Q So you are not aware of the specifics of how the

10 data collection is done?

11 A That is correct.

12 Q Would you think that the fact that TRACS data

13 collections, and you refer to this in your testimony, also

14 participate in IOCS, RPW, other data collection efforts of

15 the Postal Service indicate to you that they have an

16 understanding of how these various tests work?

17 A I couldn't testify to that. I have not been

18 informed about training practices that are provided for

19 those data collectors, standards of accuracy to which they

20 must demonstrate competence or that sort of thing.

21 Q You discussed this in your testimony, however, if

22 you look at page 11, beginning at line 4.

23 A Yes.

24 Q So what was the basis of your discussion there?

25 A The paragraph as a whole and the section within

1 which it appears has to do with the transportation of the
2 mail and the allocation of space on those transportation
3 vehicles.
4 It is my understanding that the allocation of
5 space for this purpose is based on the number of square feet
6 on the floor of, let's say, the truck that a particular type
7 of mail occupies, so if there is a sack of Second Class
8 Not-for-Profit Periodicals that occupies a certain square
9 footage on the floor of that truck, then -- and if there is
10 empty space above that, then the entire cubic space from the
11 floor to the ceiling of that trailer is allocated to the
12 materials that occupy that floor space.
13 Q So based on that I think you can answer one of my
14 previous questions, which is, how would a TRACS data
15 collector, looking at a sack of periodicals, be able to
16 identify the subclass?
17 MR. FELDMAN: Mr. Chairman, I'm going to object at
18 this point to the line of questioning. Counsel is getting
19 so far beyond the scope of Dr. Stapert's testimony,
20 including his comments on TRACS.
21 His comments on TRACS are simply pointing out
22 where Witness Xie, who is a USPS witness, described the
23 methodology, and Dr. Stapert was making comments on Dr.
24 Xie's testimony.
25 Dr. Stapert did not offer any independent

1 testimony on TRACS or transportation or OICS or any other
2 mail processing kind of functions.
3 So I just think this is really getting far afield.
4 MR. REITER: Dr. Stapert provides a section of
5 testimony in which he basically trashes TRACS. He says in
6 the --
7 MR. FELDMAN: I object to that.
8 CHAIRMAN GLEIMAN: Excuse me, gentlemen. Dr.
9 Stapert's testimony, while it does respond to Witness Xie,
10 does speak to problems with TRACS, and, consequently, I
11 think that the questions, at least so far, are in order, so
12 I'm going to allow the cross examination to continue.
13 Certainly, if you feel it's getting further afield
14 than you currently feel it is, you can raise an objection at
15 some later point.
16 BY MR. REITER:
17 Q My last question to you, Dr. Stapert, was, based
18 on your understanding of what a TRACS data collector sees, I
19 believe you gave the example of sacks in a truck.
20 A Yes.
21 Q Thinking back to the IOCS collector who actually
22 has a piece in his or her hand, does it seem plausible to
23 you that in the case of periodicals in a sack, it would be
24 difficult, it not -- well, difficult; I'll leave it at that
25 -- to determine the subclass of the pieces in the sack,

1 while at the same time, you know, not delaying the truck and
2 the mail?
3 A There would be some difficulty.
4 Q And that would be different -- and do you know
5 whether that's different than the case of other classes of
6 mail, for instance, Standard A?
7 Do you know whether the sacks are labeled with
8 subclass, for instance?
9 A I've had very little direct experience with tags
10 on sacks and things like that, but I have seen them.
11 I know -- I'm quite sure I've seen sack tags that
12 provide information about the contents of the sack.
13 Q Thank you.
14 Getting back to the data collectors, you seem
15 critical of TRACS data collectors because they are,
16 according to the Postal Service, part-time TRACS samplers
17 who also do IOCS tests, RPW samples; do you see that in your
18 testimony?
19 A I do.
20 Q Would you not think that employees who did other
21 kinds of tests would be familiar with how those sampling
22 systems work, and be, in fact, more knowledgeable about the
23 classes and subclasses of mail?
24 Wouldn't that be an advantage in doing other types
25 of data collection?

1 A If the data collectors and competent and well
2 trained and have demonstrated their competence by some
3 objective standards, yes.
4 Q Do you have any basis for concluding that, as a
5 group, they're not competent or trained?
6 A My experience of part-time and temporary employees
7 in a variety of nonprofit settings, in my case, suggest that
8 it takes more management time for part-time employees than
9 for full-time, and more training for people who are asked to
10 switch tasks from one assignment to the next, than to stay
11 on the same task.
12 So, this raises some question for me as to the
13 level of accuracy that's involved in that. But, again, the
14 paragraph, as a whole, and the section, as a whole here, is
15 trying to get at the dependability, reliability of this
16 system for allocating costs to periodicals class mail, and,
17 particularly, not-for-profit periodicals mail.
18 Q And just to clarify, what's the basis of your
19 testimony that TRACS data collectors are part-time or
20 temporary?
21 A I'm not sure I have that before me, Mr. Reiter.
22 Q Page 11, that same paragraph we've been talking
23 about, lines 5, 6, and 7.
24 A Yes, the reference is to Volume 17 of the
25 transcript, 6824, and I don't think I have that before me,

1 which is the supporting reference.

2 Q Okay, well, I'm sure that the transcript can be

3 looked at at some point.

4 I'd like to move on to another subject. I'm glad

5 almost all of us won't be talking about TRACS for the next

6 few minutes.

7 CHAIRMAN GLEIMAN: For how long is it that we're

8 not going to talk about TRACS anymore? We won't hold you to

9 it.

10 MR. REITER: For about the same amount of time

11 that we did, or maybe a little longer.

12 CHAIRMAN GLEIMAN: Thank you.

13 BY MR. REITER:

14 Q Would you look at your response to our

15 Interrogatory Number 1, Dr. Stapert?

16 A Yes.

17 Q That cites page 3 of your testimony where you talk

18 about inflation. I wondered if, when you were talking about

19 inflation, you had any specific definition or index in mind?

20 A I was referring to my experience as a worker and

21 as an employer over the past 30 years, which includes

22 20-plus years of experience in activities related to the

23 Postal Service. And I have lived and worked in years of

24 double digit inflation, and I have lived and worked in

25 recent years under economic conditions where the cost of

1 living adjustments for employees are on the order of 2,
2 2-plus percent. In the range in which I have lived, and the
3 range of recent history in which the Postal Service has
4 worked, it strikes me that the years that are in view in
5 this proceeding are distinctly at the low end of that range.
6 Q You mentioned being both an employee and an
7 employer. Would you think that employees and employers
8 might look at, for instance, different inflation indexes?
9 Not that ordinary people necessarily do that, but if you
10 were analyzing that situation, there might be different
11 factors at work in the items of most concern to you.
12 A Well, if employees were greedy and employers were
13 stingy, sort of like different indices, is that what you are
14 suggesting?
15 Q No, I was focusing more on the difference between
16 consumer prices and labor prices.
17 A In those conversations, whether between employers
18 and individual employees, or between employers and
19 representatives, such as union representatives, each party
20 selects an index or indices that are usually more to their
21 advantage, and they will vary by fractions.
22 Q In the case of the Postal Service and its
23 expenses, do you know which index has more effect or would
24 tell you more about what is going to happen to your costs?
25 A The Postal Service is labor-intensive, so indices

1 relating to costs of labor would have a greater effect than
2 other indices might.
3 Q And do you know right now if there are differences
4 in the projected or current inflation indexes for consumer
5 prices versus employment cost?
6 A I am not an economist and don't have those
7 projections.
8 Q Thank you. Do you know what the Postal Service's
9 latest projected net income or loss is for the current year,
10 FY 2000?
11 A I did see a copy of the recently filed summary of
12 Mr. Patelunas' supplemental testimony and had a look at some
13 of the numbers, although I believe that the bulk of those
14 date are to be filed, I believe it is by July 21. Is that
15 what you are referring to?
16 Q That would be one place I think you could find the
17 figures I am referring to, yes.
18 A Okay. Do you want to direct me to something
19 specific?
20 Q Not really. I really just wanted to know if you
21 were aware of that, if you had seen that.
22 A I have seen it.
23 Q Do you remember from what you saw whether there
24 has been a significant change in that projection from the
25 time the rate case was filed until those latest figures?

1 A The one at which I am smiling, Mr. Reiter, is the
2 word "significant."
3 Q Well, you can take that out. How about that? We
4 don't want to have too much fun here.
5 A Well, abide me a little.
6 Q Sure.
7 A Because numbers that are not significant or in a
8 slight different -- only slightly different context, not
9 meaningful to the Postal Service, are hugely significant in
10 the arenas in which I have worked.
11 Q I am aware of that, and you gave us a very good
12 explanation of that in writing. I guess we are stuck
13 talking in Postal Service terms here, so if you could do
14 that also.
15 A Well, in Postal Service terms, I am aware that the
16 data from the most recent accounting period, I believe
17 Accounting Period 10, and the summary of the testimony --
18 supplemental testimony of Mr. Patelunas show numbers that
19 are slightly more negative than the previous documents.
20 Q Something in the range of -- and these are the
21 numbers, and I am asking you to testify to them, but would
22 you consider it significant if we went from a $65 million
23 projected net surplus to a $325 million projected net loss,
24 significant even by Postal Service terms?
25 A Given those figures, and only those figures, yes.

1 Q Would you look at your response to our
2 Interrogatory 4, part (d), please?
3 A Yes, I have it.
4 Q Okay. Just as a general matter, how would you
5 define the word "unknown," and is that how you are using in
6 this answer as well?
7 A In this context, I believe, Mr. Reiter, the
8 "unknown" was introduced into this dialogue by an
9 interrogatory that you served. And on that matter, I have
10 been greatly instructed by the testimony of Lawrence Buc as
11 to what that term means in the context of Postal Service --
12 or of Postal Rate Commission proceedings. He has done what
13 for me is a helpful job of summarizing the history of the
14 need for contingency and what kinds of factors are to be
15 considered in that, and I would yield to that testimony and
16 the Rate Commission's history on that.
17 Q Is it fair to say that what you just said is that
18 you have learned that there is some technical meaning or
19 unusual meaning that is given to the word "unknown" in this
20 context, that wouldn't be what most people would think
21 unknown means?
22 A Well, I wouldn't attribute to the Commission's
23 statements the word "unusual." What I would say is that
24 factors with which the Postal Service has experience, such
25 as its cost of labor, and an awareness of recent realities

1 and trends in the economy, and transportation, and the
2 awareness of efficient equipment which it is designing or
3 purchasing, and expecting to bring on line, and revisions to
4 its processes, and all of these things, these are all
5 factors about which the Postal Service knows. And none of
6 those factors would fall into this "unknown" category.
7 Unknown refers to factors which cannot be foreseen
8 and which are outside the bounds of the Postal Service's
9 normal experience of doing business and anticipating its
10 costs.
11 Q So, by that definition, can factors which aren't
12 foreseen and are outside experience be factored into
13 projections?
14 A Could you give me an example or two?
15 Q Well, your testimony is that the so-called unknown
16 is taken into consideration in calculating the volume
17 projections themselves. That is in your answer to 4(d).
18 And I am curious as to how an unknown, as you just defined
19 it, can be put into a calculation.
20 A I would be happy to give the rationale for that
21 phrasing in my answer. In a budget-making process, usually
22 several people are involved, even in small organizations.
23 And in an organization, institution as large as the Postal
24 Service, it must be many people getting involved, each of
25 whom has responsibility for some little piece of the overall

1 budget. And each of these contributors to the budget
2 process tries to make an accurate forecast as to what his or
3 her department, division, task force will need, taking into
4 consideration the variables that he or she knows about.
5 Some of these contributors to the budget process
6 err a little bit on the generous side, some err on the lean
7 side. A lot of subjective factors go into this. So, what
8 we end up with is many contributions to a budget which will
9 deviate from their ultimate real figures by some small
10 amount. And statisticians call that difference between the
11 real -- between the reality and the projection, error
12 variance.
13 We know statistically that error variance is
14 distributed normally. And we know that when we aggregate
15 several sources of normally distributed variance, the
16 aggregate is also normally distributed, which means it is
17 centered around the mean, which means that these various
18 contributions to the budgeting process tend to cancel each
19 other out, because someone's overestimate here is balanced
20 by a little underestimate over there. And we end up having
21 accounted for factors which many people have imagined might
22 affect the budget in some unusual way.
23 Q That addresses possible misforecasts in areas that
24 are known, would you agree with that characterization of
25 what you are talking about?

1 A Yes, certainly.

2 Q So I am not sure you answered my question about

3 how the unknown can be put into an estimate or a volume

4 calculation which is your testimony here.

5 A My concern, Mr. Reiter, is that over the past two

6 rate cases, and the Postal Service's financial experience in

7 the wake of those, the Postal Service has generally done

8 financially quite well. Five, six consecutive years of

9 surplus of income over expenses.

10 In this proceeding, the Postal Service is

11 proposing a contingency of 2-1/2 percent, which is larger

12 than came out of either R94 or R97, and the size of that

13 contingency and other elements of this proposal would work

14 extraordinary hardships on the publications which I

15 represent. So, I recognize that from a Postal management

16 standpoint, having a larger contingency, and protecting

17 against some unknown or possibly disastrous development,

18 feels like a margin of safety, and Postal management would

19 be inclined to do that.

20 But I represent 1200 to 1300 not-for-profit

21 religious periodicals in this country. According to the

22 Postal Service's proposal, the increase in postage that they

23 will receive if this proposal is implemented is 12.7

24 percent. That is double the average increase in the

25 proposal as a whole, which is 6.4. And I have worked out

1 what that would mean for religious periodicals, and it
2 generally comes out in the low 20s in terms of percentage
3 increase. And that is where my passion is, because I care
4 about those periodicals.
5 It is also the case that not-for-profit
6 periodicals spend larger portions of their budgets on
7 postage than do commercial publications. I edited a
8 magazine for 17 years and, typically, that church magazine
9 spent around 22 percent of its total budget on postage. I
10 have talked with some of my colleagues who publish
11 commercial magazines, and they say 7 or 8 percent of their
12 budgets.
13 So, if we get a 20-plus percent increase in
14 postage for these religious periodicals, which are already
15 spending 22 percent, let's say, of their budgets on postage,
16 that is a huge impact. And I am looking for ways by which
17 the Commission can mitigate that, and one of the ways, given
18 the recent history on contingency, and the Postal Service's
19 financial experience, would be to reduce that contingency.
20 There are others.
21 Q I understand that. I think my question was,
22 though, how can something that is unknown be put into a
23 calculation of a volume projection?
24 A And I think the question is finally a tautology.
25 How can the unknown be known if it is unknown? No answer to

1 that.

2 Q So, it can't be, is that your --

3 A I think the question, Mr. Reiter, is circular in

4 that sense. If I accept any reasonable definition of

5 unknown, and then try to specify it, I have violated the

6 definition.

7 Q You wrote, the so-called unknown is taken into

8 consideration in calculating the volume projections

9 themselves. Are you saying that that isn't done; that can't

10 be done, by definition?

11 A I think I described what I meant in that part of

12 the text in terms of the budget-making process.

13 Q Well, we'll leave it at that, thank you.

14 If you'll look at your answer to our Interrogatory

15 7, Part (c), please?

16 A Yes.

17 Q You said that Witness Tayman provided little

18 substantiation of his position regarding possible future

19 challenges?

20 A Yes.

21 Q At the risk of another philosophical discussion,

22 can the future be substantiated?

23 A I'll spare you repeating what I said, Mr. Reiter,

24 but I did, as your interrogatory requested, review those

25 pages of Mr. Tayman's testimony, and read them over a few

1 times, and looked at the evidence that he presented on those
2 pages.
3 And I have to say, I'm sorry, but the evidence
4 wasn't persuasive. So he cited some things, and they seemed
5 not to force me to his conclusion.
6 And I wondered whether, you know, some level of
7 anxiety or something were also an ingredient in this. There
8 are some suggestions about, you know, bad things might
9 happen.
10 But all I can say is, having reviewed it, it was
11 not persuasive to me.
12 Q Would you look at your answer to Interrogatory 9,
13 Part (a), please?
14 A 9 (a)?
15 Q Yes.
16 A I have it.
17 Q We asked you to define low in the context you used
18 it in your testimony, referring to the contingencies in past
19 cases as a low contingency.
20 Your answer says low refers to the level of risk
21 represented by the contingencies. I guess I found that
22 rather circular.
23 Do you have a direct answer to what you think a
24 low contingency is? Is it one-half a percent, one percent,
25 one and a half, two, two and a half?

1 A I would suggest the contingencies that emerge from
2 R94-1 and R97-1.
3 Q So, one percent or two percent?
4 A One percent or so.
5 Q Two percent?
6 A Two percent would be stretching what I think.
7 Q Wasn't that one of the levels in the past two
8 cases?
9 A I believe two percent was proposed. I'm not sure
10 that two percent emerged from the Commission. I'd have to
11 check.
12 Q But you don't recall, okay.
13 Would you look at your answer to our Interrogatory
14 12, please, Part (b)?
15 A 12(b)?
16 Q Yes.
17 A I have it.
18 Q The first sentence says that according to Witness
19 Tayman, it seems likely that the contingency would be used
20 for paying salaries or other operations expense. Could you
21 tell me the basis for that? I don't see any citation there.
22 A I think you may have provided the citation in
23 12(a) of your interrogatory.
24 Q Well, the quote there says the contingency is
25 reflected as a test year expense and cash requirement.

1 A Yes.
2 Q And that's your basis for the statement in your
3 answer?
4 A Yes.
5 Q Thank you.
6 Would you look at your response to our Question
7 15, please, Part (a)?
8 A Yes.
9 Q There you characterize the contingency as large as
10 a percentage of the requested increase.
11 Are you referring there to the fact that the
12 contingency provision equals an amount that's almost as
13 large as the revenue deficiency in the test year; is that
14 what you're referring to?
15 A I didn't track that completely. Would you state
16 that again?
17 Q I'm sorry. Are you referring to the fact that the
18 amount of the contingency provision in dollars is almost as
19 large as the amount of the projected revenue deficiency in
20 the test year?
21 A Yes, I am.
22 Q So, if the revenue deficiency had been, say, three
23 times as large, and the Postal Service had requested a
24 contingency of, say, three or three and a half percent,
25 would you have supported that amount as proportional to the

1 revenue deficiency?

2 A Not necessarily, because it's not the only thing

3 that's going on. We have several indications that

4 efficiency in the Postal Service is going to improve.

5 We have the public pledge of the Postmaster

6 General to lower costs. We have, in fact, in not-for-profit

7 periodicals class, a decline in volume, a decline which

8 would be steepened under the Postal Service's proposal.

9 And it's just difficult for me to imagine that

10 more money is needed, at least in the segment of this

11 proposal to which I have given attention.

12 Q So you don't see a direct relationship between the

13 size of the revenue deficiency and the size of the

14 contingency or the size of what you think the contingency

15 ought to be?

16 A I don't see a simple relationship between the two.

17 Q How would you characterize the relationship? I

18 think you just explained there are other factors and I

19 understand that.

20 A I'm speaking mathematically. A direct

21 relationship means that one variable depends exclusively on

22 changes in values of another.

23 And I do not mean it's that's kind of

24 relationship. What I said is that there are other factors

25 to consider, so it's a more complex relationship, and,

1 therefore, I respond that we don't have a simple
2 relationship between projected deficit and contingency.
3 Q Thank you.
4 Would you look at your response to our Question
5 18, please?
6 A I have it.
7 Q Did the Postal Service know at the time that it
8 filed Docket R94-1 that it would be as financially
9 successful the next few years as it was?
10 A I have no idea what the Postal Service had in mind
11 when it prepared its filing.
12 Q Do you think anyone knew?
13 A I think that given the then-recent experience and
14 the Postal Service's awareness of its own costs, it had a
15 fairly accurate idea.
16 Q So, when Postal witnesses testified that they were
17 taking some risk with the very low contingencies, are you
18 suggesting that they really weren't?
19 A Actually, I'm suggesting that their frame of
20 reference was rate cases prior to R94, in which the
21 contingencies had been higher, and they were in 94,
22 requesting a lower contingency than had previously been
23 requested.
24 So, it felt low to them, given the history that
25 that was then current.

1 Q Would you go back to your answer to our Question
2 16, please?
3 And there you say that you do not know whether the
4 Postal Service were to requested new rates to cover a $1.7
5 billion deficit in the absence of a contingency provision;
6 do you see that?
7 A I do.
8 Q Let's just assume that there were no contingency
9 provision in the statute; it didn't exist.
10 Do you have some basis for concluding at what
11 level of projected loss the Postal Service would request new
12 rates, if you think that $1.7 billion is not sufficient?
13 A Actually, I would look to the Postal Service to
14 make its proposal and substantiate it in that kind of
15 instance.
16 But that's not the world in which we live; the
17 statute provides for a contingency.
18 Q Right, but you do give your opinion here that you
19 are doubtful as to whether the Postal Service felt a $1.7
20 billion deficit in the test year alone was enough, and I am
21 curious just to explore your thinking on what level you
22 think Postal financial managers would find more supportive
23 of a rate request.
24 A Well, I am delighted to explain my thinking
25 because although there is a deficit projected for the test

1 year, I am unaware of any prior proceeding, and my history
2 goes back through R87-1, unaware of a proceeding in which
3 the contingency portion, if you will, of the proposed
4 increase, was such a large percentage of the whole increase
5 and particularly relative to the anticipated deficit, and
6 see, that's just where the shoe starts to pinch my foot,
7 because I think if those contingency dollars are excessive
8 then they are hitting my constituency an enormous blow.
9 But you are going to ask for a direct answer to
10 your question, do I have a number -- no, I don't have a
11 number.
12 Q Actually, I wasn't because I didn't think you did
13 and I don't know how helpful one would be. I was going to
14 ask you something else.
15 Your answer did get back to this relationship
16 between the otherwise required rate increase on the
17 contingency and you talked about the effect on your members
18 and I understand that.
19 What I am trying to explore again is you told me
20 there was no simple relationship between the two but you
21 have come back to that in your answer, and so I am wondering
22 if in past cases where there were, say, larger revenue
23 deficiencies in the contingency on top of that seemed like a
24 less significant amount, did that necessarily feel any
25 better to your members?

1 A Well, no increase has ever felt good, of course,
2 Mr. Reiter, but in this case we do have some well-founded
3 anticipations that costs will be eliminated from mail
4 processing and that costs for transportation might helpfully
5 be addressed so that those could be restrained.
6 It is not as clear to me as it has been in prior
7 cases that the -- other operational losses necessarily will
8 need to be incurred, because we get this mix of numbers and
9 some of them, you know, if you select the ones that are all
10 negative and see the Postal Service heading downhill and
11 take those, that can be frightening, and then when I look at
12 the positive numbers and the encouraging thing and, you
13 know, in spite of the last few accounting periods the Postal
14 Service might nevertheless end the current fiscal year with
15 a surplus of income over expenses, then I could look quite
16 optimistically at this, and I commend the Postal Service for
17 initiatives and challenges that might drive some costs from
18 the system and might recognize efficiencies. With that I am
19 cheered.
20 Q I am glad you brought that up. You said in
21 response to one of our interrogatories, it was 7(b) that it
22 remained unclear to you whether cost reductions not included
23 in the filing would actually be implemented in the text
24 year.
25 I know you are aware that we have subsequently

1 filed some information updating our cost projections.
2 Are you aware -- we don't have to get into
3 numbers, but just generally whether those cost reductions
4 that you thought might not be reflected have been reflected
5 with the updated information?
6 A My impression is that some of those promised cost
7 reductions are included but I couldn't speak to detail.
8 Q You have a feeling that there are some that are
9 not, is that what I understand?
10 A In the time I have had to spend with it, I can't
11 make the numbers match, you know? I hear the Postmaster
12 General say a billion a year for the next four years and
13 then I see a document that is in the 400 to 500 million
14 dollar range, and I think I don't have the data and if I had
15 the data I'm not sure I would have what it took to make
16 those match, but I see a discrepancy.
17 Q Your confusion is understandable.
18 Would you look at your response our Question 21(b)
19 please.
20 A Yes.
21 Q You cite in the middle of the third paragraph, you
22 say Witness Tayman's response to an ANM interrogatory
23 assumes that the contingency is spent just like revenue from
24 any other source.
25 You didn't give us a particular cite there. Do

1 you happen to have that, or --

2 A I think I can find it in a few moments. You asked

3 a prior interrogatory related to Witness Tayman's testimony

4 and this I believe is a follow-up on that or at least I

5 regarded it that.

6 Perhaps counsel can help me identify which that

7 is.

8 Q I don't need that this minute. Perhaps it could

9 be provided for the record.

10 A Would you like it for the record?

11 Q Sure.

12 A Certainly.

13 Q You then cite Witness Tayman in his testimony as

14 saying that it is assumed that the amount included for the

15 contingency is spent. I think you have taken that to mean

16 that the Postal Service is planning to spend the

17 contingency?

18 A If you changed the word "plan" to "expect" I think

19 I would concur.

20 I have trouble putting the word "plan" and

21 "contingency" together in the same sentence the way you did,

22 because if it is a plan then it is not a contingency, but if

23 you have an expectation that you will spend the money if you

24 get it, I think probably so.

25 Q Witness Tayman's sentence that you cite, would you

1 agree that he is talking about rate case assumptions and
2 projections there?
3 A Yes.
4 Q And that there might be a difference between those
5 and actual Postal Service operating plans and budgets?
6 A I think there necessarily would be.
7 MR. REITER: That's all I have, Mr. Chairman.
8 Thank you, Dr. Stapert.
9 THE WITNESS: Thank you.
10 CHAIRMAN GLEIMAN: Is there any follow-up?
11 [No response.]
12 CHAIRMAN GLEIMAN: Are there questions from the
13 bench? Commissioner Covington.
14 COMMISSIONER COVINGTON: Good morning, Dr.
15 Stapert.
16 THE WITNESS: Good morning.
17 COMMISSIONER COVINGTON: I have primarily a couple
18 of questions I would like to direct your attention to this
19 morning.
20 First of all, can you give me an idea of how much
21 advertising is contained in your publications that you send
22 out to your membership?
23 THE WITNESS: Yes, I can. I believe there's
24 testimony in prior that suggests that the advertising
25 percentage of Not for Profit periodicals in general is about

1 16 percent.

2 I find that in the religious press the numbers are

3 generally lower than that.

4 I have many members whose advertising is less than

5 10 percent or therefore for Postal Service consideration

6 zero, because under 10 percent is regarded as no advertising

7 at all in terms of the way the rates are charged.

8 I know that in 17 years of editing the Church

9 Herald if I could get my advertising up over 15 percent of

10 my page space I was delighted, so I would say that for the

11 periodicals that I represent that do take advertising it

12 runs in the 12 to 15-16 percent range.

13 COMMISSIONER COVINGTON: Okay, in the advertising.

14 Is it safe to say that we here at the Commission I think as

15 well as Congress and the United States Postal Service

16 realize that nonprofit mail has a distinct rate and is also

17 distinct in its classification? Now somewhere in your

18 testimony -- I can't exactly recall -- but I was wondering

19 if you could give me the basis for your contention that with

20 the way things we're headed right now, possibly with some

21 legislation, that the nonprofit subclass could possibly

22 become extinct?

23 THE WITNESS: Well, I have tried, although I have

24 alluded to it in my testimony, I have tried to keep my

25 testimony within the bounds of the current statute, which is

1 where I think we have to be operating unless and until some
2 legislation is passed, but the proposed legislation as I, a
3 non-attorney, understand it, would calculate periodicals
4 class rates for regular or commercial mailers and then
5 would, having arrived at that number, provide something of a
6 discount for the Not-for-Profit mailers in the case of
7 periodicals up to a 5 percent discount.
8 COMMISSIONER COVINGTON: Okay, and Dr. Stapert, if
9 the nonprofit subclass were to become extinct, where would
10 this subclass go in relation to other classes of mail?
11 THE WITNESS: I think that would be a matter for
12 the Commission to handle, but if the boundary between
13 regular rate and preferred rate is erased, then I think we
14 are all in the same rate schedule.
15 The other participant in this class would be the
16 classroom publications.
17 COMMISSIONER COVINGTON: Classroom publications --
18 and then I noticed in your biographical sketch that you have
19 actually served previously on MTAC and I guess your efforts
20 should be commended in that regard, but fast forwarding from
21 your tenure on that illustrious advisory council, the next
22 two questions I have are more or less not so technical but
23 just to solicit from you your unbiased opinion.
24 In your testimony is it still your opinion or are
25 you of the opinion that the United States Postal Service

1 does not monitor periodicals services and does not know
2 whether or not periodicals service standards are being met?
3 THE WITNESS: I believe it is clear that the
4 Postal Service does not know whether its service standards
5 are being met.
6 There seem to be no data on that question.
7 COMMISSIONER COVINGTON: Okay, then, well, in
8 light of that, Dr. Stapert, what would you suggest that the
9 United States Postal Service can do in light of that
10 contention to better measure standards as it relates to
11 periodicals?
12 THE WITNESS: I think there are a number of
13 possibilities.
14 I think the mailers themselves can be involved in
15 these. I see this as a cooperative thing because it is in
16 the interest of both the Postal Service and the mailer to
17 move things through expeditiously and deliver them on time.
18 I think many of the larger mailers already have
19 data collection systems and they are not hard to achieve,
20 you know, one subscriber in each zip code with a postcard to
21 mail back -- find someone with a kind of an accountant
22 mentality who will be a little compulsive about that and
23 send in a record of when the periodical arrives.
24 What we do in smaller publications such as I
25 represent is we have at least some publishers who keep track

1 of the number of subscriber complaints that they get and
2 when the number of complaints rises, then I tend to get a
3 phone call. We are getting more and more complaints from
4 our subscribers. We have this weekly paper. They arrive
5 two days apart from each other and now there's, well, I
6 don't know, a nine, eleven day gap between the two. What's
7 the matter? That is a way of taking tallies.
8 I think the Rate Commission could if it chose
9 propose or authorize a study of service performance. I
10 think the Postal Service could be called on to provide
11 believable data about the achievement of service
12 performance. This would be exceptionally valuable.
13 COMMISSIONER COVINGTON: I would imagine that
14 there is no set timetable you would recommend?
15 THE WITNESS: Except that sooner is better than
16 later.
17 COMMISSIONER COVINGTON: Sooner is better than
18 later. The last question I have for you, Dr. Stapert, in
19 your opinion what constitutes a high intrinsic value of
20 service?
21 THE WITNESS: High intrinsic value of service --
22 pardon the pause -- I have usually ascribed high intrinsic
23 value to the content of the periodical, but for my purposes
24 the value of the service has a great deal to do with
25 consistency.

1 I would like the service to be both prompt and
2 consistent. That would be ideal, but if I had to sacrifice
3 one or the other, I would pick consistent.
4 I remember the year in which I changed the
5 official publication schedule of my magazine. I was
6 publishing a magazine every other week, 26 times a year and
7 I was getting the kinds of complaints that I mentioned
8 hypothetically a moment ago, subscribers telling me I got
9 the June 15 copy only three days before I got the June 26
10 copy and I can't read two magazines at the same time, and
11 this other one was late and my church had news in it and I
12 was eager -- you know, that sort of thing.
13 I decided that the way to "solve" -- in quotes --
14 the problem was just to put a later date on every magazine
15 that I printed. I didn't change the printing schedule. I
16 didn't deliver them to the mailing service any later. I
17 just put a later date on it and my subscribers thought I had
18 done something wonderful because now they were getting their
19 magazines on time.
20 It sort of buffered this inconsistent delivery
21 problem, but what I would really like to have -- you know,
22 the publisher can enter the mail a day earlier, two days
23 earlier, in the case of a monthly three or four days
24 earlier.
25 Publishers can make that adjustment. What they

1 can't tolerate as well is the inconsistency of the delivery.
2 COMMISSIONER COVINGTON: Okay. Thank you a lot
3 for your response, Dr. Stapert.
4 That is all I have, Mr. Chairman.
5 CHAIRMAN GLEIMAN: Certainly. Commissioner
6 Goldway.
7 COMMISSIONER GOLDWAY: In your discussions with
8 the Postal Service attorney, you mentioned that you had seen
9 some figures about the possible cost savings that will be
10 included in the test year, and that there was a discrepancy
11 between what the PMG indicated and what you saw.
12 THE WITNESS: Yes.
13 COMMISSIONER GOLDWAY: Did you see the same
14 listing of possible cost savings amounting to about 500,000,
15 that included in it a 200,000 -- 200 million non-specified
16 cost expenditures to balance about 750 million cost savings?
17 Did you see that same list?
18 THE WITNESS: I believe I did.
19 COMMISSIONER GOLDWAY: Yes. Do you have any idea
20 why such a proposal would include unspecified cost
21 expenditures in a cost savings list?
22 THE WITNESS: I wouldn't risk the speculation on
23 the record.
24 COMMISSIONER GOLDWAY: Thank you.
25 CHAIRMAN GLEIMAN: Since you talked about

1 contingencies in your testimony, and Commissioner Goldway
2 has brought up the $200 million unspecified potential costs
3 that might be incurred, would you characterize that $200
4 million as a contingency?
5 THE WITNESS: It sounds a lot like it to me.
6 CHAIRMAN GLEIMAN: So, there is a cost savings
7 plan, but there is a contingency built into the cost savings
8 plan, just in case we don't save?
9 THE WITNESS: Of about a third of the savings.
10 CHAIRMAN GLEIMAN: Thank you.
11 Is there any follow-up to questions from the
12 bench?
13 [No response.]
14 CHAIRMAN GLEIMAN: If not, that brings us to
15 redirect. Mr. Feldman, would you like some time with your
16 witness?
17 MR. FELDMAN: Mr. Chairman, five minutes if that
18 is appropriate.
19 CHAIRMAN GLEIMAN: I will tell you what, we will
20 take 10 and make that our mid-morning break.
21 When Witness Stapert is finished, then we will
22 receive the testimony of Witness Smith into the transcript,
23 and the Smith family can get on with more interesting things
24 in Washington.
25 [Recess.]

1 CHAIRMAN GLEIMAN: Mr. Feldman, do you have
2 redirect?
3 MR. FELDMAN: Mr. Chairman, very brief and I have
4 discussed this with the Postal Service counsel, what we
5 would like us our time for redirect to do is to try to
6 clarify the citation that the Postal Service asked Dr.
7 Stapert to provide, so that we could get it done here.
8 CHAIRMAN GLEIMAN: Certainly.
9 MR. FELDMAN: And avoid yet another tree falling
10 into the river.
11 REDIRECT EXAMINATION
12 BY MR. FELDMAN:
13 Q So, as I understand it, the Postal Service counsel
14 asked Dr. Stapert to clarify and to provide a source for his
15 reference in USPS/CRPA-T1-21(b). Dr. Stapert there referred
16 to Witness Tayman's response to an ANM interrogatory that
17 assumed that the contingency is spent just like revenue from
18 any other source. During the break we located Dr. Stapert's
19 prior answer to USPS/CRPA-T1-12(b), and I will ask Dr.
20 Stapert to refer to an interrogatory response there at
21 T1-12(b) and confirm that that is the reference that he also
22 was using in his response to 21(b)?
23 A Yes, I confirm that.
24 Q That is ANM/USPS-T9-29, is that the interrogatory,
25 Dr Stapert?

1 A Exactly.

2 MR. FELDMAN: Thank you. We have no further

3 response.

4 CHAIRMAN GLEIMAN: Is there any recross?

5 MR. REITER: No.

6 CHAIRMAN GLEIMAN: There is no recross.

7 MR. REITER: And I appreciate the clarification.

8 Thank you.

9 CHAIRMAN GLEIMAN: Dr. Stapert, that completes

10 your testimony here today. We appreciate your appearance,

11 your contributions to our record. We thank you, and you are

12 excused.

13 THE WITNESS: Thank you.

14 [Witness excused.]

15 CHAIRMAN GLEIMAN: Ms. Hanbery, if you would like

16 to call your witness.

17 MS. HANBERY: The Alliance of Independent Store

18 Owners and Professionals would call Richard Smith to the

19 stand.

20 Whereupon,

21 RICHARD SMITH,

22 a witness, having been called for examination and, having

23 been first duly sworn, was examined and testified as

24 follows:

25 MS. HANBERY: On behalf of Mr. Smith, AISOP and

1 Mr. Smith's family, we would like to thank the Commission
2 for (a) taking him out of order, and (b) for providing some
3 amusement to the family as they are learning about how
4 Washington proceedings work before a regulatory body, which
5 will make for some interesting reports back at school.
6 CHAIRMAN GLEIMAN: I suspect that other
7 experiences in Washington will be more interesting and make
8 for better reports back home.
9 MS. HANBERY: Thank you.
10 DIRECT EXAMINATION
11 BY MS. HANBERY:
12 Q Mr. Smith, would you please state your name for
13 the record?
14 A My name is Richard Smith.
15 Q And where are you employed and in what capacity?
16 A I am employed at Buttercup's Dairy Store, Inc. and
17 I am officially the vice president.
18 Q I am going to hand you a document entitled "Direct
19 Testimony of Richard Smith," marked for identification as
20 AISOP-T-1, submitted on behalf of the Alliance of
21 Independent Store Owners and Professionals, and I will ask
22 you, is this the testimony that you prepared?
23 A Yes.
24 Q Do you have any corrections or additions to make
25 to that testimony?

1 A No.

2 Q And the two copies in front of you, if you were to

3 testify orally today, is this document the testimony you

4 would ask the Commission to hear and receive?

5 A Yes.

6 MS. HANBERY: Mr. Chairman, I will ask the court

7 accept this as Mr. Smith's testimony on behalf of AISOP and

8 that the reporter transcribe it into the record.

9 CHAIRMAN GLEIMAN: If you would please provide two

10 copies of Witness Smith's testimony to the court reporter, I

11 will so direct the testimony will be received into evidence

12 and transcribed into the record.

13 [Direct Testimony of Richard Smith,

14 AISOP-T-1, was received into

15 evidence and transcribed into the

16 record.]

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AISOP-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

POSTAL RATE AND FEE CHANGES, 2000	Docket No. R2000-1

DIRECT TESTIMONY OF

RICHARD SMITH

ON BEHALF OF

THE ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS

Communications with respect to this document may be sent to:

Donna E. Hanbery, Esq.
Executive Director
Alliance of Independent Store Owners
and Professionals
3725 Multifoods Tower
Minneapolis, MN 55402

May 22, 2000

DIRECT TESTIMONY OF RICHARD SMITH

INTRODUCTION AND BACKGROUND

My name is Richard Smith and I am the third generation owner of the Buttercup Dairy, a neighborhood full service grocery store in Terryville, Long Island. Our family business was started by my grandfather as a working dairy farm. As the neighborhood changed, we changed with it. As pastures gave way to development, we converted the old cow barn into a walk-in store offering basic convenient essentials. For the past 20 years, we have depended on advertising in a weekly mailed shopper to advertise our store and to survive in an increasingly competitive environment.

On behalf of my family business, and other small businesses, I want to make the following points for the record before the Postal Rate Commission:

1. Mail advertising is essential to the survival of small business. We cannot afford the mass media used by our big store competitors, with more locations and capital to cost-effectively buy newspaper ads or inserts or electronic media. Although free papers sent by saturation mail to our market area can help us survive, we are already paying more, and get less, than our big store competitors. Any increase in prices makes it harder for us to compete.

2. Our mail advertising is read and welcomed by consumers.

REASONABLY PRICED MAIL ADVERTISING IN LOCAL MAILED SHOPPERS HAS HELPED OUR STORE SURVIVE

My family business has lived, and adapted, through many changing times. I was born just as my grandfather gave up the last of the herd of cows to focus on the milk processing business and home delivery. Buttercup's walk-in dairy store was opened in 1975. When a fire destroyed our packaging plant in 1982, it was evident that rebuilding a local processing plant was not reasonable. We gave up the packaging business and wholesale milk routes to focus on the retail store. We said goodbye to the milkman and came to depend on the mailman.

When we gave up our processing plant, we gave up a competitive advantage. Our competition was also getting bigger and tougher and other locally owned grocers were bought out, or driven out, by big stores and chains. To survive, we had to change with the times and needs of the neighborhood. We added a full line of fresh baked products, a deli department, fresh produce, and a full line of groceries. We became, and are today, a convenient, economical everyday shopping store. People use us for everyday needs and frequent our supermarket competitors less often. Shoppers can buy name brand groceries and perishables quickly and competitively at our store without battling the eight turning lane traffic lights, olympic-sized parking lots, and football field aisles. Consumers like to walk in our store and be able to talk to the owner as they are picking out their apples or having their baloney sliced. Customers enjoy this. It is like watching the small town American dream in action.

But let's not be mistaken. Most of us enjoy seeing owners working, but try charging a higher price for the exact same item, and your business walks out the door. Few shoppers will continue to pay more for the same items.

We can, and do, compete against larger and fiercer competition. For the most part, we can meet or beat our competitors' prices. In 28 years, we have learned to drive hard bargains and stand up for our rights even if we are a single store independent. I've quoted the Robinson Pattman Act more times than I can count. We also have efficiencies and opportunities for savings that the big guys don't. We have less layers of administration. We work harder. Being an independent retailer is not a job, it's a way of life. You don't run your business, you live it. You either build your life around the business or you will fail. In a typical week where things run smoothly and there are no holidays, I work six days a week, 70 hours, and 51 weeks a year. My wife, Coleen, and our children have integrated their lives into our business.

We keep our margins low. We own our buildings and the land we work. Most of our competitors cannot claim that. The big companies lease and move as profit projections change.

We can certainly meet and beat the competition in service. We know our customers by name and follow through with personalized service.

The principal area where we cannot compete with the majors is in advertising. We are a single store in a very small demographic area. Although a customer who travels 20 miles for a holiday pie makes a great story, and is a boost to our ego, our everyday business comes within a two to three mile range.

For us, finding a way to cost-effectively advertise and compete with the big stores is our biggest competitive disadvantage. We can match their prices, beat their service, but we do not have their range of advertising choices and efficiencies. We have experimented with radio, cable television, and larger daily newspapers. But production costs are prohibitive and coverage is wasteful. Coupon mailings are effective, but generally are only available monthly or quarterly. Grocery shoppers, and grocery providers, need a weekly advertising program.

For the past 20 plus years, 80% to 90% of our advertising and promotion budget has gone into a mailed shopper. At the present time, we do not do any other advertising or media besides shopper ads. We place the same ads in two separate mailed shoppers that provide zoned coverage in our trade area. We do one or two zones of advertising a week, in each shopper, 52 weeks a year. Approximately 35,000 households receive our ads each week. We advertise the same way we do chores. Week in and week out, we run shopper ads. We run an average of a half page ad per week in two zones per paper. We may do larger ads, or more areas, if there is a holiday or special event.

The format of our ad is also predictable and consistent. Each week we announce four specials from our deli department, four from our produce department, and four general grocery

values. Our outdoor signage is also coordinated with our weekly ad so informed customers can drive by and check our weekly deals.

We consider ourselves lucky to be able to afford this consistent advertising. New businesses and start-ups could not make this type of commitment and might never get off the ground. I am grateful that the Postal Rate Commission and the United States Postal Service have kept postal rates for saturation mailers, like free papers, shoppers, and coupon mailers, reasonable and consistent over the past few years. This has helped us maintain the consistent coverage that our business needs, and consumers want. Unlike our competitors, we cannot just switch media when our prices go up. The last time our mailer experienced a sizeable rate hike was in 1995. Our prices went up more than we could afford. We continued to be weekly shopper advertisers, but it forced us to cut back on the number of zones we could do in each paper.

When you compare our advertising to that of our competitors, we spend more and get less. As a percentage of our gross operating profits, we are spending a little more than one percent a year on our advertising and promotion budget. For that expense, we get a half page ad, with two colors, in the mailed shoppers that are distributed to consumers in our trade areas. Although my competitors do not share their books with me, industry statistics would suggest they are paying one percent or less for their advertising. There are at least 50 Walbaum's groceries in Suffolk County, Long Island where my store is located. With Walbaum's advertising budget, it can do a 6 to 8 page ad that is inserted in the local paper, or delivered to homes through a newspaper delivery program, and buy extensive TV and radio spots. Their splashy ads can display hundreds of items compared to my 12 specials and they are able to do it in full color. On TV and radio, they are able to do it to music with professional talent.

Even with reasonable postal rates, we will never be able to compete with the advertising reach and variety of our big store competitors. But if we can get our message out, the careful consumer who is shopping for service, sales, and quality will give us a chance.

OUR ADS ARE GOOD FOR CONSUMERS AND THE COMMUNITY

I know consumers read and value our advertising. We offer a call-in service where customers with deli orders can avoid waiting in lines by calling in with one hour's notice. Our loyal shoppers look for the weekly ad and use it in an informational way. When they call and order in advance, they know the weekly sales and seasonal specials. Through our consistent advertising program, we have captured new customers and trained the old customers to use our services more effectively.

Consumers look for our ad to plan their shopping. I use the ad to let customers know of good deals I might get that the big stores miss. For example, I can get a call on Friday morning from a vendor with a deal on local strawberries. I can have this special appear in people's homes when the mail is delivered the following week. My chain store competitors, with a vice president of purchasing on each coast, cannot act this fast.

I know consumers plan their shopping based on our ad because of the response and inquiries we get when papers are not delivered. Years ago, one of the shoppers we use was bought by a new owner. There was a period of disruption and we put a hold on our advertising for a few weeks. We received numerous calls from our regular customers telling us they missed the ad and wanted to know when we would resume publishing. For shoppers not delivered or delivered late, our deli department gets callers asking for information on our weekly specials.

As a matter of public policy, I would ask the Postal Rate Commission to consider the needs of businesses like ours in keeping rates affordable for mailed free papers and their small business customers. If Commission members were to study the pages of the free papers I use, they would see that the vast majority of its advertising customers are all small, locally owned businesses like mine

or individual classifieds. These small businesses and consumers, like me, cannot cost-effectively use other media. Although family businesses like mine are declining in numbers, we still are important parts of our local community. In addition to our advertising, we promote our business by being good business citizens of our community. As working owners, we are very approachable for every cause, charity, or event in the neighborhood. We provide everything from money, food products, sponsorship, and sometimes just a safe place to sell raffle tickets to the schools, scouts, religious organizations, kids' sports teams, and charities in our community.

Each year we run an event called Zoo Day. This event was originated by us during tough economic times when we felt there was no place you could take a family for a couple of hours without spending a small fortune. We hired the petting zoo, asked our vendors to throw in snacks and drinks and raffle prizes, and created a day where people could come with the family and not have to open their wallets. Our local shopper has given us free advertising space to promote this event. In the past, we worked with one of the shoppers we used to co-sponsor an annual breakfast for the homeless.

Although we have many loyal customers and consumers who actively watch for our ads, we need to keep our name, and the values we offer, in front of the customers in our community on a weekly basis. I get a kick out of the old timers who come in my store and tell me how they knew my grandfather and remember when I would stand on an upside down milk case to reach the register and help make change. (Incidentally, I learned to count by helping my grandfather roll coins from the old milk machines.) But the community old timers are getting fewer and fewer. Most people move every five to seven years. When people move into the condos next door that were built on our old pastures, they are not sentimental about the Buttercup Dairy heritage. We have to attract their attention and fight for their business. We need a way to constantly and effectively advertise to an ever changing population.

CONCLUSION

Small businesses like mine can compete with our big store competitors and chains in terms of the prices we charge and service. Our biggest competitive disadvantage in competing with the majors is our choices of advertising media, and the costs we must pay to reach consumers in our market area.

Advertising mail can be a lifeline for businesses like mine. Mailed free papers and coupon programs can help us target the customers in our market area without wasted coverage. I believe we are already paying more, as a percentage of our gross sales or operating profits, to do our weekly advertising. When our costs go up, it is harder for us to absorb price increases. If cost increases are great, we cannot switch media but must cut back. This hurts our business and our customers.

Reasonable rates for saturation advertising mail can help small businesses like mine stay in business and compete. Thank you for considering the needs of businesses like mine in considering the postal rates for saturation mail advertising.

CERTIFICATE OF SERVICE

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

Donna E. Hanbery

May 22, 2000

1 CHAIRMAN GLEIMAN: Mr. Smith, have you had an
2 opportunity to look at that packet of designated written
3 cross-examination answers you previously provided in
4 writing?
5 THE WITNESS: Yes.
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.
10 CHAIRMAN GLEIMAN: That being the case, Ms.
11 Hanbery, if I could request your assistance again, if you
12 would provide that material to the court reporter, I will
13 direct that it be transcribed into the record and accepted
14 into evidence.
15 [Designated Written
16 Cross-Examination of Richard Smith,
17 AISOP-T-1, was received into
18 evidence and transcribed into the
19 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 ALLIANCE OF INDEPENDENT STORE OWNERS AND
PROFESSIONALS
WITNESS RICHARD SMITH
(AISOP-T-1)

Party	Interrogatories
Advo, Inc.	AAPS/AISOP-T1-6-7 NAA/AISOP-T1-2, 6-7, 9
Newspaper Association of America	AAPS/AISOP-T1-1-7 NAA/AISOP-T1-1-4, 6, 8-9
United States Postal Service	AAPS/AISOP-T1-1, 5-7 NAA/AISOP-T1-2, 6-9

Respectfully submitted,

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
ALLIANCE OF INDEPENDENT STORE OWNERS AND
PROFESSIONALS
WITNESS RICHARD SMITH (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
AAPS/AISOP-T1-1	NAA, USPS
AAPS/AISOP-T1-2	NAA
AAPS/AISOP-T1-3	NAA
AAPS/AISOP-T1-4	NAA
AAPS/AISOP-T1-5	NAA, USPS
AAPS/AISOP-T1-6	Advo, NAA, USPS
AAPS/AISOP-T1-7	Advo, NAA, USPS
NAA/AISOP-T1-1	NAA
NAA/AISOP-T1-2	Advo, NAA, USPS
NAA/AISOP-T1-3	NAA
NAA/AISOP-T1-4	NAA
NAA/AISOP-T1-6	Advo, NAA, USPS
NAA/AISOP-T1-7	Advo, USPS
NAA/AISOP-T1-8	NAA, USPS
NAA/AISOP-T1-9	Advo, NAA, USPS

AISOP WITNESS SMITH RESPONSES TO AAPS

AAPS/AISOP-T1-1. You state at page 1 that "mail advertising" is essential to the survival of a small business. Why is it necessary that such advertisements be sent by mail, as opposed, for example, to being delivered in a free paper delivered outside the mail?

RESPONSE:

The letter carrier goes to households six days a week. Mail advertising programs like free papers and coupon envelopes give small businesses an opportunity to use the Postal Service to get our advertising in the hands of consumers. There are many communities where small businesses have no nonpostal delivery option.

I also believe mail advertising is essential to small business because mail advertising is welcomed by consumers, and in some communities free advertising, whether delivered in a free paper or otherwise, that is hung on the door or thrown on the lawn may not be welcome.

AISOP WITNESS SMITH RESPONSES TO AAPS

AAPS/AISOP-T1-2. (a) Please confirm that the May 31, 2000 Coram edition of *Yankee Trader* (excluding any inserts) contains 84 pages, nearly all of which is advertising; contains a half-page Buttercup Dairy ad; and weighs 3 ounces. (b) If this publication contained inserts when it was mailed, how much did they weigh? (c) How would the postage for this publication change under the proposal of the Postal Service in this docket?

RESPONSE:

You requested of AISOP's counsel that I provide you with a recent copy of the papers where my advertising appeared. I contacted my sales representatives and asked for copies of the paper and they gave it to me. I forwarded it to AISOP's counsel who sent it to you. I did not count the pages in the paper or weigh it. I do agree that the paper contained a half-page ad of Buttercup Dairy and that the page count and weight you reference appears accurate.

I do not know if this publication contained inserts when it was mailed and I do not know how much they weighed. I do not know how much the postage for this publication would change under the proposal of the Postal Service in this docket.

After counsel for AISOP informed me you wanted an actual copy of the paper as delivered with inserts, I sent the most recent copy of the paper I received at my home, *The Yankee Trader*, to AISOP's counsel. It had two inserts in it. One was a single page that was smaller in size than the shopper itself shaped like a card and the other was a four page flyer. I will bring a copy of this paper with me when I testify.

AISOP WITNESS SMITH RESPONSES TO AAPS

AAPS/AISOP-T1-3. (a) Please confirm that the June 1, 2000 Coran edition of *Pennysaver News* (excluding any inserts) contains 72 pages, nearly all of which is advertising; contains a half-page Buttercup Dairy ad; and weighs 2.9 ounces. (b) If this publication contained inserts when it was mailed, how much did they weigh? (c) How would the postage for this publication change under the proposal of the Postal Service in this docket?

RESPONSE:

You requested of AISOP's counsel that I provide you with a recent copy of the papers where my advertising appeared. I contacted my sales representatives and asked for copies of the paper and they gave it to me. I forwarded it to AISOP's counsel who sent it to you. I did not count the pages in the paper or weigh it. I do agree that the paper contained a half-page ad of Buttercup Dairy and that the page count and weight you reference appears accurate.

I do not know if this publication contained inserts when it was mailed and I do not know how much they weighed. I do not know how much the postage for this publication would change under the proposal of the Postal Service in this docket.

After counsel for AISOP informed me you wanted an actual copy of the paper as delivered with inserts, I sent the most recent copy of the paper I received at my home, *The Yankee Trader*, to AISOP's counsel. It had two inserts in it. One was shaped like a single page that was smaller in size than the shopper itself shaped like a card and the other was a four page flyer. I will bring a copy of this paper with me when I testify.

AISOP WITNESS SMITH RESPONSES TO AAPS

AAPS/AISOP-T1-4. (a) Please confirm that the June 1, 2000 Port Jefferson edition of *Pennysaver News* (excluding any inserts) contains 60 pages, nearly all of which is advertising; contains a half-page Buttercup Dairy ad; and weighs 2.5 ounces. (b) If this publication contained inserts when it was mailed, how much did they weigh? (c) How would the postage for this publication change under the proposal of the Postal Service in this docket?

RESPONSE:

You requested of AISOP's counsel that I provide you with a recent copy of the papers where my advertising appeared. I contacted my sales representatives and asked for copies of the paper and they gave it to me. I forwarded it to AISOP's counsel who sent it to you. I did not count the pages in the paper or weigh it. I do agree that the paper contained a half-page ad of Buttercup Dairy and that the page count and weight you reference appears accurate.

I do not know if this publication contained inserts when it was mailed and I do not know how much they weighed. I do not know how much the postage for this publication would change under the proposal of the Postal Service in this docket.

After counsel for AISOP informed me you wanted an actual copy of the paper as delivered with inserts, I sent the most recent copy of the paper I received at my home, *The Yankee Trader*, to AISOP's counsel. It had two inserts in it. One was a single page that was smaller in size than the shopper itself shaped like a card and the other was a four page flyer. I will bring a copy of this paper with me when I testify.

AISOP WITNESS SMITH RESPONSES TO AAPS

AAPS/AISOP-T1-5. Do you or does AISOP have a rate proposal in this docket? If so, what is it?

RESPONSE:

I am asking that the Postal Rate Commission approve rates for saturation mail, the kind of mail used by the free mailed shopper where my advertising appears, that are no higher than those proposed by the Postal Service.

AISOP WITNESS SMITH RESPONSES TO AAPS

AAPS/AISOP-T1-6. How much do you pay for your half page ad to reach 35,000 households per week?

RESPONSE:

I commit to a weekly half-page ad in two zones in two separate mailed shoppers, *The Yankee Trader* and *Pennysaver News*. By making a commitment to two zones in each paper, and a weekly frequency for 52 ads a year, my combined weekly advertising charges for both papers is approximately $550 per week or a cost per thousand to reach the households in my trade area of $15.71.

AISOP WITNESS SMITH RESPONSES TO AAPS

AAPS/AISOP-T1-7. You state at page 7 that reasonable rates for saturation advertising mail help businesses like yours. (a) Are the advertising rates in effect today reasonable? (b) Would it be good for your business if today's postage rates for the publications in which you advertise were frozen for two or more years?

RESPONSE:

(a) From my perspective, advertising rates are "reasonable" when you can afford them. For my business, that is well established and has learned the value of advertising, the combined advertising rates we pay to be in two mailed shoppers are "reasonable" in the sense that I can make the commitment to weekly advertising (the kind of advertising that is necessary in the grocery business), the advertising is effective, and it does not put too great a strain on my budget. For other small businesses, and new businesses, with fewer dollars to spend (and an even greater need to build a customer base), the costs for traditional print and electronic media, and even the costs for geographically targeted saturation mail advertising, may not be "reasonable." Compared to other media, however, saturation advertising mail is probably the most cost-effective and reasonable for the smallest and newest businesses.

(b) I do not know. It would depend on other economic and competitive conditions.

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-1. Other the 35,000 households that receive your ads weekly, how many are your customers?

RESPONSE:

I do not know.

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-2. Is the shopper that you use mailed? Is a private delivery shopper available in your area? What factors would determine whether you would use it?

RESPONSE:

I use two shoppers, *The Yankee Trader* and *Pennysaver News*, that have both been in the mail for a long time. There is a private delivery paper available in my area called *This Week*. *This Week* is different from the mailed shoppers I use in that it is a full tabloid size paper and has fewer pages of local and consumer placed advertising than the mailed shoppers I use. *This Week* is primarily a vessel used to deliver large inserts and circulars. It is full of multi-page ads with an emphasis on the big grocery stores.

Factors that would determine whether or not I would ever consider using a private delivery shopper include the following:

1. Does the paper have good readership and a local focus?
2. What are the other kinds of ads that appear in the paper or, in other words, what kind of company would my store be keeping? Are there local businesses like mine or would my ad be lost among large stores' ads?
3. What is the price?
4. How reliable is the delivery?

   Are there problems with delivery?

   - How do I know that the papers are not thrown away or that the deliveries are made in a way that angers consumers?
5. What kind of sales support and customer service does the shopper offer?

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-3. What proportion of your advertising is delivered through pound-rated ECR mail?

RESPONSE:

I do not know.

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-4. Have the prices that you pay for advertising delivery risen, declined, or stayed the same since July 1996?

RESPONSE:

I have no specific recollection about July, 1996, but can say that in general for the past three or four years my prices have remained the same in both papers I use.

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-6. Please refer to page 3 of your testimony. You say you have experimented with radio, cable, television, and larger daily newspapers. Have you also experimented with smaller daily newspapers, or local community weekly newspapers?

RESPONSE:

Several years ago, the daily newspaper that serves our community, *Newsday,* had a deal where they tried a local section of the paper that was offered to local businesses on a zoned basis. My store tried it. The paper would do a special edition with a local section of approximately 10-12 pages, that went to approximately 50,000 homes, once a week. It did not work well for our store and I believe it did not work well for *Newsday* as I understand the program was discontinued.

There is a local weekly paper in our area, *The Port Jefferson Times Record*, that I have used for advertising. I like the paper as it has local, community-based news, and I have tried it for my store. Unfortunately, I do not get a good, cost-effective response in this paper. I believe this is because people look at the mailed shopper to shop and that they look at *The Port Jefferson Times Record* to read local news.

I still use this paper on an occasional basis but it does not work for my business. My business needs to have a regular, read, and cost-effective advertising program.

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-7. If the particular large daily newspaper in your market offered 1) to lower its ad rates; 2) to zone your advertising to an individual (or multiple) zip code(s); and 3) use a newspaper shopper to cover all the households in the targeted zips, would you consider switching to the newspaper advertising program?

RESPONSE:

See my answer to NAA/AISOP-T1-6.

I would consider anything, but given my prior experience with the efforts of the daily newspaper for my market to offer zoned coverage for small business, I would be skeptical. Certainly, I would compare prices, coverage areas, and the reliability of delivery to all households in my store's market area of a newspaper program with my current advertising programs.

A lot would depend on how this new offering was communicated to me. In the past, I have received excellent sales support and service from the sales reps that work for the mailed free papers. At the present time, my Pennysaver rep is not only an excellent salesperson but a good customer of my store. Every week, she takes responsibility for checking the proof for our ad, takes care of getting the proof back to the paper, and makes our advertising purchase simple and pleasant. In my prior experience in dealing with a large daily newspaper, our store was not treated like a valued customer. How the new program was offered, and the customer support we would be given, would be factors I would consider before I would switch advertising out of either of the mailed free papers I currently use.

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-8. Please refer to page 4 of your testimony. There you say that the last time your mailer experienced a sizeable rate hike was in 1995. How do you know that? Do you know what the rate hike was?

RESPONSE:

I know that the last time I experienced a sizeable rate hike in the advertising rates I pay was approximately five years ago. Both of the papers I use, *The Yankee Trader* and *Pennysaver News*, raised their prices at approximately the same time. Both papers told me that the reason for the large rate increase was due to an increase in postal costs. I do not remember if I was told what the postal rate increase was.

AISOP WITNESS SMITH RESPONSES TO NAA

NAA/AISOP-T1-9. As a small business, do you believe that large businesses should pay less than small businesses for the same postal service?

RESPONSE:

I do not believe that the Postal Service, or the Postal Rate Commission, should set its prices based on the size of the Postal Service customer. It should not make a difference whether the customer is a large business or a small business. However, it is my testimony that small businesses like mine are more likely to need the services of mailers that operate regular mail programs, like a weekly free paper, or other mailers like locally focused coupon envelope programs. The costs small businesses like mine pay for advertising are based, in part, on the rates our mailers pay. I understand that local mailers we use, like the mailed free shopper, prepare their papers efficiently, bring them to the local post office on a predictable and regular schedule, and that all the Postal Service needs to do is deliver the papers to the home. It is my testimony that these papers are beneficial to small business and welcome to consumers. I also have to think that in these days where the Postal Service is losing business to the internet that advertising mail like this is good for the Postal Service. I believe that these mailed advertising programs, whether they are owned by large businesses or small businesses, should get postal rates that reflect the minimal amount of handling of these papers and competitive conditions for the delivery of advertising.

1 CHAIRMAN GLEIMAN: Is there additional designation
2 of written cross-examination for the witness?
3 [No response.]
4 CHAIRMAN GLEIMAN: If not, we move on to oral
5 cross-examination. It is my understanding that no party has
6 requested oral cross-examination of this witness.
7 Is there anyone here today who wishes to
8 cross-examine the witness?
9 [No response.]
10 CHAIRMAN GLEIMAN: There doesn't appear to be.
11 Are there questions from the bench for this witness?
12 [No response.]
13 CHAIRMAN GLEIMAN: There aren't. And that being
14 the case, Mr. Smith, that concludes your participation here
15 today. We appreciation your contributions to our record.
16 We hope you and your family enjoy your stay in Washington.
17 We would rather be up in Terryville, New York or perhaps on
18 the Sound today rather than in the hearing room, but, you
19 know, we have got work to do here. So, again, I thank you
20 and you are excused.
21 THE WITNESS: Thank you.
22 MS. HANBERY: Thank you.
23 [Witness excused.]
24 CHAIRMAN GLEIMAN: Mr. Przypyszny, if you would
25 like to introduce your next witness.

1 MR. PRZYPYSZNY: Good morning, Mr. Chairman. I
2 was informed by the counsel for MOAA and counsel for the
3 Postal Service yesterday that they would have no oral
4 cross-examination for Witness Siwek, so I would just like to
5 proceed with entering his testimony in the record.
6 CHAIRMAN GLEIMAN: Certainly. Do you have the
7 testimony and the appropriate declarations?
8 MR. PRZYPYSZNY: Yes, Mr. Chairman, I do.
9 CHAIRMAN GLEIMAN: Okay. If you could please
10 provide that material to the court reporter, I will direct
11 that the material be received into evidence and transcribed
12 into the record.
13 [Direct Testimony of Stephen E.
14 Siwek, was received into evidence
15 and transcribed into evidence.]
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AAP-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

Stephen E. Siwek

On Behalf of the

ASSOCIATION OF AMERICAN PUBLISHERS

DATED: May 22, 2000

Communications with respect to this document should be sent to:

Mark L. Pelesh
John R. Przypyszny
Drinker Biddle & Reath LLP
1500 K Street, NW
Suite 1100
Washington, DC 20005

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AUTOBIOGRAPHICAL SKETCH

My name is Stephen E. Siwek. I am a Principal in the firm of Economists Incorporated, Suite 400, 1200 New Hampshire Ave., NW, Washington D.C. Economists Incorporated specializes in economic analysis of competitive issues that arise in antitrust reviews of corporate acquisitions, litigation and regulated industries. I hold a BA in economics from Boston College and an MBA from George Washington University. My areas of specialization include the economic and financial analysis of telecommunications and other regulated industries, assessment of lost profit damages, and international trade for U.S. industries that depend on copyrights. I have testified on economic and financial issues in more than 60 regulatory proceedings in 22 states. I have particular experience in the economic and technical issues that are relevant to development and use of cost estimates for ratemaking purposes, and I have provided expert testimony on these issues in many state regulatory proceedings and arbitrations. I have been involved in postal ratemaking matters since the 1970s, and I have appeared before the Postal Rate Commission on four prior occasions. I first appeared before this Commission in Docket No. R83-1, where I testified as a witness on behalf of the Antitrust Division of the US Department of Justice. In that case, I assessed the financial viability of the Postal Service's proposed E-COM service. I have also testified before this Commission in Docket Nos. R 84-1, R-87-1 and R 90-1. My resume, which includes a list of proceedings where I have testified as an expert witness, is included herewith as Attachment 1.

I. PURPOSE OF TESTIMONY

Each year, the members of the Association of American Publishers ("AAP") ship millions of books to American citizens by means of the United States Postal Service ("USPS" or "Postal Service"). AAP members make use of various USPS mail subclasses including Standard A mail, Standard B mail, Parcel Post, Special Standard and Bound Printed Matter ("BPM"). For many AAP members however, BPM represents their most important shipping medium for books. As a result, these members are understandably concerned as to the magnitude of the rate increase that the USPS has proposed for BPM in this case.

In this proceeding, the USPS has proposed what it calculates to be an "average" rate increase for BPM in the amount of 18.1%.[1] However, the Postal Service also proposes to eliminate the Local rate zone for BPM and to introduce three new destination entry discounts for BPM mail. For mailers who cannot take full advantage of these discounts, the Postal Service's proposal will result in much higher rate increases. According to Postal Service figures, a 2-pound parcel now shipped at the Local BPM rate that can only achieve the Destination Bulk Mail Center ("DBMC") "discount" will face a 61.6 percent increase.[2]

My testimony in this case will focus on the USPS' rate proposals for BPM. Specifically, my testimony will address five issues. First, I will explain how in this proceeding, the Postal Service has failed to develop even the most basic information needed to predict the likely effect that its proposed rate increase will have on the BPM subclass. Second, I will show how the USPS' claimed cost increases for BPM are contradicted by the Postal Service's own cost witnesses. Third, I will show that the USPS' proposal to introduce multiple drop ship discounts for BPM depends crucially on a "first-time" survey that is unreliable. Fourth, I will explain how the Postal Service's proposed drop ship discounts in BPM reflect an inconsistent and discriminatory pattern of cost saving "pass-throughs." Fifth, I will demonstrate that the institutional cost markup recommended for BPM by the USPS is far too high.

On the basis of my analysis of the issues described above, I will also propose alternative

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[1] USPS Response to AAP/USPS-T32-11(a), Tr.11/4203-04.

[2] See Attachment to USPS Response to AAP/USPS-T-37-10, Tr.13/5281-82.

rates for BPM. I will recommend that the Postal Rate Commission adopt the rates that I propose for BPM in this proceeding.

II. THE USPS PROPOSAL

According to USPS witness James Kiefer, the BPM subclass contained only catalogs and similar bound advertising matter until 1973. However, in Docket No. MC73-1, eligibility for the subclass was broadened to include bound printed matter other than catalogs, although books were still excluded.[3] Subsequently, as rates for other subclasses increased, book publishers began to include advertising in books in order to make them eligible to be mailed as BPM. In Docket No. R90-1, the Commission responded to this trend and recommended that all books that meet the appropriate weight requirements be eligible to be mailed as Bound Printed Matter. While the subclass still contains telephone directories, manuals and catalogs, BPM is now dominated by mailings of books.[4]

Traditionally, BPM has been offered on a single piece and on a bulk rate basis. The rate structure consists of a per-piece charge and a charge that varies by weight and by delivery zone. In 1985, Basic Presort and Carrier route Presort options replaced the single bulk rate for BPM.[5] Presorted mail pays a lower per-piece charge than Single Piece BPM, plus a lower zone-based per pound charge based on the aggregate weight of the mail traveling to each zone. To be eligible for these reduced rates, mailings must contain at least 300 pieces that are properly prepared and presorted as appropriate. Currently, BPM mailings of 50 or more machinable parcels of Single Piece or Basic Presort Bound Printed Matter are also eligible to receive a further discount of three cents per piece if they bear a readable barcode showing the delivery address ZIP code.

In this proceeding, the USPS is proposing an institutional cost coverage of 117.6 percent over "volume-variable" costs for BPM. This proposal results in an <u>average</u> rate increase for BPM

[3] USPS Witness Kiefer, USPS-T-37 at 26.

[4] The importance of books in the BPM subclass will be explained in more detail in a subsequent section of this testimony.

[5] USPS-T-37 at 27.

of 18.1 percent, "the highest rate increase proposed for any subclass in this case."[6] Significantly, many BPM mailers will be facing much higher rate increases, particularly those mailers who cannot take advantage of the destination entry discounts that the USPS also proposes to introduce. In addition, as part of its proposal to the Commission, the USPS now seeks to eliminate the Local zone rate for BPM. The Postal Service assumes that BPM mailers who traditionally relied on the lower BPM rates available under the Local zone rate will now be able to use one of the three new destination entry discounts that the USPS seeks to establish. However, for BPM mailers who cannot take full advantage of these discounts, the Postal Service's proposal will result in substantial rate increases. As noted above, a 2-pound parcel now shipped at the Local BPM rate that could only achieve the Destination Bulk Mail Center ("DBMC") "discount" will face a 61.6 percent rate increase under the USPS's proposal.

According to USPS witness Kiefer, the destination entry discounts proposed by the USPS "will better align rates with the costs of transporting, processing and delivering Bound Printed Matter."[7] This claim, however, is devoid of factual support. In order to demonstrate that its proposed rates would <u>better</u> align rates with costs, the USPS should have analyzed rates and costs under the <u>current</u> BPM rate structure and under the <u>proposed</u> destination entry discounts. However, the USPS did nothing to analyze cost recovery under the current Local rate zone for BPM. AAP requested that the USPS "identify and provide all studies or reports that pertain to the recommended elimination of the Local zone for BPM." The Postal Service's response was "[N]o studies were conducted."[8] The Postal Service also failed to develop any "formal studies, reports, data or other evidence" regarding any alternatives to the elimination of the Local zone that were considered by the USPS.[9]

Indeed, the proposed destination entry discounts do not even align rates with the costs claimed by the USPS. Attachment 2 reproduces the Postal Service's Response to AAP/USPS-T37-12. As shown in Attachment 2, the recommended pass-through of per-piece cost savings

[6] USPS Witness Mayes USPS-T-32 at 43.

[7] USPS-T-37 at 33.

[8] USPS Response to AAP/USPS-T37-4, Tr.13/5274.

[9] USPS Response to AAP/USPS-T37-5, Tr.13/5275.

associated with the proposed DBMC discount is only 16 percent. By contrast, the recommended pass-through of per-piece cost savings associated with the proposed Destination Delivery Unit ("DDU") discount is 45 percent, while the recommended pass-through associated with the Destination Sectional Center Facility ("DSCF") discount is 47 percent. Thus, as shown in Attachment 2, the recommended pass-throughs for the DDU and DSCF discounts are more than two and one half times the pass-through recommended for the DBMC discount. For this reason, even assuming that the Postal Service has accurately measured the cost savings associated with destination entry, the destination entry discounts proposed by the USPS are plainly not cost-based.

III. VOLUME ESTIMATES

In this proceeding, the Postal Service is predicting an enormous increase in piece volume for the entire BPM subclass by the end of the 2001 test year. Despite this claim, however, the USPS has failed to develop even the most basic information that might support such a prediction. Since the Postal Service did not analyze the actual determinants of recent volume trends in BPM under current rates, it has literally no ability to predict the future consequences that its proposed rate increase will have on BPM mailers in this case.

USPS witness George Tolley reports base year (1998) volume for BPM as 488.6 million pieces.[10] By the 2001 test year, Dr. Tolley predicts before rate volume for BPM in the amount of 541.976 million pieces, an increase of more than 53 million pieces over base year 1998.[11] The magnitude of this forecasted increase is startling particularly given recent volume declines in BPM since 1997. The Postal Service reports that BPM piece volume reached 516.1 million pieces in 1996 and peaked in 1997 at 521.7 million pieces.[12] In 1998, BPM volume fell by more than 33 million pieces to the 1998 base year volume of 488.6 million pieces assumed by the USPS. In this proceeding, however, the Postal Service has no explanation whatsoever for this volume decline in 1998.

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[10] USPS Witness Tolley, USPS-T-6 Table 16A at 172.

[11] Id.

[12] See Attachment to USPS Response to AAP/USPS-T-37-23, Tr.13/5298.

In his testimony, Dr. Tolley dates the beginning of the volume fall-off in BPM to the first quarter of 1998.[13] When asked to provide an explanation for this decline, Dr. Tolley stated "I am unaware of the cause of this decline. I am unaware of any Postal Service witnesses who would be able to provide an explanation."[14] In addition, USPS witness Thress was asked to describe any attempts by the USPS to explain the 1998 BPM volume decline using alternative model specifications or alternative data. Dr. Thress stated "I made no additional attempts to explain this downturn other than to include the dummy variable that was ultimately included in my testimony."[15] Since the USPS does not know and did not study why BPM volume fell dramatically in 1998, it cannot reasonably predict what BPM volume would do in the face of the USPS' proposed 18.1 percent rate increase in 2001.

It is also clear that USPS witness Tolley erroneously thinks only of catalogs when he considers the actual makeup of the BPM subclass. Dr. Tolley states for example that "[M]uch of the long-term growth in Bound Printed Matter ("BPM") volume is due to the mail order boom and the expansion of the catalog industry."[16] Dr. Tolley also presented the unsupported "hypothesis" that small catalogs allegedly introduced by Sears to replace its large catalog after January 1993 were responsible for later increases in BPM volume.[17] Despite this "hypothesis," Dr Tolley was unable to provide any data on these smaller catalogs in 1996, 1997, 1998 or 1999.[18] Importantly, Dr. Tolley's basic view of BPM as primarily a catalog subclass is not consistent with the data that he himself presents.

According to the latest available USPS Household Diary Study, 63.7 percent of the Bound Printed Matter subclass now consists of books.[19] The same data show that only 29.4

[13] USPS-T-6 at 170.

[14] USPS Response to AAP/USPS-T6-4, Tr.9/3592.

[15] USPS Response to AAP/USPS-T7-3, Tr.9/3748.

[16] USPS-T-6 at 167-8.

[17] Id. at 170.

[18] USPS Response to AAP/USPS-T6-3 (b), Tr.9/3591.

[19] USPS Response to AAP/USPS-T6-6(c), Tr.9/3595.

percent of BPM is now made up of catalogs.[20] As Dr. Tolley's own data demonstrate, the BPM subclass is now used primarily by mailers of books.

Importantly, unlike catalogs, books are not an advertising medium. Book mailers ship products demanded by consumers. Book mailers do not ship advertising that is demanded by advertisers. Unlike catalogs, books do not compete or potentially compete with newspapers, magazines, radio, television, Yellow Pages or any other direct mail media for a share of the advertising dollar. If the price of advertising (cost per thousand) offered by a competing advertising medium were to fall, advertisers might substitute away from catalogs, and the demand for catalogs shipped via BPM could be affected. By contrast, if the price of advertising offered by a competing advertising medium were to fall, it is extremely unlikely that consumers' demand for books shipped via BPM would be affected in the slightest.

The Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission define a product market as "a product or group of products such that a hypothetical profit-maximizing firm that was the only present and future seller of those products likely would impose at least a 'small but significant and non-transitory' increase in price. That is, assuming that buyers likely would respond to an increase in price for a tentatively identified product group only by shifting away to other products what would happen? If the alternatives were, in the aggregate sufficiently attractive at their existing terms of sale, an attempt to raise prices would result in a reduction of sales large enough that the price increase would not prove profitable, and the tentatively identified product group (market) would prove to be too narrow."[21] As this explanation suggests, the "price increase question" is critical to any definition of markets. Profitable substitution results in the inclusion of a product within a relevant market while non-profitable or non-existent substitution will render a product outside the market. Yet in this proceeding, a change in the prevailing price level for catalogs clearly would not affect book sales and vice versa. Because of this fundamental difference, books are clearly not in the same economic market as catalogs. Since these products are not in the same economic market they are

[20] USPS Response to AAP/USPS-T6-6 (b), Tr.9/3595.

[21] US Department of Justice and Federal Trade Commission, Horizontal Merger Guidelines, April 2, 1992, page 10.

not affected by the same factors in the same way. However, in this case, the Postal Service has incorrectly studied catalogs and books combined. The USPS has failed utterly to analyze the separate underlying product markets for books and for catalogs that each make use of the BPM subclass.

There is no doubt that the USPS has failed to analyze the separate underlying products that make use of BPM in its BPM forecast in this case. USPS witness Tolley's BPM forecasting equation makes use of a "market penetration Z-variable" as a predictor of total BPM volume change. When asked in particular what "market" was being analyzed using the market penetration Z-variable, Dr. Tolley responded "[T]he market here represents the market for bound printed matter."[22] If BPM prices were to increase, however, catalog mailers would be able to consider different substitution possibilities than could book mailers. Catalog mailers, for example, might be able to shift their demand from catalogs to other advertising media that would avoid or bypass the Postal Service entirely. Book mailers, by contrast, would be unable to take advantage of substitution possibilities in other advertising media because books are not advertising. While catalog mailers and book mailers may both make use of BPM, the nature and extent of their demand for BPM mail is driven by vastly different considerations. Since the Postal Service has failed to study any of these differences, the Postal Service has no theoretical basis upon which to predict future demand for BPM in this case.

As set forth above, it is clear that the USPS cannot reliably predict test-year demand for BPM mail. As a result, the Postal Service simply does not know the extent of damage that its proposed rate increase will cause for the American book industry. For this reason alone, the Commission should restrain the Postal Service's proposals for BPM in this case. Moreover, as discussed at length in a subsequent section of this testimony, the Postal Service's failure to analyze the separate underlying markets that demand BPM services also means that the USPS cannot correctly or accurately apply the 3622(b) factors to the BPM subclass in this proceeding.

[22] USPS Response to AAP/USPS-T6-2 (b), Tr.9/3589.

IV. COST INCREASES

The USPS bases the magnitude of its proposed BPM rate increase request in part on claimed increases in the "volume variable" costs associated with the BPM subclass. According to USPS witness Kiefer, unit costs for BPM as a whole have "increased by more than 40%" since the last rate case and that "a large increase in rates is needed to cover this cost increase."[23] (emphasis added). Mr. Kiefer's assertion is, however, in direct conflict with the testimony of the USPS' own costing witnesses in this case, most notably Dr. Bozzo and Mr. Degen. The Postal Service's cost witnesses provide ample reason to doubt that true "volume variable" costs of BPM mail are in fact increasing at the rate suggested by Mr. Kiefer. In particular, many of the mail processing costs that have been "attributed" to BPM by the Postal Service actually reflect cost allocation decisions rather than true volume variability. If the true volume variable costs of BPM mail are lower than the BPM cost levels considered by Mr. Kiefer, then the "need" to cover these cost increases solely from BPM rates is also less critical. With less pressure to cover the true costs of BPM mail, the Commission can more freely address the devastating impact that these proposed rate increases, if adopted, would have on the book mailers of America.

USPS witness Kiefer presents the DBMC discounts proposed for BPM in this case. He states that the cost savings that underlie these discounts are "based on the assumption that BMC mail processing costs are nearly 100% volume variable."[24] Mr. Kiefer then goes on to state, "[W]hile the Postal Service is using this assumption for calculating attributable costs in this docket, it is uncertain that mail drop-shipped to BMCs will avoid all of these costs, also arguing for a more conservative pass-through strategy." [25] (emphasis added). When questioned about this surprising admission, Mr. Kiefer testified that he had "not investigated the variability issue" and was "unable to express an opinion on it." He also suggested that the "[P]ostal Service's views on this issue are presented in witness Bozzo's testimony (USPS-T-15, at pp. 135-136). [26]

If the Postal Service is "using [an] assumption" of 100% volume variability for

[23] USPS Response to AAP/USPS-T37-24(b), Tr.13/5300-01.

[24] USPS-T-37 at 39.

[25] USPS-T-37 at 39.

[26] USPS Response to PostCom/USPS-T-37-3(c), Tr.13/5461.

calculating attributable costs in this docket, then the Postal Service is clearly not measuring actual volume variability. This means that even if the Postal Service's unfounded prediction of future BPM volume increases were to become reality, the true volume variable costs associated with that new volume will likely be far lower than the cost levels now forecasted for BPM by the USPS. Moreover, this admission calls into question the basic reliability of even the current BPM costs reported by the Postal Service in this case.

In Base Year 1998, the USPS reported total volume variable costs for BPM in the amount of $394.4 million.[27] Of this total, clerks and mail handler costs (C/S-3), at $134.5 million, accounted for approximately one-third of total volume variable costs for BPM.[28] The mail handling component of C/S-3 for BPM was reported as $125.4 million.[29] There is no doubt that the claimed mail processing costs in C/S-3 represent a significant fraction of the total volume variable costs for BPM that the USPS seeks to recover by raising BPM rates in this case.

The Postal Service derived total C/S-3 costs from three separate cost groups. There were the MODS 1&2 group, the non-MODS group and the Bulk Mail Center ("BMC") group.[30] For BPM, C/S-3 costs from the BMC group are the most significant costs, accounting for nearly 53% of the total mail processing volume variable costs that the USPS distributed to BPM in BY 1998. According to Postal Service witness Van-Ty-Smith, the BY 98 volume variable mail processing costs that were distributed to BPM from the BMC group totaled $67.9 million out of total BPM mail processing costs of $128.5 million.[31]

There are major problems in the USPS' development of volume-variable C/S-3 costs in this proceeding. These problems are particularly evident in the context of the BMC group but they also exist in the MODS 1 & 2 and non-MODS groups as well. The existence of these costing problems is, however, only part of the story. What is truly unique in this case is that the

[27] USPS-T-11, Exhibit USPS-11A at 7.

[28] USPS-T-11, Exhibit USPS-11A at 1.

[29] USPS-T-11, Exhibit USPS-11A at 19.

[30] USPS Witness Van-Ty-Smith, USPS-T-17 Table 1.

[31] USPS-T-17 Table 3, Row 15, at pages 31, 37, 39.

USPS' costing witnesses themselves readily acknowledge that the Postal Service C/S-3 estimates are in error. These Postal Service witnesses have filed direct testimony before this Commission that directly contradicts the Postal Service's own rate claims. These witnesses do not support many of the USPS's cost calculations, and they admit that the Postal Service's estimates overstate the true level of volume variable costs that should have been reported for BPM in this proceeding. Since the USPS' cost witnesses do not believe the Postal Service's C/S-3 costs, claims by the USPS' rate witnesses that BPM rates must be increased to cover costs have little, if any, probative value. The Postal Service cannot both criticize its own cost filings and claim that the very same cost filings justify a need to raise rates.

For example, USPS witness Carl Degen, a Senior Vice President at Christensen Associates, addresses clerk and mailhandler processing costs on behalf of the USPS in this proceeding. Among other things, Mr. Degen describes the manual sortation of parcels by the Postal Service. He states that, "[i]n total, volume variability of manual parcel sortation should be substantially less than 100 percent, primarily because set-up and take-down time are substantial relative to time actually sorting the parcels."[32] (emphasis added). With respect to this conclusion, Mr. Degen was asked, "In view of this statement, please explain why in this case, the Postal Service used a pool volume variability function of .997 for manual parcels at non-MODS offices ..." [33] Reminiscent of the response furnished by Mr. Kiefer to a similar interrogatory, Mr. Degen's response was "[F]or the requested explanation, please see witness Bozzo's testimony, USPS-T-15 at pages 133-135." [34]

Thus, in this case, Dr. Bozzo clearly seems to be the witness chosen by the Postal Service to respond to these sorts of questions. For this reason, Dr. Bozzo's testimony concerning volume variability in MODS allied labor, non-MODS and BMC cost pools is particularly instructive. At page 133 of his testimony, Dr. Bozzo states, "[M]y explanation of the Postal Service' decision to use volume-variability factors based on the traditional IOCS activity code classification should

[32] USPS Witness Degen, USPS-T-16 at 44.

[33] USPS Response to AAP/USPS-T16-4, Tr.16/6446.

[34] USPS Response to AAP/USPS-T16-4, Tr.16/6446.

not be construed as an endorsement of the traditional method on its economic merits."[35] (emphasis added). At page 134 of his testimony, Dr. Bozzo indicated that "...I believe Mr. Degen's description of the structure of mail processing costs is also suggestive of a potential disconnection between the IOCS method of parsing tallies into fixed and variable categories and the real cost drivers for support operations which are workhours and/or workload in the supported operations." [36] (emphasis added). In connection with BMC costs, at page 135 of his testimony, Dr. Bozzo stated "Nonetheless, I believe Dr. Bradley's efforts, (in Docket No. R97-1) though flawed in some respects, provide the best available estimates of elasticities for BMC operations. Extrapolating from the effects of the methodological changes on the MODS elasticities, I believe Dr. Bradley's models represent a much more accurate method for estimating the volume variable costs in BMC operations than the IOCS-based method." [37] (emphasis added). Given these statements, it is abundantly clear that the Postal Service's principal cost witness simply does not believe that the cost estimates that were actually filed by the Postal Service in this case reflect the best available analyses of these costs.

Dr. Bozzo also confirmed that, in his opinion, the IOCS methods relied on by the Postal Service in this case significantly overstate true volume variable costs at the BMCs. At page 136 of his testimony, he stated, " [I] cannot rule out the possibility that the PIRS data issues are serious, but I note that the PIRS workload data would have to be so noisy as to be useless in order for the IOCS-based method not to significantly overstate the BMC volume-variable costs relative to Dr. Bradley's methods."[38] (emphasis added). In response to an interrogatory from AAP, Dr. Bozzo also quantified the extent to which the Postal Service has overstated the BMC costs that were allocated to Bound Printed Matter.[39] Dr. Bozzo's data are shown in Attachment 3, Table 1.

As shown in Attachment 3, Table 1, the Base Year 1998 BMC costs that have been

[35] USPS Witness Bozzo, USPS-T-15 at 133.

[36] USPS-T-15 at 134.

[37] USPS-T-15 at 135.

[38] USPS-T-15 at 136.

[39] USPS Response to AAP/USPS-T15-6, Tr.15/6228.

allocated in this case to Bound Printed Matter have been overstated by nearly 31 percent. A corrected estimate of the volume-variable BMC costs that should have been distributed to BPM in BY 98 is also shown in Attachment 3, Table 1. This corrected estimate of BMC costs is based on the methods used by Dr. Bradley in Docket No. R97-1. According to Dr. Bozzo, Dr. Bradley's methods were "much more accurate" than the IOCS-based methods relied on by the Postal Service in this proceeding.

Differences between the Postal Service and it own cost witnesses are not restricted to BMC costs. USPS witness Degen also disagreed with the USPS' cost filing with respect to the volume variabilities that should have applied to allied operations at MODS offices. These allied operations include platform, opening and pouching. Mr. Degen testified that Dr. Bozzo had updated the Postal Service's previous analyses of these variabilities but that "the Postal Service has decided not to incorporate those estimates in the current filling."[40] In a response redirected from Mr. Degen, Dr. Bozzo supplied the MODS allied labor volume variabilities that should have applied to these cost pools.[41] These alternative variabilities are used to provide volume variable costs for BPM in Attachment 3, Table 2. As shown in Attachment 3, Table 2, on the basis of the alternative MODS allied labor variabilities provided by Dr. Bozzo, the Postal Service' claimed MODS allied labor costs for BPM are overstated by 37.2%.

While the Postal Service seeks to downplay the significance of certain of its cost showings from Docket No. R97-1, other aspects of its prior cost studies seem to be afforded great weight in this filing. One such area is the USPS's proposed treatment of "overhead" activities in MODS, non-MODS and BMC cost pools. According to USPS witness Van-Ty-Smith, overhead activities in mail processing "comprise IOCS activity codes 6521-6523, i.e. breaks/personal needs, clocking in/out, and empty equipment related work." [42] Apparently no attempt to quantify the volume variability (if any) of these activities was even attempted by the Postal Service in this case. Rather, the costs associated with these overhead activities were

[40] USPS-T-16 at 69.

[41] USPS Response to AAP/USPS-T16-7, Tr.15/6223

[42] However, the handling portion of the IOCS empty equipment activity is not included as 'overhead' here since the tallies are treated as mixed-mail tallies. See USPS-T-17 (Van-Ty-Smith) page 12, fn. 9.

"considered volume-variable to the same degree as non-overhead activities."[43] The extent to which these overhead costs were included in the Postal Service's claimed mail processing costs for BPM is shown in Attachment 3, Table 3. The overhead costs that the USPS included in the total mail processing costs reported for BPM amounted to more than 29 percent of the total MODS, non-MODS and BMC costs claimed for BPM in this case.[44]

Thus, the Postal Service has made the apparently unsupported assumption that overhead costs such as breaks and clocking in/out should be considered volume variable to the same degree as non-overhead activities. This assumption is sweeping in its breadth. Without conducting analyses, one could equally justify the unsupported assumption that these overhead costs have no relationship to volume whatsoever. The Postal Service' treatment of overhead costs is not a quantification of volume variability; it is an arbitrary example of cost allocation. The Postal Service has not even attempted to prove that these overhead costs are equally volume variable as non-overhead costs. Accordingly, there is no reason to believe that any of these costs actually vary with actual postal volume. For this reason, it is likely that some significant portion of the overhead costs shown in Attachment 3, Table 3 should not have been assigned to BPM in BY98.

For all the reasons set forth above, the Commission should not simply assume that the measurable volume variable costs of BPM have increased at the rates suggested by the Postal Service. The nature of the assumptions and cost allocations that were performed by the USPS in this case undermine the basic foundation of any of these claims. Moreover, the problems set forth above relate to the cost showing that was actually filed by the USPS in this case. However, many of the alleged BPM cost increases that were cited by the Postal Service were taken not from the USPS cost filing in this case but from the USPS' Cost and Revenue Analysis (CRA) Reports which themselves contain additional infirmities.[45]

USPS witness Degen sought to "compensate" for the use of 100 percent volume

[43] USPS-T-17 at 12.

[44] See USPS Response to AAP/USPS-T17-7(b).

[45] See USPS Response to AAP/USPS-T32-2, Tr.11/4179-80.

variability for the allied cost pools by constructing a new distribution key to be used for not handling tallies in this case.[46] In response to interrogatories, Mr. Degen provided a comparison of BPM distribution key share under the "compensation" method proposed by the USPS with the distribution key shares that would apply in the USPS CRA for FY 1998.[47] According to Mr. Degen, "the use of the 100 percent variability assumption with the broad not-handling distribution (that he proposes) is better than the use of 100 percent variability assumption alone." [48] Thus, in order to see the CRA results that Mr. Degen sought to improve upon one can "reverse engineer" the "compensation" distribution key that he developed.

As shown in Table 4 of Attachment 3, "reverse engineering" the "compensation" distribution key that was developed by USPS witness Degen permits one to observe, at least to some extent, the degree to which the CRA overstates BPM costs. As Table 4 demonstrates, even when compared with the USPS' own inflated cost filing, the CRA overstates allied labor costs for BPM by 28.7 percent. It is abundantly clear that the cost results shown in the CRA simply cannot be used to assess the extent to which any cost increases have actually occurred in the BPM subclass since the last rate proceeding.

Importantly, the problems that plague the USPS' cost filing in BY 1998 do not disappear once the Postal Service extends those "base year" costs to the 2001 test year that is proposed in this case. In order to estimate the test year costs that allegedly will be incurred when the Postal Service' proposed rate increase goes into affect, the Postal Service makes use of a "roll-forward model" to translate base year costs into test year values. In this proceeding, the USPS' roll-forward model was described in the testimony of USPS witness Kashani. Unfortunately, there is little reason to believe that the Postal Service's "roll-forward" model is any more reliable than the base year costs. The roll-forward model is a cumbersome software program, the expansion of which would require "rewriting the underlying COBOL program" and "would be a costly and complicated undertaking."[49] More to the point, however, the Postal Service apparently chooses to

[46] USPS-T-16 at 69.

[47] USPS Response to AAP/USPS-T16-8, Tr.15/6449-6450.

[48] USPS Response to AAP/USPS-T16-9, Tr.15/6451-6452.

[49] USPS Response to AAP/USPS-T14-1, Tr.2/603-605.

rely on this model without conducting any tests of its underlying reliability. AAP asked USPS witness Kashani whether the Postal Service has "compared or evaluated in any way the cost levels predicted (by the roll-forward model) in Docket R97-1 with actual cost levels that ensued taking into account such factors as variances in volume or cost level." [50] Mr. Kashani's answer was "No."[51] The Postal Service' failure even to attempt any sort of after-the-fact evaluation of its roll forward model completely undermines any serious claim that Postal Service's proposed test year costs will actually be incurred at the levels predicted by the USPS.

In this proceeding, the USPS asserts total test year before rate ("TYBR") volume variable costs for Bound Printed Matter in the amount of $481,389,000.[52] Of this amount, 33.9% or $163,113,000, reflects the USPS' claimed volume variable costs for Clerks and Mailhandler Segment 3 (C/S-3).[53] As we have seen, there are multiple reasons to doubt that all of these costs actually reflect the volume variable costs of BPM mail. In Attachment 3, Table 3, we observed that 29.1% of the USPS' claimed BY 98 C/S-3 costs actually reflected "overhead," by the Postal Service' own admission. Assume that the Postal Service's unsupported characterization of overhead as a volume variable cost was the only problem with the USPS' C/S-3 costs. If so, the USPS' TYBR costs for BPM in this case would have been overstated by $47.5 million.[54] With $47.5 million less BPM costs in TYBR in 2001, the USPS' coverage for Bound Printed Matter at current rates would be 110.5 percent.[55] Thus, if the Commission were to accept even this single correction, there would be no need for any rate increase in BPM in this case.

V. THE BPM MAIL CHARACTERISTICS SURVEY

The USPS proposes to introduce dramatic changes in the BPM rate structure. It seeks to

[50] USPS response to AAP/USPS-T14-2, Tr. 2/606.

[51] USPS Response to AAP/USPS-T-14-2, Tr. 2.606.

[52] USPS-T-37, WP-BPM-1.

[53] Exhibit USPS-14H at 1.

[54] 29.1 percent of $163,113,000.

[55] $493.4 million less $47.5 million yields TYBR costs for BPM of $445.9 million. In WP-BPM-29, TYBR revenue is shown by USPS witness Kiefer as $492.6 million. $492.6 divided by $445.9 equals 110.5 percent.

eliminate the Local rate zone in the BPM subclass and to introduce three new levels of destination entry discounts for BPM mailers. However, at this time, the impact that these proposals will have on the BPM subclass is simply unknown since the actual mail preparation and entry requirements that will govern the use of these discounts are themselves not known. The Postal Service relies on a "first time" survey of BPM volume in order to estimate the BPM pieces that will and will not be able to make use of particular destination entry discounts. However, the study did not and cannot measure BPM volumes that conformed to the mail entry requirements that will govern these discounts since those requirements are not final and will not be final until after the conclusion of this rate case. In AAP/USPS-T27-15, USPS witness Crum was asked to confirm that "at the time the BPM Mail Characteristics Study provided in LR-I-109 was conducted, the Postal Service had not determined or finalized the mail makeup and entry requirements that BPM mail will be required to meet in order to receive the DSCF and DDU discounts proposed by USPS witness Kiefer (USPS-T-37)." Mr. Crum's response was "Confirmed."[56]

Mr. Crum was also asked to reveal when the Postal Service would finalize the mail makeup and entry requirements that BPM mail will be required to meet in order to receive the DSCF and DDU discounts proposed by witness Kiefer. In response, redirected from Mr. Crum, the United States Postal Service stated that "[T]he Postal Service anticipates filing a Federal Register notice that contains the requirements in approximately mid-July. Mailer comments to the proposed requirements will be taken into consideration when developing the final requirements. It is anticipated that <u>the final requirements will be published in the Federal Register shortly (approximately 5 days) after the Governors issue their decision regarding the Postal Rate Commission's Docket No. 2000-1 Opinion and Recommended Decision.</u>"[57] (emphasis added). In other words, the entry requirements that will govern these discounts will not be finalized until after the conclusion of this rate case. Better proof that these destination entry proposals are premature could scarcely be imagined.

The Postal Service began its preparations to develop destination entry discounts in early

[56] USPS Response to AAP/USPS-T27-15, Tr.8/3328.

[57] USPS Response to AAP/USPS-T27-16, Tr.8/3329.

1999.[58] USPS witness Crum indicated that, "[W]hen I was planning my analysis, I determined that there was no entry profile data available for Bound Printed Matter and that it would be required to complete my costing work. After some internal discussion, it was decided that a field study might be required to get this and other data and we contracted with Christensen Associates to assist with the sample selection, design, and data collection portion of the analysis."[59] This field study, later known as the Bound Printed Matter Characteristics Study, was subsequently sponsored by USPS witness Charles Crum as Library Reference 109 ("LR-I-109"). Mr. Crum confirmed that this analysis was the first such study ever performed for BPM and that no similar BPM study had ever been conducted in a prior rate case.[60]

Mr. Crum claims to have had a "high level of involvement" with the BPM Study.[61] Nevertheless, Mr. Crum did not draft LR-I-109.[62] He also indicated that he spent no more than one hour reviewing the raw survey results that went into the BPM survey calculations.[63] Finally, Mr. Crum indicated that he was not "comfortable" discussing the standard error calculations that are included in the study and that there was no other witness in this docket who could explain those estimates in any detail.[64]

Christensen Associates and the Postal Service conducted the BPM Mail Characteristics survey in FY 1999 over the period June 21 through July 21, 1999.[65] The results of the survey were then "inflated" to national BPM piece totals for FY 1998. While USPS witness Crum was "informed" that FY 1999 sample results had been applied to FY 98 totals, he failed to provide a responsive answer to an AAP interrogatory that asked him to "explain fully how the Postal

[58] Tr.8/3444, lines 8-10.

[59] USPS Response to AAP/USPS-T27-1 (a – b), Tr.8/3312-13.

[60] Tr.8/3445, lines 5-8.

[61] Tr.8/3443, lines 2-4.

[62] Tr.8/3443, lines 22-24.

[63] Tr.8/3470, lines 5-12.

[64] Tr.8/3471, lines 5-16.

[65] Tr.8/3444, lines 11-13.

Service deducted FY 99 volumes associated with mailer's permit numbers from the FY 1998 office totals."[66] At any rate, the BPM Mail Characteristics Survey is fraught with a set of statistical oddities and infirmities that call into question many of its basic results. Based on a brief review of BPM survey conducted with the assistance of my associate, Dr. Jorge Portillo, I believe that the sampling technique used by Christensen Associates results in biased mean estimates and unreliable standard errors. The sampling errors that are contained in LR-I-109 include the following:

Strata weights are measured with error.

The sample in LR-I-109 makes use of four sample strata. The weights used to average the means of these strata are based on the proportion that each stratum represents in the total annual volume of pieces. Nevertheless, the annual volume assigned to strata four is not the actual volume but rather an estimate based on strata four's total annual revenue and strata three's ratio of revenue per piece. As a result, strata four's volume, and hence the total population volume, is measured with error. Instead of the true stratum proportions, the report used estimated weights that bias the estimate of the population mean.

Inflation factors are measured with error.

The BPM report inflates the sampled pieces to national totals by multiplying the sample means by the proportion of office volumes and strata volumes with respect to national totals. This operation is quite innocuous when the sample means are unbiased estimators of the population means by office and strata, and when the inflation factors represent the actual proportions in the population from which the sample is drawn. Nevertheless, the report applies 1998 inflation factors to the 1999 sample means without adjusting by the difference with respect to the true 1999 inflation factors. In other words, the inflated means are the product of the 1999 sample mean times the 1998 inflation factor times the difference between the 1998 and 1999 inflation factors. This last term introduces a systematic bias that is not explicitly treated in the report.

The bootstrap standard errors are unsound.

The conditions under which bootstrapping techniques can be applied to estimate standard errors fail to apply in the procedure followed in the report. Bootstrapping is a re-sampling technique that takes repeated draws from the actual sample results to obtain a computational,

[66] USPS Response to AAP/USPS-T27-31, Tr.8/3348.

rather than analytical, measure of dispersion. A critical condition for the reliability of these results is that the re-sampling should follow the same sampling procedure used to draw the original sample.[67] The ex-post merging of strata two and three implies that observations from these two strata are re-sampled with a probability different from that applied in the original survey, and the result is a biased variance estimate. Importantly, even if strata two and three were kept separated while re-sampling, the bootstrap estimation procedure used in LR-I-109 would still not be appropriate. The reason is that the sample of strata three, with only one observation, is too small to allow any variability of the bootstrap sample.[68]

Finally, it should be recalled that the survey in LR-I-109 is a "first-time" effort by the Postal Service to study the characteristics of BPM mail. Because it is a first time effort, the USPS has no track record against which to assess the survey results. For this reason alone, any possible sampling error must be taken seriously. In this instance, the Postal Service does not have the luxury of testing whether the results produced in this proceeding are consistent with BPM studies that the USPS performed in prior cases.

In addition to the statistical anomalies described above, another serious problem in the BPM Mail Characteristics Survey results from the manner in which data from the survey were adjusted by Christensen Associates. In the Postal Service's filing, volume data from the BPM Mail Characteristics Survey were inflated and increased to national totals. These total FY 1998 BPM data were then reported in two "versions" of Mr. Crum's Attachment H. The "mail processing" version of Attachment H was shown as Table 1. The "transportation" version of Attachment H was shown as Table 2. The adjustment issue arises in the "mail processing" version of Attachment H. It should be noted that both Mr. Crum and Mr. Kiefer rely only on the mail processing version of Attachment H to support the cost and rate calculations that they propose in this case. [69]

In the Mail Processing version of Attachment H, entry locations for mail from the BPM

[67] See A. Davison and D. Hinkley, Bootstrap Methods and their Application, 1997, pp. 92-100.

[68] See M. Chernick, Bootstrap Methods: a Practitioner's Guide, 1999, Chapter 9.

[69] See Crum Attachment I, Table 2 and Tr. 5326 at lines 18-23.

Mail Characteristics survey are not simply tabulated and reported. Entry locations used in these calculations actually reflect the Postal Service' assumptions as to where this mail should be handled within the Postal system. The Postal Service assumed that "containers sorted to a more aggregate level than the office where they are entered are first processed at the facility representing their sortation level."[70] (emphasis added). For example, assume that a mailer physically delivered BPM mail to an SCF but the mail was ultimately destined for another BMC area. In this instance, the entry Zip Code for that mail would not be reported in Attachment H as that of the actual SCF where the mail was physically delivered. In the mail processing version of Attachment H, it would be assumed that the entry level Zip Code for this mail was the Zip Code of the parent BMC of the SCF rather than the Zip Code of the SCF at which the mail was actually deposited.[71]

If one is to rely on assumptions in adjusting survey responses, it is important that these assumptions be communicated accurately to the tabulators of the survey, in this case Christensen Associates. Unfortunately, a serious "miscommunication" problem between USPS witness Crum and Christensen Associates come to light three months after the Postal Service's original filing in this case. Table 1 of Mr. Crum's Attachment H reflects survey responses for four types of mailer entry: BMEU entry, BMEU verified drop shipment, plant verified drop shipment and plant load mail. According to Mr. Crum, the "confusion" was that Christensen had interpreted Mr. Crum's assumption to apply to all four entry types rather than only to plant load mail which was what Mr. Crum apparently intended.[72] This "miscommunication" problem resulted in a set of revisions to Mr. Crum's exhibits that were filed on April 14, 2000.[73] In connection with BPM pieces supposedly entered at the Destination BMC, the Postal Service's April 14 revisions resulted in a decrease in total Destination BMC pieces in excess of 14 million pieces.[74] Under cross-examination, Mr. Crum agreed that the volume changes in Attachment H that resulted from

[70] USPS Response to AAP/USPS-T27-35, Tr.8/3350.

[71] USPS Response to AAP/USPS-T27-35, Tr.8/3350.

[72] Tr.8/3453, lines 9-13.

[73] Tr.8/3449, lines 14-24.

[74] Tr.8/3462, lines 12-25.

these revisions were "significant."[75]

The corrections to account for the Postal Service' "confusion" in the BPM Mail Characteristics Study should also have been reflected in the BPM rates proposed by USPS witness Kiefer. After all, Mr. Kiefer admittedly relied on the destination entry data from LR-I-109 that were reported in Attachment H, Table 1. As a result, the Postal Service's April 14, 2000 revisions clearly should have resulted in corresponding changes in Mr. Kiefer's destination entry rate proposals for BPM. However, under cross-examination, Mr. Kiefer claimed that these changes "might have a minor effect on some preliminary rates, but not a material effect on the bottom line rates." [76] He also claimed that, "[A]s I recollect, there would be a reduction in the amount of mail going to DBMC of about somewhere on the order of 900,000 pieces..."[77]

Mr. Kiefer's claims were surprising since Mr. Crum had already conceded that some 14,000,000 fewer pieces would now qualify for the Destination BMC discount and that this change was "significant." Accordingly, during his cross-examination, Mr. Kiefer was asked to provide the "input spreadsheet" that he used to reach his conclusions. This input spreadsheet was provided as LR-I-325 on May 4, 2000, some four months after the USPS's original rate filing.

Inspection of LR-I-325 reveals what Mr. Kiefer actually did. WP-BPM-9 in LR-I-325 shows that Mr. Kiefer now estimates 212,970,245 DBMC pieces in FY 1998. This value is 15,378,455 <u>fewer</u> DBMC pieces than the corresponding value of 228,348,700 DBMC pieces that appears in Mr. Kiefer's original WP-BPM-9. However, in order to avoid introducing any last minute changes in the Postal Service's filing, Mr. Kiefer also changed his BPM rate adjustments so as to offset the effect of the BPM volume revisions.[78] Mr. Kiefer then concluded that the <u>net effect of both changes</u> has no material effect on the Postal Service's BPM rate proposal in this case. In other words, the new data have no effect because Mr. Kiefer has unilaterally made new

[75] Tr.8/3462, lines 23-25, Tr.8/3463, lines 1-4.

[76] Tr.13/5327, lines 14-16.

[77] Tr.13/5327, lines 21-23.

[78] For example in WP-BPM-15, Column D, Mr. Kiefer now shows a Per-Piece Adjustment for non-drop shipped mail in the amount of -$0.145 per piece. The corresponding value in Mr. Kiefer's original BPM workpaper was -$0.157 per piece.

adjustments in his workpapers that mathematically offset these volume effects. The arbitrariness of this procedure cannot be overemphasized. In principle, Mr. Kiefer could, in the privacy of his office, mathematically offset the effect of nearly any volume change in order to reach the preordained conclusion that the net effect of this change, once adjusted, was not significant.

Finally, it should be noted that the BPM Mail Characteristics Study completely omitted any analysis of Single Piece Bound Printed Matter. According to the Postal Service, the study measured only Basic Presorted BPM and Carrier Route Presorted BPM. [79] In its response to the same AAP interrogatory concerning Single Piece BPM, the Postal Service also stated that "[A]ccording to the 1998 Billing Determinants, Single-Piece comprised less than 6 percent of total Bound Printed Matter by volume."[80] Presumably, the Postal Service meant to imply that, at less than 6% of total BPM, Single Piece BPM could safely be ignored in the USPS' rate design efforts in this case. Nevertheless, in this proceeding, the Postal Service is also proposing to increase Single Piece BPM rates by as much as 19 percent.[81] Absent any proposals on destination entry discounts for Single Piece BPM pieces, Single Piece mailers cannot even attempt to offset any of the Postal Service's proposed rate increase by taking advantage of such discounts. Moreover, the Postal Service is itself a Single Piece BPM "mailer" when it ships book returns back to book mailers and charges those mailers for these returns at the BPM rate.[82] Even at 6 percent of total volume, Single Piece BPM is heavily used by certain book shippers and is indisputably part of the BPM subclass. The Postal Service's unilateral decision to ignore Single Piece BPM in its BPM Mail Characteristics Study clearly demonstrates why the USPS' proposal to increase Single Piece BPM rates by as much as 19 percent in this proceeding should be rejected outright.

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[79] USPS Response to AAP/USPS-T27-20, Tr.8/3334.

[80] USPS Response to AAP/USPS-T27-20, Tr.8/3334.

[81] See USPS-T-37, WP-BPM-22.

[82] The USPS had no data or estimates as to the amount of Single Piece revenue that it earns from book returns. See USPS Response to AAP/USPS-T37-21, Tr.13/5296.

VI. DESTINATION ENTRY DISCOUNTS

As noted earlier in this testimony, the Postal Service proposes to eliminate the Local rate zone in the BPM subclass and to introduce three new destination entry discounts for BPM mail. The new discounts would apply to BPM entered at the Destination Bulk Mail Center ("DBMC"), the Destination Sectional Center Facility ("DSCF") and the Destination Delivery Unit ("DDU"). None of these destination entry discounts now exist in BPM.

In support of these proposals, USPS witness Kiefer testified, among other things, that the Postal Service would like to introduce an annual $100 destination entry permit fee (later changed to $125) in order "to make drop-shipped BPM consistent with drop-shipped Parcel Post."[83] While this proposal might indeed make destination entry permit fees in BPM comparable to those in Parcel Post, the Postal Service's overall program for multiple BPM discounts reflects a hasty and ill-conceived implementation schedule that is flatly inconsistent with the way in which drop ship discounts were first introduced in Parcel Post.

As Mr. Kiefer himself recognized during his cross-examination, DBMC discounts were first adopted for Parcel Post in Docket R 90-1. [84] By contrast, DSCF and DDU discounts were not adopted for Parcel Post until more than six years later in Docket No. R 97-1.[85] In this proceeding, I recommend that the Commission follow the pattern that it previously established in Parcel Post. As regards the BPM rate structure, the Commission should adopt only DBMC discounts now. The Commission should not adopt additional discounts for DSCF and DDU entry pending further analyses by the Postal Service and more commentary from the mailers.[86] There are any number of compelling reasons why the Commission should not accept all of the Postal Service's BPM rate design proposals in this case.

First of all, as noted earlier in this testimony, the entry requirements that will control the

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[83] USPS-T-37 at 34, fn 14.

[84] Tr.13/5332, lines 8-12.

[85] Tr.13/5332, lines 13-15.

[86] Under this plan, mailers entering BPM at destination SCFs and DUs would still receive the DBMC discount.

extent to which BPM mailers can actually take advantage of any of these drop ship discounts will not be finalized and published until after the conclusion of this rate case. The absence of these requirements argues strongly for caution in the adoption of any destination entry discounts for BPM in this case. DBMC discounts were a cautious first step in Parcel Post and the same pattern is appropriate here. It also bears repeating that the USPS' first time survey of BPM destination entry volume patterns is statistically flawed and that it reflects "confusion" as to how the Postal Service's directions to adjust the survey results were interpreted by the USPS' outside consultants. For all of these reasons, the Commission should restrain the Postal Service's proposed transformation of the BPM rate structure and permit only the implementation of DBMC discounts now.

It is also important for the Commission to recognize that the destination entry discounts that have been proposed by the Postal Service reflect a disparate and discriminatory pattern of cost saving pass-throughs. The Postal Service's recommended treatment of the cost savings that result from destination entry is blatantly unfair to DBMC mailers. The USPS' proposed discounts greatly favor DSCF and DDU mailers at the expense of DBMC mailers. The one-sided nature of the USPS' recommended cost savings pass-through was documented earlier in this testimony in Attachment 2. As shown in that exhibit, the BPM rate structure recommended by Mr. Kiefer would pass-through only 16 percent of the cost savings generated by DBMC mailers. By contrast, the USPS would award pass-throughs of 47 percent and 45 percent respectively to DSCF and DDU mailers in BPM. The unreasonable treatment of DBMC mailers that results from the Postal Service's BPM proposals should be flatly rejected by the Commission.

It should also be recalled that even without DSCF and DDU discounts, DSCF and DDU mailers would still benefit from the adoption of a DBMC discount. These mailers would still receive credit for entering BPM mail beyond the origin BMC. They simply would not benefit as much as they would under the Postal Service's one-sided proposal. Nevertheless, because all destination entry mailers bypass the origin BMC, it is possible to develop BPM rates that both reduce the disparate nature of the pass-throughs recommended by the USPS and that retain benefits for all destination entry mailers including DSCF and DDU mailers in BPM. Such a set of BPM rates is illustrated in Attachment 4.

Table 1 of Attachment 4 shows the cost savings pass-throughs that would result from the adoption of a single destination entry discount in BPM of $0.129 per piece. This discount would apply to DBMC, DSC and DDU pieces equally. As shown in the top panel of Table 1, this proposal would result in a pass-through of 33.9 percent for DBMC mail. Importantly however, it would also permit pass-throughs of 24.4 percent and 19.7 percent respectively for DSCF and DDU pieces in BPM. Thus, unlike the ill-founded proposal of the USPS, this plan would dramatically reduce the disparate and discriminatory pattern of cost savings pass-throughs that are implicit in the BPM rates proposed by Mr. Kiefer. Moreover, these hypothetical rates retain the 100 percent pass-through of carrier route presort savings that was also recommended by the USPS. As shown in the lower section of Table 1, if one were to add the suggested destination entry pass-throughs from the top panel of Table 1 with an assumed 100 percent pass-through for carrier route presortation, the combined pass-throughs for all three destination entry levels are even closer together.[87]

A hypothetical rate structure for BPM that includes a single per-piece discount for DBMC, DSCF and DDU mail is shown at Attachment 4, Table 2. The rates in Table 2 are not the rates recommended by AAP in this case. The rates in Table 2 reflect the USPS's proposed target cost coverage of 117.6% which is discussed in a subsequent section of this report. However, the rates in Table 2 do illustrate how a single destination entry discount in BPM might work. I recommend that such a single discount be adopted now with an opportunity for further discounts to be addressed subsequently.

It is important for the Commission to realize that, in this case, the USPS has consistently failed to study or even consider rate design alternatives in BPM that may have made the transition to a new BPM rate structure both less harmful to mailers and more efficient for the USPS. For example, the Postal Service has proposed to eliminate the Local Rate zone for BPM without any studies or reports that pertained to this recommendation.[88] At one point, the USPS did apparently consider briefly the possibility of offering both a Local rate that was considerably

[87] Indeed, if DDU and DSCF mailers are more likely than DBMC mailers to presort to the carrier route level, the pass-through disparity between these types of mail would virtually disappear.

[88] USPS Response to AAP/USPS-T37-4.

higher than the current Local rate in conjunction with a lower DDU rate but "no formal studies, reports, data or other evidence describing this or other alternatives exist."[89] The USPS' failure to consider any alternatives to its rate proposals provides yet one more reason to defer full implementation of the USPS' BPM proposals now.

If the Commission chooses to consider other BPM rate design alternatives in a future proceeding, one possibility is an "Enhanced DBMC" discount. Under an Enhanced DBMC discount, mailers would be afforded an additional rate incentive to ship BPM which is made up to the Destination BMC level beyond the DBMC. Although not made up beyond the DBMC level, those pieces would be transported more deeply into the postal network than pure DBMC mail with resulting additional cost savings to the USPS. I have been informed by members of the AAP that such an Enhanced DBMC proposal would be worthy of consideration in any future proceeding dealing with destination entry discounts for BPM.

VII. COST COVERAGE

In determining the overall rate level that the Postal Service seeks to establish for a mail subclass in a Postal rate proceeding, the USPS traditionally calculates the cost coverage that should apply to that subclass. Cost coverage is expressed as a percentage of volume variable costs. Thus, a cost coverage of 100 percent would equal the total volume variable costs for that subclass. By contrast, a cost coverage of 150 percent would allow an additional contribution of 50 percent of the volume variable costs from that subclass to apply toward the recovery of the USPS' non-volume variable or "institutional" costs. Traditionally, the establishment of cost coverage for a subclass is a judgmental process. In order to arrive at its recommended cost coverage for a subclass, the Postal Service generally considers the nine ratemaking criteria that are listed in Section 3622(b) of the Postal Reorganization Act. In this proceeding, the nine Section 3622(b) criteria are listed and described in the testimony of USPS witness Virginia Mayes.[90]

[89] USPS Response to AAP/USPS-T37-5.

[90] USPS-T-32 at 2-3.

In this case, the Postal Service is proposing a cost coverage of 117.6 percent over volume variable costs for Bound Printed Matter. This coverage results in an average rate increase for BPM of 18.1 percent, the highest rate increase proposed for any subclass in this case.[91] (emphasis added). The magnitude of the Postal Service's proposed rate increase for BPM is particularly significant since one of the nine ratemaking criteria, (criterion 4), deals specifically with rate increases. Under criterion 4, the USPS is supposed to consider "the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail other than letters."[92] In her Direct Testimony, Postal Service witness Mayes clearly does not dispute the obvious conclusion that an average rate increase of 18.1 percent will "affect" BPM mailers. She states that "[t]he 18 percent rate increase for Bound Printed Matter, much higher than the system average, will obviously affect users of Bound Printed Matter (criterion 4)."[93] (emphasis added). Of course, the fact that an 18.1 percent average rate increase will "obviously" affect users of Bound Printed Matter has not motivated the USPS to reduce its BPM rate increase proposal to a more manageable level.

Value of service is another of the nine ratemaking criteria that was allegedly considered by USPS witness Mayes is setting the Postal Service's proposed cost coverage for BPM in this case. In her testimony, Ms. Mayes describes the concept of own price elasticity of demand and explains how it has been used as an indicator of the economic value of a subclass' service in postal ratemaking.[94] The own price elasticity of demand is measured as the percentage decline in mail volume that results from a one percent increase in price. The lower (in absolute value) the own-price elasticity, the higher the value of service. Under Criterion 2, the USPS is supposed to consider the value of the mail to both sender and recipient in establishing cost coverage for a postal subclass.

The own price elasticity reported by Ms. Mayes for the BPM subclass was –0.392. [95] This

[91] USPS-T-32 at 43.

[92] USPS-T-32 at 2.

[93] USPS-T-32 at 44.

[94] USPS-T-32 at 5.

[95] USPS-T-32 at 43.

value was lower (in absolute value) than the own price elasticities shown for any and all of the following postal subclasses: First Class Cards – Stamped, First Class Cards – Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR Mail and Parcel Post.[96] The own price elasticities for Standard Mail A Regular and Standard Mail A ECR were more than 45.4 and 106.1 percent higher respectively than the own price elasticity for BPM.[97] The own price elasticity reported for Parcel Post was more than three times the own price elasticity reported for BPM.[98] Since the BPM subclass has a much lower own price elasticity coefficient than any of these subclasses, BPM should have been considered a much more highly valued service than any of these subclasses under criterion 2.[99] Nevertheless, in utter disregard of criterion 2, the rate increase proposed for BPM in this case is higher than the rate increase proposed for any of these subclasses.

In addition to ignoring both criterion 4 and criterion 2 in deriving her recommended cost coverage for BPM, USPS witness Mayes has also chosen to disregard even her own advice with respect to criterion 8, the so-called "ECSI" standard for postal ratemaking. Criterion 8 requires the Postal Service to consider the "educational, cultural, scientific and informational value" of the mail to the recipient when determining rate levels for each type of mail.[100] Witness Mayes has testified that "[o]ver a period of years, a substantial number of books have been mailed as Bound Printed Matter. The Commission accordingly has given the subclass some ECSI consideration in setting rate levels…."[101] Witness Mayes thus recognizes that the substantial presence of books in the BPM subclass is what gives rise to ECSI consideration for this subclass.[102] Ms. Mayes also seems to be aware that the USPS Household Diary study is the most recent source of data on the makeup of the BPM subclass.[103] As noted earlier in this testimony, that Household Diary Study

[96] USPS Response to AAP/USPS-T32-1, Tr.11/4178.

[97] USPS Response to AAP/USPS-T32-7, Tr.11/4185.

[98] USPS Response to AAP/USPS-T32-6, Tr.11/4184.

[99] USPS Response to AAP/USPS-T32-1, Tr.11/4178.

[100] USPS-T-32 at 11.

[101] USPS-T-32 at 45.

[102] See also USPS Response to AAP/USPS-T32-4, Tr.11/4181-82.

[103] Tr.11/4466, lines 14-22.

indicates that 63.7 percent of the BPM subclass now consists of books. Finally, Ms. Mayes has testified that "the higher the percentage of mail matter with ECSI, the greater the application should be of criterion 8."[104]

Ms. Mayes was asked by the AAP to "explain the extent to which the number of books sent as BPM is considered in determining the extent of ECSI consideration given to BPM." [105] Her response in full was as follows: "I would expect that if the share of books overwhelmingly dominated the subclass, ECSI value consideration would become more important in rate design. However, I think that examination of the Commission's treatment of such subclasses as First-Class Letters or Periodicals where the mail consists of both material which would warrant ECSI value consideration (personal correspondence or editorial content, for example) as well as advertising or other matter which would not warrant ECSI value consideration could be instructive."[106] (emphasis added). Thus, it was Ms. Mayes' own advice to examine the Commission's treatment of First Class Letters and Periodicals in order to assess how ECSI value should be considered.

The consequences of following Ms. Mayes' recommendation are particularly enlightening. According to Ms. Mayes, "for periodicals, in general, ECSI value consideration is paramount."[107] (emphasis added) Ms. Mayes also agreed that in BPM, books, which have only editorial content, represent at least 50 percent of the BPM subclass, and she did not dispute that Periodicals contain at least 50 percent advertising.[108] Thus, following Ms. Mayes' own suggestion to consider the ECSI treatment of Periodicals, there is clear comparability between BPM and Periodicals. Indeed, it is likely that the ECSI content in BPM exceeds the ECSI content in Periodicals by a significant margin. Yet, the Postal Service has proposed cost coverage for Outside County Periodicals at just above 101 percent.[109] By contrast, the Postal Service'

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[104] Tr.11/4468, lines 20-24.

[105] USPS Response to AAP/USPS-T32-10 (b), Tr.11/4189.

[106] USPS Response to AAP/USPS-T32-10 (b) – (c), Tr.11/4189.

[107] Tr.11/4637, lines 11-12.

[108] Tr.11/4662, lines 24-5, Tr.11/4663, lines 1-9.

proposed cost coverage for BPM is 117.6 percent. It is quite obvious that the markup proposed by the Postal Service for BPM is far too high.

In this case, I recommend that the Commission adopt cost coverage for BPM at 105 percent. This value would serve to correct the Postal Service's self-contradictory proposals and help to mitigate the massive BPM rate increase that the USPS recommends in this case. At 105 percent, cost coverage for BPM would still remain higher than the USPS' proposal for Periodicals.

VIII. RECOMMENDED RATES

For all of the reasons noted above, it is critical that the Commission adjust the Postal Service's BPM rate proposals. Both the rate structure and rate levels for BPM should not be accepted as proposed. The entry and mail preparation requirements that will govern the USPS' destination entry proposals will not be completed until after the close of this rate case. In addition, the rate structure proposals rest heavily on a "first-time" survey that is fraught with statistical problems and has been plagued by "miscommunication" between the USPS and Christensen and Associates. Finally, the USPS' pass-throughs of destination entry cost savings are blatantly unfair. The Postal Service should follow the procedural sequence that was used to implement destination entry discounts in Parcel Post. The Commission should recommend DBMC discounts now and defer additional discounts for DSCF and DDU entry (or other alternatives such as "Enhanced" DBMC discounts) until a subsequent proceeding.[110]

The Postal Service's proposed cost coverage for BPM is similarly flawed. The Bound Printed Matter subclass has become largely a book subclass and requires full consideration of the ECSI ratemaking standard under the Act. The USPS's proposed target coverage of 117.6 percent is much too high.

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[109] USPS-T-32 at 32. Cost coverage for Periodicals is proposed at 101.45 percent calculated prior to the administration of discounts to preferred rate categories within the subclass. The after-discount cost coverage proposed for Periodical is 101.37 percent.

[110] BPM mail that would have qualified for DSCF and DDU discounts under the USPS' proposals would still receive the proposed DBMC discount under this plan.

The BPM rate design that was described earlier in this testimony at Attachment 4 had retained the USPS' proposed cost coverage target of 117.6 percent. However, the cost coverage recommended for BPM by the USPS is clearly inappropriate and should be reduced substantially. A preliminary rate proposal for BPM at a cost coverage target of 105% is shown in Attachment 4. This proposal combines the recommended destination entry discounts that were shown in Attachment 4 with a more appropriate target cost coverage for BPM. Attachment 5 simply reflects the mathematical effect of assigning a lower cost coverage to the BPM subclass and maintaining the rate design that was developed in Attachment 4.

The rates proposed in Attachment 5 rationalize the cost savings pass-throughs for destination entry BPM mail, and they reduce the impact of the proposed rate increase on BPM mailers who cannot take advantage of such discounts. The rates in Attachment 5 also spread the benefit of the lower cost coverage that is appropriate for BPM to all BPM mailers.

Notwithstanding all of these considerations, however, it still may be appropriate to adjust the recommended BPM rates so as to reduce the impact that the proposed rate design would have on certain mailers in this case. The final BPM rates that I propose do in fact include such an adjustment, and are shown in Attachment 6. As with the preliminary rates in Attachment 5, my final proposed BPM rates appropriately include a reduction in BPM subclass cost coverage to 105 percent. The final rates also include pass-throughs for destination entry cost savings that are far more equitable that those recommended by the Postal Service.

The workpapers that support the rates proposed in Attachment 6 are provided in Attachment 7. These workpapers make use of the spreadsheet workpapers used for BPM by Mr. Kiefer. However, specific assumptions in Attachment 6 have been altered to derive the BPM rates proposed here. I recommend that the Commission adopt the rate structure and rate level for Bound Printed Matter that are proposed in Attachment 6.

ATTACHMENT 1

CURRICULUM VITÆ

Stephen E. Siwek

Office	Economists Incorporated 1200 New Hampshire Avenue, NW, Suite 400 Washington, DC 20036 (202) 223-4700
Home	219 Woodland Terrace Alexandria, VA 22302 (703) 684-6819
Background	Born in 1951 in Jersey City, New Jersey. Attended Catholic Parochial Schools. Married, 1978 to the former Marilyn Levine. Two Children: Jessica Leigh (1981), Andrea Jean (1988)
Education	B.A. (Economics) Boston College, 1973 M.B.A. George Washington University, 1975
Present Position	Principal Economists Incorporated
Previous Employment	Senior Consultant, Snavely, King & Associates Inc. (1975-1983)
Consulting Specialties	Development and provision of expert witness testimony in connection with economic, financial and accounting issues for regulated industries including communications, energy and postal concerns. Economic and financial consulting and expert witness testimony in antitrust, contract and bankruptcy litigation. Particular emphasis on the estimation of lost profit damages. Economic analysis of international trade issues relating to media and copyright industries.

Books

International Trade in Computer Software, Stephen E. Siwek and Harold W. Furchtgott-Roth, Quorum Books, Westport, Connecticut, London, 1993, ISBN: 0-89930-711-6.

International Trade in Films and Television Programs, (Steven S. Wildman and Stephen E. Siwek), American Enterprise Institute/Ballinger Publishing Company, Cambridge, Massachusetts, 1988, ISBN:0-88730-240-8.

Papers and Articles

"Telecommunications and Entertainment: Trade in Films and Television Programming" (with Steven S. Wildman) presented at *Trade in Services and the Uruguay Round Negotiations*, the Civils, London, England, July 8, 1987 and Centre D'Etudes Pratiques De La Negociation Internationale, Geneva, Switzerland, July 10, 1987.

"The Privatization of European Television: Effects on International Markets for Programs" (with Steven S. Wildman), *Columbia Journal of World Business*, Vol. XXII, No. 3, Fall 1987.

"Europe 1992 and Beyond: Prospects for U.S. Film and Television Employment" presented at *EC 1992: Implications for U.S. Workers*, U.S. Department of Labor, Bureau of International Labor Affairs and The Center for Strategic and International Studies, Washington, D.C., March 19, 1990.

"The Dimensions of the Export of American Mass Culture" presented at *The New Global Popular Culture*, American Enterprise Institute for Public Policy Research, March 10, 1992. Broadcast on "C-Span," reported in AP Wire Service, *Business Week*, *The American Enterprise*, follow-up radio interview etc.

"Competing with Pirates: Economic Implications for the Entertainment Strategist," (with Harold Furchtgott-Roth) *The Ernst & Young Entertainment Business Journal*, Volume 3, 1992, P. 18.

Papers and Articles (continued)

"The Economics of Trade in Recorded Media Products in Multilingual World: Implications for National Media Policies," (with Steven S. Wildman) in *The International Market in Film and Television Programs*, Ablex Publishing Corporation, Norwood, New Jersey, 1993, ISBN: 0-89391-545-9.

"Changing Course: Meaningful Trade Liberalization for Entertainment Products in GATS" Presented at *World Services Congress* 1999, November 1, 1999.

Selected Studies

Copyright Industries in the U.S. Economy, by Stephen E. Siwek and Harold W. Furchtgott-Roth, for the International Intellectual Property Alliance, November 1990.

Copyright Industries in the U.S. Economy: 1977-1990, by Stephen E. Siwek and Harold W. Furchtgott-Roth, for the International Intellectual Property Alliance, September 1992.

The U.S. Software Industry: Economic Contribution in the U.S. and World Markets, by Stephen E. Siwek and Harold W. Furchtgott-Roth, for the Business Software Alliance, March 1993.

Copyright Industries in the U.S. Economy: 1993 Perspective, by Stephen E. Siwek and Harold W. Furchtgott-Roth, for the International Intellectual Property Alliance, October, 1993.

Copyright Industries in the U.S. Economy: 1977-1993, by Stephen E. Siwek and Harold W. Furchtgott-Roth, for the International Intellectual Property Alliance, January 1995.

Billing and Collection for 900-Number Calls: A Competitive Analysis, by Stephen E. Siwek and Gale Mosteller for the Billing Reform Task Force, September, 1999.

Continuing Legal Education Programs

Panelist, *Basic Antitrust Law*, D.C. Bar/George Washington University National Law Center

Panelist, *Monopolization Issues Affecting Computer Software*, D.C. Bar, Antitrust, Trade Regulation and Consumer Affairs Section, June 21, 1994.

Other

Panelist, *The Economics of Counterfeiting: A Supply and Demand Look into this Multi Billion Dollar Problem*, International Anti-Counterfeiting Coalition, Annual Conference, May 21, 1999.

Moderator, *Economic Loss Panel*, International Anticounterfeiting Coalition, Fall Meetings, Washington, D.C. November 14, 1994.

COURT TESTIMONY AND APPEARANCES

Jurisdiction	Case	Subject
U.S. District Court for Eastern District of Virginia Alexandria Division	Eden Hannon & Co. v. Sumitomo Trust & Banking Co. (USA) Civil Action No. 89-0312A	Analysis of Financial Models, Cash Flow Analysis
Circuit Court for Pinellas County, Florida	Home Shopping Network Inc. v. GTE, GTE FLA., Inc. and GTE Communications Corp. CT. Civ. 87-014199-7	Relevance of Planning & Budgeting Reports to the Analysis of Damages
U.S. District Court for Western District of Oklahoma	Banner Industries, Inc. v. Pepsico, Inc. CIV-85-449-R	Financial Plans Financial Viability (Deposition Testimony Only)
Circuit Court for Baltimore City	Pulse One Communications Inc. v. Bell Atlantic Mobile Systems Inc. Case No. 90108057/CC112199	Damages (Deposition Testimony Only)

COURT TESTIMONY AND APPEARANCES (continued)

Jurisdiction	Case	Subject
Supreme Court of the State of New York County of New York	Scandinavian Gourmet Provisions, d/b/a Fredricksen & Johannesen v. Jurgela, aka Al Jurgela, aka Constantine Jurgela, aka C.R. Jurgela, Valco Equities Ltd. Charles Earle, Valco Development Corp., Chase Manhattan Bank, Clinton Barrow, Franklin Investors, and Harold L. Goerlich Index No. 22891/90	Damages
Chancery Court of Davidson County, Tennessee	MCI Telecommunications Corp. v. Dudley W. Taylor etc. et. al. No. 88-1227-III	Tax Treatment of Telephone Access Charges
Superior Court of the District of Columbia Civil Division	Robert H. Kressin, General Partner, Cellular Phone Stores Limited Partnership v. Bell Atlantic Mobile Systems, Inc. Civil Action No. 02258-91	Damages, Cellular Telephone Industry
Court of Common Pleas First Judicial District of Pennsylvania	Shared Communications Service of 1800 - 80 JFK Boulevard Inc. v. Bell Atlantic Properties, Inc. et. al. September Term 1900, No. 775	Damages, Telecommunications Industry
Superior Court of New Jersey, Law Division, Essex County	Bell Atlantic Network Services, Inc. v. P. M. Video Corp., Docket No. L-6602-91	Damages (Deposition Testimony Only)
U.S. District for the District of Columbia	FreBon International Corp. v. Bell Atlantic Corp. et al. Civil Action No. 94-324	Damages (Deposition Testimony Only)

COURT TESTIMONY AND APPEARANCES (continued)

Jurisdiction	Case	Subject
U.S. District Court for the Eastern District of New York	Universal Contact Communications Inc. v. PageMart Inc.	Damages (Deposition Testimony Only)
U.S. District Court for District of Maryland	Integrated Consulting Services, Inc. v. LDDS	Damages (Deposition Testimony Only)
U.S. District Court Eastern District of Virginia Alexandria Division	Mexinox, S.A. et al. v. Acerinox	Antitrust Damages (Deposition Testimony Only)
U.S. District Court Eastern District of North Carolina	Broad Band Technologies, Inc. v. General Instrument Corp.	Patent Damages (Deposition Testimony Only)
International Chamber of Commerce International Court of Arbitration	WorldSpan L.P. v. Abacus Distribution Systems Pte Ltd. And Others Case No. 9833/FMS	Damages and License Valuation
US District Court for Western District of Washington at Seattle Case No. C97-10732	Arbitration between Electric Lightwave, Inc., Plaintiff v. USWest Inc., Defendant	Damages

REGULATORY COMMISSION TESTIMONY AND APPEARANCES

Commission	Docket No.	Subject
Arizona	U-3021-96-448 et al.	Cost of Local Service
Utah	94-999-01	Investigation in to colocation and expanded interconnection
Connecticut	96-02-22	Cost of Local Service

REGULATORY COMMISSION TESTIMONY AND APPEARANCES (continued)

Commission	Docket No.	Subject
Wyoming	70000-TR-96-323	US WEST Phase II Price Regulation Plan
Pennsylvania	1-00960066	Financial Analysis
Pennsylvania	A-310203 F0002 et al.	Cost of Local Service
West Virginia	96-1516-T-PC et al.	Cost of Local Service
Minnesota	P-442, 5321 et al.	Generic Investigation of US WESTs Communications Costs
Iowa	RPU-96-9	Generic Investigation of US WESTs Communications Costs
Illinois	80-0511	Rate Base, Expenses, Forecasting
Maryland	7222	Power Plant Certificate Issues
District of Columbia*	777	Telephone Advertising and Parent Company Transactions
Illinois	82-0082	Gas Rate Design
Pennsylvania	M-810294	Energy Costs and Rate Design
Pennsylvania	R-822169	Nuclear Plant Economics
New Jersey	8011-827	Water and Sewerage Forecast
District of Columbia	798	Telephone Price Elasticity, Centralized Costs, Working Capital
California	83-06-65	Telephone Access Charges
Illinois	83-0142	Telephone Access Charges

*Prefiled but not sworn. Case Settled April, 1982.

REGULATORY COMMISSION TESTIMONY AND APPEARANCES
(continued)

Commission	Docket No.	Subject
U.S. International Trade Commission	731-TA-457	Handtools from People's Republic of China
U.S. Postal Rate Commission	R 83-1	Financial Viability for Electronic Mail Service
U.S. Postal Rate Commission	R 84-1	Class Revenue Requirement, Demand Projections
U. S. Postal Rate Commission	R 87-1	Pricing of Third Class Mail
U.S. Postal Rate Commission	R 90-1	Pricing of Third Class Mail
Maryland	6807, Phase I	Utility Forecasting
New Jersey	762-194	Utility Forecasting
District of Columbia	685	Utility Forecasting
District of Columbia	827	Econometric Demand Modeling for Coin Telephone Service
Maryland	7149	Utility Forecasting & Promotional Activities
Maryland	7300	Utility Forecasting
Maryland	7348	Utility Forecasting
Maryland	7427	Utility Forecasting
District of Columbia	737	Utility Forecasting
Maryland	7305	Telephone Advertising
Maryland	7163	Service Terminations
Maryland	7070	Utility Promotional Activities
District of Columbia	729	Telephone Advertising & Parent Company Transactions

REGULATORY COMMISSION TESTIMONY AND APPEARANCES (continued)

Commission	Docket No.	Subject
Maryland	6807, Phase II	Utility Emergency Procedures
Maryland	7467	Telephone Advertising, Parent Company Transactions
Maryland	7466	Gas Utility Advertising
New Hampshire	79-18	Industrial Conservation
Maryland	7236	Utility Promotional Activities
District of Columbia	834	Electric Utility Load Management Evaluation
California	85-01-034	Telephone Rate Design, Cost of Service
Massachusetts	86-213	Paging Company; Financial Viability, Pricing Analysis
District of Columbia	869	Fuel Price and Electric Demand Forecasts
Louisiana	U-17949 B	Customer Owned Coin Operated Telephones
New Jersey	TO92030358	Yellow Pages/Directory Services
Delaware	41	Development of Rules for the Implementation of Price Cap Regulation
Utah	94-999-01	Cost of Local Service
Connecticut	97-04-10	Cost of Local Service
New Mexico	97-35-TC	Cost of Local Service
Maine	97-505	Cost of Local Service

REGULATORY COMMISSION TESTIMONY AND APPEARANCES (continued)

Commission	Docket No.	Subject
Vermont	5713	Cost of Local Service
New York	94-C-0095	Access Charges/ Financial Analysis
New Jersey	TX95120631	Access Charges/ Financial Analysis
New Hampshire	DE97-171	Cost of Local Service
Colorado	97F-175T	Access Charges/Financial Analysis
Utah	97-049-08	Access Charges/Financial Analysis
Rhode Island	2681	Cost of Local Service
Arkansas	99-015-U	Arbitration of Interconnection Rates

WRITTEN TESTIMONY ONLY

Jurisdiction	Case	Subject
U.S. District Court for Southern District of New York	In Re "Apollo" Air Passenger Computer Reservation System (CRS) MDL DKT. No. 760 M-21-49-MP	Liquidated Damages, Actual Damages
Supreme Court of the Republic of Palau	Orion Telecommunications, Ltd. v. Palau National Communications Corporations, Civil Action No. 835-88.	Lost Profit Damages

WRITTEN TESTIMONY ONLY (continued)

Jurisdiction	Case	Subject
U.S. District Court for the District of Columbia	A&S Council Oil Company, Inc., et al. v. Patricia Saiki, et al. Civil, Action No. 87-1969-OG	Damages
U.S. District Court for Eastern District of Texas	R & D Business Systems, et.al. v. Xerox Corp. Civil Action No. 2: 92-CV-042	Valuation of Non- Monetary Provisions of Stipulation of Settlement
U.S. District Court Eastern District of Michigan, Southern Division	Little Caesar Enterprises, Inc. v. Gary G. Smith, et al. Civic No. 93-CV-73354-DT	Class Certification (Joint Declaration with Philip Nelson)
FCC	Various	Cellular Radio Pricing: Critique of Competing Applications for Cellular in Seattle, Miami, Denver and Detroit
FCC Pricing	83-1145	Directory Data Base and Access
U.S. District Court for the District of Columbia	American Association of Cruise Passengers v. Host Marriott Corp. et al.	Damages
U.S. District Court for Eastern District of Texas	Jason R. Searcy et al. v. Philips Electronics North America Corp. et al. Consolidated Civil Action No. 1:95-CV 363,364.	Damages
U.S. District Court for Eastern District of Texas Beaumont Division	USA ex. rel. Lloyd Bortner v. Phillips Electronics	Penalties under False Claims Act

SELECTED OTHER MATTERS

Jurisdiction	Case	Subject
United States of America v. United Kingdom of Great Britain and Northern Ireland	U.S. - U.K. Arbitration Concerning Heathrow Airport User Changes	Participant in Negotiations Leading to Settlement of Arbitration and Related Litigation

ATTACHMENT 2

BOUND PRINTED MATTER

USPS Recommended
Pass-Through of Cost Savings

Discount	Savings	Per-Piece Discount	Pass-Through	Savings	Per-Pound Discount	Pass-Through
DBMC						
Zones 1&2	0.38	0.062	16%	0.047	0.004	9%
Zone 3	0.38	0.062	16%	0.018	0.006	33%
Zone 4	0.38	0.062	16%	0.003	0.006	200%
Zone 5	0.38	0.062	16%	-0.1	0.008	-8%
DSCF	0.529	0.246	47%	0.064	0.029	45%
DDU	0.656	0.297	45%	0.088	0.031	35%
Carrier Route	0.077	0.077	100%	0	0	
Barcode	0.029	0.03	103%	0	0	

Source: Attachment to Response to AAP/USPS-T37-12 (Revised)

ATTACHMENT 3

CORRECTED BMC VARIABILITIES*

Volume Variable Costs for Bound Printed Matter by 1998

Cost Pool	USPS Proposed Pool Total By 1998	USPS Proposed BPM Distribution By 1998	Pool Total at DOCKET No. R97-1 Variability By 1998	BPM Total at Docket No. R97-1 Variability By 1998
PLA	$196,718	$19,998	$110,836	$11,272
OTHR	$248,565	$23,623	$152,363	$14,480
PSM	$92,698	$16,526	$84,541	$15,072
SSM	$34,213	$2,217	$33,905	$2,197
SPB	$64,180	$2,412	$47,236	$1,775
NMO	$33,824	$3,090	$22,730	$2,077
Total	**$670,198**	**$67,866**	**$451,610**	**$46,873**
	Proposed BMC Costs for BPM			$67,866
	Adjusted BMC Costs for BPM			$46,878
	Overstatement - Costs			**$20,988**
	Overstatement - Percent			**30.9%**

*Corrected to Reflect Application of USPS witness Bradley's Docket No. R97-1 Volume Variability Factors.

Source:
USPS Response to AAP/USPS--T15-6 and USPS-T-17 (Var-Ty-Smith), Tab 193,

ALTERNATIVE MODS VARIABILITIES

Mail Processing Volume Variable Costs for Bound Printed Matter By 1998

Cost Pool	USPS Proposed Pool Volume-Variable Cost (1)	USPS Proposed BPM Volume-Variable Cost (2)	Alternating Pool Volume Volume-Variable Cost (1)	Alternating BPM Volume Volume-Variable Cost (1)
1PLATFRM	$943,115	$6,105	$571,554	$3,700
1OPPREF	$683,028	$4,144	$456,775	$2,771
1OPBULK	$305,417	$2,496	$173,782	$1,420
1POUCHING	$446,331	$1,747	$307,968	$1,205
Total	**$2,377,891**	**$14,492**	**$1,510,079**	**$9,096**
	Overstatement - Costs			**$5,396**
	Overstatement - Percent			**37.2%**

Source:
(1)USPS Response to AAP/USPS-T16-7
(2)USPS Response to AAP/USPS-T17-7(b)

REMOVAL OF OVERHEAD COMPONENT

Mail Processing Volume Variable Costs for Bound Printed Matter By 1998

Cost Groups	USPS Claimed BPM Volume Variable Costs	BPM "Overhead" Volume Variable Costs	BPM Volume Variable Costs Excluding Overhead
MODS	$41,331	$12,499	$28,832
Non-MODS	$19,321	$3,861	$15,460
BMC	$67,866	$20,989	$46,877
Total	**$128,518**	**$37,349**	**$91,169**
	Overstatement - Costs		**$37,349**
	Overstatement - Percent		**29.1%**

Source:
USPS Response to AAP/USPS-T17-7(b)

CRA OVERSTATEMENT

Mail Processing Volume Variable Costs for Bound Printed Matter FY 1998

Cost Pool	Percent by 1998 BPM Distribution (1)	Dollar by 1998 BPM Distribution (2)	Percent FY 1998 CRA BPM (1)	Dollar FY 1998 BPM
1Bulk Pr	0.32%	$37	0.13%	$15
1SackS-m	1.00%	$513	1.76%	$903
1OpBulk	0.85%	$2,496	1.25%	$3,671
1OpPref	0.61%	$4,144	0.76%	$5,163
1Platform	0.65%	$6,105	1.01%	$9,486
1Pouching	0.41%	$1,747	0.37%	$1,577
1SackS_h	0.86%	$1,451	1.49%	$2,514
1SCAN	0.28%	$130	0.00%	$0
		$16,623		**$23,329**
	CRA Overstatement - Costs			**$6,706**
	CRA Overstatement - Percent			**28.7%**

Source:
(1) USPS Response to AAP/USPS-T16-8
(2) USPS Response to AAP/USPS-T17-7(b).

ATTACHMENT 4

BOUND PRINTED MATTER

Adjusted Pass-Through of Cost Savings

Discount	Savings	Pass-Through	Per-Piece Discount
DBMC			
Zone 1 + 2	0.38	33.9%	0.129
Zone 3	0.38	33.9%	0.129
Zone 4	0.38	33.9%	0.129
Zone 5	0.38	33.9%	0.129
DSCF	0.529	24.4%	0.129
DDU	0.656	19.7%	0.129
Carrier Route	0.077	100.0%	0.077
Bar Code	0.03	100.0%	0.03

Combined Destination and Carrier Route Presort

Discount	Savings	Pass-Through	Per-Piece Discount
DBMC†			
Zone 1 + 2	0.457	45.1%	0.206
Zone 3	0.457	45.1%	0.206
Zone 4	0.457	45.1%	0.206
Zone 5	0.457	45.1%	0.206
DSCF†	0.606	34.0%	0.206
DDU†	0.733	28.1%	0.206

† Includes Carrier Route Discount

BOUND PRINTED MATTER

Rate Schedule
with Adjusted Pass-Through of Cost Savings
and Target Cost Coverage=117.6%

	Per Piece Rate	Per Pound Rate						
		Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Single Piece	1.58	0.08	0.11	0.16	0.23	0.3	0.39	0.46
Basic Presort								
Origin Entry	0.905	0.064	0.092	0.138	0.209	0.286	0.376	0.45
DBMC	0.776	0.06	0.086	0.132	0.201	-	-	-
DSCF	0.776	0.035	-	-	-	-	-	-
DDU	0.776	0.033	-	-	-	-	-	-
Carrier Route Presort								
Origin Entry	0.828	0.064	0.092	0.138	0.209	0.286	0.376	0.45
DBMC	0.699	0.06	0.086	0.132	0.201	-	-	-
DSCF	0.699	0.035	-	-	-	-	-	-
DDU	0.699	0.033	-	-	-	-	-	-
Barcode Discount	0.03							

ATTACHMENT 5

BOUND PRINTED MATTER

Preliminary Rate Schedule
with Adjusted Pass-Through of Cost Savings
and Target Cost Coverage=105%

	Per Piece Rate	Per Pound Rate						
		Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Single Piece	$1.42	$0.07	$0.09	$0.14	$0.20	$0.27	$0.35	$0.41
Basic Presort								
Origin Entry	$0.825	$0.056	$0.077	$0.119	$0.186	$0.258	$0.343	$0.408
DBMC	$0.697	$0.052	$0.071	$0.113	$0.178	-	-	-
DSCF	$0.697	$0.027	-	-	-	-	-	-
DDU	$0.697	$0.025	-	-	-	-	-	-
Carrier Route Presort								
Origin Entry	$0.748	$0.056	$0.077	$0.119	$0.186	$0.258	$0.343	$0.408
DBMC	$0.620	$0.052	$0.071	$0.113	$0.178	-	-	-
DSCF	$0.620	$0.027	-	-	-	-	-	-
DDU	$0.620	$0.025	-	-	-	-	-	-
Barcode Discount	$0.03							

ATTACHMENT 6

BOUND PRINTED MATTER

Final Proposed Rate Schedule

with Adjusted Pass-Through of Cost Savings and Target Cost Coverage=105%

	Per Piece Rate	Per Pound Rate						
		Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
Single Piece	$1.42	$0.07	$0.09	$0.14	$0.20	$0.27	$0.35	$0.41
Basic Presort								
Origin Entry	$0.865	$0.060	$0.085	$0.129	$0.197	$0.272	$0.359	$0.429
DBMC	$0.670	$0.051	$0.070	$0.112	$0.177	-	-	-
DSCF	$0.670	$0.026	-	-	-	-	-	-
DDU	$0.670	$0.024	-	-	-	-	-	-
Carrier Route Presort								
Origin Entry	$0.788	$0.060	$0.085	$0.129	$0.197	$0.272	$0.359	$0.429
DBMC	$0.593	$0.051	$0.070	$0.112	$0.177	-	-	-
DSCF	$0.593	$0.026	-	-	-	-	-	-
DDU	$0.593	$0.024	-	-	-	-	-	-
Barcode Discount	$0.03							

ATTACHMENT 7

BOUND PRINTED MATTER
FINAL PROPOSED RATES
WORKPAPERS

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Workbook Tab Designation	Workpaper	Workpaper Title
Inputs	WP-BPM-1	Major Input Assumptions for Proposed Rate Schedule Determination
1998 Presort Billing Det.	WP-BPM-2	FY 1998 Billing Determinants--Presort Bound Printed Matter
1998 Single Piece Billing Det.	WP-BPM-3	FY 1998 Billing Determinants--Single Piece Bound Printed Matter
1998 Single Piece Pounds	WP-BPM-4	Calculation of Single Piece Total Pounds by Zone
1998 Single Piece Revenue	WP-BPM-5	FY 1998 Calculated Revenue--Single Piece Bound Printed Matter
Distribution Factors	WP-BPM-6	Calculation of Pounds Distribution Factors
	WP-BPM-7	Calculation of Pieces Distribution Factors
TYBR Pieces & Pounds	WP-BPM-8	Calculation of TYBR Pieces and Pounds
TY Cost Distribution	WP-BPM-9	Calculation of Test Year Drop-Shipment Non-Transportation Cost Savings
	WP-BPM-10	Distribution of Test Year Transportation Costs
	WP-BPM-11	Distribution of Test Year Non-Transportation Costs
Revenue Leakages	WP-BPM-12	TYBR Revenue Leakages
TYBR Revenue	WP-BPM-13	Calculation of TYBR Revenue
Pound and Piece Charges	WP-BPM-14	Calculation of Per Pound and Per Piece Charges
Rate Adjustments	WP-BPM-15	Adjustment of Preliminary Rates
Adjusted Rate Schedules	WP-BPM-16	Adjusted Rate Schedules
Rate Tables	WP-BPM-17	Proposed Single Piece Rates
	WP-BPM-18	Computed Proposed Basic Presort Rates
	WP-BPM-19	Computed Proposed Basic Presort Destination Entry Rates
	WP-BPM-20	Computed Proposed Carrier Route Presort Rates
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Rate Comparisons	WP-BPM-22	Proposed Single Piece Rate Percent Changes
	WP-BPM-23	Computed Proposed Basic Presort Rate Percent Changes
	WP-BPM-24	Computed Proposed Basic Presort Destination Entry Rate Percent Changes
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TYAR Pieces & Pounds	WP-BPM-27	Calculation of TYAR Pieces and Pounds
TYAR Revenue Summary	WP-BPM-28	Calculation of TYAR Revenue
BPM Financials	WP-BPM-29	Bound Printed Matter Financial Summary

Major Input Assumptions for Proposed Rate Schedule Determination

Type of Assumption	Input Assumption	Notes	Value
Target / Adjustment Factors	Target Cost Coverage (Including Contingency)	[1]	117.60%
	Cost Coverage Markup Factor (In Addition to Contingency)	[2]	104.92%
	Contingency Factor	[3]	2.50%
	RPW Revenue Adjustment Factors		
	Single Piece	[4]	1.03193146
	Presort	[5]	0.99871330
Volume Forecasts	TYBR Total Volume Forecast	[6]	$41,975,772
	Barcoded Volume Shares		
	Single Piece	[7]	7.25%
	Basic Presort	[8]	35.68%
	Dropshipment Volume Shares	[9]	
	DBMC		
	Zones 1&2	[a]	36.35%
	Zone 3	[b]	6.50%
	Zone 4	[c]	1.88%
	Zone 5	[d]	0.84%
	DBMC–ASF Share	[e]	0.67%
	DSCF	[f]	15.60%
	DDU	[g]	7.20%
	TYAR Total Volume Forecast	[10]	$24,742,871
Costs	TYBR Total Adjusted Volume Variable Costs	[11]	$481,389,000
	Transportation Costs	[12]	
	Origin Entry Mail Unit Transportation Costs ($/Pound)		
	Zones 1&2	[a]	$0.0830
	Zone 3	[b]	$0.1000
	Zone 4	[c]	$0.1290
	Zone 5	[d]	$0.1620
	Zone 6	[e]	$0.1950
	Zone 7	[f]	$0.2330
	Zone 8	[g]	$0.3000
	Destination Entry Mail		
	DBMC Unit Transportation Costs ($/Pound)		
	Zones 1&2	[h]	$0.0460
	Zone 3	[j]	$0.0010
	Zone 4	[k]	$0.1260
	Zone 5	[m]	$0.2620
	DSCF Unit Transportation Costs ($/Pound)	[n]	$0.0290
	DDU Unit Transportation Costs ($/Pound)	[o]	$0.0050
	Non-Transportation Costs and Cost Savings	[13]	
	Non-Transportation Weight Related Costs ($/Pound)	[a]	$0.02
	DBMC Per Piece Savings Relative to Origin-Entered Mail	[b]	$0.190
	DSCF Per Piece Savings Relative to DBMC	[c]	
	DDU Per Piece Savings Relative to DSCF	[d]	
	Other Cost Savings	[14]	
	Carrier Route Presort Savings Per Piece	[a]	$0.077
	Barcoding Cost Savings Per Piece	[b]	$0.029
	TYAR Volume Variable Costs	[15]	$467,516,000

Major Input Assumptions for Proposed Rate Schedule Determination

Type of Assumption	Input Assumption	Notes	Value
Fees	TYBR Fees	[16]	$647,000
	TYAR Fees	[17]	$698,000
Current Rates	Current Rates per Pound	[18]	
	Single Piece		
	Local		$0.039
	Zones 1&2		$0.064
	Zone 3		$0.087
	Zone 4		$0.126
	Zone 5		$0.184
	Zone 6		$0.246
	Zone 7		$0.321
	Zone 8		$0.385
	Presort	[19]	
	Local		$0.028
	Zones 1&2		$0.051
	Zone 3		$0.073
	Zone 4		$0.112
	Zone 5		$0.171
	Zone 6		$0.233
	Zone 7		$0.307
	Zone 8		$0.371
	Current Rates Per Piece	[20]	
	Single Piece		
	Local	[a]	$1.08
	All Other Zones	[b]	$1.44
	Presort	[21]	
	Local	[a]	$0.54
	All Other Zones	[b]	$0.72
	Current Discounts		
	Carrier Route Per Piece	[22]	$0.077
	Barcoding Per Piece	[23]	$0.03

Notes:

1. From USPS-T-32 (Testimony of Virginia Mayes).
2. Factor used with contingency to mark up costs to achieve target cost coverage.
3. From USPS-T-9 (Testimony of William Tayman).
4. From FY1998 Billing Determinants for single piece mail.
5. From FY1998 Billing Determinants for presort mail.
6. From USPS-T-7 (Testimony of Thomas Thress).
7. Barcode shares calculated from RPW data.
8. Barcode shares calculated from RPW data.
9. Calculated from entry profile volume data in Library Reference LR-I-100.
10. From USPS-T-7 (Testimony of Thomas Thress).
11. From USPS-T-14, Workpaper H, Table E (Testimony of Cameron Kashani).
12. From USPS-T-27, Attachment K, Table 6 (Testimony of Charles Crum).
13. [a]: Factor accounting for portion of Non-transportation costs that are weight-related.
    [b]: From USPS-T-27, Attachment L, Table 3 (Testimony of Charles Crum).
    [c], [d]: Calc. from source data from workpapers of Charles Crum. See USPS-T-27, Att. J, Tables 1,2.
14. [a]: From USPS-T-27, Section IV (Testimony of Charles Crum).
    [b]: From USPS-T-26, Attachment B, page 1, row 2 (Testimony of Jennifer Eggleston).
15. From USPS-T-14, Workpaper J, Table E (Testimony of Cameron Kashani).
16. From USPS-T-32, Exhibit 32A (Testimony of Virginia Mayes).
17. From USPS-T-32, Exhibit 32B (Testimony of Virginia Mayes).
18. DMCS, Rate Schedule 322.3A.
19. DMCS, Rate Schedule 322.3B.
20. DMCS, Rate Schedule 322.3A.
21. DMCS, Rate Schedule 322.3B.
22. DMCS, Rate Schedule 322.3B.
23. DMCS, Rate Schedules 322.3A, Footnote 2, and 322.3B, Footnote 3.

FY 1998 Billing Determinants--Presort Bound Printed Matter

RPW Data

	Pieces	Pounds	Revenue (Excluding Fees)
	459,792,628	1,132,646,866	$378,782,964

Billing Determinants

Zone	Pieces			Total Pounds	Revenue (Excluding Fees)
	Basic Presort	Carrier Route Presort	Total Presort		
Local	14,889,148	50,222,810	65,111,957	167,106,149	$35,188,742
1&2	189,677,334	41,025,603	230,702,937	591,658,996	$184,348,780
3	56,499,330	4,499,682	60,999,012	152,902,857	$52,048,708
4	38,910,173	2,391,952	41,302,126	97,851,056	$38,448,050
5	28,256,572	1,377,831	29,634,403	61,136,830	$29,950,077
6	11,218,643	524,071	11,742,714	22,398,370	$12,868,143
7	8,518,538	420,544	8,939,082	17,380,915	$11,045,376
8	11,041,377	319,019	11,360,397	22,211,693	$15,373,097
Total	359,011,117	100,781,511	459,792,628	1,132,646,866	$379,270,972

Adjustment Factor to convert calculated revenue to RPW revenue: 0.9987132989

FY 1998 Billing Determinants--Single Piece Bound Printed Matter

RPW Data

	Pieces	Pounds	Revenue (Excluding Fees)
[a]	28,619,945	65,736,805	$49,044,181

Billing Determinants

	Weight (Pounds)	Pieces [A] Local	[B] Zones 1&2	[C] Zone 3	[D] Zone 4	[E] Zone 5	[F] Zone 6	[G] Zone 7	[H] Zone 8	[J] Total
[b]	1.0 - 1.5	628,095	3,926,715	796,817	1,342,967	1,113,339	563,727	367,840	592,239	9,331,738
[c]	1.5 - 2.0	183,300	2,577,342	645,190	1,125,167	765,452	350,964	208,982	296,271	6,152,667
[d]	2.0 - 2.5	173,171	2,807,319	279,672	416,628	635,952	232,364	140,874	179,402	4,865,382
[e]	2.5 - 3.0	47,673	1,160,074	168,710	298,149	306,089	275,233	123,917	128,662	2,508,507
[f]	3.0 - 3.5	55,164	731,257	206,754	207,600	313,954	114,307	99,908	99,754	1,828,697
[g]	3.5 - 4.0	19,425	612,983	79,356	168,278	189,992	76,319	32,116	87,156	1,265,625
[h]	4.0 - 4.5	19,454	302,990	76,090	95,356	140,791	36,372	29,242	41,910	742,204
[j]	4.5 - 5.0	7,577	201,924	47,309	73,480	91,097	31,312	29,221	30,700	512,620
[k]	5.0 - 6.0	39,205	174,028	44,937	65,576	122,163	45,479	53,522	32,032	576,942
[m]	6.0 - 7.0	5,996	113,378	27,005	42,026	50,628	34,668	11,222	25,127	310,049
[n]	7.0 - 8.0	6,897	87,240	24,580	19,098	36,928	13,657	12,536	18,650	219,586
[o]	8.0 - 9.0	5,911	35,269	32,771	41,318	30,513	13,213	6,783	21,374	187,151
[p]	9.0 - 10.0	9,764	38,495	2,876	10,787	25,031	6,031	13,058	12,735	118,776
[q]	Total	1,201,629	12,769,015	2,432,068	3,906,429	3,821,929	1,793,645	1,129,219	1,566,011	28,619,945

Calculation of Single Piece Total Pounds by Zone

RPW Data [1]

	Pieces	Pounds	Revenue (Excluding Fees)
[a]	28,619,945	65,736,805	$49,044,181

Calculated Total Pounds [2]

	Weight (Pounds) [A]	Local [B]	Zones 1&2 [C]	Zone 3 [D]	Zone 4 [E]	Zone 5 [F]	Zone 6 [G]	Zone 7 [H]	Zone 8 [J]	Total [K]
[b]	1.0 - 1.5	942,142	5,890,072	1,195,225	2,014,450	1,670,009	845,590	551,759	888,358	13,997,606
[c]	1.5 - 2.0	366,599	5,154,684	1,290,381	2,250,334	1,530,903	701,928	417,963	592,541	12,305,334
[d]	2.0 - 2.5	432,927	7,018,297	699,180	1,041,570	1,589,881	580,909	352,186	448,506	12,163,455
[e]	2.5 - 3.0	143,018	3,480,223	506,131	894,447	918,267	825,698	371,750	385,987	7,525,520
[f]	3.0 - 3.5	193,072	2,559,399	723,639	726,599	1,098,838	400,075	349,678	349,140	6,400,440
[g]	3.5 - 4.0	77,699	2,451,932	317,424	673,112	759,968	305,275	128,464	348,625	5,062,499
[h]	4.0 - 4.5	87,544	1,363,457	342,405	429,103	633,558	163,674	131,587	188,593	3,339,920
[i]	4.5 - 5.0	37,886	1,009,621	236,547	367,398	455,485	156,561	146,104	153,498	2,563,100
[k]	5.0 - 6.0	235,227	1,044,171	269,623	393,454	732,979	272,873	321,134	192,193	3,461,655
[m]	6.0 - 7.0	41,969	793,646	189,033	294,184	354,393	242,679	78,554	175,888	2,170,346
[n]	7.0 - 8.0	55,173	697,922	196,643	152,780	295,426	109,256	100,290	149,199	1,756,689
[o]	8.0 - 9.0	53,200	317,417	294,937	371,860	274,619	118,918	61,043	192,366	1,684,360
[p]	9.0 - 10.0	97,637	384,952	28,762	107,870	250,309	60,305	130,577	127,348	1,187,760
[q]	Total [3]	2,764,093	32,165,793	6,289,930	9,717,162	10,564,636	4,783,741	3,141,089	4,192,242	73,618,685
[r]	Adjusted Total [4]	2,468,159	28,722,008	5,616,507	8,676,808	9,433,548	4,271,577	2,804,793	3,743,405	65,736,805

[s] **Adjustment Factor to convert calculated pounds to RPW pounds:** [5] 0.892936416

Notes

[1] Source: Revenue, Pieces and Pounds are from 1998 Single Piece Billing Determinants (WP-BPM-3), row [a].
[2] Calculation: Number of pieces times the upper weight in each weight range. Examples:
[Bb] = (*High end of weight range in column* [A], row [b]) * (1998 Single Piece Billing Determinants (WP-BPM-3), cell [Ab]).
[Bc] = (High end of weight range in column [A], row [c]) * (1998 Single Piece Billing Determinants (WP-BPM-3), cell [Ac]).
etc..
[Cb] = (High end of weight range in column [A], row [b]) * (1998 Single Piece Billing Determinants (WP-BPM-3), cell [Bb]).
etc..
[Kp] = (*High end of weight range in column* [A]) * (1998 Single Piece Billing Determinants (WP-BPM-3), cell [Jp]).
[3] Calculation: Sum of rows [b] to [p] in columns [B] to [K].
[4] Calculation: Totals in row [q] multiplied by RPW Pound Adjustment Factor in row [s].
[5] Calculation: (RPW Pounds in row [a]) / (Calculated Total Pounds in cell [Kq]).

FY 1998 Calculated Revenue–Single Piece Bound Printed Matter

1998 Rate Data [1]

	Rate	Local [A]	Zones 1&2 [B]	Zone 3 [C]	Zone 4 [D]	Zone 5 [E]	Zone 6 [F]	Zone 7 [G]	Zone 8 [H]
[a]	Per Piece	$1.060	$1.410	$1.410	$1.410	$1.410	$1.410	$1.410	$1.410
[b]	Per Pound	$0.031	$0.054	$0.075	$0.110	$0.164	$0.220	$0.288	$0.346

Calculated Revenue [2]

	Weight (Pounds)	Local [A]	Zones 1&2 [B]	Zone 3 [C]	Zone 4 [D]	Zone 5 [E]	Zone 6 [F]	Zone 7 [G]	Zone 8 [H]	Total [3] [J]
[c]	1.0 - 1.5	$691,860	$5,820,679	$1,203,556	$2,091,448	$1,814,367	$960,967	$660,548	$1,109,520	$14,352,946
[d]	1.5 - 2.0	$204,445	$3,882,604	$996,136	$1,807,520	$1,303,475	$632,750	$402,150	$600,811	$9,829,890
[e]	2.0 - 2.5	$195,545	$4,296,732	$441,161	$689,752	$1,129,518	$441,750	$289,203	$391,526	$7,875,186
[f]	2.5 - 3.0	$54,492	$1,803,516	$271,777	$508,245	$566,058	$550,283	$270,324	$300,667	$4,325,362
[g]	3.0 - 3.5	$63,818	$1,154,483	$339,986	$364,085	$603,590	$239,766	$230,795	$248,522	$3,245,045
[h]	3.5 - 4.0	$22,741	$982,535	$133,150	$303,387	$379,180	$167,580	$78,320	$230,600	$2,297,492
[i]	4.0 - 4.5	$23,045	$492,960	$130,218	$176,600	$291,294	$83,437	$75,070	$117,359	$1,389,984
[k]	4.5 - 5.0	$9,080	$333,396	$82,548	$139,693	$195,149	$74,906	$78,774	$90,711	$1,004,257
[m]	5.0 - 6.0	$48,068	$295,728	$81,418	$131,108	$279,589	$117,730	$158,051	$104,545	$1,216,237
[n]	6.0 - 7.0	$7,517	$198,132	$50,736	$88,153	$123,283	$96,556	$36,024	$89,771	$690,171
[o]	7.0 - 8.0	$8,838	$156,662	$47,828	$41,934	$95,332	$40,719	$43,467	$72,392	$507,171
[p]	8.0 - 9.0	$7,738	$65,034	$65,959	$94,783	$83,239	$41,991	$25,262	$89,570	$473,577
[q]	9.0 - 10.0	$13,052	$72,840	$5,982	$25,805	$71,949	$20,350	$51,991	$57,301	$319,270
[r]	Total [4]	$1,350,240	$19,555,300	$3,850,454	$6,462,514	$6,936,022	$3,468,786	$2,399,979	$3,503,294	$47,526,588

[s] **Adjustment Factor to convert calculated revenue to RPW revenue: [5]** 1.031931456

Notes

[1] Source: DMCS, Rate Schedule 322.3A.

[2] Calculation: *Columns [A]-[H], rows [c]-[q]:* Number of pieces (from Single Piece Billing Determinants (WP-BPM-3)) times the per piece rate (row [a]), plus the number of pounds (from the Single Piece Pounds workpaper (WP-BPM-4)), adjusted by the Pounds Adjustment Factor (Single Piece Pounds workpaper (WP-BPM-4), cell [Ks]), times the per pound rate (row [b]). Examples:
[Ac] = (Single Piece Billing Determinants (WP-BPM-3), [Ab]) * [Aa] +
(Single Piece Pounds (WP-BPM-4), [Bb]) * (Single Piece Pounds (WP-BPM-4), [Ks]) * [Ab].
...etc.

[3] Calculation: Sum of columns [A] to [H] in rows [c] to [q].

[4] Calculation: Sum of rows [c] to [q] in columns [A] to [J].

[5] Calculation: (*RPW Revenue: 1998 Single Piece Billing Determinants* (WP-BPM-3)) / (Calculated Total Revenue in cell [Jr]).

Calculation of Pounds Distribution Factors

	Zone	Pounds [1]			Pounds Distribution Factors [2]		
		Single Piece [A]	Presort [B]	Total Pounds [C]	Single Piece [D]	Presort [E]	Total [F]
[a]	Local	2,468,159	167,106,149	169,574,309	0.0375	0.1475	0.1415
[b]	1&2	28,722,008	591,658,996	620,381,004	0.4369	0.5224	0.5177
[c]	3	5,616,507	152,902,857	158,519,365	0.0854	0.1350	0.1323
[d]	4	8,676,808	97,851,056	106,527,864	0.1320	0.0864	0.0889
[e]	5	9,433,548	61,136,830	70,570,378	0.1435	0.0540	0.0589
[f]	6	4,271,577	22,398,370	26,669,946	0.0650	0.0198	0.0223
[g]	7	2,804,793	17,380,915	20,185,707	0.0427	0.0153	0.0168
[h]	8	3,743,405	22,211,693	25,955,098	0.0569	0.0196	0.0217
[j]	Total	65,736,805	1,132,646,866	1,198,383,671	1.0000	1.0000	1.0000

Notes

[1] Source: Column [A]: 1998 Single Piece Pounds workpaper (WP-BPM-4), row [r], transposed.
Column [B]: 1998 Presort Billing Determinants (WP-BPM-2), Total Pounds column.
Calculation: Column [C] = column [A] + column [B].

[2] Calculation: Rows [a] to [h]: column [D] = column [A] / cell [Aj];
Cell [Dj] = sum of [Da] to [Dh].
Rows [a] to [h]: column [E] = column [B] / cell [Bj];
Cell [Ej] = sum of [Ea] to [Eh].
Rows [a] to [h]: column [F] = column [C] / cell [Cj];
Cell [Fj] = sum of [Fa] to [Fh].

Calculation of Pieces Distribution Factors

	Zone	Pieces [1] Single Piece [A]	Pieces [1] Basic Presort [B]	Pieces [1] Carrier Route Presort [C]	Single Pieces Distribution Factors [2] [D]	Basic Presort Pieces Distribution Factors [3] [E]	Carrier Route Presort Pieces Distribution Factors [4] [F]	Total Presort Pieces Distribution Factors [5] [G]
[a]	Local	1,201,629	14,889,148	50,222,810	0.0420	0.0415	0.4983	0.1416
[b]	1&2	12,769,015	189,677,334	41,025,603	0.4462	0.5283	0.4071	0.5018
[c]	3	2,432,068	56,499,330	4,499,682	0.0850	0.1574	0.0446	0.1327
[d]	4	3,906,429	38,910,173	2,391,952	0.1365	0.1084	0.0237	0.0898
[e]	5	3,821,929	28,256,572	1,377,831	0.1335	0.0787	0.0137	0.0645
[f]	6	1,793,645	11,218,643	524,071	0.0627	0.0312	0.0052	0.0255
[g]	7	1,129,219	8,518,538	420,544	0.0395	0.0237	0.0042	0.0194
[h]	8	1,566,011	11,041,377	319,019	0.0547	0.0308	0.0032	0.0247
[j]	Total	28,619,945	359,011,117	100,781,511	1.0000	1.0000	1.0000	1.0000
[k]	Shares of Total Pieces	0.0586	0.7351	0.2063				

Notes

[1] Source: Column [A] (rows [a] to [j]): 1998 Single Piece Billing Determinants (WP-BPM-3), row [q], transposed.
Columns [B] and [C] (rows [a] to [j]): 1998 Presort Billing Determinants (WP-BPM-2).
Calculation: [Ak] = [Aj] / Sum of [A]] to [C]];
[Bk] = [Bj] / Sum of [A]] to [C]];
[Ck] = [Cj] / Sum of [A]] to [C]].

[2] Calculation: Rows [a] to [j]: column [D] = column [A] / cell [Aj].

[3] Calculation: Rows [a] to [j]: column [E] = column [B] / cell [Bj].

[4] Calculation: Rows [a] to [j]: column [F] = column [C] / cell [Cj].

[5] Calculation: Rows [a] to [j]: column [G] = (column [B] + column [C]) / (cell [Bj] + cell [Cj]).

Calculation of TYBR Pieces and Pounds

	Zone	Pieces [1]					Pounds [2]		
				Presort					
		Total [A]	Single Piece [B]	Total [C]	Basic [D]	Carrier Route [E]	Total [F]	Single Piece [G]	Presort [H]
[a]	All Zones	541,975,772	31,758,635	510,217,137	398,383,125	111,834,011	1,329,807,935	72,946,025	1,256,861,910
[b]	Local	73,586,061	1,333,409	72,252,651	16,522,010	55,730,642	188,171,173	2,738,837	185,432,336
[c]	1&2	270,173,019	14,169,367	256,003,652	210,478,856	45,524,796	688,416,909	31,871,891	656,545,018
[d]	3	70,387,435	2,698,788	67,688,648	62,695,495	4,993,152	175,903,856	6,232,458	169,671,398
[e]	4	50,166,483	4,334,839	45,831,645	43,177,372	2,654,273	118,210,555	9,628,376	108,582,180
[f]	5	37,125,419	4,241,072	32,884,347	31,355,412	1,528,935	78,309,685	10,468,106	67,841,580
[g]	6	15,020,864	1,990,350	13,030,514	12,448,969	581,545	29,594,784	4,740,032	24,854,753
[h]	7	11,172,471	1,253,058	9,919,413	9,452,749	466,664	22,399,432	3,112,389	19,287,044
[j]	8	14,344,020	1,737,753	12,606,268	12,252,262	354,005	28,801,540	4,153,937	24,647,603

Notes

[1] Source: *[Aa]: Inputs Workpaper (WP-BPM-1), Input [6].*
Calculation: Total forecast volume is apportioned to Single Piece, Basic Presort, and Carrier Route Presort categories based on shares of total pieces from the Pieces Distribution Factors workpaper, row [k]:
[Ba] = [Aa] * (Pieces Distribution Factors workpaper (WP-BPM-7), cell [Ak]);
[Da] = [Aa] * (Pieces Distribution Factors workpaper (WP-BPM-7), cell [Bk]);
[Ea] = [Aa] * (Pieces Distribution Factors workpaper (WP-BPM-7), cell [Ck]);
Calculation: Column total pieces are apportioned to zones based on the Pieces Distribution Factors workpaper (WP-BPM-7), (columns [D] to [F]).
Rows [b] to [j]: column [B] = cell [Ba] * (Pieces Distribution Factors workpaper (WP-BPM-7), column [D]);
column [D] = cell [Da] * (Pieces Distribution Factors workpaper (WP-BPM-7), column [E]);
column [E] = cell [Ea] * (Pieces Distribution Factors workpaper (WP-BPM-7), column [F]);
column [C] = sum of columns [D] to [E];
column [A] = sum of columns [B], [D], [E].

[2] Calculation: Total forecast pounds for single piece and presort are calculated from total forecast pieces using the Base Year ratios of total single piece pounds to total single piece pieces and total presort pounds to total presort pieces (from Pieces and Pounds Distribution Factors workpapers).
[Ga] = (Pounds Distribution Factors workpaper (WP-BPM-6), cell [Aj]) / (Pieces Distribution Factors workpaper (WP-BPM-7), cell [Aj]) * [Ba];
[Ha] = (Pounds Distribution Factors workpaper (WP-BPM-6), cell [Bj]) / (Pieces Distribution Factors workpaper (WP-BPM-7), cells [Bj] + [Cj]) * [Ca].
Calculation: Column total pounds are apportioned to zones based on the Pounds Distribution Factors workpaper (WP-BPM-6), (columns [D] and [E]).
Rows [b] to [j]: column [G] = cell [Ga] * (Pounds Distribution Factors workpaper (WP-BPM-6), column [D]);
column [H] = cell [Ha] * (Pounds Distribution Factors workpaper (WP-BPM-6), column [E]);
column [F] = column [G] + column [H].

Calculation of Test Year Drop-Shipment Non-Transportation Cost Savings

		Cost Savings Per Piece [1]			Drop-Shipped Pieces [2]			Total Non-Transportation Drop-Shipment Cost Savings [3]		
		DBMC [A]	DSCF [B]	DDU [C]	DBMC [D]	DSCF [E]	DDU [F]	DBMC [G]	DSCF [H]	DDU [J]
[a]	Total Weight and Non-Weight-Related Costs	$0.190	$0.190	$0.190	228,348,700	79,593,873	36,735,634	$43,386,253	$15,122,836	$6,979,770

Notes

(1) Source: Inputs workpaper (WP-BPM-1), Cost section, Input [13]. DSCF and DDU cost savings from the Input Workpaper are aggregated to total savings relative to origin-entered mail.

(2) Calculation: Forecast number of drop-shipped pieces is calculated from the current present volume times the drop-ship shares from the Inputs workpaper, Forecast section.
Cell [Da] = (TYBR Pieces and Pounds workpaper (WP-BPM-8), cell [Ca]) * Sum(Inputs workpaper (WP-BMC-1), Inputs [Ba] to [Bd]).
Cell [Ea] = (TYBR Pieces and Pounds workpaper (WP-BPM-8), cell [Ca]) * (Inputs workpaper (WP-BPM-1), Input [Be]).
Cell [Fa] = (TYBR Pieces and Pounds workpaper (WP-BPM-8), cell [Ca]) * (Inputs workpaper (WP-BPM-1), Input [Bg]).

(3) Calculation: Cell [G] = cell [D] * cell [A].
Cell [H] = cell [E] * cell [B].
Cell [J] = cell [F] * cell [C].

Distribution of Test Year Transportation Costs

		Pounds					Single Piece Transportation Costs [6]	Present Transportation Costs				
			Presort									
		Single Piece [1] [A]	Non-Drop Shipped [2] [B]	DBMC [3] [C]	DSCF [4] [D]	DDU [5] [E]	[F]	Total [7] [G]	Non-Drop Shipped [8] [H]	DBMC [9] [J]	DSCF [10] [K]	DDU [11] [L]
	Zone Distribution of Costs											
[a]	Zones 1&2	34,610,728	68,120,668	475,471,522	204,158,269	94,226,894	$3,218,798	$34,598,636	$6,335,222	$21,871,690	$5,920,590	$471,134
[b]	Zone 3	6,232,458	86,539,465	83,131,933			$678,338	$16,997,808	$9,432,802	$7,565,006	---	---
[c]	Zone 4	9,828,376	85,866,739	22,715,440			$1,242,060	$13,938,955	$11,076,809	$2,862,145	---	---
[d]	Zone 5	10,468,106	67,373,174	468,405			$1,695,833	$11,037,176	$10,914,454	$122,722	---	---
[e]	Zone 6	4,740,032	24,854,753				$924,306	$4,846,677	$4,846,677	---	---	---
[f]	Zone 7	3,112,389	19,287,044				$725,187	$4,493,881	$4,493,881	---	---	---
[g]	Zone 8	4,153,937	24,647,603				$1,279,413	$7,591,462	$7,591,462	---	---	---
[h]	Totals	72,946,025	376,689,447	581,787,301	204,158,269	94,226,894	$9,764,934	$93,504,595	$54,691,307	$32,421,564	$5,920,590	$471,134

Notes

[1] Source: Rows [a] to [g]: TYBR Pieces and Pounds Workpaper (WP-BPM-8), column [C]; cell [Aa] is the sum of Local plus Zones 1&2.
Calculation: [Ah] = Sum of [Aa] to [Ag].

[2] Calculation: [Ba] = (TYBR Pieces and Pounds Workpaper (WP-BPM-8), cells [Hb] + [Hc]) -[Ca] -[Da] - [Ea].
[Bb] = (TYBR Pieces and Pounds Workpaper (WP-BPM-8), cell [Hd]) -[Cb].
[Bc] = (TYBR Pieces and Pounds Workpaper (WP-BPM-8), cell [He]) -[Cc].
[Bd] = (TYBR Pieces and Pounds Workpaper (WP-BPM-8), cell [Hf]) -[Cd].
Source: Rows [e] to [g]: column [B] = TYBR Pieces and Pounds Workpaper (WP-BPM-8), column [H], rows [d] to [f].
Calculation: [Bh] = Sum of rows [Be] to [Bg].

[3] Calculation: [Ca] = (Inputs Workpaper (WP-BPM-11), Input [9a]) * (WP-BPM-8, cell [Ca]) * (WP-BPM-8, cells [Hb] + [Hc]) / (WP-BPM-8, cells [Ch] + [Cc]).
[Cb] = (Inputs Workpaper (WP-BPM-1), Input [9b]) * (WP-BPM-8, cell [Ca]) * (WP-BPM-8, cell [Hd]) / (WP-BPM-8, cell [Cd]).
[Cc] = (Inputs Workpaper (WP-BPM-1), Input [9c]) * (WP-BPM-8, cell [Ca]) * (WP-BPM-8, cell [He]) / (WP-BPM-8, cell [Cd]).
[Cd] = (Inputs Workpaper (WP-BPM-1), Input [9d]) * (WP-BPM-8, cell [Ca]) * (WP-BPM-8, cell [Hf]) / (WP-BPM-8, cell [Cd]).
[Ch] = Sum of rows [Ca] to [Cd].

[4] Calculation: [Da] = (Inputs Workpaper (WP-BPM-1), Input [9f]) * (WP-BPM-8, cell [Ca]) * (WP-BPM-8, cells [Hb] + [Hc]) / (WP-BPM-8, cells [Ch] + [Cc]).
[Dh] = [Da].

[5] Calculation: [Ea] = (Inputs Workpaper (WP-BPM-1), Input [9g]) * (WP-BPM-8, cell [Ca]) * (WP-BPM-8, cells [Hb] + [Hc]) / (WP-BPM-8, cells [Ch] + [Cc]).
[Eh] = [Ea].

[6] Calculation: Rows [a] to [g]: [F] = [A] * (Inputs Workpaper, (WP-BPM-1), Inputs [12a] to [12g]).
[Fh] = Sum of rows [Fa] to [Fg]

[7] Calculation: Rows [a] to [g]: [G] = Sum of columns [H], [J], [K], [L]
[Gh] = Sum of rows [Ga] to [Gg]

[8] Calculation: Rows [a] to [g]: [H] = [B] * (Inputs Workpaper, (WP-BPM-1), Inputs [12a] to [12g])
[Hh] = Sum of rows [Ha] to [Hg]

[9] Calculation: Rows [a] to [d]: [J] = [C] * (Inputs Workpaper, (WP-BPM-1), Inputs [12h] to [12m]).
[Jh] = Sum of rows [Ja] to [Jd]

[10] Calculation: [Ka] = [Da] * (Inputs Workpaper (WP-BPM-1), Input [12n]).
[Kh] = [Ka]

[11] Calculation: [La] = [Ea] * (Inputs Workpaper, (WP-BPM-1), Input [12a]).
[Lh] = [La]

Distribution of Test Year Non-Transportation Costs

		Total [1] [A]	Total Weight-Related Costs [2] [B]	Single Piece Weight-Related Costs [3] [C]	Present Weight-Related Costs: Total [4] [D]	Present Weight-Related Costs: Drop-Shipped [5] [E]	Present Weight-Related Costs: Non-Drop-Shipped [6] [F]	Total Non-Weight-Related Costs [7] [G]	Single Piece Non-Weight-Related Costs [8] [H]	Present Non-Weight-Related Costs: Total [9] [J]	Present Non-Weight-Related Costs: Drop-Shipped [9] [K]	Present Non-Weight-Related Costs: Non-Drop-Shipped [9] [L]
[a]	Volume Variable Costs	$378,119,470	$26,596,159	$2,766,107	$23,830,051	$16,688,033	$7,142,017	$351,523,312	$38,916,615	$312,606,696	$189,934,349	$122,672,347
	Zone Distribution of Costs											
[b]	Zones 1&2	—	$17,531,762	$1,312,436	$15,963,957	$14,672,292	$1,291,565	—	—	—	—	—
[c]	Zone 3	—	$3,518,077	$236,334	$3,216,963	$1,576,178	$1,640,785	—	—	—	—	—
[d]	Zone 4	—	$2,364,211	$365,107	$2,058,714	$430,684	$1,628,030	—	—	—	—	—
[e]	Zone 5	—	$1,566,194	$396,950	$1,286,274	$8,881	$1,277,393	—	—	—	—	—
[f]	Zone 6	—	$591,896	$179,742	$471,245	$0	$471,245	—	—	—	—	—
[g]	Zone 7	—	$447,989	$118,022	$365,682	$0	$365,682	—	—	—	—	—
[h]	Zone 8	—	$576,031	$157,517	$467,318	$0	$467,318	—	—	—	—	—

Notes

[1] Calculation: [Aa] = Inputs Workpaper (WP-BPM-1). Input (11) - (TY Transportation Costs Workpaper (WP-BPM-10) [Fh] - [Gh])

[2] Calculation: [Ba] = (Inputs Workpaper (WP-BPM-1). Input (13a)) * (TYBR Pieces and Pounds Workpaper (WP-BPM-8) cell [Fa]).
[Bb] = [Ba] * (Pounds Distribution Factors Workpaper (WP-BPM-6). [F]).
Rows [c] to [h]: [B] = [Ba] * (Pounds Distribution Factors Workpaper (WP-BPM-6). [Da]) based on actual pounds.

[3] Calculation: Total Non-Transportation Weight-Related Costs are apportioned between single piece (cell [Ca]) and present (cell [Da]) based on actual pounds with single piece costs per pound weighted at twice the present cost per pound
[Ca] = [Ba] * (2* WP-BPM-6. cell [A]) / (WP-BPM-6. 2* cell [A]) + WP-BPM-6 cell [B])
[Da] = [Ba] - [Ca].
[Db] = [Ca] * (WP-BPM-6. cells [Da] + [Db]).
[Dd] = [Da] * (WP-BPM-6. cells [Ea] + [Eh]).
Rows [c] to [h]: [C] = [Ca] * (WP-BPM-6. [D]. rows [c] to [h]).
Rows [c] to [h]: [D] = [Da] * (WP-BPM-6. [E]. rows [c] to [h]).

[4] Calculation: [Ea] = [Da] * (WP-BPM-10. sum of [Ch] to [Eh]) / (WP-BPM-10. sum of [Bh] to [Eh]).
[Eb] = [Ea] * (WP-BPM-10. sum of [Ca] to [Ea]) / (WP-BPM-10. sum of [Ch] to [Eh]).
[Ec] = [Ea] * (WP-BPM-10. [Ch]) / (WP-BPM-10. sum of [Ch] to [Eh]).
[Ed] = [Ea] * (WP-BPM-10. [Cg]) / (WP-BPM-10. sum of [Ch] to [Eh])
[Ee] = [Ea] * (WP-BPM-10. [Cd]) / (WP-BPM-10. sum of [Ch] to [Eh])

[5] Calculation: [F] = [D] - [E].

[6] Calculation: [G] = [A] - [B].

[7] Calculation: Total Non-Transportation Non-Weight-Related Costs are apportioned between single piece (cell [Ha]) and present (cell [Ja]). based on total pieces. with single piece costs per piece weighted at twice the present cost per piece.
[H] = [G] * (2* WP-BPM-7. cell [A]) / (WP-BPM-7. 2* cell [A]) + WP-BPM-7 cell [B]) + WP-BPM-7 cell [C])
[J] = [G] * (WP-BPM-7. cell [B]) + WP-BPM-7. cell [C]) / (WP-BPM-7. 2* cell [A]) + WP-BPM 7 cell [B]) + WP-BPM-7 cell [C])

[8] Calculation: [K] = ([J] + WP-BPM-9. sum of [C]. [H]. [J]) * (Inputs Workpaper (WP-BPM-1). Sum of inputs (9a). (9b). (9c). (9d). (9f). (9g)) - (WP-BPM-9. sum of [C]. [H]. [J]).

[9] Calculation: [L] = [J] - [K].

TYBR Revenue Leakages

	Revenue Leakage At 100% Pass-Through	Per Piece Component			Per Pound Component			Total Lost Revenue [7]
		Pieces [1] [A]	Per Piece Rate [2] [B]	Lost Revenue [3] [C]	Pounds [4] [D]	Per Pound Rate [5] [E]	Lost Revenue [6] [F]	[G]
[a]	*Carrier Route Discount*	111,834,011	$0.077	$8,611,219	---	---	---	$8,611,219
	Barcode Discount				---	---	---	
[b]	Single Piece	2,301,680	$0.030	$69,050	---	---	---	$69,050
[c]	Basic Presort	109,308,858	$0.030	$3,279,266	---	---	---	$3,279,266
	DBMC Discount							
[d]	Zones 1&2	185,369,029	$0.190	$35,220,115	475,471,522	$0.047	$22,347,162	$57,567,277
[e]	Zone 3	33,164,624	$0.190	$6,301,279	83,131,933	$0.018	$1,496,375	$7,797,653
[f]	Zone 4	9,588,000	$0.190	$1,821,720	22,715,440	$0.003	$68,146	$1,889,866
[g]	*Zone 5*	227,047	$0.190	$43,139	468,405	-$0.100	-$46,841	-$3,702
[h]	DSCF Discount	79,593,873	$0.190	$15,122,836	204,158,269	$0.064	$13,066,129	$28,188,965
[j]	DDU Discount	36,735,634	$0.190	$6,979,770	94,226,894	$0.088	$8,291,967	$15,271,737
	All Discounts							
[k]	Single Piece Total			$69,050	---		$0	$69,050
[m]	Presort Total			$77,379,344	880,172,464		$45,222,938	$122,602,282

Notes

[1] Source: [Aa]: TYBR Pieces and Pounds workpaper (WP-BPM-8), cell [Ea]:
Calculation: [Ab] = *(TYBR Pieces and Pounds workpaper (WP-BPM-8), cell [Ba])* * [Inputs Workpaper (WP-BPM-1), Input [7]]:
[Ac]: calculated from the number of basic presort pieces, less drop-shipped basic presort pieces not eligible for barcode discounts.
[Ac] = ((WP-BPM-8, cell [Da]) -
(WP-BPM-8, cells [Da] / [Ca]) * (Sum of [Ad] to [Ag]) * ((Inputs Workpaper (WP-BPM-1), Input [9e]) + [Ah] + [Aj]) *
(Inputs Workpaper (WP-BPM-1), Input [8]]:
Rows [d] to [j]: column [A] = *(TYBR Pieces and Pounds workpaper (WP-BPM-8), cell [Ca])* *
(Inputs Workpaper (WP-BPM-1), Inputs [9a] to [9d], [9f], [9g]).

[2] Source: [Ba]: Inputs Workpaper (WP-BPM-1), Input [14a]:
[Bb], [Bc]: Inputs Workpaper (WP-BPM-1), Input [14b], rounded to whole cents;
[Bd] to [Bg]: Inputs Workpaper (WP-BPM-1), Input [13b]:
Calculation: [Bh] = *([Bd] + (Inputs Workpaper (WP-BPM-1), Input [13c]):*
Calculation: [Bj] = [Bh] + (Inputs Workpaper (WP-BPM-1), Input [13d]).

[3] Calculation: Rows [a] to [j]: [C] = [A] * [B]:
[Ck] = [Cb]:
[Cm] = Sum of [Ca], [Cc], and [Cd] to [Cj].

[4] Source: Rows [d] to [g]: *(WP-BPM-10, column [C], rows [a] to [d]:*
[Dh]: (WP-BPM-10, [Da]):
[Dj]: (WP-BPM-10, [Ea]):
[Dm]: Sum of [Dd] to [Dj].

[5] Calculation: Average cost of non-drop-shipped presort pieces less the average cost of drop-shipped presort pieces:
[Ed] = (WP-BPM-10, [Ha] + *WP-BPM-11, [Fb]) / ((WP-BPM-8, [Hb]) + (WP-BPM-8, [Hc])* - [Dd] -[Dh] -Dj]) -
(WP-BPM-10, [Ja] + (WP-BPM-11, [Eb]) *(WP-BPM-10, [Ca]) / sum of (WP-BPM-10, [Ca] to [Ea])) / [Dd]:
[Ee] = (WP-BPM-10, [Hb] + WP-BPM-11, [Fc]) / ((WP-BPM-8, [Hd]) - [De]) - (WP-BPM-10, [Jb] + WP-BPM-11, [Ec]) / [De]:
[Ef] = (WP-BPM-10, [Hc] + WP-BPM-11, [Fd]) / ((WP-BPM-8, [He]) - [Df]) - (WP-BPM-10, [Jc] + WP-BPM-11, [Ed]) / [Df]:
[Eg] = (WP-BPM-10, [Hd] + WP-BPM-11, [Fe]) / ((WP-BPM-8, [Hf]) - [Dg]) - (WP-BPM-10, [Jd] + WP-BPM-11, [Ee]) / [Dg]:
[Eh] = (WP-BPM-10, *([Ha] + WP-BPM-11, [Fb]) / ((WP-BPM-8, [Hb]) + (WP-BPM-8, [Hc])* - [Dd] -[Dh] -Dj]) -
(WP-BPM-10, [Ka] + (WP-BPM-11, [Eb]) *(WP-BPM-10, [Da]) / sum of (WP-BPM-10, [Ca] to [Ea])) / [Dh]:
[Ej] = (WP-BPM-10, [Ha] + WP-BPM-11, [Fb]) / ((WP-BPM-8, [Hb]) + (WP-BPM-8, [Hc]) - [Dd] -[Dh] -Dj]) -
(WP-BPM-10, [La] + (WP-BPM-11, [Eb]) *(WP-BPM-10, [Ea]) / sum of (WP-BPM-10, [Ca] to [Ea])) / [Dj].

[6] Calculation: Rows [d] to [j]: [F] = [D] * [E]:
[Fm] = Sum of [Fd] to [Fj].

[7] Calculation: Rows [a] to [j]: [G] = [C] + [F]:
[Gk] = [Gb]:
[Gm] = Sum of [Ga], [Gc] to [Gj].

Calculation of TYBR Revenue

Single Piece Bound Printed Matter

	Zone	Per Piece Component[1] Pieces [A]	Per Piece Rate [B]	Revenue [C]	Per Pound Component[2] Pounds [D]	Per Pound Rate [E]	Revenue [F]	Total Revenue[3] [G]
[a]	Local	1,333,409	$1.08	$1,440,082	2,738,837	$0.039	$106,815	$1,546,897
[b]	1&2	14,169,367	$1.44	$20,403,888	31,871,891	$0.064	$2,039,801	$22,443,689
[c]	3	2,698,788	$1.44	$3,886,254	6,232,458	$0.087	$542,224	$4,428,478
[d]	4	4,334,839	$1.44	$6,242,168	9,628,376	$0.126	$1,213,175	$7,455,343
[e]	5	4,241,072	$1.44	$6,107,144	10,468,106	$0.184	$1,926,131	$8,033,275
[f]	6	1,990,350	$1.44	$2,866,104	4,740,032	$0.246	$1,166,048	$4,032,152
[g]	7	1,253,058	$1.44	$1,804,404	3,112,389	$0.321	$999,077	$2,803,481
[h]	8	1,737,753	$1.44	$2,502,364	4,153,937	$0.385	$1,599,266	$4,101,629
[j]	Total	31,758,635		$45,252,408	72,946,025		$9,592,537	$54,844,944
[k]	Adj. Total							$56,596,223

Presort Bound Printed Matter

	Zone	Per Piece Component[4] Total Pieces [A]	Per Piece Rate [B]	Revenue [C]	Per Pound Component[5] Pounds [D]	Per Pound Rate [E]	Revenue [F]	Total Revenue[6] [G]
[m]	Local	72,252,651	$0.54	$39,016,432	185,432,336	$0.028	$5,192,105	$44,208,537
[n]	1&2	256,003,652	$0.72	$184,322,629	656,545,018	$0.051	$33,483,796	$217,806,425
[o]	3	67,688,648	$0.72	$48,735,826	169,671,398	$0.073	$12,386,012	$61,121,838
[p]	4	45,831,645	$0.72	$32,998,784	108,582,180	$0.112	$12,161,204	$45,159,988
[q]	5	32,884,347	$0.72	$23,676,730	67,841,580	$0.171	$11,600,910	$35,277,640
[r]	6	13,030,514	$0.72	$9,381,970	24,854,753	$0.233	$5,791,157	$15,173,127
[s]	7	9,919,413	$0.72	$7,141,977	19,287,044	$0.307	$5,921,122	$13,063,099
[t]	8	12,606,268	$0.72	$9,076,513	24,647,603	$0.371	$9,144,261	$18,220,774
[u]	Total	510,217,137		$354,350,861	1,256,861,910		$95,680,568	$450,031,429
[v]	Adj. Total							$449,452,374

Notes

[1] Source: Rows [a] to [h]:
[A]: TYBR Pieces and Pounds Workpaper (WP-BPM-8), column [B], rows [b] to [j]:
[B]: Inputs Workpaper (WP-BPM-1), Input [20]:
Calculation: Rows [a] to [h]: [C] = [A] * [B]:
Calculation: [Aj] = Sum of column [A], rows [a] to [h]:
[Cj] = Sum of column [C], rows [a] to [h].

[2] Source: Rows [a] to [h]:
[D]: TYBR Pieces and Pounds Workpaper (WP-BPM-8), column [G], rows [b] to [j]:
[E]: Inputs Workpaper (WP-BPM-1), Input [18]:
Calculation: Rows [a] to [h]: [F] = [D] * [E]:
Calculation: [Dj] = Sum of column [D], rows [a] to [h]:
Calculation: [Fj] = Sum of column [F], rows [a] to [h].

[3]: Calculation: Rows [a] to [h]: [G] = [C] + [F]:
[Gj] = Sum of column [G], rows [a] to [h]:
[Gk] = [Gj] * (Inputs Workpaper (WP-BPM-1), Input [4])

[4] Source: Rows [m] to [t]:
[A]: TYBR Pieces and Pounds Workpaper (WP-BPM-8), column [C], rows [b] to [j]:
[B]: Inputs Workpaper (WP-BPM-1), Input [21]:
Calculation: Rows [m] to [t]: [C] = [A] * [B]:
Calculation: [Au] = Sum of column [A], rows [m] to [t]:
[Cu] = Sum of column [C], rows [m] to [t]

[5] Source: Rows [m] to [t]:
[D]: TYBR Pieces and Pounds Workpaper (WP-BPM-8), column [H], rows [b] to [j]:
[E]: Inputs Workpaper (WP-BPM-1), Input [19]:
*Calculation: Rows [m] to [t]: [F] = [D] * [E]:*
Calculation: [Du] = Sum of column [D], rows [m] to [t]:
Calculation: [Fu] = Sum of column [F], rows [m] to [t].

[6]: Calculation: Rows [m] to [t]: [G] = [C] + [F].
[Gu] = Sum of column [G], rows [m] to [t]:
[Gv] = [Gu] * (Inputs Workpaper (WP-BPM-1), Input [5])

Calculation of Per Pound and Per Piece Charges

Per Pound Component

		Costs [1]			Revenue Leakages [2]				TYBR Pounds [3]	Per Pound Costs [4]	Per Pound Leakages [5]	Costs Markup [6]	Per Pound Charge [7]
		Transportation [A]	Non-Transportation [B]	Total Costs [C]	DBMC Discount [D]	DSCF Discount [E]	DDU Discount [F]	Total Leakages [G]	[H]	[I]	[J]	[K]	[L]
	Single Piece												
[a]	Zones 1&2	$3,218,798	$1,312,436	$4,531,234	—	—	—	$0	34,610,728	$0.131	$0.000	108%	$0.141
[b]	Zone 3	$679,338	$236,334	$915,672	—	—	—	$0	6,232,458	$0.147	$0.000	108%	$0.158
[c]	Zone 4	$1,242,060	$365,107	$1,607,166	—	—	—	$0	9,628,376	$0.167	$0.000	108%	$0.180
[d]	Zone 5	$1,695,833	$396,950	$2,092,783	—	—	—	$0	10,468,106	$0.200	$0.000	108%	$0.215
[e]	Zone 6	$924,306	$179,742	$1,104,048	—	—	—	$0	4,740,032	$0.233	$0.000	108%	$0.250
[f]	Zone 7	$725,187	$118,022	$843,208	—	—	—	$0	3,112,389	$0.271	$0.000	108%	$0.291
[g]	Zone 8	$1,279,413	$157,517	$1,436,929	—	—	—	$0	4,153,937	$0.346	$0.000	108%	$0.372
	Presort												
[h]	Zones 1&2	$34,598,836	$15,963,857	$50,562,493	$22,347,162	$13,066,129	$8,291,967	$43,705,257	841,977,353	$0.060	$0.052	108%	$0.116
[i]	Zone 3	$16,997,808	$3,216,963	$20,214,770	$1,496,375	—	—	$1,496,375	180,671,398	$0.119	$0.009	108%	$0.137
[k]	Zone 4	$13,938,955	$2,058,714	$15,997,669	$68,146	—	—	$68,146	108,582,180	$0.147	$0.001	108%	$0.159
[m]	Zone 5	$11,037,176	$1,286,274	$12,323,450	-$46,841	—	—	-$46,841	67,841,580	$0.182	-$0.001	108%	$0.195
[n]	Zone 6	$4,846,677	$471,245	$5,317,922	—	—	—	$0	24,854,753	$0.214	$0.000	108%	$0.230
[o]	Zone 7	$4,493,881	$365,682	$4,859,563	—	—	—	$0	19,287,044	$0.252	$0.000	108%	$0.271
[p]	Zone 8	$7,591,462	$467,318	$8,058,779	—	—	—	$0	24,647,603	$0.327	$0.000	108%	$0.352

Per Piece Component

		Costs [8]	Revenue Leakages [9]						TYBR Pieces [10]	Cost Per Piece [11]	Leakages Per Piece [12]	Markup [6]	Piece Charge [7]
			DBMC Discount	DSCF Discount	DDU Discount	Carrier Route Discount	Barcoding Discount	Total Leakages [13]					
		[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]	[K]	[L]
[q]	Single Piece	$38,916,815	—	—	—	—	$69,050	$69,050	31,758,635	$1.225	$0.002	108%	$1.320
[r]	Presort	$312,606,686	$43,386,253	$15,122,836	$6,979,770	$8,611,219	$3,279,266	$77,379,344	510,217,137	$0.613	$0.152	108%	$0.811

Notes

(1) Source: Column [A]:
Rows [a] to [g]: WP-BPM-10, cells [Fa] to [Fg]
Rows [h] to [p]: WP-BPM-10, cells [Ga] to [Gg]
Column [B]:
Rows [a] to [g]: (WP-BPM-11), cells [Ca] to [Cn];
Rows [h] to [p]: (WP-BPM-11), cells [Da] to [Dn].
Calculation: Rows [a] to [p]: [C] = [A] + [B]

(2) Source: Column [D]: rows [h] to [m]: Revenue Leakages Workpaper (WP-BPM-12), cell [Fh];
[E:n]: Revenue Leakages Workpaper (WP-BPM-12), cell [Fj];
[F:n]: Revenue Leakages Workpaper (WP-BPM-12), cell [Fj].
Calculation: Rows [a] to [p]: column [G] = Sum of columns [D], [E], [F].

(3) Source: Rows [a] to [g]: TYBR Pieces and Pounds (WP-BPM-8), column [H], rows [a] to [g] (Local combined with Zones 1&2).
Rows [h] to [p]: TYBR Pieces and Pounds (WP-BPM-8), column [H], rows [h] to [j] (Local combined with Zones 1&2)

(4) Calculation: Rows [a] to [p]: [I] = [C] / [H]

(5) Calculation: Rows [a] to [p]: [K] = [G] / [H]

(6) Calculation: [L] = (Inputs Workpaper (WP-BPM-1), Input [2] * (1 - Input [3])).

(7) Calculation: [M] = [I] * [L] + [K].

(8) Source: (Aq): WP-BPM-11, cell [Ha].
(Ar): WP-BPM-11, cell [Ja]

(9) Calculation: [B] = sum of (WP-BPM-12, cells [Cd] to [Cg]).
Source: [C] = WP-BPM-12, cell [Ch];
[D] = WP-BPM-12, cell [Cj];
[E] = WP-BPM-12, cell [Cl];
[Fq] = WP-BPM-12, cell [Cn];
[Fr] = WP-BPM-12, cell [Cp].

(10) Calculation: [G] = sum of columns [B] to [F].

(11) Source: [Hq]: TYBR Pieces and Pounds Workpaper (WP-BPM-8), cell [Bn].
[Hr]: TYBR Pieces and Pounds Workpaper (WP-BPM-8), cell [Cn]

(12) Calculation: [J] = [A] / [H]

(13) Calculation: [K] = [G] / [H]

Adjustment of Preliminary Rates

Single Piece Bound Printed Matter

		Per Piece Component [1]					Per Pound Component [2]					Adjusted Total Revenue [3]
		Pieces [A]	Per Piece Rate [B]	Revenue [C]	Per Piece Adjustment [D]	Revenue Impact [E]	Pounds [F]	Per Pound Rate [G]	Revenue [H]	Per Pound Adjustment [J]	Revenue Impact [K]	[L]
[a]	Zones 1&2	15,502,776	$1.320	$20,463,541	$0.099	$1,534,775	34,610,728	$0.141	$4,873,025	-$0.073	-$2,526,583	$24,344,757
[b]	Zone 3	2,698,788	$1.320	$3,562,378	$0.099	$267,180	6,232,458	$0.158	$984,741	-$0.064	-$398,877	$4,415,422
[c]	Zone 4	4,334,839	$1.320	$5,721,953	$0.099	$429,149	9,628,376	$0.180	$1,728,396	-$0.040	-$385,135	$7,494,363
[d]	Zone 5	4,241,072	$1.320	$5,598,181	$0.099	$419,866	10,468,106	$0.215	$2,250,641	-$0.010	-$104,681	$8,164,008
[e]	Zone 6	1,990,350	$1.320	$2,627,246	$0.099	$197,045	4,740,032	$0.250	$1,187,326	$0.015	$71,100	$4,082,718
[f]	Zone 7	1,253,058	$1.320	$1,654,027	$0.099	$124,053	3,112,389	$0.291	$906,811	$0.059	$183,631	$2,868,522
[g]	Zone 8	1,737,753	$1.320	$2,293,820	$0.099	$172,038	4,153,937	$0.372	$1,545,317	$0.038	$157,850	$4,169,024
[h]	Totals	31,758,635		$41,921,146		$3,144,105	72,946,025		$13,476,258		-$3,002,696	$55,538,814

Adjustment of Preliminary Rates

Presort Bound Printed Matter

		Per Piece Component [4]					Per Pound Component [4]					Adjusted Total Revenue [4]
		Pieces [A]	Per Piece Rate [B]	Revenue [C]	Per Piece Adjustment [D]	Revenue Impact [E]	Pounds [F]	Per Pound Rate [G]	Revenue [H]	Per Pound Adjustment [J]	Revenue Impact [K]	[L]
	DBMC											
[j]	Zones 1&2	185,369,029	$0.621	$115,034,189	$0.049	$9,083,082	475,471,522	$0.069	$33,040,368	-$0.018	-$8,558,487	$148,599,152
[k]	Zone 3	33,164,624	$0.621	$20,580,923	$0.049	$1,625,067	83,131,933	$0.119	$9,888,273	-$0.049	-$4,073,465	$28,020,797
[m]	Zone 4	9,588,000	$0.621	$5,950,011	$0.049	$469,812	22,715,440	$0.156	$3,545,272	-$0.044	-$999,479	$8,965,616
[n]	Zone 5	227,047	$0.621	$140,898	$0.049	$11,125	468,405	$0.295	$138,021	-$0.118	-$55,272	$234,773
[o]	DSCF	79,593,873	$0.621	$49,393,454	$0.049	$3,900,100	204,158,269	$0.052	$10,716,204	-$0.026	-$5,308,115	$58,701,643
[p]	DDU	36,735,634	$0.621	$22,796,979	$0.049	$1,800,046	94,226,894	$0.028	$2,684,495	-$0.004	-$376,908	$26,904,612
	Non-Drop-Shipped											
[q]	Zones 1&2	26,557,767	$0.811	$21,526,891	$0.054	$1,443,403	68,120,668	$0.116	$7,935,355	-$0.056	-$3,820,981	$27,084,668
[r]	Zone 3	34,524,024	$0.811	$27,984,088	$0.014	$499,593	86,539,465	$0.137	$11,851,298	-$0.052	-$4,521,291	$35,813,687
[s]	Zone 4	36,243,644	$0.811	$29,377,958	$0.014	$524,477	85,866,739	$0.159	$13,659,100	-$0.030	-$2,611,251	$40,950,285
[t]	Zone 5	32,657,300	$0.811	$26,470,981	$0.014	$472,580	67,373,174	$0.195	$13,114,987	$0.003	$190,206	$40,248,753
[u]	Zone 6	13,030,514	$0.811	$10,562,124	$0.014	$188,563	24,854,753	$0.230	$5,719,053	$0.042	$1,042,063	$17,511,803
[v]	Zone 7	9,919,413	$0.811	$8,040,364	$0.014	$143,543	19,287,044	$0.271	$5,226,120	$0.088	$1,704,964	$15,114,990
[w]	Zone 8	12,606,268	$0.811	$10,218,244	$0.014	$182,424	24,847,603	$0.352	$8,666,653	$0.077	$1,904,792	$20,972,113
[x]	Totals	510,217,137		$348,077,104		$20,343,815	1,256,861,910		$126,185,199		-$25,483,224	$469,122,893

Notes

(1) Calculation: [Aa] = (TYBR Pounds and Pieces Workpaper (WP-BPM-8) · [Ba] + [Bc]).
Source: column [A], rows [b] to [g]: WP-BPM-8, column [B], rows [d] to [j].
Calculation: [Ah] = sum of [Aa] to [Ag].
Source: *column [B]: Pound and Piece Charges Workpaper (WP-BPM-14), cell [Mq].*
Calculation: Rows [a] to [g]: [C] = [A] * [B].
[Ch] = sum of [Ca] to [Cg].
Source: column [D]: adjustments to preliminary per piece charges.
Calculation: Rows [a] to [g]: [E] = [A] * [D]:
[Eh] = sum of [Ea] to [Eg].
(2) Calculation: [Fa]: (TYBR Pounds and Pieces Workpaper (WP-BPM-8) · [Ca]) = [Ca]).
Source: column [F], rows [b] to [g]: WP-BPM-8, column [G], rows [d] to [j].
Calculation: [Fh] = sum of [Fa] to [Fg].
Source: column [G]: Pound and Piece Charges Workpaper (WP-BPM-14), cells [Mat to [Mg].
Calculation: Rows [a] to [g]: [H] = [F] * [G].
[Hh] = sum of [Ha] to [Hg]:
Source: column [J]: adjustments to preliminary per pound charges.
Calculation: Rows [a] to [g]: [K] = [F] * [J]:
[Kh] = sum of [Ka] to [Kg].
(3) Calculation: Rows [a] to [g]: [L] = [C] + [E] + [H] + [K]:
[Lh] = sum of [La] to [Lg]
(4) Source: Rows [j] to [p], column [A]: (Revenue Leakages Workpaper (WP-BPM-12). [Ad] to [Ap]).
Calculation: [Aq] = (TYBR Pounds and Pieces Workpaper (WP-BPM-8). [Ch] + [Ch]) · [Ah]) · [Ah] · [Ap]
Rows [r] to [x]: [A] = (WP-BPM-8, column [C], rows [d] to [j]) · column [A], rows [h] to [n]
Source: Rows [u] to [w]: [A] = (WP-BPM-8, column [C], rows [g] to [j]).
Calculation: [Ax] = sum of [Aj] to [Aw].
Calculation: Rows [j] to [n]: [B] = (Pound and Piece Charges (WP-BPM-14). [Mr]) · (Inputs Workpaper, Input 113b]).
[Bo] = (WP-BPM-14, [Mr]) · (Inputs Workpaper (WP-BPM-1). Inputs [13b] + [13c]).
[Bp] = (WP-BPM-14, [Mr]) · (Inputs Workpaper (WP-BPM-1). Inputs [13b] + [13c] + [13d]).
Rows [q] to [w]: [B] = (Pound and Piece Charges (WP-BPM-14). [Mr]).
Calculation: Rows [j] to [w]: [C] = [A] * [B].
[Ca] = sum of [C] to [Cw].
Source: column [D]: adjustments to preliminary per piece charges.
Calculation: Rows [j] to [w]: [E] = [A] * [D].
[Ea] = sum of [E] to [Ew].
(5) Source: Rows [j] to [p]: column [F]: (Revenue Leakages Workpaper (WP-BPM-12). [Dd] to [Dj]).
Calculation: [Fq] = (TYBR Pounds and Pieces Workpaper (WP-BPM-8). [Hh] + [Hk]) · [F]) · [Fo] · [Fp]
Rows [r] to [x]: [F] = (WP-BPM-8, column [H], rows [d] to [j]) · column [F], rows [h] to [n]
Source: Rows [u] to [w]: [F] = (WP-BPM-8, column [H], rows [g] to [j]).
Calculation: [Fx] = sum of [F]j to [Fw].
Calculation: Rows [j] to [n]: [G] = (Pound and Piece Charges (WP-BPM-14), column [M], rows [h] to [n]) · Revenue Leakages Workpaper (WP-BPM-12). [E], rows [d] to [g]).
[Go] = (Pound and Piece Charges (WP-BPM-14). [Mh]) · Revenue Leakages Workpaper (WP-BPM-12). [Eh]).
[Gp] = (Pound and Piece Charges (WP-BPM-14). [Mh]) · Revenue Leakages Workpaper (WP-BPM-12). [Ej]).
Rows [q] to [w]: [G] = (Pound and Piece Charges (WP-BPM-14), column [M], rows [h] to [p]).
Calculation: Rows [j] to [w]: [H] = [F] * [G].
[Hx] = sum of [H]j to [Hw].
Source: column [J]: adjustments to preliminary per pound charges.
Calculation: Rows [j] to [w]: [K] = [F] * [J]:
[Kx] = sum of [K]j to [Kw]
(6) Calculation: Rows [j] to [w]: [L] = [C] + [E] + [H] + [K].
[Lx] = sum of [L]j to [Lw]

Adjusted Rate Schedules

		Per Piece Rate [1],[2] [A]	Per Pound Rate [3]						
			Zones 1&2 [B]	Zone 3 [C]	Zone 4 [D]	Zone 5 [E]	Zone 6 [F]	Zone 7 [G]	Zone 8 [H]
[a]	Single Piece	$1.42	$0.07	$0.09	$0.14	$0.20	$0.27	$0.35	$0.41
	Basic Presort								
[b]	Origin Entry	$0.865	$0.060	$0.085	$0.129	$0.197	$0.272	$0.359	$0.429
[c]	DBMC	$0.670	$0.051	$0.070	$0.112	$0.177	---	---	---
[d]	DSCF	$0.670	$0.026	---	---	---	---	---	---
[e]	DDU	$0.670	$0.024	---	---	---	---	---	---
	Carrier Route Presort								
[f]	Origin Entry	$0.788	$0.060	$0.085	$0.129	$0.197	$0.272	$0.359	$0.429
[g]	DBMC	$0.593	$0.051	$0.070	$0.112	$0.177	---	---	---
[h]	DSCF	$0.593	$0.026	---	---	---	---	---	---
[j]	DDU	$0.593	$0.024	---	---	---	---	---	---
[k]	Barcode Discount	$0.03							

Notes

[1] Calculation: [Aa] = (Rate Adjustments Workpaper (WP-BPM-15), [Ba] + [Da]), rounded to whole cents;
[Ab] = (Rate Adjustments Workpaper (WP-BPM-15), [Bq] + [Dq]) rounded to tenths of a cent;
[Ac] = (Rate Adjustments Workpaper (WP-BPM-15), [Bj] + [Dj]) rounded to tenths of a cent;
[Ad] = (Rate Adjustments Workpaper (WP-BPM-15), [Bo] + [Do]) rounded to tenths of a cent;
[Ae] = (Rate Adjustments Workpaper (WP-BPM-15), [Bp] + [Dp]) rounded to tenths of a cent;
[Af] = [Ab] - (Inputs Workpaper (WP-BPM-1), Input [14a]) rounded to tenths of a cent;
[Ag] = [Ac] - (Inputs Workpaper (WP-BPM-1), Input [14a]) rounded to tenths of a cent;
[Ah] = [Ad] - (Inputs Workpaper (WP-BPM-1), Input [14a]) rounded to tenths of a cent;
[Aj] = [Ae] - (Inputs Workpaper (WP-BPM-1), Input [14a]) rounded to tenths of a cent;

[2] Properly prepared single piece and basic presort mailings are eligible for the Barcode Discount shown in cell [Ak].
Source: [Ak] = Inputs Workpaper (WP-BPM-1), Input [14b], rounded to whole cents.

[3] Calculation: Row [a], columns [B] to [H] = (Rate Adjustments Workpaper (WP-BPM-15), columns [G] + [J], rows [a] to [g], transposed), rounded to whole cents;
Rows [b], and [f], columns [B] to [H] = (WP-BPM-15, columns [G] + [J], rows [q] to [w], transposed), rounded to tenths of a cent;
Rows [c], and [g], columns [B] to [E] = (WP-BPM-15, columns [G] + [J], rows [j] to [n], transposed), rounded to tenths of a cent;
[Bd] = [Bh] = (WP-BPM-15, [Go] + [Jo]), rounded to tenths of a cent;
[Be] = [Bj] = (WP-BPM-15, [Gp] + [Jp]), rounded to tenths of a cent.

Proposed Single Piece Rates [1]

Weight Not Over (lbs).	Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1.5	$1.53	$1.56	$1.63	$1.72	$1.83	$1.95	$2.04
2.0	$1.56	$1.60	$1.70	$1.82	$1.96	$2.12	$2.24
2.5	$1.60	$1.65	$1.77	$1.92	$2.10	$2.30	$2.45
3.0	$1.63	$1.69	$1.84	$2.02	$2.23	$2.47	$2.65
3.5	$1.67	$1.74	$1.91	$2.12	$2.37	$2.65	$2.86
4.0	$1.70	$1.78	$1.98	$2.22	$2.50	$2.82	$3.06
4.5	$1.74	$1.83	$2.05	$2.32	$2.64	$3.00	$3.27
5.0	$1.77	$1.87	$2.12	$2.42	$2.77	$3.17	$3.47
6.0	$1.84	$1.96	$2.26	$2.62	$3.04	$3.52	$3.88
7.0	$1.91	$2.05	$2.40	$2.82	$3.31	$3.87	$4.29
8.0	$1.98	$2.14	$2.54	$3.02	$3.58	$4.22	$4.70
9.0	$2.05	$2.23	$2.68	$3.22	$3.85	$4.57	$5.11
10.0	$2.12	$2.32	$2.82	$3.42	$4.12	$4.92	$5.52
11.0	$2.19	$2.41	$2.96	$3.62	$4.39	$5.27	$5.93
12.0	$2.26	$2.50	$3.10	$3.82	$4.66	$5.62	$6.34
13.0	$2.33	$2.59	$3.24	$4.02	$4.93	$5.97	$6.75
14.0	$2.40	$2.68	$3.38	$4.22	$5.20	$6.32	$7.16
15.0	$2.47	$2.77	$3.52	$4.42	$5.47	$6.67	$7.57
Barcode Discount [2]	$0.03						

Notes

[1] Rate cells calculated as the sum of per-piece rate and the per-pound rate for each zone, times the number of pounds.
Calculation: Zoned rates for X pounds = (Adjusted Rate Schedules Workpaper *(WP-BPM-16)*, cell [Aa]) + (WP-BPM-16, row [a], columns [B] to [H]) * X pounds; (X = 1.5 to 15 pounds).

[2] *For eligible barcoded pieces, deduct the* Barcode Discount (machinable parcels only).

Computed Proposed Basic Presort Rates [1],[2]

Weight Not Over (lbs).	Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1.5	$0.955	$0.993	$1.059	$1.161	$1.273	$1.404	$1.509
2.0	$0.985	$1.035	$1.123	$1.259	$1.409	$1.583	$1.723
2.5	$1.015	$1.078	$1.188	$1.358	$1.545	$1.763	$1.938
3.0	$1.045	$1.120	$1.252	$1.456	$1.681	$1.942	$2.152
3.5	$1.075	$1.163	$1.317	$1.555	$1.817	$2.122	$2.367
4.0	$1.105	$1.205	$1.381	$1.653	$1.953	$2.301	$2.581
4.5	$1.135	$1.248	$1.446	$1.752	$2.089	$2.481	$2.796
5.0	$1.165	$1.290	$1.510	$1.850	$2.225	$2.660	$3.010
6.0	$1.225	$1.375	$1.639	$2.047	$2.497	$3.019	$3.439
7.0	$1.285	$1.460	$1.768	$2.244	$2.769	$3.378	$3.868
8.0	$1.345	$1.545	$1.897	$2.441	$3.041	$3.737	$4.297
9.0	$1.405	$1.630	$2.026	$2.638	$3.313	$4.096	$4.726
10.0	$1.465	$1.715	$2.155	$2.835	$3.585	$4.455	$5.155
11.0	$1.525	$1.800	$2.284	$3.032	$3.857	$4.814	$5.584
12.0	$1.585	$1.885	$2.413	$3.229	$4.129	$5.173	$6.013
13.0	$1.645	$1.970	$2.542	$3.426	$4.401	$5.532	$6.442
14.0	$1.705	$2.055	$2.671	$3.623	$4.673	$5.891	$6.871
15.0	$1.765	$2.140	$2.800	$3.820	$4.945	$6.250	$7.300
Barcode Discount [3]	$0.03						

Notes

[1] These amounts are correct for the corresponding weights. Postage will be computed exactly for items of intermediate weight as provided in DMM P013.

[2] Rate cells calculated as the sum of per-piece rate and the per-pound rate for each zone, times the number of pounds.
Calculation: Zoned rates for X pounds = (Adjusted Rate Schedules Workpaper (WP-BPM-16), cell [Ab]) + (WP-BPM-16, row [b], columns [B] to [H]) * X pounds; (X = 1.5 to 15 pounds).

[3] *For eligible barcoded pieces, deduct the Barcode Discount (machinable parcels only).*

Computed Proposed Basic Presort Destination Entry Rates [1],[2]

Weight Not Over (lbs).	DBMC/ASF Zone				DSCF	DDU
	Zones 1&2	Zone 3	Zone 4	Zone 5		
1.5	$0.747	$0.775	$0.838	$0.936	$0.709	$0.706
2.0	$0.772	$0.810	$0.894	$1.024	$0.722	$0.718
2.5	$0.798	$0.845	$0.950	$1.113	$0.735	$0.730
3.0	$0.823	$0.880	$1.006	$1.201	$0.748	$0.742
3.5	$0.849	$0.915	$1.062	$1.290	$0.761	$0.754
4.0	$0.874	$0.950	$1.118	$1.378	$0.774	$0.766
4.5	$0.900	$0.985	$1.174	$1.467	$0.787	$0.778
5.0	$0.925	$1.020	$1.230	$1.555	$0.800	$0.790
6.0	$0.976	$1.090	$1.342	$1.732	$0.826	$0.814
7.0	$1.027	$1.160	$1.454	$1.909	$0.852	$0.838
8.0	$1.078	$1.230	$1.566	$2.086	$0.878	$0.862
9.0	$1.129	$1.300	$1.678	$2.263	$0.904	$0.886
10.0	$1.180	$1.370	$1.790	$2.440	$0.930	$0.910
11.0	$1.231	$1.440	$1.902	$2.617	$0.956	$0.934
12.0	$1.282	$1.510	$2.014	$2.794	$0.982	$0.958
13.0	$1.333	$1.580	$2.126	$2.971	$1.008	$0.982
14.0	$1.384	$1.650	$2.238	$3.148	$1.034	$1.006
15.0	$1.435	$1.720	$2.350	$3.325	$1.060	$1.030
Barcode Discount [3]	$0.03					

Notes

[1] These amounts are correct for the corresponding weights. Postage will be computed exactly for items of intermediate weight as provided in DMM P013.

[2] Rate cells calculated as the sum of per-piece rate and the per-pound rate for each zone, (if applicable), times the number of pounds.

Calculation: DBMC: Zoned rates for X pounds =
(Adjusted Rate Schedules Workpaper (WP-BPM-16), cell [Ac]) +
(WP-BPM-16, row [c], columns [B] to [E]) * X pounds; (X = 1.5 to 15 pounds).
DSCF: Rate for X pounds =
(Adjusted Rate Schedules Workpaper (WP-BPM-16), cell [Ad]) +
(WP-BPM-16, [Bd]) * X pounds; (X = 1.5 to 15 pounds).
DDU: Rate for X pounds =
(Adjusted Rate Schedules Workpaper (WP-BPM-16), cell [Ae]) +
(WP-BPM-16, [Be]) * X pounds; (X = 1.5 to 15 pounds).

[3] For eligible barcoded pieces, deduct the Barcode Discount (machinable parcels only).

Computed Proposed Carrier Route Presort Rates [1],[2]

Weight Not Over (lbs).	Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1.5	$0.878	$0.916	$0.982	$1.084	$1.196	$1.327	$1.432
2.0	$0.908	$0.958	$1.046	$1.182	$1.332	$1.506	$1.646
2.5	$0.938	$1.001	$1.111	$1.281	$1.468	$1.686	$1.861
3.0	$0.968	$1.043	$1.175	$1.379	$1.604	$1.865	$2.075
3.5	$0.998	$1.086	$1.240	$1.478	$1.740	$2.045	$2.290
4.0	$1.028	$1.128	$1.304	$1.576	$1.876	$2.224	$2.504
4.5	$1.058	$1.171	$1.369	$1.675	$2.012	$2.404	$2.719
5.0	$1.088	$1.213	$1.433	$1.773	$2.148	$2.583	$2.933
6.0	$1.148	$1.298	$1.562	$1.970	$2.420	$2.942	$3.362
7.0	$1.208	$1.383	$1.691	$2.167	$2.692	$3.301	$3.791
8.0	$1.268	$1.468	$1.820	$2.364	$2.964	$3.660	$4.220
9.0	$1.328	$1.553	$1.949	$2.561	$3.236	$4.019	$4.649
10.0	$1.388	$1.638	$2.078	$2.758	$3.508	$4.378	$5.078
11.0	$1.448	$1.723	$2.207	$2.955	$3.780	$4.737	$5.507
12.0	$1.508	$1.808	$2.336	$3.152	$4.052	$5.096	$5.936
13.0	$1.568	$1.893	$2.465	$3.349	$4.324	$5.455	$6.365
14.0	$1.628	$1.978	$2.594	$3.546	$4.596	$5.814	$6.794
15.0	$1.688	$2.063	$2.723	$3.743	$4.868	$6.173	$7.223

Notes

[1] These amounts are correct for the corresponding weights. Postage will be computed exactly for items of intermediate weight as provided in DMM P013.

[2] Rate cells calculated as the sum of per-piece rate and the per-pound rate for each zone, times the number of pounds.

Calculation: Zoned rates for X pounds = (Adjusted *Rate Schedules Workpaper* (WP-BPM-16), cell [Af]) + (WP-BPM-16, row [I], columns [B] to [H]) * X pounds; (X = 1.5 to 15 pounds).

Computed Proposed Carrier Route Presort Destination Entry Rates [1],[2]

Weight Not Over (lbs).	DBMC/ASF Zone				DSCF	DDU
	Zones 1&2	Zone 3	Zone 4	Zone 5		
1.5	$0.670	$0.698	$0.761	$0.859	$0.632	$0.629
2.0	$0.695	$0.733	$0.817	$0.947	$0.645	$0.641
2.5	$0.721	$0.768	$0.873	$1.036	$0.658	$0.653
3.0	$0.746	$0.803	$0.929	$1.124	$0.671	$0.665
3.5	$0.772	$0.838	$0.985	$1.213	$0.684	$0.677
4.0	$0.797	$0.873	$1.041	$1.301	$0.697	$0.689
4.5	$0.823	$0.908	$1.097	$1.390	$0.710	$0.701
5.0	$0.848	$0.943	$1.153	$1.478	$0.723	$0.713
6.0	$0.899	$1.013	$1.265	$1.655	$0.749	$0.737
7.0	$0.950	$1.083	$1.377	$1.832	$0.775	$0.761
8.0	$1.001	$1.153	$1.489	$2.009	$0.801	$0.785
9.0	$1.052	$1.223	$1.601	$2.186	$0.827	$0.809
10.0	$1.103	$1.293	$1.713	$2.363	$0.853	$0.833
11.0	$1.154	$1.363	$1.825	$2.540	$0.879	$0.857
12.0	$1.205	$1.433	$1.937	$2.717	$0.905	$0.881
13.0	$1.256	$1.503	$2.049	$2.894	$0.931	$0.905
14.0	$1.307	$1.573	$2.161	$3.071	$0.957	$0.929
15.0	$1.358	$1.643	$2.273	$3.248	$0.983	$0.953

Notes

[1] These amounts are correct for the corresponding weights. Postage will be computed exactly for items of intermediate weight as provided in DMM P013.

[2] Rate cells calculated as the sum of per-piece rate and the per-pound rate for each zone, (if applicable), times the number of pounds.

Calculation: DBMC: Zoned rates for X pounds =
(Adjusted Rate Schedules Workpaper (WP-BPM-16), cell [Ag]) +
(WP-BPM-16, row [g], columns [B] to [E]) * X pounds; (X = 1.5 to 15 pounds).

DSCF: Rate for X pounds =
(Adjusted Rate Schedules Workpaper (WP-BPM-16), cell [Ah]) +
(WP-BPM-16, [Bh]) * X pounds; (X = 1.5 to 15 pounds).

DDU: Rate for X pounds =
(Adjusted Rate Schedules Workpaper (WP-BPM-16), cell [Aj]) +
(WP-BPM-16, [Bj]) * X pounds; (X = 1.5 to 15 pounds).

Proposed Single Piece Rate Percent Changes [1]

Weight Not Over (lbs).	Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1.5	-0.7%	-1.0%	0.1%	0.2%	0.9%	1.2%	0.9%
2.0	-0.5%	-0.9%	0.5%	0.7%	1.4%	1.8%	1.4%
2.5	-0.3%	-0.8%	0.9%	1.1%	1.9%	2.3%	1.8%
3.0	-0.1%	-0.6%	1.2%	1.4%	2.4%	2.8%	2.1%
3.5	0.1%	-0.5%	1.5%	1.7%	2.8%	3.2%	2.4%
4.0	0.2%	-0.4%	1.9%	2.0%	3.1%	3.5%	2.7%
4.5	0.4%	-0.4%	2.1%	2.3%	3.5%	3.8%	2.9%
5.0	0.6%	-0.3%	2.4%	2.5%	3.7%	4.1%	3.1%
6.0	0.9%	-0.1%	2.9%	3.0%	4.3%	4.6%	3.5%
7.0	1.2%	0.0%	3.4%	3.4%	4.7%	5.0%	3.7%
8.0	1.4%	0.2%	3.8%	3.7%	5.0%	5.3%	4.0%
9.0	1.7%	0.3%	4.1%	4.0%	5.4%	5.6%	4.2%
10.0	1.9%	0.4%	4.4%	4.3%	5.6%	5.8%	4.3%
11.0	2.1%	0.5%	4.7%	4.5%	5.9%	6.0%	4.5%
12.0	2.4%	0.6%	5.0%	4.7%	6.1%	6.2%	4.6%
13.0	2.6%	0.7%	5.3%	4.9%	6.3%	6.4%	4.7%
14.0	2.7%	0.8%	5.5%	5.1%	6.5%	6.5%	4.8%
15.0	2.9%	0.9%	5.7%	5.2%	6.6%	6.6%	4.9%

Notes

[1] Calculation: Zoned rate changes for X pounds = (*Proposed Single Piece Rates Workpaper*, (WP-BPM-17), zoned rates for X pounds) / (Inputs Workpaper (WP-BPM-1), Input [20b] + (Inputs Workpaper, (WP-BPM-1), Input [18]) * X pounds) - 1; (X = 1.5 to 15 pounds).

Computed Proposed Basic Presort Rate Percent Changes [1]

Weight Not Over (lbs).	Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1.5	19.9%	19.7%	19.2%	18.8%	19.0%	18.9%	18.2%
2.0	19.8%	19.5%	19.0%	18.5%	18.8%	18.7%	17.9%
2.5	19.8%	19.4%	18.8%	18.3%	18.6%	18.5%	17.6%
3.0	19.7%	19.3%	18.6%	18.1%	18.5%	18.3%	17.4%
3.5	19.6%	19.2%	18.4%	17.9%	18.3%	18.2%	17.2%
4.0	19.6%	19.1%	18.2%	17.7%	18.2%	18.1%	17.1%
4.5	19.5%	19.0%	18.1%	17.6%	18.1%	18.0%	17.0%
5.0	19.5%	18.9%	18.0%	17.5%	18.0%	18.0%	16.9%
6.0	19.4%	18.7%	17.7%	17.2%	17.9%	17.8%	16.7%
7.0	19.3%	18.6%	17.6%	17.1%	17.8%	17.7%	16.6%
8.0	19.2%	18.5%	17.4%	16.9%	17.7%	17.7%	16.5%
9.0	19.2%	18.4%	17.2%	16.8%	17.6%	17.6%	16.4%
10.0	19.1%	18.3%	17.1%	16.7%	17.5%	17.5%	16.4%
11.0	19.0%	18.2%	17.0%	16.6%	17.5%	17.5%	16.3%
12.0	19.0%	18.1%	16.9%	16.5%	17.4%	17.5%	16.3%
13.0	18.9%	18.0%	16.8%	16.4%	17.4%	17.4%	16.2%
14.0	18.9%	18.0%	16.7%	16.3%	17.4%	17.4%	16.2%
15.0	18.9%	17.9%	16.7%	16.3%	17.3%	17.4%	16.1%

Notes

[1] Calculation: Zoned rate changes for X pounds = (Proposed Basic Presort Rates Workpaper, (WP-BPM-18), zoned rates for X pounds) / (Inputs Workpaper (WP-BPM-1), Input [21b] + (Inputs Workpaper, (WP-BPM-1), Input [19]) * X pounds) - 1; (X = 1.5 to 15 pounds).

Computed Proposed Basic Presort Destination Entry Rate Percent Changes

Weight Not Over (lbs).	DBMC/ASF Zone [1]				DSCF [2]	DDU [3]
	Zones 1&2	Zone 3	Zone 4	Zone 5		
1.5	-6.3%	-6.6%	-5.6%	-4.2%	-11.0%	21.3%
2.0	-6.1%	-6.5%	-5.3%	-3.6%	-12.2%	20.5%
2.5	-5.9%	-6.4%	-5.0%	-3.1%	-13.3%	19.7%
3.0	-5.7%	-6.3%	-4.7%	-2.6%	-14.3%	18.9%
3.5	-5.6%	-6.2%	-4.5%	-2.2%	-15.3%	18.2%
4.0	-5.4%	-6.1%	-4.3%	-1.9%	-16.2%	17.5%
4.5	-5.3%	-6.1%	-4.1%	-1.5%	-17.1%	16.8%
5.0	-5.1%	-6.0%	-3.9%	-1.3%	-17.9%	16.2%
6.0	-4.9%	-5.9%	-3.6%	-0.8%	-19.5%	15.0%
7.0	-4.6%	-5.8%	-3.3%	-0.4%	-20.9%	13.9%
8.0	-4.4%	-5.7%	-3.1%	-0.1%	-22.2%	12.8%
9.0	-4.2%	-5.6%	-2.9%	0.2%	-23.3%	11.9%
10.0	-4.1%	-5.5%	-2.7%	0.4%	-24.4%	11.0%
11.0	-3.9%	-5.4%	-2.6%	0.6%	-25.4%	10.1%
12.0	-3.8%	-5.4%	-2.4%	0.8%	-26.3%	9.4%
13.0	-3.6%	-5.3%	-2.3%	1.0%	-27.1%	8.6%
14.0	-3.5%	-5.3%	-2.2%	1.1%	-27.9%	7.9%
15.0	-3.4%	-5.2%	-2.1%	1.2%	-28.6%	7.3%

Notes

[1] Calculation: DBMC: Zoned rate changes for X pounds =
(Proposed Basic Presort Destination Entry Rates Workpaper, (WP-BPM-19), zoned DBMC rates for X pounds) / (Inputs Workpaper (WP-BPM-1), Input [21b] + (Inputs Workpaper, (WP-BPM-1), Input [19]) * X pounds) - 1; (X = 1.5 to 15 pounds).

[2] Rate change for DSCF is computed relative to Basic Presort Zones 1&2 rates.
Calculation: DSCF: Rate changes for X pounds =
(Proposed Basic Presort Destination Entry Rates Workpaper, (WP-BPM-19), *DSCF rates for X pounds*) / (Inputs Workpaper (WP-BPM-1), Input [21b] + (Inputs Workpaper, (WP-BPM-1), Input [19], Zones 1&2) * X pounds) - 1;
(X = 1.5 to 15 pounds).

[3] Rate change for DDU is computed relative to Basic Presort Local zone rates.
Calculation: DDU: Rate changes for X pounds =
(Proposed Basic Presort Destination Entry Rates Workpaper, (WP-BPM-19), DDU rates for X pounds) / (Inputs Workpaper (WP-BPM-1), Input [21a] + (Inputs Workpaper, (WP-BPM-1), Input [19], Local zone) * X pounds) - 1;
(X = 1.5 to 15 pounds).

Computed Proposed Carrier Route Presort Rate Percent Changes [1]

Weight Not Over (lbs).	Zones 1&2	Zone 3	Zone 4	Zone 5	Zone 6	Zone 7	Zone 8
1.5	22.0%	21.7%	21.0%	20.5%	20.5%	20.2%	19.3%
2.0	21.9%	21.4%	20.6%	20.0%	20.1%	19.8%	18.8%
2.5	21.7%	21.2%	20.3%	19.6%	19.8%	19.5%	18.5%
3.0	21.6%	21.0%	20.0%	19.3%	19.5%	19.2%	18.2%
3.5	21.5%	20.8%	19.8%	19.0%	19.3%	19.0%	17.9%
4.0	21.4%	20.6%	19.5%	18.8%	19.1%	18.9%	17.7%
4.5	21.3%	20.5%	19.3%	18.5%	18.9%	18.7%	17.6%
5.0	21.2%	20.3%	19.1%	18.4%	18.8%	18.6%	17.4%
6.0	21.0%	20.1%	18.8%	18.0%	18.6%	18.4%	17.2%
7.0	20.8%	19.8%	18.5%	17.8%	18.4%	18.2%	17.0%
8.0	20.6%	19.6%	18.3%	17.6%	18.2%	18.1%	16.9%
9.0	20.5%	19.5%	18.0%	17.4%	18.1%	18.0%	16.8%
10.0	20.4%	19.3%	17.9%	17.2%	18.0%	17.9%	16.7%
11.0	20.3%	19.2%	17.7%	17.1%	17.9%	17.8%	16.6%
12.0	20.2%	19.0%	17.6%	17.0%	17.8%	17.8%	16.5%
13.0	20.1%	18.9%	17.4%	16.9%	17.8%	17.7%	16.4%
14.0	20.0%	18.8%	17.3%	16.8%	17.7%	17.7%	16.4%
15.0	19.9%	18.7%	17.2%	16.7%	17.6%	17.6%	16.3%

Notes

[1] Calculation: Zoned rate changes for X pounds = (Proposed Carrier Route Presort Rates Workpaper, (WP-BPM-20), zoned rates for X pounds) / (Inputs Workpaper (WP-BPM-1), Input [21b] - Input [22] + (Inputs Workpaper, (WP-BPM-1), Input [19]) * X pounds) - 1; (X = 1.5 to 15 pounds).

Computed Proposed Carrier Route Presort Destination Entry Rate Percent Changes

Weight Not Over (lbs).	DBMC/ASF Zone [1]				DSCF [2]	DDU [3]
	Zones 1&2	Zone 3	Zone 4	Zone 5		
1.5	-6.9%	-7.2%	-6.2%	-4.6%	-12.2%	24.6%
2.0	-6.7%	-7.1%	-5.8%	-3.9%	-13.4%	23.5%
2.5	-6.5%	-7.0%	-5.4%	-3.3%	-14.6%	22.5%
3.0	-6.3%	-6.8%	-5.1%	-2.8%	-15.7%	21.6%
3.5	-6.1%	-6.7%	-4.8%	-2.3%	-16.7%	20.7%
4.0	-5.9%	-6.6%	-4.6%	-2.0%	-17.7%	19.8%
4.5	-5.7%	-6.5%	-4.4%	-1.6%	-18.6%	19.0%
5.0	-5.6%	-6.4%	-4.2%	-1.3%	-19.5%	18.2%
6.0	-5.3%	-6.3%	-3.8%	-0.8%	-21.1%	16.8%
7.0	-5.0%	-6.2%	-3.5%	-0.4%	-22.5%	15.5%
8.0	-4.8%	-6.0%	-3.2%	-0.1%	-23.8%	14.3%
9.0	-4.5%	-5.9%	-3.0%	0.2%	-25.0%	13.1%
10.0	-4.3%	-5.8%	-2.8%	0.4%	-26.0%	12.1%
11.0	-4.2%	-5.7%	-2.7%	0.6%	-27.0%	11.2%
12.0	-4.0%	-5.7%	-2.5%	0.8%	-27.9%	10.3%
13.0	-3.8%	-5.6%	-2.4%	1.0%	-28.7%	9.4%
14.0	-3.7%	-5.5%	-2.3%	1.1%	-29.5%	8.7%
15.0	-3.6%	-5.5%	-2.2%	1.2%	-30.2%	7.9%

Notes

[1] Calculation: DBMC: Zoned rate changes for X pounds =
(Proposed Carrier Route Presort Destination Entry Rates Workpaper, (WP-BPM-21), zoned DBMC rates for X pounds) /
(Inputs Workpaper (WP-BPM-1), Input [21b] -Input [22] +
(Inputs Workpaper, (WP-BPM-1), Input [19]) * X pounds) - 1; (X = 1.5 to 15 pounds).

[2] Rate change for DSCF is computed relative to Carrier Route Presort Zones 1&2 rates.
Calculation: DSCF: Rate changes for X pounds =
(Proposed Carrier Route Presort Destination Entry Rates Workpaper, (WP-BPM-21), DSCF rates for X pounds) / (Inputs Workpaper (WP-BPM-1), Input [21b] - Input [22] + (Inputs Workpaper, (WP-BPM-1), Input [19], Zones 1&2) * X pounds) - 1;
(X = 1.5 to 15 pounds).

[3] Rate change for DDU is computed relative to Carrier Route Presort Local zone rates.
Calculation: DDU: Rate changes for X pounds =
(Proposed Carrier Route Presort Destination Entry Rates Workpaper, (WP-BPM-21), DDU rates for X pounds) / (Inputs Workpaper (WP-BPM-1), Input [21a] - Input [22] + (Inputs Workpaper, (WP-BPM-1), Input [19], Local zone) * X pounds) - 1;
(X = 1.5 to 15 pounds).

Calculation of TYAR Pieces and Pounds

	Zone	Pieces [1] Total [A]	Single Piece [B]	Basic Presort [C]	Carrier Route Presort [D]	Total Presort [E]	DBMC Presort [F]	DSCF Presort [G]	DDU Presort [H]	Non-Drop-Shipped Presort [J]	Pounds [2] Total [K]	Single Piece [L]	Total Presort [M]	DBMC Presort [N]	DSCF Presort [O]	DDU Presort [P]	Non-Drop-Shipped Presort [Q]
[a]	All Zones	524,742,871	30,748,824	385,715,960	108,278,088	493,994,047	221,088,024	77,063,071	35,567,571	160,275,381	1,287,524,775	70,626,601	1,216,898,174	563,288,535	197,666,763	91,230,814	364,712,063
[b]	1&2	332,828,764	15,009,843	219,783,046	98,035,875	317,818,921	179,474,953	77,063,071	35,567,571	25,713,325	848,715,700	33,510,230	815,205,469	460,353,220	197,666,763	91,230,814	65,954,673
[c]	3	68,149,385	2,612,976	60,702,002	4,834,388	65,536,390	32,110,107			33,426,283	170,310,739	6,034,288	164,276,451	80,488,633			83,787,818
[d]	4	48,571,368	4,197,006	41,804,485	2,569,876	44,374,361	9,283,136			35,091,225	114,451,880	9,322,227	105,129,653	21,993,170			83,136,483
[e]	5	35,944,963	4,106,221	30,358,422	1,480,320	31,838,742	219,827			31,818,914	75,819,716	10,135,257	65,684,459	453,512			65,230,947
[f]	6	14,543,254	1,927,064	12,053,136	563,054	12,616,190				12,616,190	28,653,776	4,589,316	24,064,460				24,064,460
[g]	7	10,817,226	1,213,216	9,152,185	451,826	9,604,011				9,604,011	21,687,210	3,013,426	18,673,784				18,673,784
[h]	8	13,887,932	1,682,498	11,862,684	342,749	12,205,433				12,205,433	27,885,754	4,021,856	23,863,897				23,863,897

Notes

(1) Source: [Aa] Inputs Workpaper (WP-BPM 1), Input [1i];
Calculation: Total forecast volume is apportioned to Single Piece, Basic Presort, and Carrier Route Presort categories based on shares of total pieces from the Pieces Distribution Factors Workpaper (WP BPM-7), row [k]:
[Ba] = [Aa] * (Pieces Distribution Factors Workpaper (WP BPM 7), cell [Ak]);
[Ca] = [Aa] * (Pieces Distribution Factors workpaper (WP BPM 7), cell [Bk]);
[Da] = [Aa] * (Pieces Distribution Factors workpaper (WP BPM-7), cell [Ck]);
Calculation: Column total pieces are apportioned to zones based on the Pieces Distribution Factors workpaper (columns [D] to [F]).
Rows [b] to [h]: [B] = [Ba] * (Pieces Distribution Factors workpaper (WP-BPM-7), column [D], rows [a] to [h]);
[C] = [Ca] * (Pieces Distribution Factors workpaper (WP BPM 7), column [E], rows [a] to [h]);
[D] = [Da] * (Pieces Distribution Factors workpaper (WP BPM 7), column [F], rows [a] to [h]);
[A] = sum of columns [B] to [D];
[E] = [C] + [D];
Rows [b] to [e] [F] = [Ea] * (Inputs Workpaper (WP BPM 1), Inputs [9a] to [9d]);
[Fa] = sum of [Fb] to [Fe];
[Gb] = [Ea] * (Inputs Workpaper (WP BPM 1), Input [9i]);
[Ga] = [Gb];
[Hb] = [Fa] * (Inputs Workpaper (WP BPM 1), Input [9g]);
[Ha] = [Hb];
[I] = [E] - [F] - [G] - [H].

(2) Calculation: Single piece and presort pounds are calculated from forecast volumes (cells [Ba] and [Ea]) based on pounds per piece data from WP BPM 6 and WP BPM 7 workpapers;
Calculation: [La] = [Ba] * (Pounds Distribution Factors Workpaper (WP BPM 6), [Aj]) / (Pieces Distribution Factors Workpaper (WP BPM-7), [Aj]);
[Ma] = [Ea] * (Pounds Distribution Factors Workpaper (WP BPM 6), [Bj]) / (Pieces Distribution Factors Workpaper (WP BPM 7), [Hj] + [Ij]);
[Na] = [Ma] * (Distribution of Test Year Transportation Costs Workpaper (WP BPM 10), [Ch]) / (Sum of WP BPM 10, cells [Dh] to [Eh]);
[Oa] = [Ma] * (Distribution of Test Year Transportation Costs Workpaper (WP BPM 10), [Dh]) / (Sum of WP BPM 10, cells [Dd] to [Eh]);
[Pa] = [Ma] * (Distribution of Test Year Transportation Costs Workpaper (WP BPM 10), [Eh]) / (Sum of WP BPM 10, cells [Dd] to [Eh]);
[Qa] = [Ma] * (Distribution of Test Year Transportation Costs Workpaper (WP BPM-10), [Dh]) / (Sum of WP BPM 10, cells [Dh] to [Eh]).
Calculation: Single Piece total pounds are apportioned to zones based on the Pounds Distribution Factors Workpaper (WP BPM 6), column [Lk];
DBMC and Non-Drop-Shipped total pounds are apportioned to zones based on the Distribution of Test Year Transportation Costs Workpaper (WP BPM 10), columns [C] and [H];
[Lb] = [La] * (Pounds Distribution Factors Workpaper (WP BPM 6), [Da] + [Db]);
Rows [c] to [h] [L] = [La] * (Pounds Distribution Factors Workpaper (WP BPM 6), column [D], rows [c] to [h]);
Rows [b] to [e] [N] = [Na] * (Distribution of Test Year Transportation Costs Workpaper (WP BPM 10), column [C], rows [a] to [d]) / (WP BPM 10, cell [Ch]);
[Oa] = [Oa];
[Pa] = [Pa];
Rows [b] to [h]: [Q] = [Qa] * (Distribution of Test Year Transportation Costs Workpaper (WP BPM 10), column [D], rows [a] to [g]) / (WP BPM 10, cell [Dh]);
Rows [b] to [h] [M] = Sum of columns [N] to [Q];
[A] = sum of columns [B] to [D];
[K] = [L] + [M]

Calculation of TYAR Revenue

Single Piece Bound Printed Matter

		Per Piece Component [1]			Per Pound Component [2]			Preliminary Total Revenue [3]
		Pieces [A]	Per Piece Rate [B]	Revenue [C]	Pounds [D]	Per Pound Rate [E]	Revenue [F]	[G]
[a]	Zones 1&2	15,009,843	$1.42	$21,313,977	33,510,230	$0.07	$2,345,716	$23,659,693
[b]	Zone 3	2,612,976	$1.42	$3,710,426	6,034,288	$0.09	$543,086	$4,253,512
[c]	Zone 4	4,197,006	$1.42	$5,959,749	9,322,227	$0.14	$1,305,112	$7,264,861
[d]	Zone 5	4,106,221	$1.42	$5,830,834	10,135,257	$0.20	$2,027,051	$7,857,885
[e]	Zone 6	1,927,064	$1.42	$2,736,431	4,589,316	$0.27	$1,239,115	$3,975,546
[f]	Zone 7	1,213,216	$1.42	$1,722,766	3,013,426	$0.35	$1,054,699	$2,777,465
[g]	Zone 8	1,682,498	$1.42	$2,389,147	4,021,856	$0.41	$1,648,961	$4,038,109

Presort Bound Printed Matter

		Per Piece Component [4]			Per Pound Component [5]			Preliminary Total Revenue [6]
		Pieces [A]	Per Piece Rate [B]	Revenue [C]	Pounds [D]	Per Pound Rate [E]	Revenue [F]	[G]
[h]	Zones 1&2	317,818,921	$0.865	$274,913,367	815,205,469	$0.060	$48,912,328	$323,825,695
[i]	Zone 3	65,536,390	$0.865	$56,688,977	164,276,451	$0.085	$13,963,498	$70,652,475
[j]	Zone 4	44,374,361	$0.865	$38,383,823	105,129,653	$0.129	$13,561,725	$51,945,548
[m]	Zone 5	31,838,742	$0.865	$27,540,512	65,684,459	$0.197	$12,939,838	$40,480,350
[n]	Zone 6	12,616,190	$0.865	$10,913,004	24,064,460	$0.272	$6,545,533	$17,458,537
[o]	Zone 7	9,604,011	$0.865	$8,307,469	18,673,784	$0.359	$6,703,889	$15,011,358
[p]	Zone 8	12,205,433	$0.865	$10,557,700	23,863,897	$0.429	$10,237,612	$20,795,312

Revenue Discounts

		Per Piece Component [7]			Per Pound Component [8]			Preliminary Total Discount [9]
		Pieces [A]	Per Piece Discount [B]	Discount [C]	Pounds [D]	Per Pound Discount [E]	Discount [F]	[G]
	Carrier Route							
[q]	Zones 1&2	98,035,875	$0.077	$7,548,762	—	—	—	$7,548,762
[r]	Zone 3	4,834,388	$0.077	$372,248	—	—	—	$372,248
[s]	Zone 4	2,569,876	$0.077	$197,880	—	—	—	$197,880
[t]	Zone 5	1,480,320	$0.077	$113,985	—	—	—	$113,985
[u]	Zone 6	563,054	$0.077	$43,355	—	—	—	$43,355
[v]	Zone 7	451,826	$0.077	$34,791	—	—	—	$34,791
[w]	Zone 8	342,749	$0.077	$26,392	—	—	—	$26,392
	DBMC							
[x]	Zones 1&2	179,474,953	$0.195	$34,997,616	460,353,220	$0.009	$4,143,179	$39,140,795
[y]	Zone 3	32,110,107	$0.195	$6,261,471	80,488,633	$0.015	$1,207,330	$7,468,800
[z]	Zone 4	9,283,136	$0.195	$1,810,212	21,993,170	$0.017	$373,884	$2,184,095
[aa]	Zone 5	219,827	$0.195	$42,866	453,512	$0.020	$9,070	$51,937
[ab]	DSCF	77,063,071	$0.195	$15,027,299	197,666,763	$0.034	$6,720,670	$21,747,969
[ac]	DDU	35,567,571	$0.195	$6,935,676	91,230,814	$0.036	$3,284,309	$10,219,986
[ad]	Barcoding	108,061,720	$0.030	$3,241,852	—	—	—	$3,241,852

Calculation of TYAR Revenue

Revenue Summary

		Per Piece Component [10] [A]	Per Pound Component [11] [B]	Total [12] [C]
[ae]	Single Piece Revenue Before Discounts	$43.663.330	$10.163.741	$53.827.070
[af]	Adjusted			$55.545.847
[ag]	Presort Revenue Before Discounts	$427.304.851	$112.864.424	$540.169.275
[ah]	Adjusted			$539.474.238
[ai]	Total Revenue Discounts	-$76.654.404	-$15.738.442	-$92.392.846
[ak]	Net Revenue Before Fees	$394.313.776	$107.289.723	$502.627.239
[am]	Total Fees			$698.000
[an]	Net Revenue With Fees			$503.325.239

Notes

[1] Source: Rows [a] to [g]: [A]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Bb] to [Bh]:
[B]: Adjusted Rate Schedules Workpaper (WP-BPM-16). [Aa]:
Calculation: Rows [a] to [g]: [C] = [A] * [B].
[2] Source: Rows [a] to [g]: [D]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Lb] to [Lh]:
[E]: Adjusted Rate Schedules Workpaper (WP-BPM-16). Row [a]. columns [B] to [H]. transposed;
Calculation: Rows [a] to [g]: [F] = [D] * [E].
[3] Calculation: Rows [a] to [g]: [G] = [C] + [F]
[4] Source: Rows [h] to [p]: [A]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Eb] to [Eh].
[B]: Adjusted Rate Schedules Workpaper (WP-BPM-16). [Ab].
Calculation: Rows [h] to [p]: [C] = [A] * [B].
[5] Source: Rows [h] to [p]: [D]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Mb] to [Mh].
[E]: Adjusted Rate Schedules Workpaper (WP-BPM-16). Row [b]. columns [B] to [H]. transposed;
Calculation: Rows [h] to [p]: [F] = [D] * [E].
[6] Calculation: Rows [h] to [p]: [G] = [C] + [F].
[7] Source: Rows [q] to [w]: [A]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Db] to [Dh]:
[B]: Inputs Workpaper (WP-BPM-1). Input [14a].
Rows [x] to [aa]: [A]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Fb] to [Fe].
[B]: Adjusted Rate Schedules Workpaper (WP-BPM-16). [Ab] - [Ac].
[Aab]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Gb]:
[Bab]: Adjusted Rate Schedules Workpaper (WP-BPM-16). [Ab] - [Ad].
[Aac]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Hb].
[Bac]: Adjusted Rate Schedules Workpaper (WP-BPM-16). [Ab] - [Ae].
Calculation: Barcoded volume calculated from single piece and presort volumes (less ineligible presort pieces) and barcode shares:
Calculation: [Aad] = ([TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Ba]] * ([Inputs Workpaper (WP-BPM-1). Input [7]] +
((WP-BPM-27. [Ca]) - (WP-BPM-27. [Ca] / [Ea])* (Sum of [Ax] to [Aaa]) * (WP-BPM-1. Input [9e]) + [Aab] + [Aac]) *
(WP-BPM-1. Input [8]):
[Bad]: Inputs Workpaper (WP-BPM-1). Input [14b]. rounded to whole cents;
Calculation: Rows [q] to [ad]: [C] = [B] * [A].
[8] Source: Rows [z] to [aa]: [D]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Nb] to [Ne].
[Dab]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Ob]:
[Dac]: TYAR Pieces and Pounds Workpaper (WP-BPM-27). [Pb].
Calculation: Rows [z] to [aa]: [E] = [Adjusted Rate Schedules (WP-BPM-16). columns [B] to [E]. row [b] - row [c]). transposed;
[Eab] = (WP-BPM-16. [Bb] - [Bd]):
[Eac] = (WP-BPM-16. [Bb] - [Be]):
Rows [z] to [ac]: [F] = [D] * [E].
[9] Calculation: Rows [q] to [ad]: [G] = [C] + [F].
[10] Calculation: [Aae] = Sum of [Ca] to [Cg]:
[Aag] = Sum of [Ch] to [Cp].
[Aaj] = (Sum of [Cq] to [Cad])*(-1):
[Aak] = [Aae] + [Aag] + [Aaj]).
[11] Calculation: [Bae] = Sum of [Fa] to [Fg].
[Bag] = Sum of [Fh] to [Fp].
[Baj] = (Sum of [Fz] to [Fac])*(-1):
[Bak] = [Bae] + [Bag] + [Baj]:
[12] Calculation: [Cae] = [Aae] + [Bae]:
[Caf] = [Cae] * [Inputs Workpaper (WP-BPM-1. Input [4]):
[Cag] = [Aag] + [Bag]:
[Cah] = [Cag] * [Inputs Workpaper (WP-BPM-1. Input [5]).
[Caj] = [Aaj] + [Baj]:
[Cak] = [Caf] + [Cah] + [Caj]:
Source: [Cam]. Inputs Workpaper (WP-BPM-1). Input [17].
Calculation: [Can] = [Cak] + [Cam].

Bound Printed Matter Financial Summary

		Volume [1] [A]	Cost [2] [B]	Revenue [3] [C]	Cost Coverage [4] [D]	Cost Per Piece [5] [E]	Revenue Per Piece [6] [F]	Contribution Per Piece [7] [G]
[a]	Before Rates	541,975,772	$493,423,725	$492,553,800	99.8%	$0.91	$0.91	$0.00
[b]	After Rates	524,742,871	$479,203,900	$503,325,239	105.0%	$0.91	$0.96	$0.05
[c]	*Per Piece Changes*					0.3%	5.5%	---

Notes

[1] Source: [Aa]: Inputs Workpaper (WP-BPM-1), Input [6];
[Ab]: Inputs Workpaper (WP-BPM-1), Input [10].

[2] Costs include contingency:
Calculation: [Ba] = (Inputs Workpaper (WP-BPM-1), Input [11] * (1 + Input [3]));
[Bb] = (Inputs Workpaper (WP-BPM-1), Input [15] * (1 + Input [3])).

[3] Revenues include Fees:
Calculation: [Ca] = (TYBR Revenue Workpaper (WP-BPM-13), [Gk] + [Gv])
- (Revenue Leakages Workpaper (WP-BPM-12), [Ga]) * (Inputs Workpaper (WP-BPM-1), Input [22] / Input [14a])
- (TYBR Pounds and Pieces Workpaper (WP-BPM-8), [Ba]) * (WP-BPM-1, Input [7] * Input [23])
- (TYBR Pounds and Pieces Workpaper (WP-BPM-8), [Ca]) * (WP-BPM-1, Input [8] * Input [23])
+ (WP-BPM-1, Input [16]);
Source: [Cb]: TYAR Revenue Calculation Workpaper (WP-BPM-28), [Can].

[4] Calculation: [D] = [C] / [B].

[5] Calculation: Rows [a] and [b]: [E] = [B] / [A];
[Ec] = [Eb] / [Ea] - 1.

[6] Calculation: Rows [a] and [b]: [F] = [C] / [A];
[Fc] = [Fb] / [Fa] - 1.

[7] Calculation: Rows [a] and [b]: [G] = [F] - [E];
[Gc] = [Gb] / [Ga] - 1.

DECLARATION OF STEPHEN SIWEK

I declare, under penalty of perjury, that the foregoing Direct Testimony of Stephen Siwek (AAP-T-1) on behalf of the Association of American Publishers was prepared by me, or under my direct supervision, and that if called to testify under oath, it would be my testimony.

Stephen Siwek

Dated: July 18, 2000

1 CHAIRMAN GLEIMAN: Have you had an opportunity to
2 review the designated written cross-examination of the
3 witness?
4 MR. PRZYPYSZNY: Yes, Mr. Chairman.
5 CHAIRMAN GLEIMAN: And if you could provide two --
6 are there any corrections or changes?
7 MR. PRZYPYSZNY: No corrections, and I have
8 appropriate declarations.
9 CHAIRMAN GLEIMAN: If you could please provide
10 that to the court reporter, that material also will be
11 received into evidence and transcribed into the record.
12 [Designated Written
13 Cross-Examination of Stephen E.
14 Siwek was received into evidence
15 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 ASSOCIATION OF AMERICAN PUBLISHERS
WITNESS STEPHEN E. SIWEK
(AAP-T-2)

Party	Interrogatories
Mail Order Association of America	MOAA/AAP-T2-1, 4-6 USPS/AAP-T2-4-5
United States Postal Service	MOAA/AAP-T2-6 USPS/AAP-T2-1-13

Respectfully submitted,

Margaret P. Crenshaw

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Secretary

INTERROGATORY RESPONSES OF
ASSOCIATION OF AMERICAN PUBLISHERS
WITNESS STEPHEN E. SIWEK (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
MOAA/AAP-T2-1	MOAA
MOAA/AAP-T2-4	MOAA
MOAA/AAP-T2-5	MOAA
MOAA/AAP-T2-6	MOAA, USPS
USPS/AAP-T2-1	USPS
USPS/AAP-T2-2	USPS
USPS/AAP-T2-3	USPS
USPS/AAP-T2-4	MOAA, USPS
USPS/AAP-T2-5	MOAA, USPS
USPS/AAP-T2-6	USPS
USPS/AAP-T2-7	USPS
USPS/AAP-T2-8	USPS
USPS/AAP-T2-9	USPS
USPS/AAP-T2-10	USPS
USPS/AAP-T2-11	USPS
USPS/AAP-T2-12	USPS
USPS/AAP-T2-13	USPS

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
STEPHEN SIWEK TO INTERROGATORIES OF
THE MAIL ORDER ASSOCIATION OF AMERICA

MOAA/AAP-T2-1

You criticize the "pass-through" proposals of USPS witness Kiefer for destination discounts as "disparate and discriminatory" (at 25). Please explain why your pass-through proposals ranging from 19.7 to 33.9 percent of calculated cost savings are not "disparate and discriminatory."

RESPONSE

As I explain on page 24 of my testimony, the BPM rate structure recommended by Mr. Kiefer would pass through only 16 percent of the cost savings generated by DBMC mailers. By contrast, the USPS would award pass-throughs of 47 percent and 45 percent respectively to DSCF and DDU mailers in the same subclass. This proposal blatantly discriminates against DBMC mailers. The illustrative pass-throughs for DBMC, DSCF and DDU mail that are discussed at page 25 of my testimony do not reflect AAP's proposed rates in this case. Nevertheless, even these illustrative discounts are aligned much more closely than the USPS' proposals. For this reason, the illustrative pass-throughs discussed at page 25 of my testimony are much less disparate and discriminatory than the pass- throughs recommended by Mr. Kiefer.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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THE MAIL ORDER ASSOCIATION OF AMERICA

MOAA/AAP-T2-4

How long has a carrier route discount been in effect for BPM?

RESPONSE

Please refer to the testimony of USPS witness Kiefer (USPS-T-37) at page 27, lines 10-11, where he states: "the current (BPM) rate structure dates back to 1985, when the Basic Presort and Carrier Route Presort rates replaced the single bulk rate."

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THE MAIL ORDER ASSOCIATION OF AMERICA

MOAA/AAP-T2-5

Please confirm that for Standard Mail A ECR destination discounts are provided as a separate portion of the rate schedule.

RESPONSE

For purposes of this proceeding, I have not analyzed Standard Mail A ECR rates in any detail. The rate schedules for Standard Mail A ECR mail are included in Attachment B to the USPS' rate request in this case.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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THE MAIL ORDER ASSOCIATION OF AMERICA

MOAA/AAP-T2-6

In your response to MOAA/AAP-T-2-2 you refused to confirm the accuracy of a table that was prepared on the basis of your Attachment 4, Table 1, page 1 (As was shown in footnote 1 of the question, but omitted from your response). Instead, you stated that your "proposed per piece discounts for BPM...were provided in my Attachment 6." Attachment 6, however, does not provide your per-piece discount proposal in the format shown in Attachment 4. Therefore, please provide what you consider to be the proper Postal Service cost "savings" for entry at the DBMC, DSCF and DDU entry levels, the percentages of those savings that should be reflected in discounts at the DBMC, DSCF and DDU entry levels, the per-piece discounts that you propose for each of those entry levels and the amount of Postal Service savings not passed through for each of those entry levels.

RESPONSE

The Attachment to this response provides cost savings, discounts and pass-through information in the format that you request for the BPM discount proposals that were reflected in my Attachment 6. It is important to note that the Attachment to this response provides cost savings "as per the USPS." However, these USPS cost savings estimates do not necessarily reflect what I consider to be "proper" Postal Service cost savings for destination entry. My recommended pass-through proposals <u>assumed</u> but did not <u>endorse</u> the destination entry cost savings calculations presented by the Postal Service. For example, in my Direct Testimony, I stated at

lines 25-27 of page 3, " [I]ndeed the proposed destination entry discounts do not even align rates with costs claimed by the USPS". In addition, at lines 6-9 of page 4 of my Direct Testimony, I stated " [f]or this reason, even assuming that the Postal Service has accurately measured the cost savings associated with destination entry, the destination entry discounts proposed by the USPS are plainly not cost based."

Attachment to MOAA/USPS-T2-6

BPM DISCOUNTS

Basic Presort	Savings As Per USPS	Per Piece Discount	USPS Savings Not Passed Through
DBMC	$0.380	$0.195	$0.185
DSCF	$0.529	$0.195	$0.334
DDU	$0.656	$0.195	$0.461
Carrier Route Presort	$0.077	$0.077	$0.000
Bar Code	$0.029	$0.030	($0.001)

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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UNITED STATES POSTAL SERVICE

USPS/AAP-T2-1.

Please refer to your testimony at page 18, lines 14-15, where you say "strata four's volume, and hence the total population volume, is measured with error. Instead of the true stratum proportions, the report used estimated weights that bias the estimate of the population mean."

a. Please describe in detail your understanding of the nature of this measurement error.

b. Please describe in detail how this measurement error generates bias in the estimate of the population mean.

RESPONSE

(a) As noted in my testimony, the measurement error occurs because the total population volume for stratum four is not known. Instead, an estimate of that population is used which is based on stratum four's total annual revenue and on the ratio of revenue per piece in other strata. The use of an estimate for piece volumes rather than actual piece volumes gives rise to the measurement error.

(b) In LR-I-109, sampled pieces are inflated to national totals using inflation factors that are based on the ratio of population totals to sample totals. As noted above, in the case of stratum four, the inflation factor is measured with error. As a result, the inflated volumes include an added component that is proportional to the difference between the actual and estimated inflation factor. Although the estimated sample proportions for stratum four would provide an unbiased estimate of the population proportions, the mean values of the

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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UNITED STATES POSTAL SERVICE

RESPONSE TO USPS/AAP-T2-1 (CONTINUED)

inflated volumes will not equal the population means. For this reason, the result of the USPS's procedure cannot be called unbiased.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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UNITED STATES POSTAL SERVICE

USPS/AAP-T2-2.

Please refer to your testimony at page 18, lines 23-26, where you say "the inflated means are the product of the 1999 sample mean times the 1998 inflation factor times the difference between the 1998 and 1999 inflation factors. This last term introduces a systematic bias that is not explicitly treated in the report." Please describe in detail the nature of the systematic bias introduced by this "last term."

RESPONSE

Adjusting 1999 sample pieces with 1998 inflation factors is equivalent to multiplying 1998 national pieces by 1999 sample proportions. This procedure would give an unbiased estimate of 1998 totals for a given category only if the 1999 population proportions were identical to the 1998 population proportions. In practice, one would expect that there are year-to-year variations in the distribution of pieces so that the 1999 ratios are proportional to the 1998 ratios plus a deviation or error term. This deviation, which accounts for year-specific factors, would not disappear with alternative draws of the 1999 survey. Although the estimated proportions would provide an unbiased estimate of the 1999 population proportions, they do not constitute an exact measure of the 1998 proportions, which is the year of interest. Since no adjustment was made for year-to-year variations, the 1998 proportions are measured with error which leads to a systematic bias in the estimate.

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UNITED STATES POSTAL SERVICE

USPS/AAP-T2-3.

Please provide the workpapers supporting the rate schedule shown in your Attachment 4 (AAP-T-2, Attachment 4, Table 2, Page 1), similar to those provided in your Attachment 7 to support the proposed rates in your Attachment 6.

RESPONSE

The workpapers supporting the rate schedule shown in Attachment 4, Table 2, Page 1 are provided in a separate Library Reference filed by AAP, AAP-LR-1.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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UNITED STATES POSTAL SERVICE

USPS/AAP-T2-4.

Please refer to the following table:

RATE INCREASES FOR BPM MAIL CURRENTLY PAYING LOCAL
RATES THAT WOULD BE ENTERED AT VARIOUS D8CF RATES

		Mr. Siwek's		Percentage	Percentage
	Current	Proposed	Mr. Siwek's	Change from	Change from
	Local	DSCCF Rates	Attachment 4	Column (b) to	Column (b) to
Pounds	Rates	(Attachment 6)	DSCF Rates	Column (c)	Column (d)
(a)	(b)	(c)	(d)	(e)	(f)
1.5	0.582	0.709	0.829	21.8%	42.4%
2.0	0.596	0.722	0.846	21.1%	41.9%
2.5	0.610	0.735	0.664	20.5%	41.6%
3.0	0.624	0.748	0.881	19.9%	41.2%
3.5	0.638	0.761	0.899	19.3%	40.8%
4.0	0.652	0.774	0.916	18.7%	40.5%
4.5	0.666	0.787	0.934	18.2%	40.2%
5.0	0.680	0.800	0.951	17.6%	39.9%
6.0	0.708	0.826	0.986	16.7%	39.3%
7.0	0.736	0.852	1.021	15.8%	38.7%
8.0	0.764	0.878	1.056	14.9%	38.2%
9.0	0.792	0.904	1.091	14.1%	37.8%
10.0	0.820	0.930	1.126	13.4%	37.3%
11.0	0.848	0.956	1.161	12.7%	36.9%
12.0	0.876	0.982	1.196	12.1%	36.5%
13.0	0.904	1.008	1.231	11.5%	36.2%
14.0	0.932	1.034	1.266	10.9%	35.8%
15.0	0.960	1.060	1.301	10.4%	35.5%

(a) Please confirm that the rates shown in column (b) of the table represent the current rates payable by Basic Presorted Bound Printed Matter entered at the Local rate for mail pieces having the weights shown in the column (a). If you do not confirm, please explain.

(b) Please confirm that the rates shown in column (c) of the table are the rates that Basic Presorted Bound Printed Matter mail pieces having the weights shown in column (a)

would pay if your proposed DSCF rates were recommended by the Postal Rate commission and implemented by the Postal Service Board of Governors. If you do not confirm, please explain.

(c) Please confirm that the rates shown in column (d) of the table are the rates that Basic Presorted Printed Matter mail pieces having the weights shown in column (a) would pay if the Attachment 4, Table 2, DSCF rates were recommended by the Postal Rate Commission and implemented by the Postal Service Board of Governors.

(d) Please confirm that the percentage increases in column (e) of the table represent the percentage increases between the rates in column (b) and the rates in column (c).

(e) Please confirm that the percentage increases shown in column (f) of the table represent the percentage increases between the rates in column (b) and the rates in column (d).

USPS/AAP-T2-4 RESPONSE

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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THE UNITED STATES POSTAL SERVICE

USPS/AAP-T2-5

In your testimony at pages 4-7, you criticize the Postal Service's volume forecasts for BPM. Please identify where you have provided alternative TYBR and TYAR volume forecasts for BPM, and where you have provided complete documentation for those forecasts.

RESPONSE

It was not my purpose or my responsibility to develop an alternative TYBR and TYAR volume forecast for BPM. It is my understanding, that as a legal matter, it is the Postal Service that must justify its proposed rate increases to the Postal Rate Commission based on the Postal Service's own estimate of future volumes. The integrity of the Postal Service's rate increase proposals thus rests in part on the validity (or lack thereof) of the Postal Service's own volume forecasts. The integrity of the Postal Service's rate increase proposals does not rest on the validity of any alternative forecast that might be presented by a non-USPS party.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS
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USPS/AAP-T2-6

Please refer to the attachment to witness Kiefer's response to AAP/USPS-T37-23 (Tr. 13/5298-99), which you cite in your footnote 12.

a. Please confirm that the attachment shows that BPM volume increased between GFY 1998 and GFY 1999.

b. Please confirm that you neglect to mention this increase in your discussion on pages 4-5 of your testimony regarding recent volume trends.

c. Please confirm that the attachment shows that, despite what you describe (page 5, lines 9-10) as a dramatic fall in BPM volume in 1998, BPM volumes remain higher than they were at any point prior to 1996.

d. Please confirm that the attachment shows that, in contrast with the BPM volume decline in GFY 1998 of 33 million pieces (underscored in your testimony at page 4, lines 24-25), BPM volumes increased by 66 million pieces in GFY 1994, 51 million pieces in GFY 1995, 45 million pieces in GFY 1996, and 6 million pieces in GFY 1997.

e. Please confirm that the attachment shows that BPM volumes have increased in each of the last six years except for GFY 1998, and that, in three of those years, the increases have been materially higher than the decline reported in GFY 1998.

RESPONSE

a. Confirmed.

b. Not Confirmed. I did not "neglect" to mention the FY 1999 data that you cite. I chose not to mention these FY 1999 data because I assumed that Mr. Kiefer's prefiled testimony (and presumably his opinions as to BPM rates) were based on his original version of Table 14 which did not include these FY 1999 data. Recall that the FY 1999 data included in Mr. Kiefer's response to AAP/USPS-T37-23 were not produced by the Postal Service to AAP until April 13, 2000.

c. Confirmed.

d. Confirmed.

e. I confirm that the volume increases were higher.

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USPS/AAP-T2-7

Please refer to pages 6-7 of your testimony, where you discuss DOJ and FCC antitrust guidelines, and conclude that books and catalogs are "clearly" not in the same economic product market.

a. Does this suggest to you that books and catalogs perhaps should be in separate subclasses? Please explain.

b. In your opinion, was it a mistake to allow books into a subclass that was previously identified as "Catalogs"? Please explain.

c. Have you attempted to model demand for the book and catalog components of the BPM subclass separately? Please explain.

RESPONSE

a. My opinion is that books and catalogs are not in the same economic product market. I have not studied the question of whether books and catalogs should or should not be in separate postal subclasses.

b. I have not studied the question of whether it was a "mistake" to allow books into a subclass that was previously identified as "catalogs."

c. I have not attempted to model demand for the books and catalog components of the BPM subclass separately. See also my response to USPS/AAP-T2-5.

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USPS/AAP-T2-8

Please refer to pages 5-7 of your testimony, in which you discuss the fact that the BPM subclass currently consists of both books and catalogs.

a. Please confirm that the reason that books migrated from the Special Rate subclass (aka "Book Rate") to BPM was a (perfectly rational) desire on the part of book mailers to reduce their postage costs. If you do not confirm, please explain fully.

b. Please confirm that if book mailers no longer perceive there to be rate advantages to mailing books via the BPM subclass, they have the option to switch back to the Special subclass. If you do not confirm, please explain fully.

RESPONSE

a. I have not independently studied the reasons why books may have migrated from the Special Rate subclass to BPM. I am aware that in response to AAP/USPS-T37-3, Mr. Kiefer provided excerpts from the testimony of USPS witness Nai-Chi Wang in Docket No. R90-1 that addressed this issue to some extent.

b. I have not studied the question of whether or not book publishers still retain the "option" to switch back to the Special subclass.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS

STEPHEN SIWEK TO INTERROGATORIES OF
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USPS/AAP-T2-9

Please refer to pages 5-6 of your testimony, where you cite an interrogatory response from Dr. Tolley to show that the latest available (1998) Household Diary Study information on BPM indicates that 63.7 percent of the subclass material covered by that Study were identified as books.

a. Please confirm that the same interrogatory response (Tr. 9/3596) shows that the corresponding figure for 1997 was 44.1 percent, for 1996 was 41.7 percent. for 1995 was 41.9 percent, for 1994 was 66.0 percent, and that the 1994-1998 average was 50.7 percent.

b. Do the members of AAP have any information available that would provide another source of information on the portion of BPM volume that consists of books? If so, please provide that information. If not, would you recommend that such information be collected by the industry, in light of your apparent belief in the importance of this information? Please explain fully.

RESPONSE

a. Confirmed.

b. No. AAP does not have a study and has not assembled information which shows the portion of BPM volume that consists of books. Once again, it is the Postal Service's responsibility to present data that justifies its rate increase proposals.

Hence, I believe that it is important for the Postal Service to gather this information so that the USPS can follow the nine criteria of Section 3622(b) of the Act in developing its proposed rates. If the USPS cannot gather the information that is required under the Act to develop rate proposals for BPM. the Postal Service can always choose to forgo any rate increase for this subclass.

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THE UNITED STATES POSTAL SERVICE

USPS/AAP-T2-10

Please refer to page 7 of your testimony, lines 11-16, where you *discuss the difference in the range of substitution possibilities* between book mailers and catalog mailers in the event that the BPM subclass were to receive a rate increase. Please confirm that your discussion neglects to mention that book mailers have the option of switching back to the subclass designed for their use (the Special subclass), and catalogs mailers do not have the option to switch to the Special subclass. If you do not confirm, please explain fully.

RESPONSE

As noted in my response to USPS/AAP-T2-8 (b), I have not studied the question of whether or not book publishers still retain the "option" to switch back to the Special subclass. I have also not studied the extent to which catalog mailers may or may not be able to switch to the Special subclass. For these reasons, I can confirm that my discussion at lines 11-16 of page 7 did not mention this possible additional difference in the BPM substitution possibilities that are faced by catalog mailers as compared with the substitution possibilities that are faced by book mailers. To the degree that the interrogatory's reference to the Special subclass as "designed" for book mailers implies that BPM is not "designed" for books, I disagree with the premise of the interrogatory. The Postal Service proposed, the Commission recommended, and the Governors

accepted that books are eligible to be mailed as BPM. Thus, it is "designed" for book mailers use just as much as the Special subclass and deserves the rate treatment discussed in my testimony.

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USPS/AAP-T-2-11

Please refer to page 31 of your testimony where you state that your workpapers make use of the spreadsheet workpapers of Postal Service witness Kiefer.

(a) Please identify each of the changes you made to witness Kiefer's workpapers to produce the workpapers in Attachment 7 of your testimony, supporting the rates contained in Attachment 6 of your testimony. For each of these changes, please state whether the change was made to data, a formula, or to another component of witness Kiefer's workpapers.

(b) Please identify each of the changes you made to witness Kiefer's workpapers to produce the workpapers requested in interrogatory USPS/OCA-T2-3, (sic) supporting the rates contained in Attachment 4 of your testimony. For each of these changes, please state whether the change was made to data, a formula, or to another component of witness Kiefer's workpapers.

RESPONSE

a. The workpapers contained in Attachment 7 were developed by adjusting Mr. Kiefers workpapers as follows: In WP-BPM-1, Input Note 2 was changed from 117.62% to 104.92%. In WP-BPM-1, Input Note 13 [b] was changed to $0.190. In WP-BPM-1, Input Note 13 [c] and [d] were both changed to $0.0. In WP-BPM-15, Presort Bound Printed Matter, the values in column [D], rows [j] through [w] and in column [J],

rows [j] through [w] were changed to the values that appear in Attachment 7 at WP-BPM-15.

b. No workpapers were provided by AAP in response to USPS-OCA-T2-3. I assume that your question refers to workpapers provided in response to CSPS-AAP-T2-3. The workpapers that were provided in response to USPS-AAP-T2-3 were developed by adjusting Mr. Kiefer's workpapers as follows: In WP-BPM-1, Input Note 13 [b] was changed to $0.190. In WP-BPM-1, Input Note 13 [c] and [d] were both changed to $0.0. In WP-BPM-15, Presort Bound Printed Matter, the values in column [D], rows [j] through [w] were changed to the values that appear in the workpapers for Attachment 4 at WP-BPM-15.

RESPONSE OF ASSOCIATION OF AMERICAN PUBLISHERS WITNESS STEPHEN SIWEK TO INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS OF THE UNITED STATES POSTAL SERVICE

USPS/AAP-T2-12.

Please refer to your response to USPS/AAP-T2-1 and your testimony at page 18, lines 14-15, upon which that question was based.

(a) Please define the term "bias" as you have used it and provide a citation for your definition.

(b) Please describe in detail under what conditions measurement error results in bias.

(c) Please provide an academic citation supporting your response in (b).

(d) Please describe in detail under what conditions measurement error will not result in bias.

(e) Please provide an academic citation supporting your response in (d).

(f) Please explain in detail why the measurement error associated with the stratum four inflation factors meets the conditions described in (b).

(g) Please explain in detail your belief as to the likely effects of any such measurement error in terms of direction and magnitude of the bias for each of the estimates provided in LR-I-109.

RESPONSE

a) In defining "bias" as used in my testimony, I am referring to a situation in which an estimator μ^*, that is given by a sample plan, can be said to provide a biased or unbiased estimate of some population characteristic μ. As assumed in my testimony, an estimator μ^* of μ given by a sample plan is called unbiased if the mean value of μ^* taken over all possible samples provided by the plan, is equal to μ. See Cochran, William G., *Sampling Techniques*, Third Edition, John Wiley & Sons, 1977, page 11.

b) As noted above, measurement error results in bias when the mean value of an estimator that is given by a sample plan taken over all possible samples is not equal to the population characteristic that is being measured.

c) See Cochran, William G., *Sampling Techniques*, Third Edition, John Wiley & Sons, 1977, page 11.

d) Measurement error will not result in bias when the mean value of an estimator that is given by a sample plan taken over all possible samples is equal to the population characteristic that is being measured.

e) See Cochran, William G., *Sampling Techniques*, Third Edition, John Wiley & Sons, 1977, page 11.

f) The report implicitly assumes that total revenue is a function only of the total number of pieces, without any consideration for the composition of pieces and their characteristics, and that the relationship is the same for all strata. Without taking into consideration these additional factors, the estimate for the total number of pieces in strata four would not converge to the true population value. See my responses to USPS/AAP-T2-1(a) and USPS/AAP-T2-1 (b).

g) As stated in my response to USPS/AAP-T2-1 (b), I believe that the inflated volumes in LR-I-109 include an added component that reflects measurement error. I believe that this added component is proportional to the difference between the actual and estimated volume inflation factors that were used. However, I do not have an opinion as to the likely direction or magnitude of this added component in the estimates provided in LR-I-109.

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USPS/AAP-T2-13.

Please refer to your response to USPS/AAP-T2-2 where you state:

> Adjusting 1999 sample pieces with 1998 inflation factors is equivalent to multiplying 1998 national pieces by 1999 sample proportions. This procedure would give an unbiased estimate of 1998 totals for a given category only if the 1999 population proportions were identical to the 1998 population proportions. In practice, one would expect that there are year-to-year variations in the distribution of pieces so that the 1999 ratios are proportional to the 1998 ratios plus a deviation or error term. This deviation, which accounts for year-specific factors, would not disappear with alternative draws of the 1999 survey.

(a) Please confirm that if the expectation of the deviations of 1999 pieces from 1998 pieces is zero and these deviations are independent, using 1998 pieces to inflate the sample will not result in bias.

(b) If you confirm (a) please describe in detail why the expectation of the deviations of 1999 pieces from 1998 pieces "would not disappear with alternative draws of the 1999 survey." That is, provide the basis for your argument that the expectation of these errors is not zero or that the errors are not independent.

(c) If you do not confirm (a), please describe in detail why the situation described in (a) is not true.

RESPONSE

(a) Confirmed.

(b) The expected value of the deviation between the 1999 and the 1998 population proportions would be zero only if one is willing to assume that there is an underlying distribution for the proportions which is constant over time and that both years can be taken as independent draws from such underlying distribution. I believe that this is not the case. Mailing proportions do evolve over time in

response to systematic components, so that the underlying distribution for the 1999 population proportions is different from the 1998 distribution.

(c) Please see my response to (a) above.

DECLARATION OF STEPHEN SIWEK

I declare, under penalty of perjury, that the responses to USPS/AAP-T2-1-13 and MOAA/AAP-T2-1, 4-6 were prepared by me and that if called to testify under oath, the responses would be my testimony.

Stephen Siwek

Dated: July 18, 2000

1 CHAIRMAN GLEIMAN: We appreciate your help and we
2 appreciate counsel from MOAA and the Postal Service working
3 with you to move this witness along quickly. Thank you.
4 MR. PRZYPYSZNY: Thank you, Mr. Chairman.
5 CHAIRMAN GLEIMAN: Mr. Baker, you have the next
6 witness, I believe. I don't suspect from the looks of
7 things that folks have waived oral cross-examination on this
8 witness, though.
9 MR. BAKER: Well, they haven't told me that yet,
10 but there is still a chance.
11 CHAIRMAN GLEIMAN: Hope springs eternal.
12 MR. BAKER: The Newspaper Association of America
13 calls William Tye.
14 Whereupon,
15 WILLIAM TYE,
16 a witness, having been called for examination and, having
17 been first duly sworn, was examined and testified as
18 follows:
19 CHAIRMAN GLEIMAN: Mr. Baker, you may proceed.
20 DIRECT EXAMINATION
21 BY MR. BAKER:
22 Q Mr. Tye, I am handing you two copies of a document
23 entitled the Direct Testimony of William B. Tye on Behalf of
24 the Newspaper Association of America that is designated
25 NAA-T-1.

1 I would ask, was this prepared by you or under
2 your supervision?
3 A Yes, it was.
4 Q And do you adopt this as your testimony today?
5 A I do.
6 MR. BAKER: With that, Mr. Chairman, I move
7 admission of the witness's testimony into the record.
8 CHAIRMAN GLEIMAN: Is there any objection?
9 [No response.]
10 CHAIRMAN GLEIMAN: Hearing none, if counsel would
11 provide two copies of the Direct Testimony of Witness Tye to
12 the Court Reporter, I'll direct that the material be
13 received into evidence and transcribed into the record.
14 [Written Direct Testimony of
15 William B. Tye, NAA-T-1, was
16 received into evidence and
17 transcribed into the record.]
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DUPLICATE

NAA-T-1

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

POSTAL RATE AND FEE CHANGES, 2000	)	DOCKET NO. R2000-1

DIRECT TESTIMONY OF
WILLIAM B. TYE
ON BEHALF OF THE
NEWSPAPER ASSOCIATION OF AMERICA

Please address questions
concerning this testimony to:

William B. Baker
Wiley, Rein & Fielding
1776 K Street, N.W.
Washington, DC 20006-2304
(202) 719-7000

May 22, 2000

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I. INTRODUCTION AND SUMMARY

A. Introduction

My name is William B. Tye. I have a Ph.D. in Economics, which I received from Harvard University in 1969. I am a Principal and co-founder of *The Brattle Group.* My office is located at 1133 20th Street NW, Suite 800, Washington, DC 20036. I have been an economic consultant for over twenty years. I specialize in regulatory and antitrust issues. My clients have included regulatory bodies, firms in regulated industries, and law firms. I have authored or co-authored over one hundred papers and publications, including four books. I am a past National President of the Transportation Research Forum.

My experience with postal matters began with rate cases in 1974 and 1976. Since that time I have testified before this Commission in two general rate proceedings and two mail classification proceedings. These, along with my other experience and qualifications are detailed in Appendix A to my prepared testimony.

On behalf of the Newspaper Association of America, I was asked to review the U.S. Postal Service's (USPS) rate proposals for the Standard A Commercial Enhanced Carrier Route (ECR) subclass. I was also asked to review the Postal Service's proposals for other subclasses, including Standard A Regular, the Standard A Nonprofit subclasses, and the First Class Mail subclasses, to the extent that those proposals had some relevance to Standard A ECR. For the purpose of my analysis, I am assuming, except where specifically discussed, the cost data provided by the Postal Service.

B. The Postal Service Does Not Justify Its Proposal To Lower The ECR Pound Rate

The Postal Service proposes to reduce the ECR pound rate substantially from current levels. It cites a "cost study" produced by witness Daniel, although she herself refers to it only as a "distribution key analysis."[1] I find that the data gathered for this analysis are not reliable. I further find that the cost data are inconsistently applied to justify First Class and Standard A rate design proposals, and that only results supportive of the Postal Service's rate proposals are presented. Since the results of the distribution key analysis are "cherry picked," they form no reliable basis for changes in the ECR pound rate. No other substantive justification for a decrease in the ECR pound rate is offered and the Postal Service's own testimony indicates that the decrease would harm private sector firms. Accordingly, the proposal should be rejected by the Commission.

C. The Postal Service Does Not Justify Its Proposal To Lower The ECR Cost Coverage

The Postal Service also proposes to reduce (after normalization) the cost coverage of Standard A Enhanced Carrier Route mail from the level recommended by the Commission in Docket No. R97-1. This proposal also includes rate designs that contain a number of anomalies in the "passthroughs," which determine the percentage of estimated cost savings from worksharing that show up in rate differences. These anomalies occur for two reasons: 1) an apparent compartmentalization of the responsibilities between the Postal Service witnesses responsible for rate design and

[1] Tr. 4/1386 (Daniel).

rate levels/cost coverages, and 2) the lack of sufficient "headroom" to allow better recognition of costs avoided, due to the proposed lowering of the ECR cost coverage.

I find that the justifications for lowering the cost coverage for ECR are vague and inconsistent. The only reason given by the Postal Service for reducing the cost coverage for ECR Mail is that it is "high" and ought to come down. But this reasoning ignores the by-now generally accepted principle that heavily work-shared subclasses will have high cost coverages precisely because of the cost avoidance from worksharing. Other measures, such as unit contributions, show that ECR mail pays a much more modest contribution to overhead than First Class mail, and the difference between the two would increase under the Postal Service's proposal. The Postal Service ignores this discrepancy. The proposed lowering of ECR cost coverage, as with the proposal to cut the pound rate, appears to be part of an ongoing effort to divert ECR mail from private enterprise competitors, and should be rejected by the Commission.

D. Proposed Cost Coverage And Rate Design For ECR Mail

Since neither the Postal Service's pound rate or cost coverage proposal is justified, the question of what pound rate and what cost coverage to use remains rather open. I recommend that the Commission adopt rates for commercial ECR that: (1) at least maintain the unit contributions established in Docket No. R 97-1 using the Commission's cost attribution methodology, after adjusting for actual 1999 costs, and sufficient to ensure that the cost coverage or markup index does not decline in absolute or relative terms; and (2) incorporate increases in the undiscounted ECR rates (instead

of the selective increases and decreases proposed by the Postal Service) sufficient to achieve sound ratemaking goals.

II. THE POSTAL SERVICE DOES NOT JUSTIFY ITS PROPOSAL TO CUT THE ECR POUND RATE

A. The Commission Rejected Witness Moeller's Proposed Reduction Of The ECR Pound Rate In Docket No. R97-1 And Should Do So Again

In Docket No. R97-1, the Commission considered and rejected a similar Postal Service proposal to reduce the pound rate for ECR mail. The Commission concluded in that proceeding that the ECR pound rate should not be reduced as proposed by the Postal Service for two basic reasons:

> Significantly, pricing considerations also militate against recommending a substantial reduction in the pound rate. Criterion (b)(4) of the Act requires that the Commission consider 'the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters.' 36 U.S.C. § 3622 (b)(4). In drafting such specific language, Congress clearly conveyed its concern that the Commission particularly *consider the effects of rate increases on enterprises that are in competition with the Postal Service.*[2]
>
> However, rate reductions not firmly supported by *reliable cost evidence* that may jeopardize the visibility [viability] of small businesses, such as the alternative delivery services represented by AAPS, are not consistent with 39 U.S.C. § 3622(b)(4). While it is unknown how a substantial decrease in the pound rate will affect the "bottom line" of these businesses (i.e., their ability to survive), the record indicates that the impact may be severe. *See, e.g.,* Tr. 23/11982. In light of this circumstance and the inherent weaknesses of the Service's cost-weight study, the

[2] PRC R97-1 Opinion at page 402 (emphasis added).

> Commission finds that it should not alter Regular or ECR pound rates.[3]

In *this* case, Mr. Moeller again proposes to reduce the commercial ECR pound rate from its current 66.3 cents, this time to 58.4 cents. However, his proposal again lacks any valid justification for doing so, nor does it even explain why this particular 3-significant-digit number was chosen. It therefore should be rejected.

Curiously, instead of addressing the Commission's first concern about the pound rate and competition, the Postal Service apparently has chosen in this proceeding to largely ignore it. The Postal Service instead simply asserts that competition with private enterprise competitors is no longer being offered as a justification for lowering the ECR pound rate, contrary to what it said in R97-1.[4] This approach blatantly ignores one of the statutory ratemaking factors. Witness Moeller, whose testimony contains the pound rate proposal, acknowledged under cross examination that he knew nothing about the "alternate delivery industry."[5] Witness Mayes reinforces those statements with a professed lack of ability to assess impacts on the private sector.[6]

---

[3] PRC R97-1 Opinion at page 403 (emphasis added).

[4] See Moeller Testimony in Docket No. R97-1 (USPS-T-36) at 26.

[5] For instance, Tr.10/4020 (Moeller) states, "Q: In preparing your testimony and your rate proposals in this case, did you make any inquiry or do any research as to the alternate delivery industry today? A: No."

[6] Ms. Mayes states: "As an example, the Postal Service does not have full information regarding the prices charged by competitors. Some changes to postal rates may cause harm to those competitors, but without knowledge of the cost structure or pricing practices of the competitors, there would not have been opportunity to prevent such harm." Tr. 11/4275. She reiterates this at Tr. 11/4320 and 11/4197.

As to the second concern, the Postal Service has resubmitted essentially the same "distribution key analysis" that it relied upon in Docket No. R97-1 with only a few changes. As discussed below, neither the changes nor the distribution analysis as a whole substantiate the proposed reduction in the ECR pound rate. "Moderating the extent"[7] of an unjustified reduction does not somehow make it justifiable.

In this case, Mr. Moeller's rate design formula has again used the same methodology (*e.g.,* same rate design formula, same discount structure, *etc.*) as in his rate design testimony in Docket No. R97-1. His rate design proposals incorporate no new data on competition or other ratemaking factors, other than the modifications purportedly based on Daniel's "distribution key analysis." The one major difference between Docket No. R97-1 and now is that, in this case, witness Moeller no longer offers competitive response as a reason for reducing the pound rate – although, as shown below, there is ample reason to believe that reducing the pound rate is entirely in line with the Postal Service's competitive interests.[8]

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[7] Moeller Testimony (USPS-T-35) at 19.

[8] See Moeller Testimony (USPS-T-35) at 19. Under cross examination, Mr. Moeller also states:

> Q: From your perspective, are competitive concerns relating to the pound rate the same as they were in the R97 case?
>
> A: I think the reasons for the proposed pound rate are as described, and you were mentioning the introduction of the cost study, and not only is it a new version of it that attempts to deal with some issues that have been in dispute in the past, my use of it also changed, and I think that was – those are the overriding reasons why this pound rate is proposed as it is.

When asked, witness Moeller cited four factors on which he relied to derive the specific proposed rate of 58.4 cents:

> [I]n general, factor (1) [distribution key analysis] was used to confirm that indeed costs are not as weight-driven as the current pound rate might suggest, and examination of costs and revenues shows that the relative cost coverages for piece-rated and pound-rated pieces are comparable with the proposed pound rate of 58.4 cents. Factors (2) [$0.003 piece rate for pound-rated Saturation nonletters] and (3) [pound rate as proxy for shape] are qualitative observations about the history of the pound rate, and the questionable rate relationships that exist under the current rates. Factor (4) [limited impact of reduction in pound rate] acknowledges the apparent sensitivity to the pound rate proposals in the past and notes that the current proposed reduction is more moderate.[9]

There is no reasonable way to conclude that these four factors can produce a pound rate with *three* significant digits down to a precision measured in *mils* (a tenth of a cent).

As shown below, neither the "new" distribution key analysis nor any other factor justifies the proposed reduction in the Standard A ECR pound rate. As a result, there is no basis to deviate from the Commission's prior rejection of the Postal Service's proposal to cut the pound rate. Indeed the pound rate should go up, as I explain in Section IV.

Q: Is [susceptibility to diversion to alternative media] no longer a rationale for the rate reduction?

A: Well, as I said, the previous answer, it's driven primarily by the cost. If the costs hadn't shown up the way they did, we wouldn't have proposed a lower pound rate."

Tr. 10/4007-8 (Moeller). See also Tr. 10/4018 (confirming concentrated on the cost aspect).

[9] Tr. 10/3879 (Moeller).

B. Ms. Daniel's Distribution Key Analysis Is Not Reliable And Is Being Misused

1. Ms. Daniel's analysis is little changed from the analysis the Postal Rate Commission dismissed In Docket No. R97-1

In Docket No. R97-1, the Commission found that a distribution key analysis nearly identical to that now provided by witness Daniel did not provide an adequate justification for the proposed pound rate reduction. Among the Commission's criticisms were:

- "The thinness of the tallies supporting the distribution of mail processing costs by weight increment represents a serious problem."[10]
- "Another problem with the cost-weight study is that it contains no comprehensive study of cost-causing factors."[11]
- "Where the Service has failed to test these rationales or its own theories, there is no sound basis on the record for distributing carrier street costs to ounce increments. This is a serious shortcoming as elemental load time accounts for approximately one-half of city carrier street attributable cost."[12]

Witness Daniel admits that her current distribution is essentially the same as that rejected in Docket No. R97-1. Tr. 4/1403-04. Indeed, she retained almost all of the assumptions underlying the R97-1 version of the cost distribution, changing only the basis for distributing elemental load costs to weight-related within shape rather than volume-related within shape, while ignoring the Commission's other criticisms. Tr. 4/1159. Because Daniel responds to only one of Commission's criticisms of the R97-1

[10] PRC R97-1 Opinion at page 400.

[11] PRC R97-1 Opinion at page 401.

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

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

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

2. Ms. Daniel herself admits her data are unreliable

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

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[12] PRC R97-1 Opinion at page 402.

[13] PRC R97-1 Opinion at page 399.

[14] PRC R97-1 Opinion at page 403.

[15] PRC R97-1 Opinion at page 402.

[16] Daniel Testimony (USPS-T-28) at 3.

1 difficult, if not impossible, to isolate precisely the impact of weight on costs or identify
2 the exact unit cost of each ounce increment."[17] This is a remarkable concession for
3 testimony intended to justify a major change in the rate for pound-rated mail.

4 In fact, the problems with her distribution key analysis transcend merely its admitted
5 imprecision. More importantly, the number of tallies from which it is derived are far too
6 thin on which to base such a significant change in rate design. Witness Daniel's
7 interrogatory responses show that the number of tallies on which her cost distribution
8 relies is very low in many weight categories.[18] The thinness of the tallies relates directly
9 to the confidence of her results. For ECR mail, for example, only 16 mail processing
10 and 11 city carrier in-office tallies were recorded in the 11-13 oz. range. Barely 100
11 tallies were recorded for city carriers in-office, and under 200 for mail processing, above
12 7 ounces.[19]

13 Thinness of tallies is a pervasive problem in the Daniel distribution key analysis. It is
14 important to note that, contrary to certain suggestions thus far in this case, if the Daniel
15 distribution were considered at all there would be no basis for removing the tallies
16 recorded at the 15-16 ounce weight category.

---

[17] Daniel Testimony (USPS-T-28) at 4.

[18] *See, e.g.*, Tr. 4/1330-1332 (Daniel discussing First Class Single Piece), 1333-1335 (discussing First Class Presort), 1342-1344, 1306-1309 (discussing ECR).

[19] Tr. 4/1344 (Daniel).

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

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

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

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[20] *See* Tr. 4/1306-1309, 1342-1344 (Daniel).

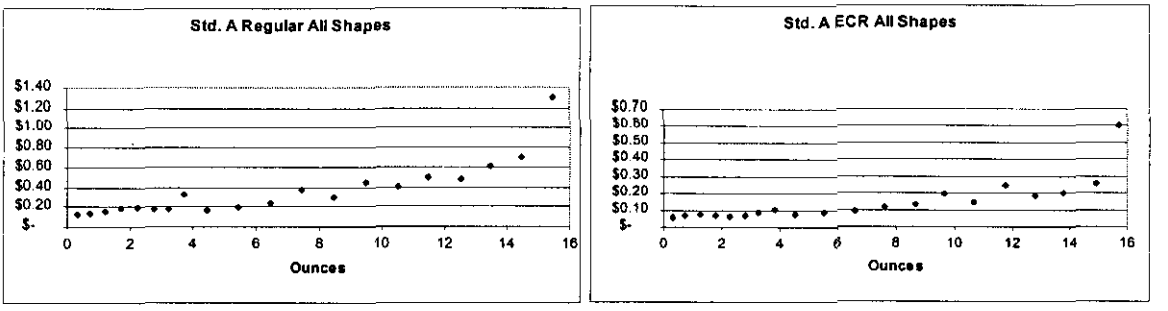
[21] *See* Tr. 4/1292-1293 (Daniel).

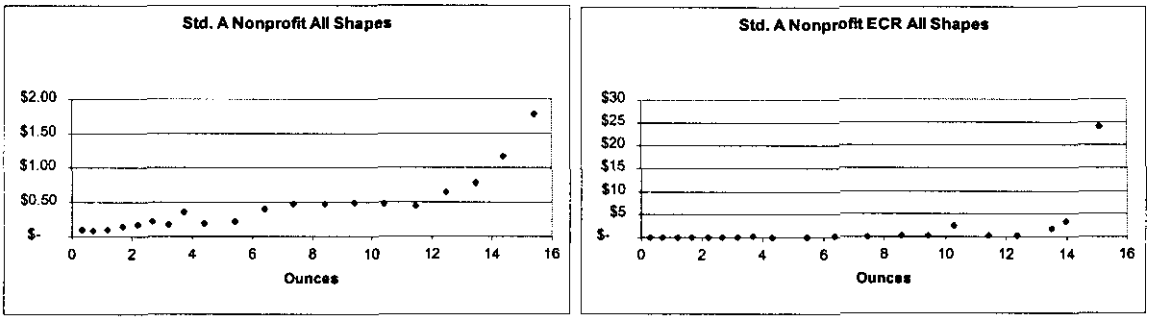
[22] *See* Library Reference USPS-LR-I-92, Section 2.

[23] See Tr. 4/1293-1294 (Daniel).

1 and some subclasses to have very low costs in the 15-16 ounce weight category.

2 Instead, all four subclasses have very high costs.





Source: USPS-LR-I-92.[24]

Moreover, Ms. Daniel's data yield anomalous results. Anomalies exist within and across the cost data for subclasses. For instance, ECR parcels apparently cost only one-third as much as Nonprofit ECR parcels,[25] while Nonprofit ECR parcels apparently cost more than four to seven times as much as lighter ECR parcels.[26]

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[24] Note: The vertical scale for each graph is set to optimally display the points in each graph. The fact that the scales vary so dramatically is a further indication of how anomalous witness Daniel's data are.

[25] See Daniel Testimony (USPS-T-28), Table 3. Nonprofit ECR parcels average $2.4946, ECR parcels average $0.8242.

[26] See Daniel Testimony (USPS-T-28), Table 3. Nonprofit ECR parcels under 3.0 ounces average $4.4242 to send, while ECR parcels under 3.0 ounces average only $0.9441 to send (roughly one quarter as much). Nonprofit ECR parcels under 3.5

Daniel states that the Nonprofit results "could be the result of a variance due to the difficulties associated with estimating and calculating unit costs for small volume categories."[27] However, it would be more precise to note that the problem arises from the small number of tallies recorded for *both* subclasses.

Finally, as witness Daniel concedes: "Isolating the effect of weight on cost is very difficult because weight is rarely the only characteristic that varies between different mail pieces. The shape, origin/destination combination, cube, and level of presorting and dropshipping of mail can affect the cost of mail."[28] Even when she attempts to control for worksharing and Basic/High Density/Saturation differences (at Tr. 4/1209-1220 and 1351-1359), she cannot sufficiently control for the other factors that vary across weight. Data which are offered only as a "general indication of the effect weight has on total volume variable costs"[29] cannot justify major ECR rate design restructuring as witness Moeller has done, particularly when the results are as sensitive to assumptions as they are here.

3. Ms. Daniel's regression analyses are not useful

Although she does not endorse them, witness Daniel includes in her analysis several regressions generated by the Excel spreadsheet program. These regressions, which gave rise to some discussion during her cross-examination, use observations for piece-

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ounces average $4.8351 to send, while ECR parcels under 3.5 ounces average only $0.6948 to send (roughly one seventh as much).

[27] Tr. 4/1229-1230 (Daniel).

[28] Daniel Testimony (USPS-T-28) at 3, lines 24-27.

1 rated pieces to establish the incremental costs per ounce of pound rated mail. Putting
2 aside for the moment my concerns over the reliability of the data, for the sake of
3 argument I here consider whether these, and various proposed adjustments, make any
4 sense.

5 First, including observations for piece-rated pieces to establish the incremental costs of
6 pound-rated mail produces a mismatch of costs with the breakpoint rate schedule.
7 Since the pound-rate applies only to material weighing 3.3 ounces and above, including
8 pieces weighing less than 3.3 ounces in a regression to determine a pound rate makes
9 no sense, unless one were interested in "cooking" the data to justify a lower pound rate.

10 Second, Ms. Daniel attempts to improve her unweighted regressions by combining
11 weight categories in order to weight the tallies differently. She states that the
12 regressions where the weight categories are combined are better than the detailed
13 regressions. However, this combining of categories is not grounded in statistical theory.
14 Detailed and combined regressions should give consistent results only where the
15 underlying data are linear. But ECR cost data are not linear. So her justification that
16 the combined results are "more useful" since they "give each data point more equal
17 weight" makes no sense. Combining heaviest weight increments increases the number
18 of observations in those weight categories but further obscures the steep curvature at
19 the highest weights.

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[29] See Daniel Testimony (USPS-T-28) at 3, line 22.

Claims by Postal Service witnesses that they did not rely on regression analysis because of the variability of the volume distribution over weight increments ring hollow.[30] In fact, witness Daniel *does* use weighted regression to justify rate design in the Periodicals subclass.[31] This inconsistency is another example of using analyses to cherry pick the results.

C. Mr. Moeller's Cost Coverage "Test" For Piece-rated And Pound-rated ECR Mail Does Not Provide A Reliable Basis For Reducing The ECR Pound Rate

Using his cost coverage "test," witness Moeller claims that his pound-rate proposal for ECR has the effect of reducing an apparent disparity in cost coverage between piece-rated and pound-rated pieces. For example, using 3.0 ounces as the dividing line, his "test" gives a before-rates cost coverage of 200.8% for piece-rated mail versus 215.5% for pound-rated mail, and an after-rates cost coverage of 215.6% versus 216.1%. Against this backdrop, Mr. Moeller then observes that his ECR rate proposal appears to reduce the difference in cost coverage.[32] See the table below, based on the table in witness Moeller's Testimony at 21.

---

[30] See Tr. 12/4760 (Fronk) and 4/1292-1296 (Daniel).

[31] See Daniel Testimony (USPS-T-28) at 18.

[32] Results using 3.5 ounces as the dividing line are similar.

Cost Coverages for Piece-rated vs. Pound-rated Standard A ECR						
	Before Rates			After Rates		
	Unit Revenue	Daniel's Unit Cost	Implicit Coverage	Unit Revenue	Daniel's Unit Cost	Implicit Coverage
Using costs with a 3.0 ounce dividing line						
Piece-rated	0.13312	0.0663	200.8%	0.14295	0.0663	215.6%
Pound-rated	0.19419	0.0901	215.5%	0.19472	0.0901	216.1%
Difference			-14.7%			-0.5%
Using costs with a 3.5 ounce dividing line						
Piece-rated	0.13312	0.0676	196.9%	0.14295	0.0676	211.5%
Pound-rated	0.19419	0.0916	212.0%	0.19472	0.0916	212.6%
Difference			-15.1%			-1.1%
Source: Moeller Testimony (USPS-T-35) at 21.						

Mr. Moeller concludes: "In this instance, estimates of implicit coverage can be illuminating."[33] However, Mr. Moeller apparently finds comparisons of implicit cost coverage "illuminating" only when they happen to support his rate proposals. He does not perform the test for any other subclass, even though he states: "It is appropriate to use available information to better align rate components with their underlying cost."[34]

In fact, applying the same test to Standard A Regular and First Class Single Piece yields results that are inconsistent with Postal Service rate proposals. Mr. Moeller as much as admits to cherry picking the ECR result: "It is not required that the cost coverages of any particular subgroups be equated; however, at times comparing these

[33] Moeller Testimony (USPS-T-35) at 20, n. 39.

[34] Tr. 10/3922 (Moeller).

coverages can help establish more appropriate rate relationships."[35] I discuss these comparisons in turn.

1. The same cost coverage "test" for Standard Regular has implications inconsistent with Mr. Moeller's proposal

Applying the same implicit cost coverage comparison to Standard A Regular mail results in a before-rates cost coverage of 124.6% for the piece-rated pieces and 119.0% for the pound-rated pieces, using 3.0 ounces for the dividing line. This is a 5.6 percentage point difference. Equalizing these cost coverages would require, *ceteris paribus*,[36] an *increase* in the Regular pound rate. However, witness Moeller proposes a *decrease* in the Regular pound rate of 1.6 cents, from 67.7 cents to 66.1 cents.

His resulting after-rates cost coverages are 136.7% for the piece-rated pieces and 127.7% for the pound-rated pieces, a 9.1 percentage point difference. Thus, in contrast to his ECR proposal, Moeller's current proposal to cut the pound rate for Standard Regular actually *increases* the difference between the piece-rated and the pound-rated cost coverage.[37] Trends using 3.5 ounces for the dividing line are similar. See the table below.

---

[35] Tr. 10/3922 (Moeller).

[36] *Ceteris paribus* means "holding all other things constant."

[37] Note that technically, Mr. Moeller's proposal is not "*ceteris paribus*" with respect to the pound rate, as rate elements other than the pound rate have changed as well. However, the fact remains that his proposal, of which the pound rate is a part, has increased the apparent disparity in cost coverages.

Cost Coverages for Piece-rated vs. Pound-rated
Standard A Regular

	Before Rates			After Rates		
	Unit Revenue	Daniel's Unit Cost	Implicit Coverage	Unit Revenue	Daniel's Unit Cost	Implicit Coverage
Using costs with a 3.0 ounce dividing line						
Piece-rated	0.17833	0.1431	124.6%	0.19566	0.1431	136.7%
Pound-rated	0.30322	0.2547	119.0%	0.32519	0.2547	127.7%
Difference			5.6%			9.1%
Using costs with a 3.5 ounce dividing line						
Piece-rated	0.17833	0.1452	122.8%	0.19566	0.1452	134.8%
Pound-rated	0.30322	0.2816	107.7%	0.32519	0.2816	115.5%
Difference			15.1%			19.3%

Source: Daniel Testimony (USPS-T-28) Table 3, Tye Workpapers

Clearly, the only real consistency in witness Moeller's justification for rate design in the commercial subclasses of Standard (A) Mail is that the pound rate in each subclass goes down.

2. *Cost coverage "tests" for First Class Single Piece mail have implications inconsistent with Mr. Fronk's proposals*

The Postal Service's inconsistency is not confined to Standard A mail. Applying the same comparison to First Class Single Piece mail, classifying 1 ounce pieces as "piece-rated" and greater than 1 ounce pieces as "pound-rated," gives a before-rates cost coverage for one-ounce pieces of 164.7% and a cost coverage for heavier pieces of 185.0%. See the table below.

Corrected 7/14/00

Cost Coverages for Piece-rated vs. Pound-rated
First Class Single Piece

	Before Rates			After Rates		
	Unit Revenue	Daniel's Unit Cost	Implicit Coverage	Unit Revenue	Daniel's Unit Cost	Implicit 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.

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

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

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

It is interesting to observe that the Postal Service also estimates the own-price elasticity of Nonprofit ECR mail to be -0.162,[38] indicating a relatively inelastic demand and that there may be fewer competitive threats to the Postal Service. Thus, it would appear that the Postal Service is proposing pound decreases in more competitive

[38] Tolley Testimony (USPS-T-6) at 148.

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

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

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

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

1 Witness Daniel, in fact, admits outright that the cost analysis followed the needs of the
2 rate design witnesses.[39] Her presentation of cost estimates by weight reflect this
3 approach as well. Indeed, Ms. Daniel agreed under cross examination that she
4 calculated the "additional" unit costs for First Class and Standard A mail in inconsistent
5 manners:[40] For witness Taufique she relies on a regression analysis, an approach she
6 rejects in the other subclasses. The choice of these different approaches is consistent
7 with a seeming predetermination to raise First Class extra ounce rates and lower ECR
8 pound rates.

9 Once they received Ms. Daniel's data, witnesses Fronk and Moeller proceeded to
10 calculate the incremental costs of heavier mail inconsistently between First Class and
11 Standard A mail. For First Class mail, witness Fronk computes the incremental cost
12 and incremental revenues for all ounces above the basic one ounce rate (thereby
13 ignoring the revenues and costs from the first ounce of First Class).[41] Thus, Mr. Fronk's
14 cost coverage comparison consists of dividing the unit cost for the additional ounces
15 (12.7 cents) into the additional ounce rate (23 cents), and comparing that markup (81
16 percent) to the overall subclass coverage of 96 percent.[42] In contrast, for Standard A
17 ECR mail witness Moeller looks at all revenues (including per piece rates) and all

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[39] For instance, in noting why a particular analysis was not performed, she states: "This type of analysis was not required by the First-class rate design witness." Tr. 4/1323; *see also* Tr. 4/1168-1169, 1416 (Daniel).

[40] Tr. 4/1419 (Daniel).

[41] For example, at Tr. 12/4874 (Fronk): "Q: Is it correct that you only used the Daniel study to get an average cost per ounce for letters from 2 ounces to 11 ounces? A: I used the data in the Daniel study in the aggregate, that's correct."

weight-related costs on separate sides of the "breakpoint."

III. THE POSTAL SERVICE DOES NOT JUSTIFY ITS PROPOSAL TO LOWER THE COST COVERAGE FOR COMMERCIAL ECR MAIL

The Postal Service, through the testimony of witness Mayes, proposes to reduce the cost coverage of Standard A ECR mail from that set by the Commission in Docket No. R97-1. In particular, the Postal Service has proposed to set the cost coverage of ECR at 208.8%, resulting in a 4.9% average rate increase.[43]

As I will show, this proposal is not well supported and gives rise to undesirable anomalies in rate design for both the Standard A commercial Regular and ECR subclasses. Witness Mayes's proposed cost coverage represents a relative decline from the level set in Docket No. R97-1 when normalized to account for the changes in cost attribution methodology between the two cases and between the Commission and Postal Service, as the USPS itself shows through the testimony of witness Bernstein. In fact, I show below that the actual cost coverage in the test year under the Postal Service's rate proposals for ECR will actually be even less than Ms. Mayes's estimates.

Witness Mayes's basic justification for reducing the ECR cost coverage is her conclusion that the existing ECR coverage is too high. She proposes increases for ECR that are less than the system average in order to "[reflect] a desire to lower the

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[42] Fronk Testimony (USPS-T-33) at 25.

[43] See Mayes Testimony (USPS-T32) at 38, lines 4-8.

1 very high cost coverage of this subclass."[44] However, she has since retreated from the
2 only objective consideration she could offer as to why ECR coverages should be
3 reduced. Moreover, she has completely ignored another measure – unit cost
4 contribution – that shows that ECR would continue to make a far smaller contribution
5 than First Class mail.

6 Moreover, reducing the cost coverage for ECR mail has the undesirable side-effect of
7 aggravating a number of anomalies in the rate design of not only Standard ECR mail
8 but also Standard Regular mail. This state of affairs appears to arise from a
9 "compartmentalization" of responsibilities among the pricing and rate design witnesses.
10 Witness Moeller places the blame for the rate anomalies on a professed necessity to
11 live within the constraint of the cost coverages he was ostensibly given by witness
12 Mayes. She, in turn, claims that curing the anomalies are Mr. Moeller's responsibility,
13 since he is the rate design witness. As a consequence of this compartmentalization,
14 nobody takes responsibility for creating—or correcting—the resulting anomalies. In the
15 process, the Postal Service appears to have abandoned its use of ECR cost coverages
16 as a tool to manage the desired rate relationships between the ECR and Regular
17 subclasses.

18 The simple solution to the Postal Service's compartmentalization problem is for the
19 Commission to raise the cost coverage for ECR so that arbitrary anomalies are not
20 imposed on rate design of the Standard A subclasses.

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[44] See Mayes Testimony (USPS-T-32) at 38, lines 7-8, 20-21 and Tr. 11/4324-4325

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

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

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

(Mayes).

[45] See Tr. 11/4335-4336 (Mayes).

[46] [Footnote deliberately left blank – per July 14, 2000 correction].

[47] USPS-LR-I-149.

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

Cost Coverages

	PRC Recommended Cost Coverage using PRC Methodology R97-1 (A)	USPS Proposed Cost Coverage, using PRC Methodology R2000-1 (B)	USPS Proposed Cost Coverage, using USPS Methodology R2000-1 (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%

Source: USPS-LR-I-149.

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

At the same time, the Postal Service is proposing to shift more of the institutional cost burden to a monopoly subclass (First Class) from a competitive subclass (ECR). Ms. Mayes confirms that the First Class markup index is going up at Tr. 11/4347-48 (Mayes). She argues "the shift of some of this institutional burden to First-Class Mail, particularly in view of the relatively small increase in First-Class Mail rates, was not viewed as unfair." Tr. 11/4350 (Mayes). Note that the effect of this shift is that the First

[48] USPS-LR-I-149.

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

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

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

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.[49] In fact, the low cost coverage for ECR together with a desire to provide a proper incentive for ECR Basic Mail to convert to 5-digit Regular Automation mail make it impossible in this proposal to implement a rational discount structure for Standard A mail based on presort tiers.

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

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

[49] See Tr. 10/3869 (Moeller).

the Commission's recommended passthroughs, and witness Moeller's current proposed passthroughs.

Of note are the Flat automation 3/5 digit passthrough of 500% and the Flat automation Basic passthrough of 230%. Also note that Mr. Moeller's ECR Letters/Nonletters Basic passthrough continues to be 0%. That his proposed passthroughs vary from 0% to 500% completely undercuts the idea that costs are driving the rate design.[50]

Passthrough Category	Moeller R97-1 Proposed	PRC Recommended Decision, R97-1	Moeller R2000-1 Proposed
Regular			
Letters/Nonletters Basic	40.0%	50.0%	77.0%
Letters/Nonletters 3/5-digit	40.0%	40.0%	64.0%
Letter presort 3/5-digit	165.0%	100.0%	95.0%
Letter automation Basic	140.0%	100.0%	110.0%
Letter automation 3-digit	130.0%	100.0%	106.0%
Letter automation 5-digit	130.0%	100.0%	160.0%
Flat automation Basic	100.0%	100.0%	230.0%
Flat automation 3/5-digit	100.0%	100.0%	500.0%
Destination entry BMC	80.0%	85.0%	73.0%
Destination entry SCF	80.0%	85.0%	77.0%
ECR			
Letters/Nonletters Basic	0.0%	0.0%	0.0%
Letters/Nonletters high density	35.0%	65.0%	65.0%
Letters/Nonletters saturation	35.0%	95.0%	95.0%
Letter high density	100.0%	100.0%	125.0%
Letter saturation	100.0%	100.0%	100.0%
Letter automation	110.0%	100.0%	100.0%
Destination entry BMC	80.0%	85.0%	73.0%
Destination entry SCF	80.0%	85.0%	77.0%
Destination entry DDU	80.0%	85.0%	77.5%
Source: Tr. 10/3908-3909 (Moeller).			

[50] In fact, witness Moeller (at Tr. 10/3871) dismisses costs as a rate design objective.

Q: Was one of the objectives to move towards a rate design incorporating 100% passthrough of cost differences?

A: Not in particular, although that is not necessarily an unworthy objective.

1 It is clear that the Regular Mail passthroughs are driven—understandably—by the
2 desire to have qualified letter mail submitted at Regular automation rates rather than
3 ECR Basic rates. This leads to passthroughs that vary considerably from the optimal.
4 Moeller states: "At the 3-digit tier, a passthrough of 106 percent is selected. This leads
5 to a discount that is a modest 1/10th of a cent greater than the calculated savings, but
6 helps achieve the desired 5-digit automation rate relationship with ECR Basic."[51]
7 (These affected categories are highlighted in the table above.) He also testifies: "The
8 passthrough at the 5-digit automation tier is 160 percent. This passthrough is
9 principally based on achieving the desired rate relationship with ECR Basic letters."[52] In
10 other words, Moeller admittedly inflates the passthrough (and thus lowers the rate) in
11 the Regular subclass in order to achieve the desired diversion from ECR.

12 Moeller further states, concerning the Basic tier of ECR Mail, that a "zero percent shape
13 passthrough at the Basic tier, coupled with rate distinctions for letters at the other tiers,
14 was an attempt to balance the Commission's concern for recognition of cost differences
15 while giving special consideration to the Postal Service's concern regarding its letter
16 automation program."[53] Thus, this important ECR passthrough was set to zero in order
17 to achieve the desired rate relationship with the automation rate in Standard A Regular.

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[51] Moeller Testimony (USPS-T-35) at 11, lines 21 through page 12, line 1.

[52] Moeller Testimony (USPS-T-35) at 12, lines 3-5. Moeller confirms this usage of passthroughs: "The passthrough for the 5-digit automation discount was the principal tool used to create the rate relationship." Tr. 10/3869 (Moeller).

[53] Moeller Testimony (USPS-T-35) at 24, line 17 through page 25, line 1.

1 The root causes of these rate anomalies are (1) the desire to maintain certain rate
2 relationships, such as the desire to encourage migration of certain automation-
3 compatible ECR basic letters to the 5-digit Regular Automation rate and (2) the
4 apparent compartmentalization of responsibility between witness Mayes (who
5 addresses cost coverage and overall percentage rate increase) and witness Moeller
6 (who addresses rate design). This compartmentalization causes a failure to account
7 properly (from an economic point of view) for important statutory ratemaking factors and
8 desirable principles of rate design.

9 Apparently neither witness considered the possibility of raising the ECR cost coverage
10 so that severe rate anomalies are not required. Witness Mayes notes at Tr. 11/4294
11 that there was "some attention paid" to the cross-over problem but further notes at Tr.
12 11/4324-4325 that it did not "restrict development of cost coverages . . . independently
13 of each other." Moeller certainly doesn't consider this possibility either.[54]

14 In short, passthrough percentages varying from 0 to 500% were imposed ostensibly to
15 accommodate witness Mayes's proposed reduction in the ECR cost coverage, yet
16 maintain desired rate relationships. The failure even to consider adjusting cost
17 coverages to eliminate the passthrough anomalies is a serious omission.

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[54] Tr. 10/3830. He notes that the cost coverage is a constraint but does not consider raising it. Tr. 10/3875 & 3887.

2. The low Standard A ECR cost coverage creates other distortions in the rate design

The lower cost coverages in ECR and the proposed cut in the commercial Standard A ECR pound rate create other distortions by causing a "push up" in other rate cells that require constraints on rates to avoid "rate shock." In addition, due to linkages in discounts within the "presort tree," distortions caused by one rate anomaly propagate throughout the Standard A rate design. Some examples of these consequences are given by witness Moeller:

- "Even if the study were to indicate that a greater reduction in the [Regular] pound rate is justified, such a reduction would result in an increase in the piece rates beyond that proposed, and would be outweighed by the competing objective of tempering the percentage increase for individual categories." USPS-T-35 at 9. "[C]onsideration of the upward effect on the [Regular] piece rates led me to limit the reduction to a modest 1.6 cents." Tr. 10/3873 (Moeller).
- "Any further reduction in the [ECR] pound rate may have led to undesirable increases in the piece rate." Tr. 10/3879 (Moeller).

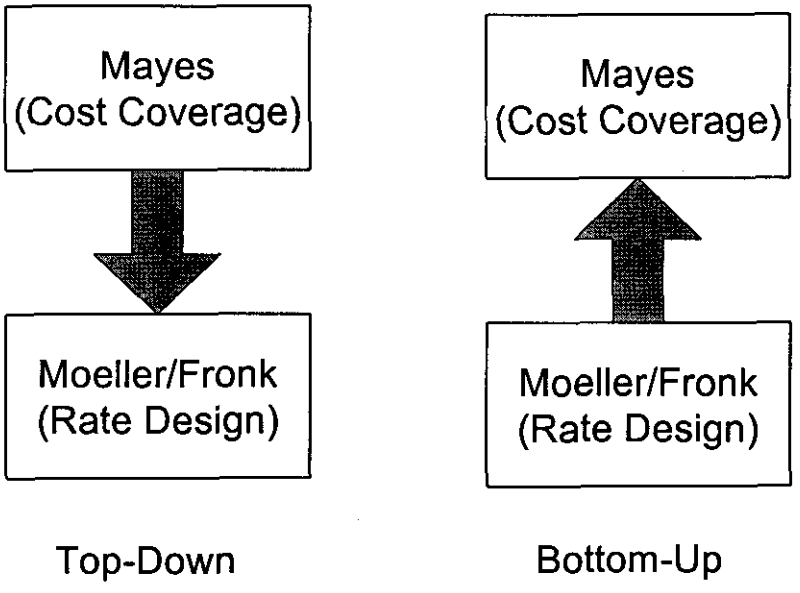
C. The Postal Service Tries To Avoid the Issue Of Justifying A Lower Cost Coverage For ECR Mail By "Compartmentalizing" Responsibilities Between Witnesses Moeller And Mayes

Witness Moeller claims to address only matters of rate design within the overall constraints of rate levels, as determined by the cost coverages, which he professes to be powerless to affect. Mr. Moeller also claims that several elements of the rate design, including rate anomalies and his proposed cut in the pound rate, are an unavoidable consequence of the cost coverages.

Witness Mayes, in turn, claims that matters such as migrations among subclasses are matters for rate design. She does not consider it her responsibility to explicitly consider

whether such rate anomalies could be best solved by changes in cost coverages and rate levels.[55]

I shall refer to the ratemaking process as described by the Postal Service witnesses as "top down." This version of the Postal Service's process starts with target cost coverages determined by witness Mayes, followed by witness Moeller designing rates given the target cost coverages as constraints. I suggest, however, that the real process was a bottom up process, where the Postal Service first determined the rate levels it desired, and then derived the cost coverages necessary to achieve that result:



All the evidence points to this conclusion.[56] It appears that Mr. Moeller voluntarily selected the four digit ECR cost coverage necessary to achieve his rate level goals,

[55] See Tr. 11/4324-4325.

[56] See Tr. 10/3858-64 (Moeller).

1 and then justified the resulting rate anomalies and the reduced pound rate as being
2 required by the cost coverage constraint. Witness Mayes then endorsed Mr. Moeller's
3 cost coverages using almost the same language as witness O'Hara in the last
4 proceeding.[57] It is interesting to note that the resulting rate proposals are entirely
5 consistent with a desire to divert volume from private enterprise competitors.

6 If we assume, to the contrary, that the actual decision-making of the Postal Service
7 followed the "top down" approach as described by Postal Service witnesses, the cost
8 coverage "targets" were handed down from Mr. Mayes to Mr. Moeller. If the process
9 happened exactly as described by the Postal Service, witness Mayes (1) failed to
10 consider the rate anomalies imposed on witness Moeller by her recommended rate
11 levels and target cost coverages and (2) further failed to correct them.

12 **D. There Is No Valid Justification For A Reduction In The ECR Cost**
13 **Coverage**

14 Witness Mayes's testimony in this proceeding is virtually identical—often word for
15 word—to that of Dr. O'Hara's in the last proceeding. Yet Dr. O'Hara recommended a
16 much higher ECR cost coverage. The Postal Service has not given any justification for
17 a reduction in the ECR cost coverage, other than a subjective belief that the ECR cost
18 coverage is "too high" and an alleged increase in demand elasticity.

19 When asked to provide information that represents any changes in circumstances or
20 facts between the Commission's decision in Docket No. R97-1 regarding Standard Mail

[57] *Compare* O'Hara Testimony, docket No. R97-1 (USPS-T-30) at 34-36 *with* Mayes

1 (A) and ECR and the time she prepared her direct testimony, witness Mayes was
2 unable to cite any new data or studies except an alleged change in estimated demand
3 elasticity.[58]

4 However, as witness Thress's interrogatory responses show, the alleged increase in
5 demand elasticity is due to a change in demand equation specification, and not to any
6 structural change in ECR demand. Performing an apples-to-apples comparison by
7 estimating the same equation using the same data with the only difference being
8 different time periods, witness Thress finds no meaningful difference in the ECR
9 demand elasticity.[59] He actually performs two sets of apples-to-apples comparisons,
10 one using the old data and the old specification, and the other using the new data and
11 new specification. Both sets of results show no significant difference. Ms. Mayes has
12 since concurred, and has stated that she now does not believe that the purported

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Testimony, Docket No. R2000-1 (USPS-T-32) at 38-40.

[58] Tr. 11/4322 (Mayes).

[59] He states:

> The estimated own-price elasticity of Standard ECR mail using the R97-1 demand specification, estimated using a sample period through 1999Q4, using the econometric methodology employed in my current testimony, is –0.599."

Tr. 9/3780.

This value is nearly identical to the –0.598 he estimated in Docket No. R97-1. Using the specification he proposes in Docket No. R2000-1, he finds that "if one estimates the current ECR demand equation using a sample period ending in 1997Q2 (as was done in R97-1), the estimated own price elasticity for Standard ECR mail is estimated to be equal to –0.768, which is not very different from my current estimate of-0.808. Tr. 9/3773 (Thress).

difference in elasticity is statistically significant.[60] Thus, the Postal Service has now abandoned the only objective justification that the Postal Service relied upon for reducing the cost coverage.

E. The Postal Service's ECR After-Rates Cost Coverage Is Overstated

As shown above, the Postal Service's own data show that ECR cost coverage will actually go down, contrary to its efforts to demonstrate otherwise. The Postal Service's data actually overstate ECR cost coverage because the denominator of the cost coverage ratio is deflated and the numerator is inflated. The Postal Service also has underestimated FY1999 costs, suggesting that the cost coverage would be lower than forecast in the Test Year at proposed rates.

1. The Postal Service understates Test Year ECR costs

The Postal Service's cost methodology understates costs relative to the Commission's cost methodology. Restating the cost coverage at the Postal Service's proposed rates using the Commission's cost methodology therefore gives a lower figure for the ECR cost coverage. Were the Postal Service to use its incremental cost measure to calculate the ECR cost coverage at its proposed rates, the resulting cost coverage would also be lower than that proposed by the Postal Service.[61]

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[60] VP-CW/USPS-T32-16.

[61] See Kay Testimony (USPS-T-23) at page 22, Table 1A. ECR incremental cost for TY2001 is greater than ECR volume variable cost for both before-rates and after-rates.

Moreover, the 1999 Cost and Revenue Analysis shows the Postal Service underestimated FY99 ECR costs by 4.62%.[62] In contrast, Standard A Regular costs were actually overestimated by 4.64%.[63] While I have not calculated the full impact of the results in the 1999 Cost and Revenue Analysis, it is clear that there is an error in the 1999 forecast. If this same error is rolled forward into the test year, then it is clear that the Postal Service's proposed cost coverage will not be achieved at the rates proposed by witness Moeller. Instead, ECR rates would have to be raised over and above the Postal Service's proposals to achieve that coverage.

2. The Postal Service overstates Test Year ECR revenues

Witness Mayes further overstates the Postal Service's proposed ECR cost coverage because the projected revenues used in the test year (the numerator) are overstated. The Postal Service fails to account for shifts in the distribution mail volume (the "billing determinants") due to proposed changes in rate design (*i.e.*, increased per-piece rates and reduced per-pound rates). As a result, it overestimates the percentage increase in ECR revenues per piece that will be realized at its proposed rates in the test year.

While one might argue that it is "standard practice" for the Postal Service to ignore shifts in the billing determinants in the test year due to changes in rate design, the Postal Service has recognized other shifts in the distribution of volume. For example, Mr. Moeller's revenue projections recognize the fact that the residual shape surcharge

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[62] See PRC Notice of Inquiry No. 2 Concerning Base Year Data, Attachment 1.

[63] See PRC Notice of Inquiry No. 2 Concerning Base Year Data, Attachment 1.

1 imposed in Docket No. R97-1 will result in a reduced volume of residual shape
2 surcharge mail in the test year (as the imposition of the surcharge is not reflected in the
3 residual shape volumes based on FY 98 billing determinants).[64] Likewise, Dr. Tolley
4 estimates disaggregated volume changes for seven separate rate categories for ECR.
5 Because the rate changes are different and the elasticities are assumed to be the
6 same, the share of total ECR volume will differ for the seven categories when
7 comparing before rates and after rates.

8 Mr. Moeller also assumes that there is no shift in the distribution of volume between
9 piece-rated and pound-rated pieces.[65] He is also assuming that mailers will not
10 increase the average weight of pieces.[66] However, he has proposed significant
11 changes in ECR rate design. As the Postal Service and Commission have recognized
12 in the past,[67] such changes in rate design will cause changes in the composition of
13 traffic, shifting volume away from the categories experiencing rate increases and
14 towards the categories experiencing rate cuts. Thus, changes in the composition of

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[64] Moeller's workpaper 1, pages 13 and 14. Witness Moeller confirms this at Tr. 10/3894-96.

[65] See Tr. 10/3883: "Similarly with the mix of mail by weight increment, the FY98 data is assumed to be representative of the test year mix, both before *and* after rates." (italics added).

[66] Tr. 10/3883 (Moeller).

[67] For example, the Commission states in Appendix H of the R97-1 PRC Opinion, page 7:

> Where rates vary by weight there exist substitution possibilities among the cells representing different weight categories. Such substitution possibilities become apparent very quickly when the rate schedules

1 traffic across rate cells will occur if rate changes vary disproportionately across cells, as
2 they do here. Witness Moeller even admits this possibility as well, stating: "There may
3 be changes in mail mix due to the proposed rates."[68] However, he did not fully account
4 for it: "At levels of detail below the volume forecast (*e.g.,* weight per piece, destination
5 entry profile), no quantification of shifts is projected."[69] Mr. Moeller has no real
6 explanation for not accounting for these shifts other than it made his job easier.[70]

7 However, this difficulty of accounting for migration between rate categories hasn't
8 stopped Dr. Tolley from applying the aggregate subclass elasticity to forecast volumes
9 at the rate category level. Tolley takes the subclass elasticity estimated by witness
10 Thress and applies it to the rate category level, *i.e.*, Automation, Basic letters, Basic
11 nonletters, High-Density letters, High-Density nonletters, Saturation letters, and
12 Saturation nonletters.[71]

13 Dr. Tolley's use of the aggregate subclass elasticity to volumes at the rate category
14 level, combined with Mr. Moeller's assumption that test year billing determinants will be
15 the same as FY1998, results in perverse upward-sloping demand curves for some rate

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create 'crossovers' as they have occasionally done between substitutable postal services in the past."

[68] Tr. 10/3884 (Moeller).

[69] Tr. 10/3884 (Moeller).

[70] He states that "The percentage change without controlling for migration is easy to calculate." Tr. 10/3897-98.

[71] It is rarely ever correct to do so. See for example, William B. Tye and Bernard J. Reddy, "Deregulation of freight rates and aggregation error in demand forecasting", ICC Practitioners Journal, September-October 1981.

groups. Basic economic principles state that as prices (rates) increase, quantity (volume) should decrease. This is not always the case in Postal Service predictions. As the following table indicates, some categories (*i.e.*, piece-rated nonletters in the High Density category) are forecasted to experience an increase in rates simultaneously with an increase in volume, while other categories (*i.e.*, pound-rated nonletters in the Saturation category) are forecasted to experience a decrease in rates and a decrease in volume.

Enhanced Carrier Route Subclass

		Volume Forecast		Percent	Revenue/piece		Percent
		BR	AR	Change	BR	AR	Change
		[1]	[2]	[3]	[4]	[5]	[6]
1	**Letters**						
2	Basic	5665.732	5449.490	-3.82%	0.1477	0.1599	8.28%
3	Auto	1891.225	1851.903	-2.08%	0.1429	0.1492	4.39%
4	High-D	411.860	393.108	-4.55%	0.1199	0.1319	9.99%
5	Saturation	2830.582	2692.107	-4.89%	0.1108	0.1228	10.79%
6	**Non-letters-Piece rated**						
7	Basic	6636.358	6491.447	-2.18%	0.1441	0.1561	8.37%
8	High-D	880.537	888.114	0.86%	0.1295	[illegible]	[illegible]
9	Saturation	6436.887	6340.858	-1.49%	0.1173	0.1237	5.54%
10	**Non-letters-Pound rated**						
11	Basic	5421.791	5303.401	-2.18%	0.2069	0.2096	1.29%
12	High-D	586.101	591.144	0.86%	0.2021	0.1924	-4.82%
13	Saturation	2869.445	2826.637	-1.49%	0.1685	[illegible]	[illegible]
14	**Total ECR**	33630.517	32828.211	-2.39%	0.1492	0.1566	4.94%
15	subtotal - letters	10799.400	10386.608	-3.82%	0.1361	0.1472	8.16%
16	subtotal - pc. rated	24753.181	24107.028	-2.61%	0.1331	0.1429	7.38%
17	subtotal - lb. rated NL	8877.336	8721.183	-1.76%	0.1942	0.1947	0.27%
18	subtotal - pc. rated NL	13953.781	13720.420	-1.67%	0.1308	0.1396	6.76%

Sources:
[1]: Moeller WP 1, page 4
[2]: Moeller WP 1, page 21
[3]: [2] / [1] - 1
[4], [5]: Moeller WP 1, page 34
[6]: [5] / [4] - 1

Such results indicate that the volume forecasting model is not fully compatible with the rate proposal. The distribution of after-rates volumes across rate categories estimated

by Mr. Moeller must not be correct. The difficulty of accounting for shifts in the composition of traffic further reiterates the undesirability of making changes in rate design unless clearly justified.

Clearly, the Postal Service has made no explicit effort to correct its estimates of after-rates revenue/piece to account for shifts in the distribution of volume. Indeed, its forecasts assume perverse and counter-intuitive shifts as a result of overlaying Mr. Moeller's use of FY1998 billing determinants onto Dr. Tolley's partly disaggregated volume forecast.

It is difficult to estimate the magnitude of the error, but its direction is clear. Witness Moeller's method of using "before rates" billing determinants to calculate the percentage rate increase is to *overestimate* the actual percentage rate increase in rates that will be realized by the rate proposals, as it does not account for the shift in volumes in response to relative price changes. This is an example of a well-known problem in index numbers.[72]

F. Under The Postal Service's Proposals, The Unit Contribution Of ECR Would Continue To Be Much Less Than That Of First Class Mail

The ECR subclass under the Postal Service's proposal continues to contribute much less to institutional costs on a per piece basis compared to First Class. The table below shows that the unit contribution for ECR *is less than half* that of either of the First Class

letters subclasses. The Postal Service has failed to admit the wide disparity in unit contributions, and ducked the issue by noting only that "[r]ate levels have traditionally been discussed in terms of markups or costs coverages, rather than in terms of unit contribution."[73] When asked to explain why the ratio of revenue to volume-variable cost provides the only needed measure, Mayes confirms that unit contributions were not used.[74]

Comparison of Unit Contributions

	ECR	First Class
Using USPS Cost Methodology		
TY After-Rates Unit Revenues	0.1572	0.3622
TY After-Rates Unit Costs	0.0753	0.1837
TY After-Rates Unit Contribution	0.0819	0.1785
Using PRC Cost Methodology		
TY After-Rates Unit Revenues	0.1572	0.3622
TY After-Rates Unit Costs	0.0803	0.2022
TY After-Rates Unit Contribution	0.0769	0.1599

Sources:
Tolley, USPS-LR-I-121
Bernstein, USPS-LR-I-149
Mayes Exhibit USPS-32B [Revised 4-21-00]

I note that the Postal Service proposal also increases the gap between the unit contributions of ECR and First Class mail. The ECR unit contribution (using Commission methodology) would rise by only 0.14 cents, but First Class unit

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[72] For example, see Hal Varian, *Microeconomic Analysis, Second Edition*, page 166, where problem 3.29 calls for the reader to show that the true cost of living index is less than the Laspeyres ("before rates") price index.

[73] Tr. 11/4296 (Mayes). She further confirms that she "did not use unit contributions 'for the purpose of measuring the relative contributions of the various classes and subclasses.'" Tr. 11/4210 (Mayes).

[74] Tr. 11/4297 (Mayes).

contribution would rise by 1.32 cents.[75]

It is important to consider unit contributions. First, they highlight the actual contribution being made by the average piece. This can facilitate comparisons among similar subclasses. Second, unlike cost coverage percentages, unit contributions are not distorted by the differing degrees of worksharing among the various subclasses.

IV. THE POSTAL SERVICE PROPOSAL WILL CONTINUE TO DIVERT MAIL FROM PRIVATE ENTERPRISE COMPETITORS

In Docket No. R97-1, the Postal Service explicitly defended its proposed pound rate reduction on a desire to divert mail volume from private enterprise competitors.[76] The Commission found that: "The evidence suggests that the Postal Service has targeted the ECR subclass for special consideration for competitive reasons."[77]

In contrast, in the current rate case the Postal Service denies that a desire to divert volume from private enterprise motivates its current proposals.[78] The record provides ample reason, however, for concluding that the Postal Service is again inappropriately

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[75] Compare above table with PRC R97-1 Opinion, Appendix G, Schedule 1.

[76] For example, Mr. Moeller in Docket No. R97-1 stated: "Finally, the Enhanced Carrier Route subclass is in a competitive market and is susceptible to diversion to alternative media. As such, the rate structure should be sensitive to, and priced competitively with, the alternatives. A lower pound rate is more consistent with the rates for other advertising media that are not as sensitive to weight." See Moeller Testimony in Docket R97-1 (USPS-T-36) at 26.

[77] PRC R97-1 Opinion at 403.

[78] See for example Tr. 10/3881 (Moeller): "Although the Postal Service understands that there is competition for the type of advertising mailed in the ECR subclass, the pound rate proposal is not based on an effort to stem diversion to alternative

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**

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.

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."

Standard Mail (A) - Enhanced Carrier Route															
Proposed Rates ($)															
Overall	4.9%														
Pound-rated pieces															
Dest.	cur-	pro-													
Entry	rent	posed	%chg at (oz.)												
			4	5	6	7	8	9	10	11	12	13	14	15	16
Basic															
per piece	0.025	0.055													
per pound	0.663	0.584													
	less	less													
None	0.000	0.000	5.4%	2.3%	0.1%	-1.4%	-2.7%	-3.6%	-4.4%	-5.1%	-5.6%	-6.1%	-6.5%	-6.8%	-7.1%
DBMC	0.079	0.083	5.4%	2.0%	-0.5%	-2.3%	-3.6%	-4.7%	-5.6%	-6.3%	-7.0%	-7.5%	-8.0%	-8.4%	-8.7%
DSCF	0.100	0.108	5.0%	1.4%	-1.1%	-3.0%	-4.4%	-5.5%	-6.5%	-7.2%	-7.9%	-8.4%	-8.9%	-9.3%	-9.7%
DDU	0.126	0.134	5.2%	1.5%	-1.2%	-3.1%	-4.6%	-5.8%	-6.8%	-7.6%	-8.2%	-8.8%	-9.3%	-9.8%	-10.1%
High Density															
per piece	0.014	0.034													
per pound	0.663	0.584													
	less	less													
None	0.000	0.000	0.1%	-2.1%	-3.7%	-4.8%	-5.6%	-6.3%	-6.9%	-7.3%	-7.7%	-8.0%	-8.3%	-8.5%	-8.7%
DBMC	0.079	0.083	-0.5%	-3.0%	-4.8%	-6.1%	-7.0%	-7.8%	-8.4%	-8.9%	-9.3%	-9.7%	-10.0%	-10.3%	-10.5%
DSCF	0.100	0.108	-1.1%	-3.8%	-5.6%	-6.9%	-8.0%	-8.8%	-9.4%	-9.9%	-10.4%	-10.8%	-11.1%	-11.4%	-11.6%
DDU	0.126	0.134	-1.2%	-4.0%	-5.9%	-7.3%	-8.3%	-9.2%	-9.8%	-10.4%	-10.9%	-11.3%	-11.6%	-11.9%	-12.2%
Saturation															
per piece	0.003	0.028													
per pound	0.663	0.584													
	less	less													
None	0.000	0.000	3.1%	0.1%	-1.8%	-3.3%	-4.3%	-5.2%	-5.8%	-6.4%	-6.8%	-7.2%	-7.6%	-7.9%	-8.1%
DBMC	0.079	0.083	2.9%	-0.5%	-2.8%	-4.4%	-5.6%	-6.5%	-7.3%	-7.9%	-8.4%	-8.9%	-9.3%	-9.6%	-9.9%
DSCF	0.100	0.108	2.3%	-1.2%	-3.6%	-5.2%	-6.5%	-7.5%	-8.3%	-8.9%	-9.5%	-9.9%	-10.3%	-10.7%	-11.0%
DDU	0.126	0.134	2.4%	-1.3%	-3.7%	-5.5%	-6.8%	-7.8%	-8.7%	-9.4%	-9.9%	-10.4%	-10.8%	-11.2%	-11.5%

Source: Moeller WP 1, page 31

In contrast, minimum per piece rates are all proposed to increase.

The effect of the Postal Service's proposals here is the same as Docket No. R97-1: Rate decreases are targeted at the heavier pound-rated ECR traffic.[79] Despite Mr. Moeller's protestations, his proposed reductions in cost coverage for ECR Mail in this

[79] The Postal Service certainly gives the appearance of identifying with the needs of mailers of ECR pound-rated mail. Witness Moeller states "On November 6, 1998, I attended a meeting with Standard Mail (A) industry representatives from the Saturation Mail Coalition and the Mail Order Association of America during which the pound rate was discussed." Tr. 10/3914.

1 proceeding are nevertheless consistent with the Postal Service's objective of diverting
2 mail from private sector competitors.

3 In fact, the Postal Service shows that it has been highly successful in doing so.
4 Witness Tolley estimates that fully 16.43% of the volume increase in ECR occurs as a
5 result of past decisions to allow the ECR pound rate to decline in real terms, while rates
6 of private enterprise competitors have gone up.[80] This shows that the Postal Service
7 has been successful at competing, despite any Postal Service denials. It also
8 undercuts any arguments that the Postal Service is being threatened by ECR
9 competitors.

10 The Postal Service's own testimony presents a cross elasticity of ECR mail volume with
11 respect to newspaper advertising prices of 0.812, while their own price elasticity is –
12 0.808. This would indicate that a 1% increase in the price of newspaper advertising
13 would have almost exactly the same effect on Standard A ECR mail volume as a 1%
14 decrease in the price of Standard A ECR mail. Mayes states in her testimony (USPS-T-
15 32) at 39, lines 2-4 "...both alternate delivery firms and newspaper inserts may provide
16 ways of delivering the same advertising message that would be carried in ECR."

17 Witness Tolley's testimony shows that the shift in volume from the private sector to
18 ECR has been significant. The Postal Service's efforts to hold down ECR rates have
19 attracted a huge volume. Ms. Mayes professes to be unable to find any evidence of the

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[80] See Witness Tolley's Testimony USPS-T-6 at page 132, Table 12.

1 effect of Postal Service rates on competitors of ECR, but the evidence may be found in
2 the Postal Service's direct case.

3 Both witnesses Moeller[81] and Mayes[82] admit they have given no consideration to the
4 impact of the ECR rate proposal on competitors with ECR mail. Effects on competitors
5 cannot be determined simply by comparing "the test year before and test year after
6 rates forecasts of postal volumes for each subclass or rate category for which volumes
7 were forecasted." Tr. 11/4289 (Mayes). As a result, neither Ms. Mayes nor Mr. Moeller
8 has considered the impact of rates on competitors, an explicit requirement previously
9 identified by the Commission in assessing proposed cuts in the pound rate.

10 **B. Absent A Cost Justification, There Is No Justification For**
11 **Different Rate Changes In ECR**

12 In the Postal Service's proposal, some rates are going up in ECR, while others are
13 going down (*e.g.,* the pound-rated pieces examples). However, there is no evidence
14 that there are different levels of competition within different rate cells. Ergo, there is no

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[81] Moeller states: "Available alternatives are considered at the subclass level. While this concept may be relevant for rate design, it was not a factor in the proposed Standard Mail (A) rate design discussed in my testimony." Tr. 10/3967-68.

[82] At the same time Witness Mayes also claims not to have studied the impacts on competitors: "As an example, the Postal Services does not have full information regarding the prices charged by competitors. Some changes to postal rates may cause harm to those competitors, but without knowledge of the cost structure or pricing practices of the competitors, there would not have been opportunity to prevent such harm." Tr. 11/4275 (Mayes). When asked to identify all the factors considered in evaluating the effects on competitors, Mayes was "aware of reports of rate changes for several private companies which provide delivery services, both general rate changes as well as rate surcharges specifically tied to service for particular areas or, in part, to increases in fuel prices" (Tr. 11/4289 (Mayes)), but no apparent consideration was given to any impacts on competitors.

reason not to raise the rates for the cells with proposed declines in rates except a cost rationale. However, no valid cost rationale exists for doing so; in particular, there is no cost rationale for pound rates to go down while piece rates rise. Hence, there is no justification for changes in the rate design, and the Commission should recommend common increases in undiscounted ECR rates.

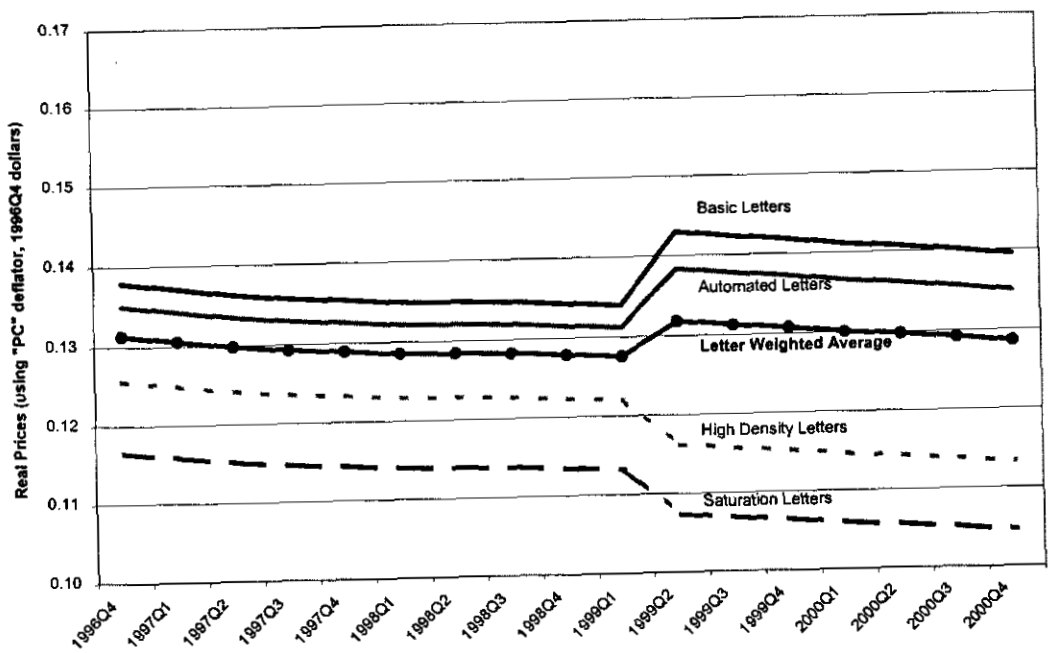
In addition, the ECR percent rate change represents a rate decline relative to the other classes of Standard A. Standard Regular rates are forecasted to increase by 9.4%. Nonprofit ECR rates are forecasted to increase by 14.8%. The proposed ECR rate increase is also significantly less than the systemwide rate increase of 6.4%. There is no rational explanation for these discrepancies other than a desire to divert additional mail to ECR from private enterprise competitors.

C. Real Overall ECR Rates And Real Overall Pound Rates Are Declining

The current ECR rate proposals are part of a trend, as evidenced by declines in overall ECR rates and in the real pound rate. The following charts[83] show that all the nonletter categories have declined in real terms since 1996Q4. The decline in the real pound rate is even more pronounced, indicating that the Postal Service is targeting the heavier pieces for diversion.

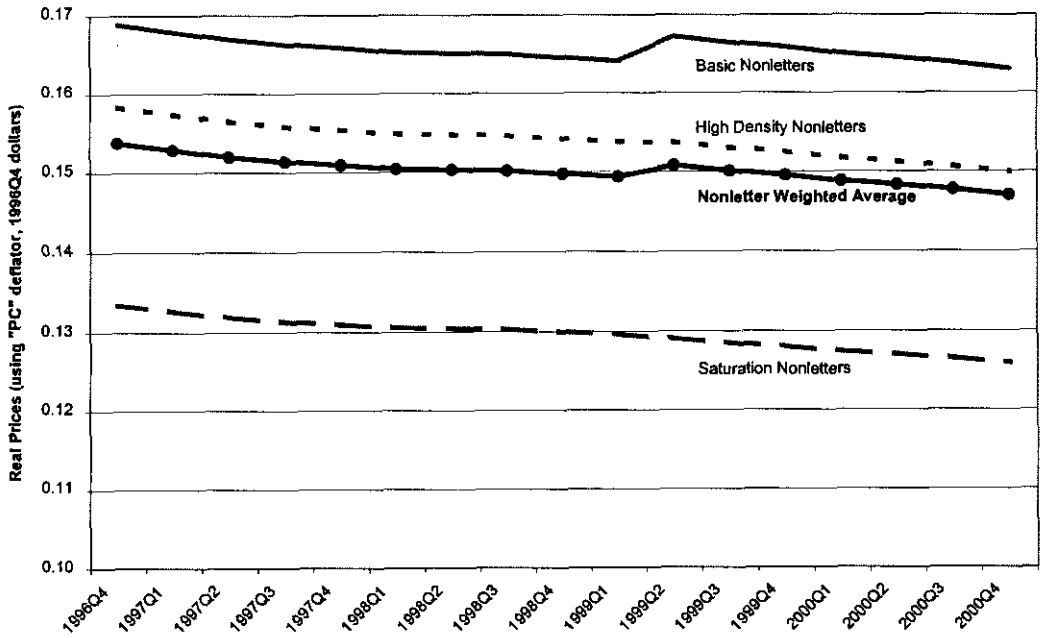
[83] The following charts use Dr. Tolley's "PC" deflator, but a deflator such as Mr. Tayman's measure of general inflation would show similar results. Source: Witness Tolley Workpapers, LR-I-121, weighted average constructed using fixed proportions as given by Dr. Tolley's Before-Rates volumes.

Real ECR Letter Prices



1

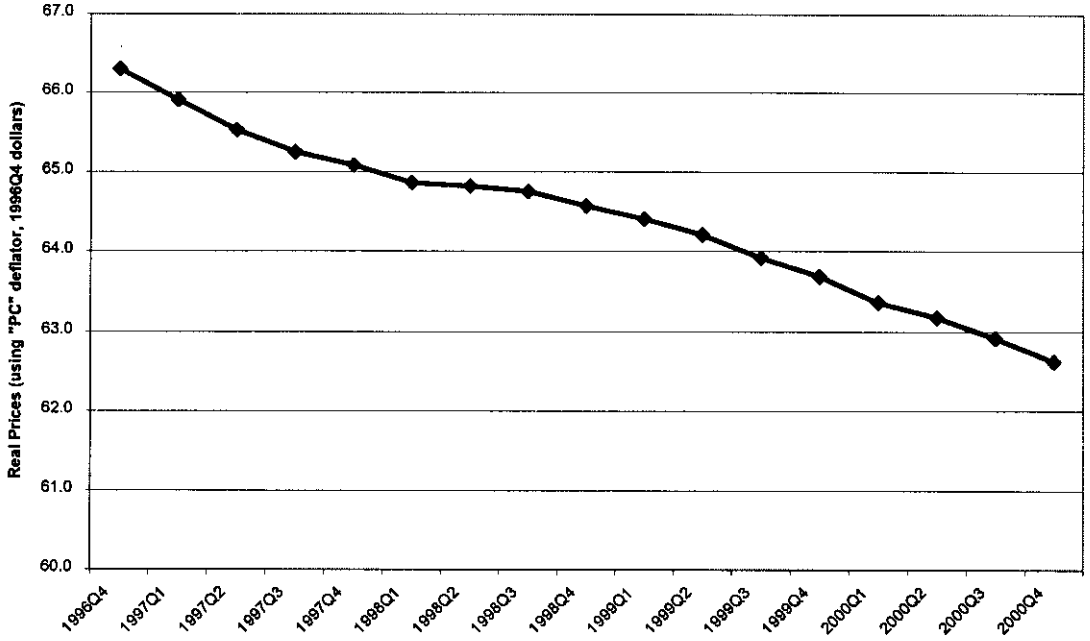
Real ECR Nonletter Prices



The real ECR pound-rate has continually decreased since the inception of the ECR subclass, because the nominal ECR pound-rate has remained fixed at 66.3 cents per pound.[84]

[84] See USPS-LR-I-118 for the rate history.

Real Pound Rate



V. DETERMINATION OF MORE APPROPRIATE ECR COST COVERAGE AND RATE PROPOSALS

The appropriate cost coverage and percentage rate increases for ECR should correct the deficiencies in the Postal Service's current proposals. The real issue, then, is what the ratemaking objectives should be: Should they be the Postal Service's stealth objective of diverting mail from private enterprise competitors, or should they rather establish rational relationships among ECR and other subclasses?

To determine the appropriate cost coverages and percentage rate increases for ECR, I first examine the effects of worksharing on cost coverage. I then identify those ratemaking objectives that ought to be considered in determining the appropriate rate increases for ECR.

A. The Commission And The Postal Service Agree That Heavily Workshared Subclasses Have High Cost Coverages As A Matter Of Mathematics

Relatively high cost coverages for heavily workshared classes are not an anomaly, but rather the direct consequence of basing rate discounts on avoided costs of worksharing. The Commission in Docket No. R97-1 stated "The high coverage assigned Standard A ECR also recognizes that reasonably priced alternatives are available (§3622(b)(5)), and that rates reflect significant worksharing (§3622(b)(6))"[85] Dr. O'Hara in R97-1 agreed with the Commission.[86] Ms. Mayes also appears to agree with the Commission's sentiments in R97-1.[87] However, there is no specific consideration of the effect of worksharing on the cost coverage in the Postal Service's current proposals.

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[85] PRC R97-1 Opinion at 447.

[86] For example, O'Hara Testimony (USPS-T-30) at 9 stated "Similarly, to maintain its contribution, the coverage of a subclass with a greater-than-average increase in worksharing will need to increase relative to the system-average coverage," where the associated footnote says, "It has been suggested that, over time, improved cost analysis should permit an increasing percentage of total costs to be attributed. Working in the opposite direction, however, has been the trend toward increased worksharing, which decreases the percentage of costs that are in fact attributable. It may well be that this latter effect has outweighed the former."

[87] At Tr. 11/4293, Ms. Mayes states: "A seemingly high cost coverage might have been the result of high levels of worksharing participation which reduced the denominator, rather than a high revenue and institutional cost burden which would have increased the numerator. In particular, this was of concern when determining the cost coverage for First-Class Letters and Cards... and ECR." She reiterates this at Tr. 11/4292 (Mayes).

B. Cost Coverage Goals

Goal 1: Making appropriate recognition of rate relationships and crossovers

An appropriate cost coverage and rate structure should appropriately recognize the rate relationships and crossovers with other subclasses. As the Commission recognized in Docket No. R97-1, raising the cost coverage of ECR creates more "headroom" for a desirable rate differential between ECR basic and the 5-digit automation.

Goal 2: Avoiding unfair competition with private enterprise

Dropping the pound rate and lowering ECR cost coverage would have the effect of diverting volume from private enterprise competitors of ECR mail. Combining an increase in the extra ounce rate for monopoly First Class Mail and a decrease in the pound rate for competitive ECR Mail has the effect of decreasing volume from the first and increasing volume in the latter. An appropriate cost coverage and rate structure for ECR should avoid relying on rate increases on monopoly mail in order to finance (via the markup) rate cuts for mail facing competition.

Protecting monopoly customers would require that the Postal Service move toward increasing the contribution from competitive classes such as ECR. Rate increases in competitive subclasses will increase the net contribution to institutional cost and also arrest the past increases in volume of competitive classes due to diversion from private enterprise competitors.

1 ***Goal 3: Avoiding unnecessary departures from***
2 ***historical rates***

3 An appropriate cost coverage and rate structure should make historical rates the
4 starting point for future rates unless justified by changed circumstances or necessary to
5 correct a historical problem."[88] Since there has been no substantiated change in
6 circumstances for ECR, the Commission should ensure that the cost coverage or
7 markup index does not decline in either absolute or relative terms.

8 ***Goal 4: Recognize that cost coverages are affected by***
9 ***other ratemaking goals such as worksharing***

10 The ECR cost coverage is largely the result of other ratemaking goals such as providing
11 appropriate incentives for the high degree of worksharing, maintaining rational
12 relationships among ECR and other subclasses, and the extensive use by ECR of
13 postal functions (such as delivery) which are the major sources of institutional costs.

14 **C. <u>Rate Proposals</u>**

15 For the reasons I have discussed above, the Postal Service has failed to justify its
16 proposal to reduce either the ECR pound rate or the ECR cost coverage. There is no
17 data to support reducing the pound rate, nor has the Postal Service offered any
18 justification for lowering the cost coverage or changing the rate design within ECR.
19 Accordingly, I recommend that the Commission adjust the existing set of ECR rates to
20 the Test Year (incorporating 1999 actual costs in the process) so that:

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[88] The Commission stated in R97-1 that it "relies on the precedential value of its past evaluations of the evidence as a starting point and then evaluates new evidence

- The real contribution per piece, after adjusting for attributable costs using the Commission's approved methodology, equals or exceeds the unit contribution of commercial ECR mail at R97-1 levels and that the cost coverage or markup indices do not decline in absolute or relative terms; and

- Undiscounted piece-rated and pound-rated ECR mail receive common rate increases.

While I have not calculated Test Year attributable costs using the Commission's methodology in light of the actual 1999 data,[89] it would appear that setting rates pursuant to these principles would achieve the goals that I have identified.

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presented to determine whether changes from its past allocation decisions are appropriate." PRC R97-1 Opinion at 229.

[89] The Postal Service provided a calculation of Test Year attributable costs using the Commission's methodology in LR-I-131. This has not been updated since the filing to reflect either the actual 1999 CRA data or various errata to date.

APPENDIX A: Curriculum Vitae

WILLIAM B. TYE **Principal**

Dr. William B. Tye received his B.A. in economics from Emory University and his Ph.D. in economics from Harvard University. Upon leaving Harvard, he became assistant professor of economics and management at the U.S. Air Force Academy, holding the rank of Captain. There he taught quantitative economic theory, econometrics, policy issues in contemporary economics and quantitative decision methods. After leaving the service in 1972, he joined Charles River Associates, a Boston research and consulting firm, as a senior research associate and was promoted to program manager for transportation, and later to vice president and a director of the company. He joined Putnam, Hayes & Bartlett, Inc. in 1980 as a Principal. In August 1990 Dr. Tye and six colleagues founded *The Brattle Group*. *The Brattle Group* is the successor firm resulting from the merger of The Brattle Group, Inc. and Incentives Research, Inc., and was known for a year as Brattle/IRI.

RECENT ASSIGNMENTS

Dr. Tye, an expert in economic analysis and public policy, has been an economic consultant for over twenty years. He specializes in regulatory and antitrust issues. His clients have included regulatory bodies, firms in regulated industries and law firms. He has authored or co-authored over one hundred papers and publications, including four books. Some recent consulting assignments include:

- **Antitrust Analysis:** performed studies of competition in silicon, railroading, international telecommunications, petroleum, electric utilities, and natural gas pipelines.

- **Estimating Damages:** provided economic analysis of damages in a case involving claims of alleged fraud in franchising and damage claims from alleged overcharges in the retailing of gasoline.

- **Settlement Values and Strategies:** used business decision and planning tools successfully in consultation with attorneys to develop optimal litigation/settlement strategies in several recent cases.

- **Regulatory Economics:** testified on mergers between regulated firms, on the economic aspects of automobile franchise regulation in a case between a dealer and an automobile manufacturer, on cost allocation issues involving different petroleum streams on the Trans Alaska Pipeline (TAPS), and on the cost of capital and proper calculation of avoided costs in the electric utility industry.

Management: provided assistance to senior management of a large utility seeking a successful transition to a more competitive business environment.

PAPERS AND PUBLICATIONS

"The Economic Costs of the Urban Mass Transportation Capital Grant Program," Ph.D. dissertation, Harvard University, 1969.

"The Capital Grant as a Subsidy Device: The Case Study of Urban Mass Transit," Prepared for the U.S. Congress, Joint Economic Committee, Subcommittee on Priorities and Economy in Government. Published in *The Economics of Federal Subsidy Programs: Part 6—Transportation Subsidies*. Washington, DC: Government Printing Office, 1973.

"The Application of Behavioral Travel Demand Models," In *Behavioral Travel-Demand Models*, edited by Peter R. Stopher and Arnim H. Meyberg. Lexington, MA: Lexington Books, 1975.

"The Economics of Urban Mass Transit Capital Grants," Highway Research Board, *Highway Research Record No. 476: Price-Subsidy Issues in Urban Transportation* (Washington, DC: National Research Board, 1976).

"Problems and Potentials of Federal Transit Operating Subsidies," Transportation Research Board. *Transportation Research Record No. 573: Transit Operating Subsidies* (Washington, DC: Transportation Research Board, 1976).

"Diagnostic Tests for the Independence from Irrelevant Alternatives Property of the Multinomial Logit Model," with Daniel McFadden and Kenneth Train, Working paper No. 7616, Institute of Transportation Studies, Urban Travel Demand Forecasting Project, University of California, Berkeley, August 1976.

"Maximum Potential Energy Savings from a Cessation of Federal Aid to Urban Highway Construction," with Milene Henley and Michael J. Kinnucan, *Transportation Research Record No. 648: Environmental and Conservation Concerns in Transportation: Energy, Noise and Air Quality* (Washington, DC: Transportation Research Board, 1977).

"Application of Diagnostic Tests for the Independence from Irrelevant Alternatives Property of the Multinomial Logit Model," with Daniel McFadden and Kenneth Train, *Transportation Research Record No. 637: Forecasting Passenger and Freight Travel* (Washington, DC: Transportation Research Board, 1977): 39-46.

"Effects on Motor Carrier Operations of ICC Regulation of Operating Authority," with Paul O. Roberts, Joseph Altonji, and James Kneafsey, *Transportation Research Record No. 635: Price and*

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"Achieving Competitive Neutrality in Rail Competitive Access Disputes," *Journal of Transportation Law, Logistics, and Policy*, Vol. 65, No. 4 (Summer 1998): 343-358

"Promoting Effective Competition Through Interconnection Policy," with Carlos Lapuerta, *Telecommunications Policy*, Vol. 23 (March 1999): 129-145.

TESTIMONY

Assisted in preparation of expert testimony before the Postal Rate Commission in 1974 and 1976.

Assisted Professor Franklin Fisher in preparation of expert testimony in antitrust litigation (CBS v. ASCAP).

Testimony before the Postal Rate Commission on behalf of United Parcel Service, Docket No. R77-1, filed 14 October 1977.

Direct testimony before the Postal Rate Commission on behalf of United Parcel Service, Docket No. MC78-1, filed 4 April 1979, and supplemental testimony, filed 15 June 1979.

Assisted Professor Stewart C. Myers in the preparation of expert testimony on rate base methodology and rate of return in the oil pipeline industry before the Federal Energy Regulatory Commission, Docket No. OR79-1.

Assisted in the preparation of expert testimony on the subject of profit renegotiation for a government contractor performing trucking services, 1979.

Testimony before the Civil Aeronautics Board on behalf of Eastern Airlines, Miami-London Route Case, Docket No. 36764, 13 December 1979.

Testimony before the Civil Aeronautics Board on behalf of Eastern Airlines, Florida-Mexico City Route Investigation, Docket No. 32820, 16 July 1980.

Testimony before the Postal Rate Commission on behalf of United Parcel Service, Docket No. R80-1, filed 13 August 1980.

Testimony before the Motor Carrier Ratemaking Study Commission on behalf of Motor Common Carrier Associations, 19 March 1982.

Testimony before the ICC on behalf of the National Coal Association, *Coal Rate Guidelines—Nationwide, Ex Parte* No. 347 (Sub-No. 1), 13 April 1982.

Testimony before the ICC on behalf of The Dayton Power and Light Company (v. Louisville and Nashville Railroad Company), Docket No. 38025, 6 April 1982 (direct) and 7 June 1982 (rebuttal).

Statement prepared for the Motor Carrier Ratemaking Study Commission, "Review of Regulatory Reform and the Trucking Industry: An Evaluation of the Motor Carrier Act of 1980," May 1982.

Testimony before the ICC on behalf of Niagara Mohawk Power Corporation (v. Conrail *et al.*), Docket No. 38336S, 21 July 1982.

Testimony before the ICC on behalf of Commonwealth Edison *et al.* (v. Aberdeen and Rockfish Railroad Company *et al.*), Docket No. 37891 *et al.*, 9 August 1982, 25 October 1982, and 14 February 1983.

Testimony before the ICC on behalf of Consumers Power Company, Docket No. 37854S *et al.*, 6 October 1982, 28 December 1982, and 1 August 1983; in Docket No. 38181S, 15 October 1982, 31 December 1982, and 2 August 1983; in Docket No. 37853S *et al.*, on 12 November 1982, 13 January 1983, and 29 August 1983; and in Docket No. 37857S *et al.*, on 24 January 1983, 25 March 1983, and 10 January 1985.

Statement prepared for the Motor Carrier Ratemaking Study Commission, "The Motor Carrier Market Place Without Collective Ratemaking," 24 November 1982.

Testimony before the ICC on behalf of Delmarva Power and Light Company, Docket Nos. 38329 and 38330, 31 January 1983.

Testimony before the ICC on behalf of Mobil Chemical Company, Docket No. 37850S, 30 March 1983, and 31 May 1983.

Testimony on behalf of Kansas Gas and Electric Company in Civil Action No. 83-1104, United States District Court for the District of Kansas, 19 April 1983.

Testimony before the ICC on behalf of Consumers Power Company, *Ex Parte* No. 347 (Sub-No. 1), "Coal Rate Guidelines—Nationwide," 28 July 1983.

Testimony before the ICC on behalf of Detroit Edison Company, Docket Nos. 38279S *et al.*, 22 December 1983, 13 February 1984, 14 March 1984, and 5 April 1984.

Testimony before the ICC on behalf of National Coal Association, 14 February 1984, in Finance Docket No. 30300, CSX Corporation—Control—American Commercial Lines, Inc.

Testimony on behalf of MKT Railroad before the ICC, 10 September 1984, 21 November 1984, and 29 May 1985, in Finance Docket No. 30,400 *et al.*, SFSP Merger Proceedings.

Testimony before the ICC, 31 May 1985 and 8 July 1985, *Ex Parte* No. 445 (Sub-No. 1), *Intramodal Rail Competition*.

Testimony on behalf of Presidential Airlines in Docket No. 43825, *Texas Air—Eastern Acquisition Case*, before the Department of Transportation, 13 May 1986.

Panelist in a two-day colloquium on rail costing issues, 18-19 June 1986, before the Railroad Accounting Principles Board.

Deposition in *Farmers Electric Cooperative vs. Arkansas Power and Light Company*, U.S. District Court for the Eastern District of Arkansas, 27 June 1986.

Affidavit before an arbitration panel in the matter of Marilyn Benjamin, Administrator and Traffic Executive Association, Eastern Railroads, 29 May 1986.

Testimony on behalf of Presidential Airlines in Docket No. 44365, *Joint Application of Texas Air Corporation and People Express, Inc.*, merger proceeding before the Department of Transportation, 21 October 1986.

Deposition in City of Austin *et al.* v. Decker Coal Company *et al.*, No. A-85-CA-104, U.S. District Court, Western District of Texas, 2 April 1987.

Testimony before the ICC on behalf of the Commonwealth of Massachusetts in Docket Nos. 31250 and 31259, Conveyance of B&M Corporation Interests in Conn River Line, 13 June 1988 and Reply Testimony on 13 July 1988.

Testimony before the Illinois Commerce Commission on behalf of Mississippi River Transmission in *Application of Illini Carrier*, 13 May 1988.

Testimony before the ICC on behalf of the Commonwealth of Massachusetts in *Ex Parte* No. 274 (Sub-No. 11A), *Abandonment Regulations—Costing*, 8 July 1988.

Deposition in *James River Corporation vs. Northwest Pipeline Corporation*, 13-15 March, 12-14 April 1989.

Testimony before the Missouri Public Service Commission, Application of Missouri Pipeline Company, 10 May 1989 and 30 May 1989.

Testimony before the Public Utilities Commission of California, Application No. 88-07-020 *et al.*, 5 January 1990, on behalf of US Sprint.

Testimony before the ICC on behalf of Rio Grande Industries, Inc., *Finance Docket No. 31505, Rio Grande Industries, Inc. et al.*—Purchase and Related Trackage Rights—Soo Line Railroad Company Line Between Kansas City, MO and Chicago, IL, 15 February 1990.

Expert's Report and Deposition, in *Litton Industries et al. v. Chesapeake and Ohio Railway Co. et al.*, Northern District of Ohio, Eastern Division, 11 April 1990.

Testimony before the Michigan Public Service Commission, Application of TNT Holland Motor Express, Inc. for Extension of Operations, 20 July 1990.

Carolina Power & Light Company, Project No. 432, before the Federal Energy Regulatory Commission, 15 March 1991.

Expert's Report and Deposition, *NCEMC v. Carolina Power and Light Company*, 11 March 1992.

Testimony before the Federal Energy Regulatory Commission, on behalf of Amerada Hess Pipeline Corporation, 30 March 1992 and Rebuttal Testimony, 10 August 1992.

Deposition in *Richard Lundgren , Inc. v. American Honda Motor Co., Inc.*, Civil Action No. 92-1091, Commonwealth of Massachusetts, February 5, 1983, and Testimony before the Superior Court of Massachusetts, Worcester, Massachusetts, 27 September 1994.

Deposition in *Empresas Puertorriquenas de Desarrollo, Inc. v. F.W. Woolworth Co.*, United States District Court for the District of Puerto Rico, 4 March 1993.

Testimony before the Interstate Commerce Commission, *Seaboard Air Line Railroad Company—Merger—Atlantic Coast Line Railroad Company: Petition to Remove Traffic Conditions*, Finance Docket No. 21215 (Sub-No.5), 29 March 1993.

Testimony before the Postal Rate Commission, *Bulk Small Parcel Service*, Docket No. MC93-1, 16 April 1993.

Testimony before the Commonwealth of Massachusetts Department of Public Utilities, DPU 93-167, *For the Purpose of Establishing Guidelines and Standards for Acquisitions and Mergers Of Utilities*, 16 February 1994.

Deposition, *Texaco Puerto Rico, Inc., et al., v. Department of Consumer Affairs*, United States District Court for the District of Puerto Rico, 21 April 1994, Expert's Report and Testimony before the Court, 2 August1994.

"Competition in the Market for Trans-Oceanic Facilities-Based Telecommunications Services," with Hendrik S. Houthakker and Johannes P. Pfeifenberger, before the Federal Communications Commission, June 24, 1994 (also related studies filed October 25, 1996; April 23, 1997 and July 7, 1997).

Prepared Testimony before the Public Utilities Commission of the State of Hawaii, on behalf of Citizens Utilities Company, Kauai Electric Division, 21 July 1994, and oral testimony, 1 May 1995.

Prepared Rebuttal Testimony on behalf of Hawaiian Electric Light Company (Subject: Risks of Purchased Power Contracts), before the Public Utilities Commission of the State of Hawaii, December 1994.

Reply Testimony (with A. Lawrence Kolbe) on Behalf of Edison Electric Institute, Docket No. RM94-7-000, before the Federal Energy Regulatory Commission, 23 January 1995.

"The Economics of Pricing Network Access in the Market for Telecommunications in New Zealand" (with Carlos Lapuerta), prepared for the Minister of Commerce and the Minister of Communications on behalf of Clear Communications, Ltd, 17 February 1995.

Prepared Direct Testimony on behalf of the Designated TAPS Carriers, before the Federal Energy Regulatory Commission and Alaska Public Utilities Commission, Docket Nos. IS94-10-002, *et al.* (Phase II), 14 March 1995.

"Damages from Delay of Essex Government Contract," Expert's Report in *Essex Corp. v. Wackenhut Services, Inc.*, in the United States District Court for the District of New Mexico, March 23, 1995, Deposition, April 25, 1995, and Supplemental Report, January 11, 1996.

Testimony before the I.C.C., Finance Docket No. 32549, *Burlington Northern, Inc. and Burlington Northern Railroad Company—Control and Merger—Santa Fe Pacific Corporation and Atchison, Topeka and Santa Fe Railway Company*, May 10, 1995.

Testimony before the U.S. District Court, Southern District of New York, *New York Urban League v. Metropolitan Transportation Authority*, November 2, 1995.

"Post Merger 'Character of Rivalry' in the Proposed 'SOP/UP' Railroad Merger," before the Texas Railroad Commission, February 5, 1996.

Testimony before the Surface Transportation Board, Docket No. 32760, *Union Pacific—Southern Pacific* merger proceeding, March 29, 1996.

Rebuttal Testimony before the Rhode Island Public Utility Commission, "Stranded Cost Recovery," Docket No. 2320, *Electric Utility Restructuring*, July 23, 1996.

Testimony before the New Hampshire Public Utilities Commission, Docket No. DE 96-252, AT&T Communications of New Hampshire, Inc., *Petition for Arbitration with NYNEX*, October 7, 1996.

Testimony before the Massachusetts Department of Public Utilities, AT&T/NYNEX Arbitration, Docket No. DPU 96-80181, October 22, 1996.

Testimony before the Federal Communications Commissions, "Economic Implications of the Proposed Hughes - PanAmSat Transactions" (with Johannes P. Pfeifenberger), December 2, 1996.

"Analysis of Cure Costs for Contract Breach Damages Suffered by Homell Brewing Company, Inc. from Beverage Enterprises" (with M. Alexis Maniatis), September 1997.

Expert Report, January 9, 1998, In Re Industrial Silicon Antitrust Litigation, U.S. District Court for the Western District of Pennsylvania. Deposition, February 12-13, 1998; affidavits, April 13, 1998 and July 28, 1998; and testimony, September 8, 1998, and November 4, 1998.

Expert Report of William B. Tye, February 17, 1998, *PTP Industries, Inc. v. America Online, Inc.*, U.S. District Court for the District of Maryland and deposition, April 1, 1998.

Expert Report (with Johannes P. Pfeifenberger), *COMSAT Corporation v. The News Corporation, et al.*, United States District Court, Central District of California, July 1, 1998.

Expert Report, *U.S. Airways v. British Airways*, United States District Court, Southern District of New York, November 6, 1998, and deposition, December 14, 1998.

Prepared Direct Testimony, Before The Alaska Public Utilities Commission, October 8, 1998.

SPECIAL CONSULTING ASSIGNMENTS

The Joint Economic Committee, U.S. Congress, working on a project entitled "The Capital Grant as a Subsidy Device: The Case of Urban Mass Transportation." The report on this study was published in 1973.

The Office of the Assistant Secretary for Policy and International Affairs, U.S. Department of Transportation, on the subject of subsidy mechanisms for urban mass transportation. He participated in the drafting of a report to the Congress on the subject.

The Assistant Secretary for Metropolitan Development, U.S. Department of Housing and Urban Development. The work involved experimental design for urban mass transportation demonstrations and an evaluation of the impact of the urban mass transportation capital grant program in nine U.S. cities.

The U.S. Department of Transportation study entitled "Transportation Needs of the Handicapped."

PROFESSIONAL ACTIVITIES

Chairman of a Conference on the Economic Regulation of Urban Transportation in September 1976, sponsored by the Transportation Research Board.

Workshop chairman on market segmentation at the Third International Conference on Behavioral Travel Modelling 1977 in Australia.

Discussion leader at a conference of 150 practitioners of transportation demand analysis sponsored by the U.S. Department of Transportation (Seminar on Emerging Transportation Planning Methods, Daytona Beach, Florida, December 1976). The subject of this session was "Manual Forecasting and Sketch Planning Methods."

Chairman of the workshop on "The Application of Behavioral Travel Demand Models," Second International Conference on Behavioral Travel Demand.

Former Member, Committee on Taxation, Finance and Pricing of the Transportation Research Board.

Attendant at the Fourth International Conference on Behavioral Travel Modelling held in Eibsee, Germany, July 1979.

Former Member, Committee on Pipeline Transportation, of the National Research Council (National Academy of Sciences), Transportation Research Board.

Member, American Economics Association, Econometric Society, Transportation Research Forum, American Bar Association (Associate).

Referee for the *Quarterly Journal of Economics*, the *Journal of Regional Science, Transportation Research, Transportation*, the *Journal of Industrial Economics*, the *Journal of Policy Analysis & Management*, the *Rand Journal of Economics*, and the *Journal of Law and Economics*.

National President, 1983; Executive Vice President, 1982; and Programs Vice President, 1981; Transportation Research Forum.

Former Member, Editorial Board, *Transportation Antitrust Report*.

Former Member, Editorial Review Board, *Logistics and Transportation Review*.

Former Council Member, Harvard Graduate Society for Study and Research (Harvard Graduate School of Arts and Sciences).

Former Member, Committee on Surface Freight Transportation Regulation, Transportation Research Board, National Research Council.

Workshop Chair, "Understanding Competition and Antitrust Behavior," The Second International Conference on Privatization and Deregulation in Passenger Demand, Tampere, Finland, June 1991.

Advisory Committee, *Yale Journal on Regulation*.

Faculty Member, Advanced Regulatory Studies Program, National Association of Regulatory Utility Commissioners, February 16-21, 1992.

Former Member, Dean's Council, Emory College.

PUBLIC SPEAKING

"Problems Confronting Regulated Industries in a Period of Runaway Inflation," presented to Delta Nu Alpha, transportation fraternity in Boston, Massachusetts, 1975.

"Urban Transportation: Alternatives for Public Policy," presented to Traffic Clubs International in Denver, Colorado, 1971.

"Current Financial Issues in Regulation of Freight Transportation," presented at the Seminar on Freight Policy Analysis at the U.S. Department of Transportation, Transportation Systems Center, 3 April 1980.

"Transportation and Related Industries in the U.S. Economy" (with John R. Meyer), presented at the Transportation Economic Seminar to the senior staff of the U.S. Department of Transportation, Transportation Systems Center, 7 March 1980.

"Competition Between Public and Private Enterprise," presented to Western Carolina University, 15 January 1981.

"Railroad Ratemaking as Influenced by Market Dominance and Antitrust," presented at the Transportation Seminar Series, Princeton University, 14 April 1982.

"Collective Ratemaking and Antitrust in the Motor Carrier Industry," presented to the Wharton Transportation Club, 15 April 1982.

"Market Dominance, Rate Reasonableness, and the Staggers Act," presented at the Center for Transportation Studies, Massachusetts Institute of Technology, 8 October 1982.

"Common Control of Rail and Water Carriers," before the Seminar on Transportation Policies and Demand for Coal, Iron, and Steel, National Coal Association and American Iron and Steel Institute, Louisville, KY, 27 February 1984.

"Obstacles to the Transition to Deregulation in the Rail Industry: Rail Merger Policy," 39th Annual Transportation and Logistics Forum and Exposition, National Transportation Defense Association, 23-26 September 1984, San Francisco.

"Competitive Access: A Comparative Industry Approach to Vertical Foreclosure," Seventh Annual Appalachian Natural Gas Conference, Pittsburgh, PA, 7-8 May 1987.

"Competitive Access," Gas Antitrust =88, sponsored by *Gas Daily*, Houston, TX, 17-18 September 1988.

"Integrating Coal Transportation and Coal Supply Procurement," *Electric Power Research Institute: 1987 Fuel Supply Seminar*, Baltimore, Maryland, 6-8 October 1987.

"Transportation Law Concepts of Interest to Energy Lawyers," Fuel and Energy Industry Subcommittee, American Bar Association, Washington, DC, 26 April 1988.

"Competition and Regulation—Compatible Bedfellows? The Challenge of Regulating a Competitive Energy Industry," American Bar Association, Washington, DC, 18 January 1989.

"The *Duquesne* Decision: There's Less *Hope* for Investors than We Thought," PHB Utility Discussion Series Dinner, Washington, DC, 12 July 1989 (with A. Lawrence Kolbe).

"Regulatory Risk in a Competitive Environment," *Utilities in the '90s: Strategic Issues*, sponsored by Reid and Priest, November 8, 1989, Washington, D.C.

"Equity and Efficiency Criteria in Litigation," PHB Electric and Gas Utility Discussion Series, Washington, DC, 3 April 1990.

"Regulatory Treatment of Environmental Cleanup Liabilities: Issues and Implications," Edison Electric Institute Economics Committee Meeting, Denver, Colorado, September 20, 1990.

"Risk of the Natural Gas Pipeline Industry," Interstate Natural Gas Association of America, Rate Committee Meeting, Montebello, Quebec, September 10, 1990.

"Defining, Proving, and Measuring Antitrust Damages," American Bar Association, Section of Antitrust Law, 1991 Annual Meeting, Atlanta, Georgia, August 13, 1991.

"Pricing Market Access for Regulated Firms," Royal Commission on National Passenger Transportation, Ottawa, Canada, November 13, 1991.

"Regulatory Risk and *Duquesne*," *NARUC Advanced Regulatory Studies Program*, Williamsburg, Virginia, February 21, 1992.

"Regulatory Risk in the Ratesetting Process," teleconference sponsored by the Electric Power Committee, the ABA Section of Natural Resources, Energy, and Environmental Law, May 28, 1992.

"Environmental Economics: Who Pays for Clean Energy," Federal Energy Bar Association, Annual Meeting, Washington, DC, May 21, 1992.

"Regulatory Risk and *Duquesne*," *Advanced Workshop in Regulation and Public Utility Economics: Eleventh Annual Conference*, sponsored by Graduate School of Management, Center

for Research in Regulated Industries, the State University of New Jersey (Rutgers), Mohonk Mountain House, New Paltz, New York, May 27-29, 1992.

"Rate of Return for the 1990s: Does It Account for Environmental Cleanup Liabilities, Technological Advances, and Incentives?," American Bar Association, Section of Public Utility, Communications and Transportation Law, 1992 Annual Meeting, San Francisco, California, August 10, 1992.

"Incentive Regulation: DOs and DON'Ts," Third Annual Strategic Utility Planning Conference, Denver, Colorado, June 22-23, 1993.

"Proof of Damages," Off-the-Record Club, Boston Bar Association, March 18, 1994.

"Impact Upon LDC's Rate of Return Arising From Newly Imposed Business and Regulatory Risks," *The Changing Environment for the Natural Gas Industry in New England*, sponsored by the New England Gas Association and Federal Energy Bar Association, Boston, Massachusetts, April 6, 1994.

"Economic Issues Relating to Access to Joint Ventures," American Bar Association, Section of Antitrust Law, Washington, D.C., April 8, 1994.

"Strategic Analysis of Litigation: Structuring Your Analysis to Improve Decisions in Complex Litigation" (with Carlos Lapuerta), American Bar Association, Section of Business Law, Annual Meeting, New Orleans, August 9, 1994.

"A Rehabilitation of Fully Allocated Cost: Capacity Utilization, Pumpability, and Rate Design on the Trans Alaska Pipeline System," World Conference on Transport Research, Sidney, Australia, 1995.

"Managing and Valuing the Big Case," sponsored by the Committee on Civil Practice and Procedure, Section of Antitrust Law, Washington, DC, April 7, 1995.

"The Economics of Pricing Network Interconnection in the Market for Telecommunications in New Zealand" (with Carlos Lapuerta), International Telecommunications Society, *Interconnection: The Key to the Network of Networks*, Wellington, New Zealand, April 10-12, 1995.

"The Economics of Pricing Network Interconnection: Theory and Application to the Market for Telecommunications in New Zealand," the 16th Bonbright Center Conference, *Competition in the Local/IntraLATA Markets*, Atlanta, GA, March 25-26, 1996.

"What is it Worth? Valuing a Large Antitrust Case," Civil Practice and Procedure Committee, American Bar Association, Section of Antitrust Law, Annual Spring Meeting, March 28, 1996.

"How to Recover Stranded Costs and Achieve Competition on Equal Terms in the Electric Utility Industry," Massachusetts Continuing Legal Education, Inc., Seminar on Public Utilities Deregulation, Boston, Massachusetts, June 17, 1996.

"Utilities Stranded Costs—Ramifications of Recovery," The University of New Mexico School of Law *Symposium on Electric Utility Bypass Policy*, Albuquerque, New Mexico, August 1-2, 1996.

"Power Struggle: Antitrust and the Changing Rules of Electric Utility Competition," American Bar Association, Section of Antitrust Law, Chicago, Illinois, September 19-20, 1996.

"Compensation for the Risk of Stranded Costs," 16th Annual Electric and Natural Gas Conference, James C. Bonbright Utilities Center, Atlanta, Georgia, September 16-17, 1996.

"Antitrust Damages," Chicago Bar Association, January 15, 1997.

"Market Power Issues Raised by Electric Power Restructuring and Rate Regulation," American Bar Association, Section of Antitrust Law, April 9, 1997.

"Mergers, Acquisitions, and Strategic Alliances," New Jersey Association of Energy Engineers, 1997 Energy Futures Forum, Woodbridge, New Jersey, April 17, 1997.

"Measuring Market Power in Today's Bulk Power Markets," Bulk Power Markets Conference, Vail, Colorado, June 3-4, 1997.

"Competition and Consolidation Issues," 68th Annual Meeting, Association for Transportation Law, Logistics and Policy, Santa Fe, New Mexico, June 21-25, 1997.

"Economics as Junk Science," American Bar Association, Section of Antitrust Law, Annual Meeting, San Francisco, California, August 4, 1997.

"Case Studies of Issues Arising from Damages from a Foreclosed Business Opportunity," Litigation Section, American Bar Association Annual Meeting, San Francisco, CA, August 6, 1997.

"Long-Term Contracts and Regulatory Transitions," Transportation Economics, Policy, and Management: A Conference in Honor of John R. Meyer, Harvard University, September 5-6, 1997.

"Competitive Neutrality in Access Disputes," *The Telecommunications Industry: Effects of the 1996 Act*, The Carlton Hotel, Washington, DC, September 18-19, 1997.

"Damages, Antitrust Litigation: Strategies for Success," Practicing Law Institute, November 16-17, 1998.

HONORS

Phi Beta Kappa, Emory University, 1965.

Ford Career Scholar, Emory University, 1964-1965.
Bachelor's degree awarded summa cum laude, 1965.

Woodrow Wilson Fellow, Harvard University, 1965-66.

Office of Metropolitan Development Recognition Award for Meritorious Contributions to Community Development from the U.S. Department of Housing and Urban Development, 1968.

Samuel Andrew Stouffer Fellow at the Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University, 1968-1969.

Air Force Commendation Medal for Meritorious Service, July 1972.

CHARLES RIVER ASSOCIATES REPORTS (WITH OTHERS)

"Forecasting Ocean Freight Shipping Rates," 1974.

"Public Costs of the Goods Movement System: Manhattan Garment Center Urban Goods Movement Study," 1975.

"Forecast of the 1975 Dry Cargo Shipping Market," 1975.

"Disaggregate Travel Demand Models," NCHRP Project 8-13: Phase I Report, 2 Vols., 1976.

"Energy Impact of Federal Capital Grants Programs for Transportation," 1976.

"Potential Fuel Conservation Measures by Regulated Motor Carriers in the Intercity Freight Market," 1977.

"Impacts of Proposals for Reform of Economic Regulation on Small Motor Carriers and Small Shippers," 1977.

"Transportation," in *Regulation and Energy Consumption*, prepared for the Committee on Measurement of Energy Consumption, National Academy of Sciences, August 1977.

"An Analysis of the Impacts of Selected Transportation Issues on National Transportation Goals," Final Report, 1978.

"Disaggregate Travel Demand Models," NCHRP Project 8-13, Phase II Report, May 1978.
"Disaggregate Travel Demand Models," NCHRP Project 8-13, Draft Final Report, November 1980.

APPENDIX B: Comments on Bernstein Testimony

I. The Effects On Competitors And Mailers Are Completely Ignored

Witness Bernstein calculates Ramsey prices that would require that ECR rates be reduced by 42.2%, from a 0.1494 before-rates price to a 0.0864 after-rates price.[1] Witness Bernstein concludes that effect of rates on private enterprise competitors of ECR can be safely be ignored.[2] Claims that competitors would be unaffected by the resulting 64.0%[3] increase in ECR Mail lack credibility. This alone should discredit Ramsey analysis as basis for ratemaking. Bernstein also suggests mailers who switch are not affected by the range of rate changes seriously considered in this proceeding, stating only that "The impact on mailers of increases and decrease in postal rates is measured by the change in consumer surplus."[4]

II. Mail Volume Would Likely Be Dramatic Under Witness Bernstein's Proposals

Bernstein's Ramsey-pricing proposals for ECR would price dangerously close to the Commission's attributable cost. His rate would generate a flood of low-rated advertising mail at the expense of higher rated First Class mail.

III. The Usual Objections To Ramsey Pricing Are Not Refuted

The usual objections to Ramsey pricing heard repeatedly and accepted by the Commission are not refuted in this case. Ramsey pricing turns upside down the public

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[1] See Bernstein Testimony (USPS-T-41) at 10.

[2] He even states in his Testimony (USPS-T-41) at 88: "Ramsey pricing need not take account of private firms if those private firms are pricing at marginal cost."

[3] See Bernstein Testimony (USPS-T-41) at 71, where the ECR volumes are predicted to increase from 31,907.6 million pieces to 52,337.1 million pieces under Ramsey pricing.

[4] Bernstein Testimony (USPS-T-41) at 4.

interest standard which requires PRC regulation in the first place: protection of captive customers and protection of private enterprise competitors from unfair competition from a public enterprise exploiting a monopoly to underprice its competitive services.

IV. Bernstein's Proposals Depend Critically On Elasticity Estimates, Which Are Very Sensitive To Specification

Ramsey pricing depends critically on the elasticities, but as witness Thress has shown, the elasticity estimates are extremely sensitive to specification and time period chosen. As such, Ramsey prices cannot be estimated with any degree of certainty. In addition, Bernstein uses the Postal Service's methodologies for calculating volume-variable costs as his rate floor, not attributable costs as calculated by the Commission, which creates a special problem with ECR because of low Ramsey coverages using the Commission's methodology.

V. Conclusion: Ramsey Pricing Is Of No Help To The Commission

In practice, Ramsey pricing or consumers' surplus calculations are no help to the Commission. Witness Bernstein's own data show that rates proposed by the Postal Service are no more efficient than those using the Commission's methodology—the consumer surplus changes very little.[5] Indeed, USPS witnesses say it did not influence their recommendations. The basic problem with Ramsey pricing has not changed; changes in demand elasticity drive big changes in rates, but do not achieve major changes in consumers' surplus.

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[5] Interrogatory Response NAA/USPS-T41-6 (d).

CERTIFICATE OF SERVICE

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

May 22, 2000

William B. Baker

1 MR. BAKER: I should note, Mr. Chairman, that the
2 copies to be given to the Court Reporter contain certain
3 errata to the testimony that were filed on Friday and served
4 on counsel who had requested oral cross in an expedited
5 manner, and they were all, I think, typographical in nature,
6 so they are reflected within the copies to be given to the
7 Reporter.
8 CHAIRMAN GLEIMAN: Thank you, sir.
9 Mr. Tye, have you had an opportunity to examine
10 the packet of Designated Written Cross Examination that was
11 made available to you earlier today?
12 THE WITNESS: Yes, I have.
13 CHAIRMAN GLEIMAN: And if those questions were
14 asked of you today, would your answers be the same as those
15 you previously provided in writing?
16 THE WITNESS: Yes, they would be.
17 CHAIRMAN GLEIMAN: Any changes, corrections,
18 deletions?
19 THE WITNESS: None, other than what's already been
20 discussed.
21 CHAIRMAN GLEIMAN: That being the case, counsel,
22 if I could impose upon you to provide those two copies to
23 the Court Reporter, I'll direct that the material be
24 received into evidence and transcribed into the record.
25 [Designated Written Cross

1 Examination of William B. Tye was
2 received into evidence and
3 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 NEWSPAPER ASSOCIATION OF AMERICA
WITNESS WILLIAM B. TYE
(NAA-T-1)

Party	Interrogatories
Mail Order Association of America	MOAA/NAA-T1-1, 3 USPS/NAA-T1-29, 32-33, 38, 51 VP-CW/NAA-T1-4
United States Postal Service	ADVO/NAA-T1-3, 5, 7-8 MOAA/NAA-T1-1, 3 USPS/NAA-T1-1-12, 14-24, 26-29, 31-32, 34-36, 38-39, 43-44, 46-56 VP-CW/NAA-T1-1-5, 9, 11-12
Val-Pak Direct Marketing, Val-Pak Dealers, & Carol Wright	USPS/NAA-T1-17, 21, 26, 29-30, 32, 37-38, 41, 43-45, 50, 52, 56 VP-CW/NAA-T1-1-12

Respectfully submitted,

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
NEWSPAPER ASSOCIATION OF AMERICA
WITNESS WILLIAM B. TYE (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
ADVO/NAA-T1-3	USPS
ADVO/NAA-T1-5	USPS
ADVO/NAA-T1-7	USPS
ADVO/NAA-T1-8	USPS
MOAA/NAA-T1-1	MOAA, USPS
MOAA/NAA-T1-3	MOAA, USPS
USPS/NAA-T1-1	USPS
USPS/NAA-T1-2	USPS
USPS/NAA-T1-3	USPS
USPS/NAA-T1-4	USPS
USPS/NAA-T1-5	USPS
USPS/NAA-T1-6	USPS
USPS/NAA-T1-7	USPS
USPS/NAA-T1-8	USPS
USPS/NAA-T1-9	USPS
USPS/NAA-T1-10	USPS
USPS/NAA-T1-11	USPS
USPS/NAA-T1-12	USPS
USPS/NAA-T1-14	USPS
USPS/NAA-T1-15	USPS
USPS/NAA-T1-16	USPS
USPS/NAA-T1-17	USPS, VP-CW
USPS/NAA-T1-18	USPS
USPS/NAA-T1-19	USPS
USPS/NAA-T1-20	USPS
USPS/NAA-T1-21	USPS, VP-CW
USPS/NAA-T1-22	USPS
USPS/NAA-T1-23	USPS
USPS/NAA-T1-24	USPS
USPS/NAA-T1-26	USPS, VP-CW
USPS/NAA-T1-27	USPS
USPS/NAA-T1-28	USPS
USPS/NAA-T1-29	MOAA, USPS, VP-CW

USPS/NAA-T1-30	VP-CW
USPS/NAA-T1-31	USPS
USPS/NAA-T1-32	MOAA, USPS, VP-CW
USPS/NAA-T1-33	MOAA
USPS/NAA-T1-34	USPS
USPS/NAA-T1-35	USPS
USPS/NAA-T1-36	USPS
USPS/NAA-T1-37	VP-CW
USPS/NAA-T1-38	MOAA, USPS, VP-CW
USPS/NAA-T1-39	USPS
USPS/NAA-T1-41	VP-CW
USPS/NAA-T1-43	USPS, VP-CW
USPS/NAA-T1-44	USPS, VP-CW
USPS/NAA-T1-45	VP-CW
USPS/NAA-T1-46	USPS
USPS/NAA-T1-47	USPS
USPS/NAA-T1-48	USPS
USPS/NAA-T1-49	USPS
USPS/NAA-T1-50	USPS, VP-CW
USPS/NAA-T1-51	MOAA, USPS
USPS/NAA-T1-52	USPS, VP-CW
USPS/NAA-T1-53	USPS
USPS/NAA-T1-54	USPS
USPS/NAA-T1-55	USPS
USPS/NAA-T1-56	USPS, VP-CW
VP-CW/NAA-T1-1	USPS, VP-CW
VP-CW/NAA-T1-2	USPS, VP-CW
VP-CW/NAA-T1-3	USPS, VP-CW
VP-CW/NAA-T1-4	MOAA, USPS, VP-CW
VP-CW/NAA-T1-5	USPS, VP-CW
VP-CW/NAA-T1-6	VP-CW
VP-CW/NAA-T1-7	VP-CW
VP-CW/NAA-T1-8	VP-CW
VP-CW/NAA-T1-9	USPS, VP-CW
VP-CW/NAA-T1-10	VP-CW
VP-CW/NAA-T1-11	USPS, VP-CW
VP-CW/NAA-T1-12	USPS, VP-CW

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO INTERROGATORIES OF ADVO, INC.

ADVO/NAA-T1-3. At page 14, you cite witness Daniels' statement that:

> "The shape, origin/destination combination, cube, and level of presorting and dropshipping of mail can affect the cost of the mail."

You then claim:

> "Even when [witness Daniel] attempts to control for worksharing and Basic/High Density/Saturation differences (at Tr. 4/1209-20 and 1351-59), she cannot sufficiently control for the other factors that vary across weight."

Please identify the "other factors that vary across weight" that you are referring to.

RESPONSE:

I was thinking primarily of the factors cited in your first quote. There may be other factors.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO INTERROGATORIES OF ADVO, INC.

ADVO/NAA-T1-5. At pages 20-21, you criticize the Postal Service for proposing a pound rate decrease for Standard A ECR but a pound rate increase for Standard A Nonprofit ECR, and characterize this as "conform[ing] to a pattern of a [sic] 'stealth' competitive reductions."

(a) What are the current pound rates for Standard A Nonprofit ECR mail by drop shipment tier, and how does [sic] those pound rates compare with the current pound rates for Standard A (commercial) ECR?

(b) Are you aware of the pound rate that the Postal Service proposed for Standard A Nonprofit ECR in Docket R97-1, and how that proposed pound rate compared with the pound rate recommended by the Commission? If so, please state you understanding of the difference between the USPS proposed and Commission recommended pound rate, including the respective pound rates after discounts for DBMC, DSCF, and DDU drop shipment.

(c) In light of the commercial and nonprofit ECR pound rates in part (b) above, is it still your contention that the Postal Service's proposal to increase the nonprofit pound rate while decreasing the commercial pound rate "conforms to a pattern of a [sic] 'stealth' competitive reductions." Explain any affirmative answer.

RESPONSE:

(a) The current Nonprofit ECR pound rates are $0.290 for None, $0.211 for BMC, $0.190 for SCF, and $0.164 for DDU, which are all lower than the comparable current pound rates for commercial ECR.

(b) Yes. Witness Moeller in Docket No. R97-1 proposed Nonprofit ECR pound rates of $0.350 for None, $0.278 for BMC, $0.262 for SCF, and $0.240 for DDU, which were all higher than the pound rates recommended by the Commission. The differences are $0.060 for None, $0.067 for BMC, $0.072 for SCF, and $0.076 for DDU.

(c) Yes. The Commission's rationale for nonprofit ECR rates is not germane to my discussion.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO INTERROGATORIES OF ADVO, INC.

ADVO/NAA-T1-7. At pages 18-19, you state that the implicit cost coverage comparison used by witness Moeller for Standard A ECR mail would, if applied to Standard A Regular mail, require an increase in the Regular pound rate. Is it your position that this relationship between the ECR and Regular implicit cost coverages justifies maintaining an ECR pound rate that is nearly identical to the Regular pound rate? If so, please explain why.

RESPONSE:

No.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO INTERROGATORIES OF ADVO, INC.

ADVO/NAA-T1-8. Please provide the ECR rates (including rate elements) and percentage rate changes that would result from adoption of your rate proposal recommendations.

RESPONSE:

My rate proposal recommendations would depend on the Postal Service's updates using FY1999 cost data, which have not yet been provided by the Postal Service, and on the consequences of this data under the Commission's approved attribution methodology.

NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
RESPONSE TO INTERROGATORY OF MAIL ORDER ASSOCIATION OF AMERICA

MOAA/NAA-T-1. You claim that the USPS proposal for ECR will divert mail from private enterprise competitors (at 42-46).

a. In preparing your testimony, did you request data from the Newspaper Association of America about rates charged by newspapers for free standing inserts that you claim to be in competition with USPS Standard Mail A ECR?

b. If so, please provide copies of all data concerning said rates that were provided to you.

c. If not, is it your contention that newspaper rates for carrying competitive material are irrelevant to applying the pricing criteria of the Act?

d. In preparing your testimony did you request data from the Newspaper Association of America about the effect of weight upon the rates charged by newspapers for carrying free-standing inserts?

e. If so, please provide copies of all data concerning said rates that were provided to you.

f. If not, is it your contention that the effect of weight upon newspaper rates for carrying competitive material is irrelevant?

RESPONSE:

a. No.

b. Not applicable.

c. No.

d. No.

e. Not applicable.

f. No.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO INTERROGATORIES OF MAIL ORDER ASSOCIATION OF AMERICA

MOAA/NAA-T1-3:

In your discussion of "thinness of tallies" in witness Daniel's study you refer to "certain suggestions thus far in this case", at 10 line 14. Please identify the source of each of the "certain suggestions" presented in this case.

RESPONSE:

I refer to ADVO/USPS-T28-8, ADVO/USPS-T28-12 (Tr. 4/1206-1207, 1222) and the questions at the cross-examination of witness Daniel at Tr. 4/1368-1370.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-1. Provide citations and copies of any published material you have authored on the market for advertising in newspapers, Standard Mail (A), or third-class mail.

RESPONSE:

I have not published any articles concerning the market for advertising in newspapers, Standard Mail (A), or third-class mail.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-2. On page 6 of your testimony, you state, "the Postal Service has resubmitted essentially the same 'distribution key analysis' that it relied upon in Docket No. R97-1 with only a few changes." Identify all of the "changes" in the "distribution key analysis" of which you are aware.

RESPONSE:

See Daniel Testimony (USPS-T-28) at pages 8-9, Moeller Testimony (USPS-T-35) at page 20, AAPS/USPS-T28-3 (Tr. 4/1159) and Tr. 4/1403-1404.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-3. On page 7 of your testimony, you state:

> There is no reasonable way to conclude that these four factors can produce a pound rate with *three* significant digits down to a precision measured in mils (a tenth of a cent).

a) How many significant digits should be used to express the pound rate? Upon what basis do you make this determination?

b) If you were to recommend an increase in the pound rate based on the information presented in your testimony, would your proposed rate not be measured in mils? If not, how would it be expressed?

c) Is it your belief that, if changes are considered in the pound rate, they should necessarily be expressed in whole cent increments, or in increments that represent a multiple of some positive integer other than 1? Please explain your response.

d) Do you believe it is incorrect, as a matter of ratemaking policy, to set the pound rate to the level of precision proposed by the USPS in this docket so that the Postal Service can meet a revenue target with a greater degree of proximity to that target?

e) Do you believe that the pound rate is set independently, so that the pound rate has no impact on piece rates for pound rated pieces?

RESPONSE:

(a) Based on historical precedent, three significant digits. My point is that witness Moeller's four factors do not compel the precise figure he proposes.

(b) Yes, it would be measured in mils.

(c) No. I believe that if the Postal Service's ECR rate design formula is used to determine the pound rates, it is appropriate to consider changes in the pound rate expressed in tenths of cents.

(d) No.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

(e) The Postal Service chooses its proposed pound rate. If cost coverage and other factors are held constant, there is a relationship between the pound rate and the piece rate for pound-rated pieces. However, as explained at pages 31, line 18, to page 33, line 11, of my direct testimony, I believe that the process is "bottom up" and that pound rates and other rate components drive the coverage.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-4. On page 8 of your testimony, you state "[w]itness Daniel admits that her current distribution is essentially the same as that rejected in Docket No. R97-1."

a) Confirm that your statement is based on the following passage at Tr. 4/1403-04:

> Q Now, and with a couple of differences which you note, I think, on page 8, and also in response to AAPS-3, you basically -- Library Reference 92 is basically the same work that Mr. McGrane did, but you changed a couple of the distribution keys, at least for elemental load and also the no-weight tallies?
>
> A We also changed the mail processing analysis.

If not confirmed, please explain.

b) If the Commission were to rely on what you call the "distribution key analysis" to lower the pound rate, in your view, would it be inconsequential whether the Commission chose to accept the distribution key analysis as witness Daniel presented it in this case, or using the methodology that witness McGrane presented in Docket No. R97-1? Please explain.

RESPONSE:

(a) Not confirmed. See my response to USPS/NAA-T1-2.

(b) "Distribution key analysis" is not a term I created; it is the term used by witness Daniel at Tr. 4/1386, line 5. It is my opinion that the Commission should not rely on either analysis. The Postal Service has made some improvements to the analysis in R2000-1, notably the attribution of elemental load costs, but as witness Clifton points out in his testimony (ABA&NAPM-T-1) at pages 42-53, these improvements have come at the expense of other problems in the cost estimates. What the Commission relies upon is not inconsequential.

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USPS/NAA-T1-5. On page 9 of your testimony, you state, in reference to witness Daniel's testimony, that "[h]er improvement, while a step in the right direction, is insufficient to cause unreliable data to become reliable."

a) Confirm that the "improvement" to which your statement refers is witness Daniel's distribution of elemental load costs. If not confirmed, please explain.

b) Are there are other "improvements" to the "distribution key analysis" of which you are aware? Please explain.

RESPONSE:

(a) Confirmed.

(b) See my response to USPS/NAA-T1-2 for a list of changes.

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USPS/NAA-T1-6. You state on page 10 of your testimony that "the number of tallies from which the [distribution key analysis] is derived are far too thin on which to base such a significant a rate design."

a) In drawing this conclusion, what data did you consider in concluding that the data are "too thin"?

b) State how you believe thinness of data should be evaluated: the number of tallies, or some statistical tool that considers the number of tallies in relation to other tallies.

c) Of what statistical tools are you aware that serve to evaluate thinness of data?

RESPONSE:

(a) See the cites listed in my direct testimony at page 10, footnote 18.

(b) Thinness of tallies can be evaluated by examining the number of tallies and checking for unexpected fluctuations in the data. In this case, the tallies were so clearly thin that I felt no particular statistical test was needed.

(c) See witness Clifton testimony (ABA&NAPM-T-1) at pages 46-47 and witness Ramage in his response to ANM/USPS-T2-13.

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USPS/NAA-T1-7. Please see your testimony at pages 36-40 where you discuss the revenue projections of the Postal Service.

a. Is it your contention that Standard Mail (A) pieces will get heavier if the pound rate is reduced as proposed by the Postal Service? Please explain.

b. If so, would you expect that the Standard Mail (A) revenue per piece would increase beyond what is projected by the Postal Service?

c. If the answer to subpart (b) is negative, explain how the revenue per piece will not increase beyond what is projected by the Postal Service if weight per piece increases.

RESPONSE:

(a) Yes. If sending pound-rated pieces becomes relatively cheaper than sending piece-rated pieces, current and potential future mailers who have the ability to choose the weight of their mail (e.g., by consolidating multiple mailings) would have an incentive to send pound-rated pieces.

(b) No.

(c) See my direct testimony, page 40, lines 9-14.

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USPS/NAA-T1-8. Please see your testimony at page 11, lines 7-13, where you postulate that pieces that might otherwise qualify for parcel post are "lightened" in order to qualify for Standard Mail (A), which results in "more tallies" in the 15-16 ounce range.

a. Are the additional tallies due to additional volume?

b. If so, would the additional volume be included in the volume data by ounce increment? If not, please provide the basis for your conclusion.

c. Are the additional tallies incurred because of the shape of the pieces and the higher cost for pieces of that shape? Please provide the basis for your conclusion.

d. Are these pieces more likely (than pieces of other weights) to be parcel-shaped? Why or why not? Please provide the basis for your conclusion.

e. Is it your understanding that merchandise sent via Parcel Post may be sent in the ECR? If so, what shape can these pieces take?

RESPONSE:

(a) The question is difficult to answer because it does not indicate from what the difference should be measured. In any event, high measured unit costs in this weight increment presumably reflect a disproportionate number of tallies relative to the volume in the weight increment.

(b) Not applicable.

(c) Possibly. Additional tallies relative to the volume in that weight category seem to be an effect found in each of the Standard Mail (A) subclasses.

(d) It is unclear what you mean by "pieces of other weights," but in any case, Library Reference USPS-LR-I-102 provides distributions by shape.

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(e) Not necessarily. It would depend on whether the merchandise met the mailing requirements of ECR. It seems most likely that these pieces would be parcels or flats.

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USPS/NAA-T1-9. You state on page 14 that "it would be more precise to note that the problem arises from the small number of tallies recorded for *both* subclasses."

a) Confirm that your statement is referring to Nonprofit ECR and ECR. If not confirmed, please explain.

b) Identify the "problem" that you note in your statement. If not, why not? If so, what conclusions did you draw from such analysis?

c) In drawing this conclusion, did you compare the number of tallies recorded for Nonprofit ECR and ECR?

d) What is the total number of Nonprofit ECR tallies that you considered in drawing this conclusion, per weight increment, and for the subclass as a whole?

e) What is the total number of ECR tallies that you considered in drawing this conclusion, per weight increment, and for the subclass as a whole?

f) Consider a hypothetical subclass in which all mail processing was performed by the mailer, and the mail was given directly to the carrier ready for delivery.

   (i) Please confirm that there should be very few mail processing tallies associated with this subclass. If not confirmed, please explain fully.

   (ii) For this hypothetical subclass, would the thinness of tallies be indicative of a problem with a low cost estimate and a large worksharing discount?

g) Would you expect that heavily workshared subclasses, which require very little processing by the Postal Service, would have fewer tallies than less workshared subclasses, if all other things were the same?

h) Please confirm that for a given volume of mail, fewer tallies would be indicative of less handling of the mail, and therefore reflect lower costs? If not confirmed, please explain fully.

RESPONSE:

(a) Confirmed.

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(b) The problem I refer to is "estimating and calculating unit costs for small volume categories." I am not sure I understand the remainder of your question, but I do conclude that the tallies are too few to allow reliable estimation of unit costs for small-volume categories.

(c) No. I do not have tally data for Nonprofit ECR, though I believe them to be more sparse than ECR tally data.

(d) See part c.

(e) See witness Daniel responses to interrogatories VP-CW/USPS-T28-24 and NAA/USPS-T28-22 (Tr. 4/1306-1309, 1342-1344).

(f)

(i) Confirmed, assuming that the number of tallies was directly proportional to the amount of processing.

(ii) Possibly, though thinness of tallies would continue to hinder obtaining reliable estimates.

(g) Yes, assuming that the number of tallies was directly proportional to amount of processing.

(h) Not confirmed. If the number of tallies were directly proportional to the amount of processing and if processing costs were equal per unit amount of processing, then this statement would be true, but otherwise not.

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USPS/NAA-T1-10. On page 14 of your testimony, you refer to a "major ECR rate design restructuring" that witness Moeller allegedly performs.

a) Confirm that the "major ECR rate design restructuring" to which you refer is the reduction in the ECR pound rate from $0.663 to $0.584. If not confirmed, please explain.

b) Does your statement intend that a proposed rate reduction for a particular rate element on the order of approximately 12% should be interpreted as a "major" rate design restructuring? Please explain.

c) What consequence does a reduction in the pound rate have on the piece rate element for pound rated pieces?

d) If the overall rate change for a given subclass is a 5% increase, what is the maximum percentage change for an individual piece that you view as *not* being a major rate design restructuring?

e) If variations in percentage change by rate category is defined as "major rate design restructuring," how would you characterize the addition of a new worksharing discount?

f) Would you also claim that a rate increase of 12% of any given rate element would be a "major rate design restructuring"? Please explain.

RESPONSE:

(a) Not confirmed. It is the combination of the ECR pound rate reduction along with increases for every piece-rated rate category.

(b) I cannot characterize a "proposed rate reduction for a particular rate element" without being provided more specific information.

(c) See my response to USPS/NAA-T1-3 (e).

(d) I did not have a specific maximum percentage change in mind. See my response to part a.

(e) I cannot characterize the "addition of a new worksharing discount" without being provided more specific information.

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(f) I cannot characterize a proposed rate increase for a particular rate element without being provided more specific information.

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USPS/NAA-T1-11. Please refer to page 14 of your testimony, where you state, "[a]lthough she does not endorse them, witness Daniel includes in her analysis several regressions generated by the Excel spreadsheet program."

a) Identify all of the Excel spreadsheet programs to which your statement refers, and provide a citation to the transcript, library reference, or testimony where the regressions are found.

b) Provide all citations to documents in this record that underlie your acknowledgement that witness Daniel "does not endorse" the "several regressions" referenced in your statement.

RESPONSE:

(a) See USPS-LR-I-91 [Revised 3/1/00] and USPS-LR-I-92, specifically the following Excel spreadsheet programs: LR91aSPrevised.xls, LR91bPRErevised.xls, LR92aREG.xls, LR92bECR.xls, LR92cNP.xls, LR92dNPE.xls.

(b) See witness Daniel Responses to Interrogatories NAA/USPS-T28-13, 14, 15, and ABA&NAPM/USPS-T28-4 (Tr. 4/1292-1296, 1168-1169).

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USPS/NAA-T1-12. *You state on page 16 of your testimony that witness* Daniel "*does* use weighted regression to justify rate design in the Periodicals subclass."

a) Is it your belief that the patterns of weight by ounce increment of Periodicals Mail would be similar to that of ECR? Please explain.

b) Do you believe that the Periodicals rate structures (excluding Within County) are similar to that ECR? Please explain.

c) Identify all of the ways in which the Periodicals rate structure (excluding Within County) differs from the piece/pound structure of ECR.

d) Do you claim that consistency in the use of weighted regressions between Periodicals Regular and ECR is a worthwhile objective when analyzing the relationship between weight and cost in these subclasses? Please explain.

RESPONSE:

(a) No, I was merely making the point that witness Daniel found weighted regression an appropriate tool for Periodicals Mail but not for either First Class or the Standard (a) Mail subclasses.

(b) No. See part a.

(c) I have not specifically examined the Periodicals rate structure, but certainly the Postal Service should be aware of the differences.

(d) I find consistent methodologies applied to similar types of data a worthwhile objective, but methodologies are reliant on the underlying data, which are unreliable.

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USPS/NAA-T1-14. Please see the table on page 19 of your testimony. Do the unit revenue figures include revenue from the residual shape surcharge?

RESPONSE:

No. I was following the methodology used by witness Moeller, in which he does not include residual shape surcharge revenues in his calculation of unit revenue figures for ECR piece-rated and pound-rate pieces.

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USPS/NAA-T1-15. On page 19 of your testimony, you state:

> The Postal Service's inconsistency is not confined to Standard A mail. Applying the same comparison to First Class Single Piece mail, classifying 1 ounce pieces as "piece-rated" and greater than 1 ounce pieces as "pound-rated," gives a before-rates cost coverage for one-ounce pieces of 164.7% and a cost coverage for heavier pieces of 185.0%.

a) Identify the characteristics that differ between the additional ounce rate in First-Class Mail and the pound rate in Standard Mail (A) ECR.

b) Identify the characteristics that differ between the First-Class Mail first ounce increment and the piece rate in Standard Mail (A) ECR.

c) Does your analysis on page 20 include revenue for the nonstandard surcharge?

RESPONSE:

(a) I am not sure I understand what you mean by "characteristics." But if this is a reference to rate characteristics, one difference I am aware of is that for First Class Mail, the rate is based on the weight of a piece rounded up to the nearest ounce increment (resulting in a systematic upward bias), while for Standard Mail (A) ECR, the rate is based on the actual weight of piece, not rounded up. In addition, the First Class additional ounce rate applies to any piece weighing more than one ounce, while the pound rate for Standard Mail (A) ECR applies to pieces weighing more than roughly 3.3 ounces.

(b) I am not sure I understand what you mean by "characteristics," but if this is a reference to rate characteristics, then one difference is that the first ounce increment for First Class applies to all pieces, while the piece rate for

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Standard Mail (A) ECR applies to pieces weighing less than roughly 3.3 ounces.

(c) Yes, because Library Reference USPS-LR-I-102 provides weight-related breakdowns for the nonstandard surcharge. Were the nonstandard surcharges excluded from the calculation, the before-rates cost coverages for "piece-rated" pieces would decrease to 164.3%, increasing the differential between "piece-rated" and "pound-rated" pieces to 20.7%.

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USPS/NAA-T1-16. Please see your testimony at page 20, line 9, through page 21, line 4. You state:

> In addition to the above examples, it should be noted that the cost coverage comparison is not discussed at all for Standard A Nonprofit ECR. In the Nonprofit ECR subclass, witness Moeller has proposed an increase in the pound rate. It is interesting to observe that the Postal Service also estimates the own-price elasticity of Nonprofit ECR mail estimates to be -0.162 indicating a relatively inelastic demand and that there may be fewer competitive threats to the Postal Service. Thus, it would appear that the Postal Service is proposing pound decreases in more competitive Standard A subclasses, and pound rate increases in what are perceived to be less competitive Standard A subclasses. Although he denies any competitive rationale for his proposed pound rate changes, his proposals certainly conform to a pattern of a "stealth" competitive reductions. (footnote omitted)

a. Is it your position that the Postal Service views nonprofit Standard Mail (A) as material that can be priced in a manner that enhances the Postal Service's revenue due to a lack of competition for this mail?

b. Explain your belief as to how the markups for the nonprofit subclasses are selected.

c. Is it your belief that the markup for nonprofit subclasses can be selected independently by the Postal Service?

d. Do you know how the markup for ECR affects the markup for Nonprofit ECR? If so, please explain.

e. Is it your understanding that the own-price elasticity for Nonprofit ECR is for the entire subclass, or just the pound-rated portion?

f. Is it your belief that witness Moeller's proposed pound rate for Nonprofit ECR would have been lower if demand for Nonprofit ECR had been less inelastic?

RESPONSE:

(a) Your question asks about the Postal Service's "views," not the economic effect of its proposals. While I am in no position to speak for the Postal

Service, see parts b-d below for the citation of the rationale provided by the Postal Service in this proceeding.

(b-d) See Mayes Testimony (USPS-T-32) at pages 37-40 (Nonprofit and Nonprofit ECR).

(e) My understanding is that the own-price elasticity for Nonprofit ECR estimated by witness Thress is for the entire subclass.

(f) I am in no position to speak for Mr. Moeller. However, as explained in my direct testimony, page 20, line 12, to page 21, line 4, Mr. Moeller is proposing a cut in the pound rate for a subclass where he previously expressed concerns over competition and he is proposing an increase in the pound rate for a subclass where the Postal Service estimates a relatively inelastic demand.

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USPS/NAA-T1-17. Please see your testimony at page 21, lines 18-21. You state:

> The rate proposals conform to a pattern of an enterprise seeking to use rate levels and rate design to shift volume from private enterprise competitors and to finance these rate structures with revenues from mail legally protected from competition.

a. Identify, by parameters of content and rate category, all of the classifications of mail that you believe "are legally protected from competition."

b. Identify, by parameters of content and rate category, all of the classifications of mail that you believe are benefited financially from the "revenues from mail legally protected from competition."

c. Within the First-Class Mail rate design, please explain how the proposal "conforms to a pattern of an enterprise seeking to use rate levels and rate design to shift volume from private competitors and to finance these rate structures with revenues from mail legally protected from competition."

d. Within the Standard Mail (A) rate design, please explain how the proposal "conforms to a pattern of an enterprise seeking to use rate levels and rate design to shift volume from private competitors and to finance these rate structures with revenues from mail legally protected from competition."

RESPONSE:

(a) While I am not an attorney, I believe that First Class Mail, parts of Priority Mail, and parts of Standard (A) Mail are protected under the Private Express Statutes.

(b) It is impossible to identify all the specific subclasses that benefit.

(c-d) Witness Fronk proposes to raise rates for First-Class Mail. Witness Moeller proposes to reduce pound rates and witness Mayes proposes to reduce the cost coverage for Standard Mail (A) ECR.

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USPS/NAA-T1-18. Please see your testimony at page 23, line 9. You state:

> As I will show, this proposal is not well supported and gives rise to undesirable anomalies in rate design for both the Standard A commercial Regular and ECR subclasses.

a) Identify precisely the "anomalies" to which you are referring.

b) State whether these are the same anomalies referred to on page 24 lines 7, 14, and 19. If not, please explain.

c) Define "anomalies" as it used in your statement on page 23.

RESPONSE:

(a) "Anomalies" is a reference to passthroughs which differ substantially from 100%, and which are needed to maintain desired rate relationships such as the ECR Basic Letters to Regular 5-digit Automation Letter relationship. These would include the 160% Regular Letter automation 5-digit passthrough and the 0% ECR Letters Basic passthrough.

(b) Yes.

(c) See part a.

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USPS/NAA-T1-19. Please see your testimony at page 24, lines 10-12. You state:

> Witness Moeller places the blame for the rate anomalies on a professed necessity to live within the constraint of the cost coverages he was ostensibly given by witness Mayes. She, in turn, claims that curing the anomalies are Mr. Moeller's responsibility, since he is the rate design witness.

a) Provide all citations to the record showing where witness Moeller assigns alleged "blame" regarding rate anomalies.

b) Provide all citations to the record showing where witness Mayes assigns alleged "blame" regarding rate anomalies.

c) Identify precisely the "anomalies" to which you are referring.

RESPONSE:

(a) See AAPS/USPS-T35-3, NAA/USPS-T35-12, 18, 28 (Tr. 10/3830, 3869, 3875, 3887).

(b) See NAA/USPS-T32-21 (Tr. 11/4324-4325).

(c) See my response to USPS/NAA-T1-18 (a).

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USPS/NAA-T1-20. Please refer to page 25 of your testimony, lines 12-13.

a. On what basis do you assert that Library Reference USPS-LR-I-149 was "sponsored by witness Bernstein"? Provide citations to the record supporting your claim.

b. Provide your understanding of the term "sponsorship."

RESPONSE:

(a) I found it difficult at times to determine exactly where witness Bernstein got his data because his workpapers often did not indicate the source of his data. I have determined that witness Bernstein's use of unit attributable cost using the PRC methodology and related cost coverages derived from Library Reference USPS-LR-I-156, not Library Reference USPS-LR-I-149. An appropriate correction will be filed shortly to my written testimony.

(b) Not applicable.

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USPS/NAA-T1-21. Please refer to pages 26-27 of your testimony, where you state:

> Ms. Mayes confirms that First Class markup index is going up at Tr. 11/347-48 (Mayes). She argues "the shift of some of this institutional burden to First-Class Mail, particularly in view of the relatively small increase in First-Class Mail rates, was not viewed as unfair." Tr. 11/4350 (Mayes). Note that the effect of this shift is that the First Class share of non-volume variable costs has increased from the Postal Service's R97-1 proposal of 62 percent to the current proposal of 64 percent. Tr. 11/4351 (Mayes). This shifting of the institutional cost burden to a monopoly class is unjustified, and is something this Commission should not tolerate.

a) Please identify the "monopoly class" to which your statement refers. Does your statement refer to the entire class, a subclass, or only portions thereof?

b) Confirm that the 62 percent markup that you cite in your statement is based on the PRC recommended cost coverage for First-Class Mail Letters & Sealed Parcels Subclass in Docket No. R97-1.

c) Confirm that the 64 percent markup that you cite in your statement is based on the USPS proposed cost coverage for First-Class Mail Letters & Sealed Parcels Subclass in Docket No. R2000-1.

d) Does your statement assume that the entirety of the increase in the First-Class Mail markup is the result of an effective reduction in the Standard Mail (A) markup? Please explain your response.

RESPONSE:

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

(b-c) The figures in my direct testimony are from a response given by witness Mayes, OCA/USPS-T32-5 (Tr. 11/4351).

(d) No. Increases in the markup of First Class have the effect of providing revenues available to finance lower rates in classes such as ECR.

Corrected 7/14/00

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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."

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USPS/NAA-T1-23. Please see your testimony at page 28, footnote 50.

a. Confirm that the citation only includes the first sentence of witness Moeller's response to the question.

b. Is it your claim that the next sentence in witness Moeller's response, which reads "the rate design attempts to recognize as much of the measured cost difference that is appropriate and possible," is a dismissal "of costs as a rate design objective"? Please explain fully.

RESPONSE:

(a) Confirmed.

(b) "As much of the measured cost difference that is appropriate and possible" would suggest to me a desire to bring passthroughs close to 100%, while the Postal Service has in fact proposed a number of passthroughs that depart from that objective. In practice, therefore, the qualifier "appropriate" seems to be used to justify effectively dismissing costs as an objective.

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USPS/NAA-T1-24. Please see your testimony at page 30, lines 14-17. You state:

> In short, passthrough percentages varying from 0 to 500% were imposed ostensibly to accommodate witness Mayes's proposed reduction in the ECR cost coverage, yet maintain desired rate relationships. The failure even to consider adjusting cost coverages to eliminate the passthrough anomalies is a serious omission.

a) To what "desired rate relationships" does your statement refer?

b) Is it your testimony that the passthroughs selected in the rate design of Standard Mail (A) were solely based on a desire to accommodate a proposed reduction in the ECR cost coverage?

c) If your response to subpart (b) is affirmative, provide citations to the record supporting your claim.

d) Is it your belief that the proposed change in the volume variability of mail processing costs in this docket should have no influence on the cost differences for rate categories in Standard Mail (A) Regular?

e) In what manner does the change in volume variability in mail processing costs proposed by the Postal Service in this docket affect the differentials in Standard Mail (A) Regular?

RESPONSE:

(a) I primarily had in mind the relationship between ECR Basic Letters and Regular 5-digit Automation Letters, but other rate relationships would include those identified by witness Moeller in his testimony (USPS-T-35) at pages 5, 15, 25, and at Tr. 10/3830.

(b) It is difficult to uncover all the "desires" that went into Mr. Moeller's proposed passthroughs. But I do believe that the proposed reduction in the ECR cost coverage influenced the selection of the passthroughs. See NAA/USPS-T35-12 (Tr. 10/3869).

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(c) Not applicable.

(d-e) It is unclear to me what particular "cost differences" and "differentials" you are referring to. I have not studied the proposed costing changes you cite. What influence the proposed changes ultimately will have is the Commission's decision.

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USPS/NAA-T1-26. Please see your testimony at page 33, lines 4-5. You state that "[i]t is interesting to note that the resulting rate proposals are entirely consistent with a desire to divert volume from private enterprise competitors."

a) Please confirm that the USPS proposed cost coverage for ECR is 208.8 percent. If you cannot confirm, please provide what you believe the proposed cost coverage to be.

b) Please confirm that the proposed systemwide cost coverage is 168.0 percent. If you cannot confirm, please provide what you believe the proposed cost coverage to be.

c) Would a cost coverage lower than that confirmed or provided by you in subpart (a) be more consistent with the "desire to divert volume from private enterprise competitors?" If your answer is no, please explain.

d) What quantitative analysis did you undertake to support your claim that the proposed USPS rates will result in an alleged diversion of volume from private sector competitors? Provide all documents that were prepared for this analysis and show all calculations.

e) Please provide your estimate of TYAR ECR volume if it differs from that provided by the Postal Service.

f) Please identify exactly how much of the volume difference between TYBR and TYAR is due to diverting volume from private enterprise competitors.

RESPONSE:

(a-b) I can confirm that witness Mayes proposes this cost coverage based on data provided to her by witness Moeller. The actual cost coverage proposed depends on the particular methodology used to calculate revenues and costs. Use of FY99 data will also affect the results. The below tables show, using the PRC costing methodology, that the Postal Service's proposed cost coverages are below the cost coverages that would be needed to maintain the markup index or cost coverage index from Docket No. R97-1.

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	Cost coverage needed to maintain markup index from R97-1 using PRC costing methodology	Postal Service's proposed cost coverage using PRC costing methodology
Standard Mail A		
Enhanced Carrier Route	201.0%	195.8%

Source: USPS-LR-I-149.

	Cost coverage needed to maintain cost coverage index from R97-1 using PRC costing methodology	Postal Service's proposed cost coverage using PRC costing methodology
Standard Mail A		
Enhanced Carrier Route	201.6%	195.8%

Source: USPS-LR-I-149.

(c) I have not confirmed or provided the Postal Service's cost coverage in part a.

(d) See my response to USPS/NAA-T1-32 (c).

(e) Not applicable.

(f) If correctly calculated, the difference between TYBR and TYAR volumes is due to the Postal Service's proposed rate changes. Therefore, it is not a measure of diversion due to rate increases not proposed. See also page 46 of my direct testimony, lines 4-7.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-27. Please see your testimony at page 38, footnote 70. Are you suggesting that the percentage rate change calculation by witness Moeller did not control for migration? If your answer is positive, define "control for migration."

RESPONSE:

Yes. The phrase "controlling for migration" is used by witness Moeller in NAA/USPS-T35-37 (Tr. 10/3897), though I would also include intra-subclass migration in the definition.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-28. On page 35 of your testimony, you state:

> Were the Postal Service to use its incremental cost measure to calculate the ECR cost coverage at its proposed rates, the resulting cost coverage would also be lower than that proposed by the Postal Service.

a) Is it common for a firm that cannot obtain sufficient revenues from prices set at marginal cost to set markups on the basis of marginal costs, and to use incremental costs to measure whether a product is not being cross-subsidized with revenues from other products? Please explain your response.

b) Please provide a list of all other subclasses for which the use of the "incremental cost measure to calculate the ... cost coverage at its proposed rates, the resulting cost coverage would also be lower than that proposed by the Postal Service."

RESPONSE:

(a) I have not performed a survey of firm practices.

(b) All subclasses.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-29. Please see your testimony at page 41, where you present a table comparing contributions between First-Class and ECR.

a. Ideally, within a subclass, should the unit contribution be similar for all pieces? If your response is affirmative, please provide the basis for this belief.

b. In Standard Mail (A), is it your understanding that the unit contribution is higher for ECR than for Regular?

c. In your view, what factors support having a higher unit contribution for Regular than ECR?

d. Should the unit contribution for Priority Mail be higher or lower than First-Class Single Piece? Please explain.

e. Do you believe that, for a typical multi-product enterprise, unit contribution should be a standard used in determining optimal prices for an array of products? If your answer is negative, please explain your response.

f. Do you believe that most multi-product enterprises set prices to achieve parity in unit contribution among the products, or do multi-product enterprises more typically consider prices in relation to the marginal costs of each discrete product? Please explain your response and provide examples.

RESPONSE:

(a) Not necessarily.

(b) Yes.

(c) I have not determined optimal rates for Standard (A) Regular.

(d) I have not determined optimal rates for Priority Mail.

(e) It should be one factor, but not the only one.

(f) I have not performed a survey of multi-product enterprises.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-30. On page 42 of your testimony, you state that "unlike cost coverage percentages, unit contributions are not distorted by the differing degrees of worksharing among the various subclasses."

a) Identify the "distortion" to which your statement refers.

b) Provide a quantitative illustration of the distortion to which your statement refers.

c) Please confirm that the unit contribution is affected by the amount of worksharing that the mailer chooses to perform, as well as the passthrough of the postal costs avoided. If you cannot confirm, please explain fully.

RESPONSE:

(a) The "*distortion*" *refers to the misleadingly-high* cost coverages that may come with subclasses with significant worksharing.

(b) One example is the ECR subclass. See also the discussion at page 51 of my direct testimony. I also quote paragraphs 3070 and 3071 of the Commission's *MC95-1 Decision*:

> "[3070] A simple numerical example will show why the current practice of offering cost-based worksharing discounts is appropriate. If two pieces of mail with attributable costs of 10 cents each are charged a rate of 15 cents, both pieces make a unit contribution to institutional costs of 5 cents and have an implicit cost coverage of 150 percent. If *one of those pieces* is barcoded, thereby allowing the Service to avoid 5 cents of attributable costs, and that piece is given a 5-cent worksharing discount, its new implicit cost coverage is 200 percent. In this example, because 100 percent of the cost savings is passed on to the mailer, both pieces will continue to contribute 5 cents toward institutional costs. Presumably the worksharing piece is better off, because its total costs decline (otherwise the mailer would not go to *the trouble of worksharing*) and neither the Postal Service nor other mailers are worse off. [3071] In this example, the implicit cost coverage of the workshare piece is higher than the implicit cost coverage of

> the piece which does not workshare. In fact, as a matter of arithmetic, in every situation in which some mail allows the Postal Service to avoid costs, the implicit cost coverage for that mail will be higher than the implicit coverage for otherwise similar mail. The Commission believes that this is just." (footnotes omitted)

(c) Both the passthroughs and the amount of worksharing may affect the unit contribution.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-31. On page 45, you claim that the Postal Service has an "objective of diverting mail from private sector competitors."

a) Confirm that your statement implies that the Postal Service intends the result you claim, *i.e.*, *diverting mail from private sector competitors."*

b) Putting aside the concerns of newspapers and alternative delivery, do you believe that, as a general matter, advertisers and their customers are better or worse off if the Postal Service offers lower rates for heavier weight Standard Mail (A) matter?

c) Provide citations to all evidence in this docket that supports your allegation in the introductory subpart in this question.

RESPONSE:

(a) See my response to USPS/NAA-T1-16 (a). The issue is whether its proposals are consistent with the objective, not the Postal Service's stated intentions. See my direct testimony, page 44, lines 3, to page 45, line 2. In Docket No. R97-1, the Postal Service was explicit about its objective. In the current proceeding, the Postal Service seems to be taking the approach of denying it has any such objective. *See my direct testimony, page 5, lines 7-11.*

(b) I do not believe that the concerns of newspapers and alternative delivery should be put aside. Nevertheless, the answer to the question is, it depends. Competition among mailers may be affected. Those who may pay lower rates will be better off in the short run. In the long run, these mailers may lose the benefit of competitive alternatives if low rates cause competing firms to exit the industry. The impact on their customers is unclear.

(c) See citations in my direct testimony at pages 42-50.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-32. If you are unable to confirm any of the following, please explain fully. Please refer to page 45 of your testimony, where you state:

> Witness Tolley estimates that fully 16.43% of the volume increase in ECR occurs as a result of past decisions to allow the ECR pound rate to decline in real terms, while rates of private enterprise competitors have gone up. [citing USPS-T-6 at page 132, Table 12.]

a. Please confirm that the 16.43 percent which you cite from Dr. Tolley's Table 12 is the product of the observed change in the price of newspaper advertising over the last five years (20.7 percent increase) and the estimated elasticity of demand with respect to that variable (0.812).

b. Please confirm that the elasticity with respect to the price of newspaper advertising is from a regression analysis conducted by witness Thress (USPS-T-7) which, in estimating that elasticity, holds constant all other factors.

c. Please confirm that Dr. Tolley's estimate of a 16.43 percent increase in ECR volume on account of increases in the price of newspaper advertising is, contrary to your testimony, independent of any changes in any aspect of the ECR rates, including the ECR pound rate.

d. Please confirm that, in terms of Table 12 in USPS-T-6, the place where any effect of changes in the real ECR pound rate over the five-year period would be reflected would be in the "Own price" row.

e. Please confirm that the own price of ECR over the five-year period, expressed in real terms, increased 2.0 percent, and, when multiplied by the estimated own-price elasticity, resulted in an estimated 1.62 percent decline in ECR volume.

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) The 16.43 percent increase in ECR volume is independent of the change in ECR rates. However, a substantial share of ECR volume changes are explained by a decision to allow ECR pound rates to decline in real terms

while rates of private enterprise competitors have gone up. The combination of changes in real ECR rates and price of newspaper advertising as listed in USPS-T-6 Table 12 would indicate an approximate net effect of 16.43-1.62 = 14.81%. However, as explained in my testimony on pages 44, 48, 49, and 50, evaluation of the effect of ECR price changes should take into account the decline in real rates and in the real pound rate. .

(d) Confirmed.

(e) Witness Tolley performs a calculation at page 132 of his testimony that produces the numbers in your question. See my responses to USPS/NAA-T-1-34 through 36 for evidence of the decline in real ECR prices and real ECR pound rates.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-33. Please see your testimony at page 46, line 13, through page 47, line 2.

> However, there is no evidence that there are different levels of competition within different rate cells. Ergo, there is no reason not to raise the rates for the cells with proposed declines in rates except a cost rationale.

a. Do you believe that if there were evidence of different levels of competition within different rate cells, that that would provide a reason for variations in the percentage changes for individual rate cells? If so, please explain how you would go about determining those percentage changes.

b. Is it your belief that economically rational firms only make pricing decisions on the basis of a quantitative evaluation of competition for a given product, or do firms also consider qualitative factors informing the level of competition in a given market when considering prices for a product? Please explain your response.

RESPONSE:

(a) Not necessarily. My point was simply that there was no such evidence. As explained at Appendix B of my direct testimony, I am skeptical of rate design methods such as Ramsey pricing that attempt to establish rates based on different levels of competition.

(b) I have not performed a survey of firms, but I would expect economically rational private unregulated firms to consider both.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
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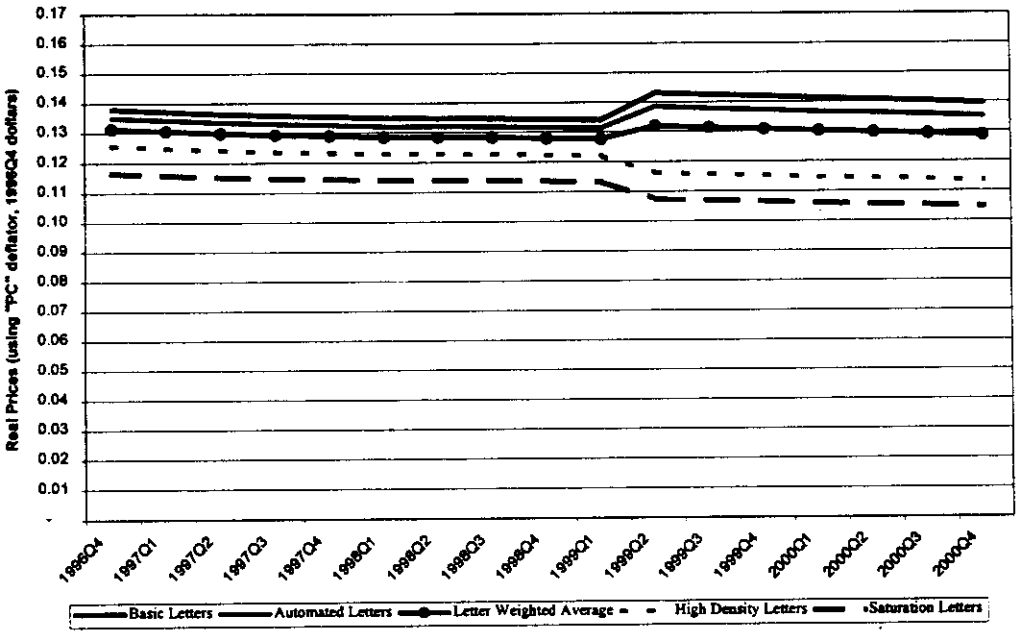
USPS/NAA-T1-34. Provide the charts on pages 48 and 49 of your testimony using 0 in lieu of 0.10 as the y-axis intercept.

RESPONSE:

Real ECR Letter Prices



RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
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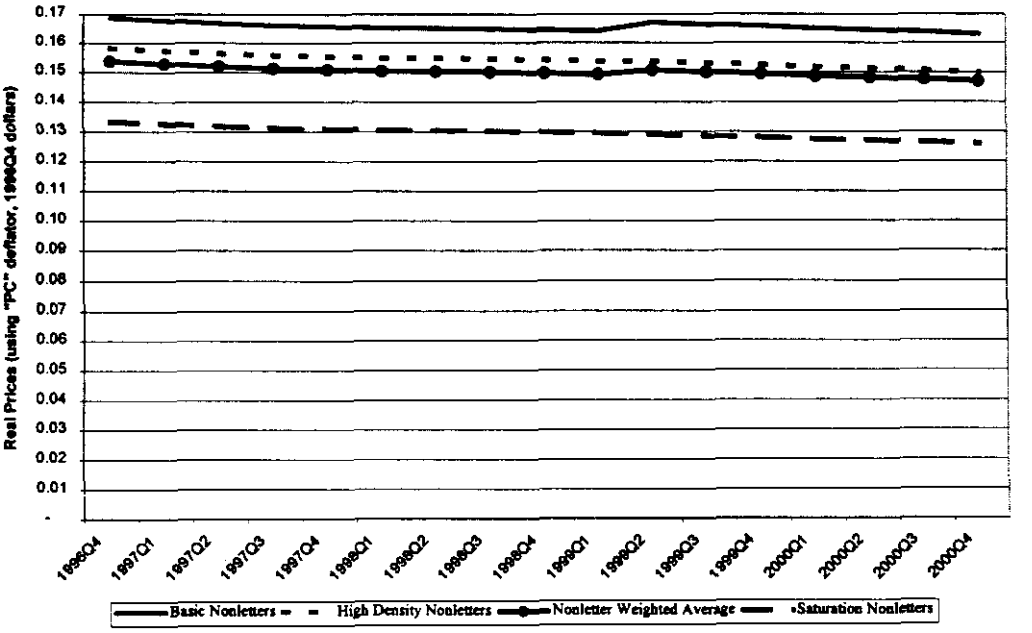
Real ECR Nonletter Prices



RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
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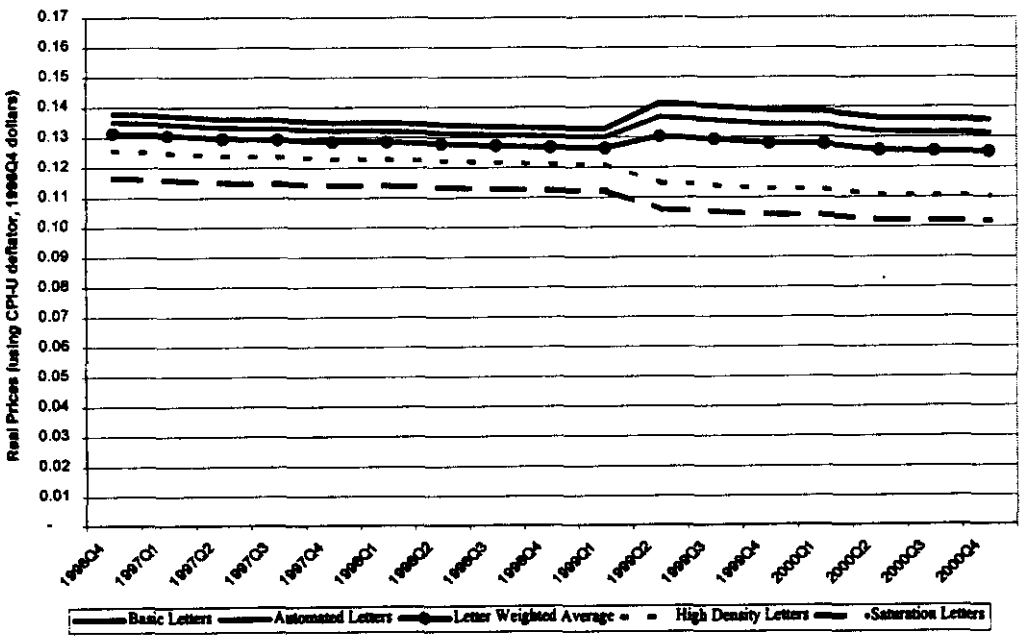
USPS/NAA-T1-35. Please refer to footnote 83 on page 47 of your testimony, where you state:

> The following charts use Dr. Tolley's "PC" deflator, but a deflator such as Mr. Tayman's measure of general inflation would show similar results, Source: Witness Tolley Workpapers, LR-I-121, weighted average constructed using fixed proportions as given by Dr. Tolley's Before-Rates volumes.

Provide the charts on pages 48 and 49 of your testimony using Mr. Tayman's measure of general inflation, and using 0 in lieu of 0.10 as the y-axis intercept.

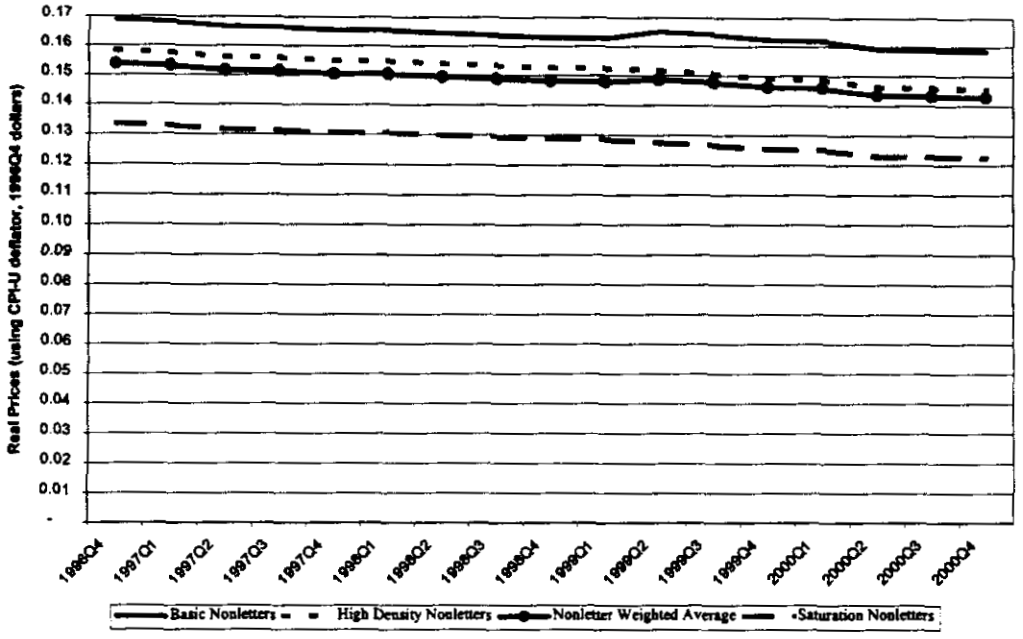
RESPONSE:

Real ECR Letter Prices



RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

Real ECR Nonletter Prices



RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
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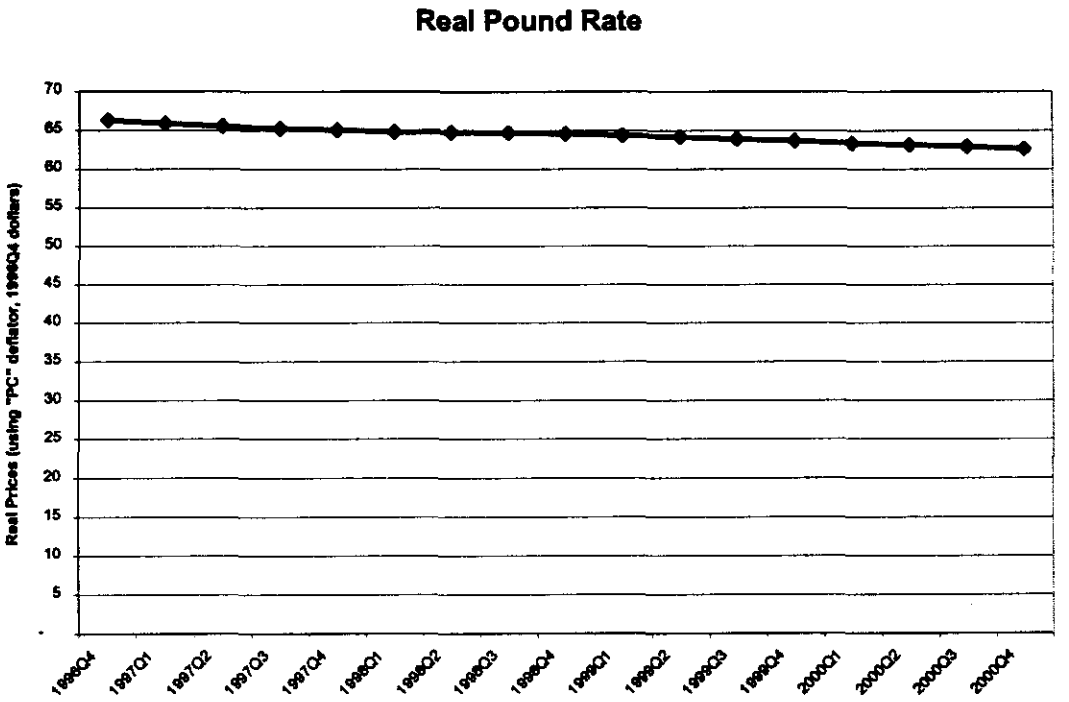
USPS/NAA-T1-36. Provide the chart on page 50 using 0 in lieu of 60.0 as the y-axis intercept.

RESPONSE;



RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-37. You state on page 51 of your testimony that:

> Relatively high cost coverages for heavily workshared classes are not an anomaly, but rather the direct consequence of basing rate discounts on avoided costs of worksharing.

a) Please explain how your statement is consistent (or inconsistent) with the historical treatment of Periodicals Mail Regular cost coverages.

b) Do you believe that criterion 6 of 39 USC 3622(b) weighs in favor of relatively lower cost coverages for highly workshared subclasses?

c) If your response to subpart (b) is negative, how do you believe criterion 6 should be used to evaluate the cost coverage of highly workshared classes? What Commission precedents support your response? Provide relevant citations.

RESPONSE:

(a) The statement was based on the assumption that all else was equal. See my response to USSP/NAA-T1-30 (b). See also footnotes 85-87 of my direct testimony on page 51. Obviously other ratemaking factors such as criterion 8 may also affect the results.

(b-c) I am not an attorney and do not speak to the legal meaning of criterion 6. However, nothing in criterion 6 makes mention of cost coverages. If worksharing is rewarded by discounts equal to avoided costs, then worksharing is recognized by a change in the rate. As to Commission precedents, see my response to USPS/NAA-T1-30 (b).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-38. Please see your testimony at page 52, lines 10-11 where you state, "[d]ropping the pound rate and lowering the ECR cost coverage would have the effect of diverting volume from private enterprise competitors of ECR mail."

a) Please provide all quantitative analysis you have performed to support this contention.

b) Identify by name the "private enterprise competitors of ECR mail" to which you refer in your testimony.

c) Identify the "private enterprise competitors of ECR mail" by codes in the Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS).

d) State whether you reviewed the prices, either on an industry-wide basis or for individual firms, for the competing products offered by private enterprise competitors of ECR mail.

e) Do you know whether the prices offered by alternative delivery for products competing with ECR are higher or lower than those proposed by the USPS for ECR? If your answer is affirmative, what is the source of your information?

f) Do you know whether the prices offered by newspapers for products competing with ECR are higher or lower than those proposed by the USPS for ECR? If your answer is affirmative, what is the source of your information?

g) Identify the quantitative information that you considered in drawing your conclusion that volume will be diverted from private enterprise competitors by virtue of the USPS proposed ECR rates.

h) In preparing for your written testimony, did you discuss the weight characteristics or pricing information concerning newspaper advertising and/or alternative delivery with persons having knowledge of products that compete with ECR mail?

(i) If so, identify separately each of the person(s) you interviewed or had discussions with by name, title and organization.

(ii) Provide copies of any notes of conversations that you had with such persons (exclude any privileged attorney-client communications).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
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(iii) Provide the prices charged for products that compete with ECR mail.

(i) In preparing your written testimony, did you review any studies, analyses, or other data concerning the weight characteristics of advertising matter in newspapers or alternative delivery pieces that compete with ECR mail?

(i) Identify each piece of information that you considered by title, date, and author; and

(ii) Provide a copy of each piece of information that you considered.

(j) In preparing your written testimony, did you review any studies, analyses, or other data concerning the prices of advertising matter in newspapers or alternative delivery pieces that compete with ECR mail?

(i) Identify each piece of information that you considered by title, date, and author; and

(ii) Provide a copy of each piece of information that you considered.

RESPONSE:

(a) See my response to USPS/NAA-T1-32 (c).

(b) I did not have particular companies in mind. But certainly private enterprise competitors would include members of AAPS. NAA members are both customers and competitors of ECR mail.

(c) I do not have the available information to answer your question.

(d) I have reviewed price indices included in the workpapers of witness Thress, including the newspaper price index.

(e-f) I relied on elasticities estimated by witness Thress.

(g) See part a.

(h) No.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
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(i-iii) Not applicable.

(i) No.

(i-ii) Not applicable.

(j) Yes.

(i-ii) See part d.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-39. Please see your testimony at page 52, lines 20-21. Please quantify the "past increases in volume of competitive classes due to diversion from private delivery."

RESPONSE:

The citation has been misquoted. "Private delivery" should read "private enterprise competitors." See my response to USPS/NAA-T1-32 (c).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-41. Please refer to your testimony at page 3, lines 5-8, where you state: "this reasoning ignores the by-now generally accepted principle that heavily work-shared subclasses will have high cost coverages precisely because of the cost avoidance from worksharing."

a. Please provide citations to Commission Recommended Decisions, testimony from this or previous ratemaking dockets, or Decisions of the Postal Service Board of Governors which articulate this "generally accepted principle."

b. Are you aware of any efforts on the part of the Postal Service or other parties to postal ratemaking proceedings to lower the "high cost coverages" for "heavily work-shared subclasses?" If so, please provide citations to such proceedings.

c. Is it your testimony that §3622(b)(6) should be interpreted to mean that the more worksharing a customer performs, the higher the cost coverage assigned to that customer's mail should be? If so, please provide citations to legal decisions or Commission Recommended Decisions to support this contention. If not, please reconcile this position with your statement from page 3 of your testimony.

RESPONSE:

(a) See my responses to USPS/NAA-T1-30 (b) and USPS/NAA-T1-37 (a).

(b) Yes. The Postal Service in the current proceeding proposes to lower the ECR cost coverage. See my response to USPS/NAA-T1-26 (a-b) and my direct testimony at pages 25-26.

(c) Not necessarily. The point is that a high cost coverage for heavily workshared mail can be misleading because it is the result of arithmetic. Other measures, such as unit contributions, can be more useful in such contexts. See my response to USPS/NAA-T1-30 (b).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-43. At page 3, lines 18-22, of your testimony, you state that the Commission should adopt rates for ECR that "at least maintain the unit contributions established in Docket No. R97-1 using the Commission's cost attribution methodology, after adjusting for actual 1999 costs, and sufficient to ensure that the cost coverage or markup index does not decline in absolute or relative terms". Is it your testimony that the Commission should adopt this recommendation as a general principle for all subclasses of mail? If not, please provide a list of the subclasses to which this general principle should not apply, and provide rationale for why they should be treated differently than you have recommended for ECR.

RESPONSE:

Determination of rates for all subclasses was outside the scope of my testimony.

See page 1 of my direct testimony, lines 15-20.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-44. Please refer to your testimony at page 24, lines 3-5. You state:

> However, [witness Mayes] has since retreated from the only objective consideration she could offer as to why ECR coverages should be reduced. Moreover, she has completely ignored another measure - unit cost contribution -that shows that ECR would continue to make a far smaller contribution than First Class mail.

a. Is your reference there to all Standard Mail A ECR (i.e., commercial and nonprofit ECR)? If not, please provide the correct subset of ECR mail to which your statement applies.

b. Is your reference there to the entire First-Class Mail class, including the Letters and Sealed Parcels subclass and the Cards subclass? If not, please provide the correct subset of First-Class Mail to which your statement applies.

c. Do you claim that, except for the application of the Private Express Statutes to First-Class Mail, the two subsets of mail to which your responses to subparts (a) and (b) refer are to be considered equivalent for purposes of establishing unit contribution?

d. Is it your testimony that every subclass of mail should make the same unit contribution as First Class Mail? If so, please provide the basis for this conclusion. If not, please identify the subclasses which would not be required to make the same unit contribution as First Class Mail.

e. Please confirm that §3622(b) does not make reference to unit contributions. If you do not confirm, please provide a citation to such reference.

RESPONSE:

(a) No. My reference is to commercial Standard Mail (A) ECR.

(b) No. My reference is to the Letters and Sealed Parcels subclass.

(c) No.

(d) No. This is outside the scope of my testimony. See page 1 of my direct testimony, lines 15-20.

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(e) It does not make specific reference to unit contributions, nor does it make mention of cost coverages. However, I think unit contributions (and cost coverages) are implicit in the factors.

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TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-45. At page 24 of your testimony, you criticize the Postal Service based on your claim that it is abandoning the use of cost coverages as a tool to manage the desired rate relationships between ECR and Regular Standard Mail A subclasses and offer the "simple solution" of raising the cost coverage for ECR. Please confirm that if the only consideration were to "manage the desired rate relationships between the ECR and Regular subclasses," one alternative would be to lower the cost coverage for the Regular subclass.

RESPONSE:

Not confirmed. It is unclear what impact lowering the cost coverage would have on the Regular subclass rate design. See my response to USPS/NAA-29 (c).

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-46. At page 26, lines 8-9 of your testimony, you state that:

> the Postal Service is proposing to shift more of the institutional cost burden to a monopoly subclass (First Class) from a competitive subclass (ECR). Ms. Mayes confirms that First Class markup index is going up at Tr. 11/4347-48 (Mayes). She argues 'the shift of some of this institutional burden to First-Class Mail, particularly in view of the relatively small increase in First-Class Mail rates, was not viewed as unfair.' Tr. 11/4350 (Mayes).

a. Please confirm that the statement from Tr. 11/4350 is preceded by the following sentence: "In the current case, in deference to criterion 4, it was *necessary to moderate the cost coverages for several subclasses of mail* which experienced substantial increases in costs in order to moderate the impact on mailers, as measured by percent increase in rates."

b. Please confirm that ECR was not one of the subclasses to which moderation of rate increases in deference to criterion 4 was extended.

RESPONSE:

(a) Confirmed.

(b) Not confirmed. Ms. Mayes does not detail what subclasses she refers to in that quote.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-47. Please refer to your testimony at page 32, lines 3-10, where you state:

> *I shall refer to the ratemaking process as described by the Postal* Service witnesses as 'top down.' This version of the Postal Service's process starts with target cost coverages determined by witness Mayes, followed by witness Moeller designing rates given the target cost coverages as constraints. I suggest, however, that the real process was a bottom up process, where the Postal Service first determined the rate levels it desired, and then derived the cost coverages necessary to achieve that result... All the evidence points to this conclusion." [footnote omitted]

a. Please confirm that the "top down" process was described in the responses of witness Mayes to interrogatories NAA/USPS-T32-3 and GCA/USPS-T32-8, as well as at Tr. 11/4491-92 and in response to Presiding Officer's Information Request No. 12, Question 1. If you do not confirm, please explain fully.

b. Please confirm that your reference to "all the evidence" at line 10 is limited to the results of this process and not to other documentation of this process as suggested in your statement. If you do not confirm, please provide all evidence, including rate design workpapers, transcripts of conversations, copies of slides or other presentations, and alternate rate proposals suggesting that the process was as you have described.

RESPONSE:

(a) Confirmed.

(b) Not confirmed. It is not clear what you mean by the "results of this process." My reference to "all the evidence" includes the testimony and workpapers of witnesses Moeller, Fronk, Mayes and their interrogatory responses and oral testimony. See in particular witness Moeller's responses to NAA/USPS-T35-1 through 9.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-48. Please refer to your testimony at page 36, lines 11-16. You state:

> The Postal Service fails to account for shifts in the distribution mail volume...due to proposed changes in rate design.... As a result, it overestimates the percentage increase in ECR revenues per piece that will be realized at its proposed rates in the test year.

Please confirm that witness Tolley provides individual forecasts for eight subcategories of ECR volume. If you do not confirm, please provide the correct number.

RESPONSE:

Not confirmed. Library Reference USPS-LR-I-121 shows that witness Tolley has seven individual forecasts across the automation and nonautomation subcategories, and then calculates a nonautomation total by summing up the six nonautomation subcategories.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-49. Please refer to your testimony at page 39, lines 3-7, where you state:

> some categories (*i.e.*, piece-rated nonletters in the High Density category) are forecasted to experience an increase in rates simultaneously with an increase in volume, while other categories (*i.e.*, pound-rated nonletters in the Saturation category) are *forecasted to experience a decrease in rates and a decrease in* volume.

a. Please confirm that the price for the aggregate category, High Density nonletters, went down from TYBR to TYAR. If you do not confirm, please provide a correction to the previous statement.

b. If you confirm that the price for the aggregate category, High Density nonletters, went down from TYBR to TYAR, please confirm that you would expect to see the volume for the aggregate category go up from TYBR to TYAR, all else equal. If you do not confirm, please provide a correction to the previous statement.

c. Please confirm that Dr. Tolley and Mr. Thress did not forecast volumes for subcategories of the aggregate category, High Density nonletters. If you do not confirm, please provide the forecasts of those volumes.

d. Please confirm that, in the absence of forecasts of the subcategories, witness Moeller used existing distributions to spread the aggregate volumes to the subcategories.

RESPONSE:

(a) I can confirm that a calculation of forecasted prices can be made from witness Moeller Workpaper 1, page 34.

(b) Confirmed. However, this result is true for your example only because the High Density nonletters category is one of the aggregate rate categories used by Dr. Tolley in his forecast. This fact does not resolve the problem, identified at page 39 of my direct testimony, of perverse results occurring at

lower levels of aggregation arising from Mr. Moeller's use of FY1998 billing determinants and his failure to account for migration.

(c) Confirmed. Witness Moeller forecasted the volumes at page 3 of his Workpaper 1.

(d) Not confirmed. It is not clear what is meant by "existing distributions," although witness Moeller did use FY98 billing determinants at page 2 of his Workpaper 1. See part c.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE
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USPS/NAA-T1-50. Please refer to your testimony at page 42, lines 2-5, where you state: "It is important to consider unit contributions. First, they highlight the actual contribution being made by the average piece. This can facilitate comparisons among similar subclasses. Second, unlike cost coverage percentages, unit contributions are not distorted by the differing degrees of worksharing among the various subclasses."

a. As you have performed a comparison of unit contributions for the aggregate categories of First Class and ECR on page 41 of your testimony, is it your contention that these are "similar subclasses"? If not, please explain why it was appropriate to use unit contribution as a means of comparison. If so, please explain how these subclasses may be viewed as "similar," providing details regarding their physical, legal and market characteristics. Also, please identify all characteristics that you believe lead these subclasses to not be "similar."

b. Please confirm that equalizing unit contributions for subgroups of mail with disparate unit costs will result in different cost coverages for those subgroups of mail. If you do not confirm, please explain fully.

c. Please confirm that at page 18 of your testimony, and elsewhere, you criticize witness Moeller for not designing rates that equalize, or at least bring closer together, the cost coverages for subgroups of Standard A mail (*e.g.*, Standard A Regular piece-rated and pound-rated pieces). If you do not confirm, please provide an alternate explanation for your testimony at page 18.

d. If you have confirmed parts (b) and (c) above, please explain whether the Commission should be attempting to equalize unit contributions or cost coverages.

RESPONSE:

(a) They are similar in some but not all characteristics. Both have substantial volume, so the revenues are critical to the recovery of the Postal Service's institutional costs. Both have substantial volumes of letters and flats. As found in the response of witness Kingsley to NAA/USPS-T10-11, once ECR letters are merged in DPS processing, they receive the same handling. The Commission in its Docket No.

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R97-1 Opinion at 5553 also compared the unit contributions of First Class and ECR, stating, "Standard A ECR will make a 7.6 cent unit contribution to institutional costs. This is well below the 14.7 cent unit contribution made by First-Class letters, but it is certainly not inconsequential."

(b) Confirmed.

(c) Not confirmed. See my direct testimony at page 17.

(d) Not applicable.

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USPS/NAA-T1-51. Please see your testimony at page 45, lines 1-9, where you discuss ECR volume increases. Please provide estimates of revenue and volume growth for newspaper advertising that competes with Standard Mail (A) ECR over the same time period.

RESPONSE:

I do not have such estimates.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO 'NTERROGATORIES OF UNITED STATES POSTAL SERVICE

USPS/NAA-T1-52. At page 46, lines 4-7, of your testimony, you state: "Effects on competitors cannot be determined simply by comparing 'the test year before and test year after rates forecasts of postal volumes for each subclass or rate category for which volumes were forecasted.'" Given your belief that this is inadequate for assessing the impact on competitors, please provide an alternative approach to this assessment and provide your conclusions, fully supported by statistical or financial backup, as to the impact of the proposed rate increase for ECR on competitors. If your response includes forecasts of volumes or revenues, please also indicate exactly what portion of the change in volume or revenue is due to postal pricing decisions, and what portion is due to other factors.

RESPONSE:

The interrogatory does not provide a clearly defined alternative rate proposal against which the Postal Service's proposal can be compared. See my response to USPS/NAA-T1-26 (f) for an explanation of why the difference between TY before rates and Test Year after rates volumes is not the correct measure of diversion. See my response to USPS/NAA-T1-32 (c) for a discussion of evidence of the effect of past rate changes in ECR mail volume. However, a more relevant date for such a calculation is the inception of the current ECR subclass arising from Docket No. MC95-1 (1996Q4, according to Library Reference USPS-LR-I-121). Witness Thress's Workpaper 1, Table 1-19, shows that from ECR's inception in 1996Q4 to 1999Q4 (the most recent data available), newspaper advertising prices rose 10.70%. The 0.812 elasticity that witness Thress estimates using his new specification would indicate that ECR volume rose 8.69% as a result. Witness Thress's Workpaper 1, Tables 1-15 and 1-18 shows that real ECR prices dropped 2.66% from 1996Q4 to 1999Q4. The -0.808 elasticity that witness Thress estimates would indicate that ECR volume

rose 2.15% as a result. The combination of changes in real ECR rates and price of newspaper advertising since the inception of ECR is approximately 8.69 + 2.15 = 10.84%. See the testimony of Mr. White for evidence of the impact of ECR rate changes on private delivery firms.

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USPS/NAA-T1-53. On Page 50 of your testimony, you refer to "rational relationships among ECR and other subclasses."

a) In your opinion, are the ECR cost coverages recommended by the PRC in Docket Nos. MC95-1 and R97-1 rational?

b) In your view, was the Commission's recommended ECR pound rate element of 66.3 cents in Docket Nos. MC95-1 and R97-1 "fair and reasonable" in each instance? Please explain your response.

RESPONSE:

See page 53 of my direct testimony, lines 1-13 and footnote 88. I took the Commission's MC95-1 and R97-1 recommendations as a starting point.

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USPS/NAA-T1-54. On page 52 of your testimony, you state:

> As the Commission recognized in Docket No. R97-I, raising the cost coverage of ECR creates more "headroom" for a desirable rate differential between ECR basic and the 5-digit automation.

Provide the citation to the Commission's R97-1 opinion that supports your statement. Please quote the relevant language.

RESPONSE:

The Commission's Opinion in Docket No. R97-1 stated at paragraph 5535, "Although these factors indicate a lower cost coverage than that proposed, [USPS witness] O'Hara argues that two considerations weigh against a further decrease: 1) a lower cost coverage for ECR mail would impose higher cost coverages on the other subclasses; and 2) a lower ECR cost coverage would present difficulties in designing rates resulting in a Regular subclass automation 5-digit rate below that of ECR basic, which encourages movement of ECR letters into the automation mail stream." Based on this and other evidence in the record, the Commission concluded at paragraph 5550 that, "The Commission agrees with the Service that even though several of the statutory factors might indicate a low ECR cost coverage, on balance the record supports an ECR cost coverage that is well above average."

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USPS/NAA-T1-55. On page 52 of your testimony, you state:

> *Combining an increase in the extra ounce rate for monopoly First Class Mail and a decrease in the pound rate for competitive ECR Mail has the effect of decreasing volume from the first and increasing volume in the latter.*

a) Confirm that pound rated pieces overall will receive a rate increase under the USPS proposal.

b) Identify the percentage change in rate for pound-rated ECR saturation pieces.

c) Identify the "competitive ECR mail" to which you refer, with reference to specific weight increments and rate categories within ECR.

d) Identify and provide copies of all analyses that you considered in drawing this conclusion.

RESPONSE:

(a) Witness Moeller states in footnote 44 of his testimony, page 23, that revenue per piece for pound-rated ECR pieces is proposed to increase from 19.419 cents to 19.472 cents.

(b) Witness Moeller on page 34 of his Workpaper 1 states that pound-rated ECR saturation revenue per piece will decline from 16.85 cents to 16.71 cents, a 0.84% decrease.

(c) I did not have specific weight increments or rate categories in mind with this particular reference, but it is clear that the Postal Service's proposal to cut pound rates is targeting pound-rated mail.

(d) See my response to USPS/NAA-T1-52.

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USPS/NAA-T1-56. On page 52 of your testimony, you state:

> Rate increases in competitive subclasses will increase the net contribution to institutional cost and also arrest the past increases in volume of competitive classes due to diversion from private enterprise competitors

a) Identify the "competitive subclasses" and "private enterprise competitors" to which your statement refers.

b) Are there any subclasses for which there is competition to which your statement does not refer? If so, please identify.

c) Please confirm that if the "competitive subclasses" have an own-price elasticity greater in absolute value than one, this statement may not be true.

d) Does this general statement implicitly have a logical conclusion that sets some limit on the rate increases for competitive subclasses, or should rates for competitive subclasses be set at some maximum level? Please explain.

e) What quantitative data did you consider in drawing this conclusion? Provide relevant citations and figures.

f) Explain how a "rate increase" "arrests" a past increase in volume.

g) Does your statement assume that increases in volume for "competitive classes" come at the expense of private sector competitors?

h) What proportion of increases in volume for competitive classes come at the expense of private sector competitors?

i) Do you believe that past increases in ECR volume necessarily came at the expense of private enterprise competitors, or could these be attributed to other factors, such as, for example, growth in the overall economy, new entrants in the advertising market, and changes in customer preferences for advertising medium?

j) Identify and provide all analyses that you considered in drawing the conclusion in subpart (h).

k) Do you believe that the markets for ECR and its competition are growing or not growing? Please explain your response.

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RESPONSE:

(a) I was referring specifically to ECR. See also my response to USPS/NAA-T1-38 (b).

(b) This is outside the scope of my testimony. See page 1 of my direct testimony, lines 15-20.

(c) Not confirmed.

(d) The general statement neither sets limits on rate increases or sets maximum rates.

(e) See my response to USPS/NAA-T1-52.

(f) If past increases in volume are due to a decision to hold down rates, then a decision to raise rates will offset that effect.

(g) Not necessarily. But see my response to USPS/NAA-T1-52 for evidence that it has occurred for ECR. Of course, other factors are also possibly at work, as described by witness Tolley in his testimony (USPS-T-6) at pages 129-134.

(h-j) See part (g) and my response to USPS/NAA-T1-52.

(j) See witness Tolley testimony (USPS-T-6) for volume history and volume forecasts of ECR. I believe that the Postal Service has performed studies on ECR competitors, which should be available to the Postal Service.

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

VP-CW/NAA-T1-1.

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

a. Please define what you mean by "legally protected from competition" as you use the phrase in your testimony, and provide your understanding of which classes and subclasses of mail are legally protected from competition.

b. Please explain who are the "private enterprise competitors" to which you refer and from who you allege Postal Service is using rate levels and rate design to shift volume.

c. Is it your testimony that Standard A ECR is being cross-subsidized by First-Class Mail? Please explain any affirmative answer.

d. Please refer to page 1 of the Postal Service's Cost and Revenue Analysis for Base Year 1998. In 1998, were Periodicals cross-subsidized by (i) Standard A ECR? (ii) First-Class Mail? Please explain your answers.

e. If the Postal Service were "seeking to use rate levels and rate design to shift volume from private enterprise competitors and to finance these rate structures with revenues from mail legally protected from competition," would your analysis be more applicable to the rate levels for Periodicals or for Standard A ECR? Please explain your answer.

RESPONSE:

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

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

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

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

(based on the Postal Service's measure of volume variable costs) of 101.73%. I have not attempted to make a determination on whether Periodicals were cross-subsidized by other subclasses. See part c.

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

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VP-CW/NAA-T1-2.

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

a. Is it your testimony that ECR and First-Class Mail are the only subclasses that contribute to institutional costs?

b. Is it your testimony that the Commission should set rates to ensure that all classes and subclasses of mail should contribute the same share to institutional costs as they did under the Commission's recommended rates in Docket No. R97-1? Please explain any affirmative answer.

c. Is it your testimony that any increase in the institutional cost burden borne by First-Class Mail is caused solely by ECR? Please explain any answer.

RESPONSE:

(a) No.

(b) No.

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

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VP-CW/NAA-T1-3.

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

a. When applying each of the non-cost statutory criteria in § 3622(b) to a class or subclass (where pertinent) to determine the appropriate cost coverage for that class or subclass, must the evidence always be objective? Please explain your answer.

b. Is it your testimony that own-price elasticity provides the only possible objective justification for reducing ECR's cost coverage? Please explain your answer.

c. Before finalizing your testimony concerning the ECR cost coverage, did you review Postal Service witness Mayes' testimony at page 39, lines 15-16, where she states "many of the factors considered above would indicate a cost coverage even lower than that actually proposed?" Do you agree with her conclusion? If not, please provide a full explanation why not.

RESPONSE:

(a) No, but objective evidence is helpful.

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

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

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VP-CW/NAA-T1-4.

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

a. Identify all testimony by Postal Service witnesses on which you rely to support your statement that the Service is reducing the cost coverage for Standard A ECR solely because the cost coverage is high and ought to come down.

b. Please identify all other classes or subclasses (other than Standard A ECR) that lack access to the collection system, receive (solely) surface transportation, have no free forwarding, and are subject to deferred delivery, and have cost coverages at or above 200 percent.

c. Please identify all classes or subclasses that have a cost coverage at or above 200 percent, and have an own-price elasticity of demand that is comparable (or higher) to that of Standard A ECR mail.

RESPONSE:

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

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

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

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VP-CW/NAA-T1-5.

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

a. Is it your testimony that ECR mail should pay a unit contribution that is identical, or almost identical to that of First-Class Mail? If your answer is affirmative, please explain how application of the non-cost statutory criteria in § 3622(b) supports your answer.

b. At the end of your comparison between First-Class and ECR unit contributions, you state (p. 42) that consideration of unit contributions "can facilitate comparisons among similar subclasses."

   (i) Please define the term "similar subclasses" as you use it here.

   (ii) Are First-Class and ECR "similar subclasses"?

   (iii) Are Standard A Regular and Standard A ECR similar subclasses?

   (iv) Are Standard A Regular and First-Class similar subclasses?

   (v) Please explain what, in your view, makes two subclasses similar.

c. Identify any authority on which you rely from Commission opinions that support having identical or nearly-identical unit contributions from ECR mail and First-Class Mail.

d. Do you believe that the unit contribution made by Standard A Regular is inadequate vis-a-vis that of (i) ECR and (ii) First-Class Mail? Please explain any negative answer.

e. Please explain fully why your testimony does not include any discussion concerning the respective contributions of Standard A Regular along with those of ECR and First-Class Mail.

f. Would you support or oppose an increase in the unit cost contribution and coverage for Standard A Regular?

RESPONSE:

(a) No.

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

(c) Not applicable.

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

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VP-CW/NAA-T1-6.

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

a. Did you also prepare a comparison of Standard A Regular unit contributions to those of First-Class Mail and Standard A ECR? If so, please provide the data to complete the chart on page 41 of your testimony. If not, please explain why not.

b. In its *Opinion & Recommended Decision* in Docket No. R97-1 (¶ 5553), the Commission stated that it was "satisfied on the basis of this review that ECR will provide adequate unit contribution to institutional costs." The Commission identified a unit contribution of 7.6 cents. *Id.* At page 41 of your testimony, you calculate a TYAR unit contribution of 7.7 cents (using PRC methodology). Is it your testimony that the Commission should recommend ECR rates with an even higher unit contribution than would result from the Postal Service's proposed rates? Please explain your answer.

c. At page 54 of your testimony, you recommend that ECR's unit contribution "equal or exceed the unit contribution of commercial ECR mail at R97-1 levels." Would not this standard be met if the Postal Service's proposed cost coverage for ECR is recommended by the Commission? Please explain your answer.

d. As between mail that is highly workshared and mail that is less highly workshared, would you agree that the less highly workshared mail causes the Postal Service to incur more costs for labor and facilities than the highly workshared mail? Please explain any negative response.

e. In your opinion, should the Postal Service attempt to make any mark-up, or operating profit, on the extra labor and facilities required to process less highly workshared mail? Please explain your answer.

RESPONSE:

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

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(b) Yes. In my direct testimony at page 54, lines 1-4, I recommended that "The real contribution per piece, after adjusting for attributable costs using the Commission's approved methodology, equals *or exceeds* the unit contribution of commercial ECR mail at R97-1 levels *and that the cost coverage or markup indices do not decline in absolute or relative terms*." (italics added) See also my response to USPS/NAA-T1-26 (a-b).

(c) No. You have quoted only part of my recommendation. As stated in part b, the full quote is, "The *real* contribution per piece, after adjusting for attributable costs using the Commission's approved methodology, equals or exceeds the unit contribution of commercial ECR mail at R97-1 levels *and that the cost coverage or markup indices do not decline in absolute or relative terms*" (italics added). The italicized portion of my recommendation is not met by the Postal Service's proposed rates. See my response to USPS/NAA-T1-26 (a-b).

(d) Yes, all other things equal. See also my response to USPS/NAA-T1-37 (a).

(e) See the example in my response to USPS/NAA-T1-30 (b). If avoided costs are thought of as "extra labor and facilities required to process less highly workshared mail," and all else is equal between two mail pieces, examples generally assume that the markup is on all the costs of the less workshared mail. This is mathematically equivalent to starting with the markup of the more workshared mail and adding back in the extra labor and facilities at no markup, if the Commission's general goal of matching rate differences with cost differences is achieved.

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VP-CW/NAA-T1-7.

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

a. Is it your opinion that, given two pieces of mail from the same class, one of which is more highly workshared, the more highly workshared mailpiece should also have a higher unit contribution? Please explain your answer.

b. In your view, are the Standard A ECR and Standard A Regular unit contributions identical or comparable? Please explain your answer, and state whether you believe the current and proposed respective unit contributions of these two subclasses are appropriate vis-a-vis each other.

RESPONSE:

(a) No. If the applicable avoided costs from worksharing are correctly calculated and if passthroughs are set to 100 percent, and all else is equal, then the unit contributions would be equal.

(b) See my response to VP-CW/NAA-T1-5 (d).

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VP-CW/NAA-T1-8.

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

a. Is it your testimony that the Postal Service targeted private competitors by proposing to lower the cost coverage for ECR mail in Docket No. R97-1? Please explain any affirmative answer.

b. Your testimony (p. 42, ll. 9-11) quotes the *Opinion & Recommended Decision* in Docket No. R97-1 as stating that the "'evidence suggests that the Postal Service has targeted the ECR subclass for special consideration for competitive reasons.'" Please confirm that in Docket No. R97-1, the Postal Service requested a cost coverage for Standard A ECR of 228 percent, and the Commission recommended a cost coverage of 203 percent. If you do not confirm, please explain.

c. In your opinion, what effect did the Commission's observation that "the Postal Service has targeted the ECR subclass for special consideration for competitive reasons" have on its decision to reduce the ECR cost coverage by 25 points in Docket No. R97-1?

RESPONSE:

(a) The Postal Service in Docket No. R97-1 explicitly gave competition as a rationale for its commercial ECR rate proposals. See e.g. witness Moeller testimony in Docket No. R97-1 (USPS-T-36) at page 26, lines 3-7, and the citation in my direct testimony on page 42, lines 9-11.

(b) The 228 percent and the 203 percent were figures used by the Postal Service and the Commission, respectively, but they reflect different costing methodologies.

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

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VP-CW/NAA-T1-9.

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

RESPONSE:

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

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VP-CW/NAA-T1-10.

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

a. Would it be fair to say that the 16.43 percent figure cited in your testimony actually reflected the change in Standard A ECR volume — over a 5 year period — that was attributable to increases in newspaper rates for advertising and inserts? *Please explain any negative answer.*

b. Would you agree that the average increase in Standard A ECR volume over the five-year period addressed by Dr. Tolley was less than 2 percent a year? Please explain fully any disagreement.

RESPONSE:

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

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

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VP-CW/NAA-T1-11.

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

a. Please define and explain your threshold of what constitutes a significant shift in volume.

b. Is it your testimony that an annual shift in volume of less than 2 percent is significant?

c. Please provide all information at your disposal concerning the volume of inserts carried by (i) newspapers who are members of NAA, or (ii) newspapers generally over the past four years, and indicate the source.

d. Please provide all studies, reports or other evidence on which you rely to support your assertion that the increase in Standard A ECR volume over the past five years represented diversion in volume from the private sector. Please explain your answer, and provide copies of any documentation you relied for your assertion.

e. Several witnesses in this docket (*e.g.*, witness Smith, AISOP-T-1, witness Merriman, SMC-T-2) have testified that owners of small businesses, farms, etc., cannot afford advertising in alternative media, including but not limited to newspapers. In your opinion, how much of the historical increases in ECR volume came from small business which cannot afford advertising in alternative media? Please explain your answer.

RESPONSE:

(a) See my response to USPS/NAA-T1-52.

(b) See my response to VP-CW/NAA-T1-10 (b).

(c) I do not have the requested information. I am advised that NAA is seeking to determine whether it has information responsive to this request.

(d) See my response to USPS/NAA-T1-32 and USPS/NAA-T1-52.

(e) They did not provide any quantitative data, nor do I have any of my own.

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

VP-CW/NAA-T1-12.

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

a. Would you also consider Standard A Regular to be a "competitive class?" Please explain any negative answer.

b. Would your observation quoted above not apply equally to Standard A Regular?

c. Is it not true that for the same amount of increase in rate (*e.g.*, 0.1 cents per piece) an increase to Standard A Regular would have a greater impact than an equivalent increase to the Standard A ECR unit contribution?

RESPONSE:

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

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

1 CHAIRMAN GLEIMAN: Is there any Additional
2 Designated Written Cross Examination? Mr. McLaughlin?
3 MR. McLAUGHLIN: Mr. Chairman, I do have two
4 additional designations, the witness's response to
5 Advo/NAA-T1-1 and T1-4. I'll show those to the witness.
6 [Pause.]
7 Do you want me to --
8 CHAIRMAN GLEIMAN: I just have a question. You
9 said that they were Advo/NAA-T?
10 MR. McLAUGHLIN: T1-1, and T1-4.
11 CHAIRMAN GLEIMAN: Okay, I was just looking at my
12 scorecard to see if we'd had any of those covered. With all
13 the dashes and numbers, it gets confusing sometimes.
14 Mr. Tye, if those questions were asked of you
15 today, would your answers be the same as you previously
16 provided in writing?
17 THE WITNESS: Yes, they would be.
18 CHAIRMAN GLEIMAN: That being the case, counsel
19 has already provided two copies to the Court Reporter, and
20 that Additional Designated Written Cross Examination will be
21 received into evidence and transcribed into the record.
22 [Additional Designated Written
23 Cross Examination of William B.
24 Tye, Advo/NAA-T-1 and
25 Advo/NAA-T1-4, was received into

1 evidence and transcribed into the
2 record.]
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RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO INTERROGATORIES OF ADVO, INC.

ADVO/NAA-T1-1. At page 11 of your testimony, referring to witness Daniel's unit costs by weight increment, you state that all of the Standard A subclasses show "rapidly increasing costs at the highest weights."

(a) Please confirm that this statement refers to the last 15-16 ounce increment within the Standard A subclasses. If you cannot confirm, please explain over what weight range these "rapidly increasing costs" occur, and provide all data and analyses upon which you base this statement.

(b) Does this statement apply to ECR high-density and saturation flats? If so, please provide all data and analyses that show "rapidly increasing costs at the highest weights" for ECR high-density and saturation flats.

RESPONSE:

(a) Not confirmed. Visual examination suggests rapidly increasing costs onset at different weights. See the figures in my direct testimony at page 13.

(b) Witness Daniel's response to ADVO/USPS-T28-13, revised 4/12/00 (Tr. 4/1358-1359) shows that costs are also rapidly increasing for ECR high-density and saturation flats.

RESPONSE OF NEWSPAPER ASSOCIATION OF AMERICA WITNESS TYE TO INTERROGATORIES OF ADVO, INC.

ADVO/NAA-T1-4. At page 10, you discuss the thinness of IOCS tally data for ECR mail above 7 ounces. Is it your position that thinness of data is, by itself, a sufficient reason to reject any reduction in the pound rate for ECR mail?

RESPONSE:

Thinness of data is certainly one factor. But I also show that other possible justifications are not valid as well. See my direct testimony, pages 4-22.

1 CHAIRMAN GLEIMAN: Anyone else?

2 [No response.]

3 CHAIRMAN GLEIMAN: If not, that brings us to oral
4 cross examination. You win the prize today, Mr. Tye. Four
5 parties have requested oral cross examination, Advo, Inc.;
6 Mail Order Association of America; The United States Postal
7 Service; and ValPak Direct Marketing Systems, Inc.; ValPak
8 Dealers Association; and Carole Wright Promotions, all one
9 party.

10 Is there anyone else who wishes to cross examine
11 this witness?

12 [No response.]

13 CHAIRMAN GLEIMAN: If not, then, Mr. McLaughlin,
14 you can begin when you're ready.

15 CROSS EXAMINATION

16 BY MR. McLAUGHLIN:

17 Q Good morning, Mr. Tye. I'd like to start with
18 your response to Advo Interrogatory Number 3. This is
19 related to a statement that you made to the effect that
20 Witness Daniel, in her analyses, did not adequately control
21 for other factors that vary across weight; do you see that?

22 A Yes, I have that response.

23 MR. BAKER: Does the witness have it?

24 THE WITNESS: Yes, I do.

25 BY MR. McLAUGHLIN:

1 Q You do have it.

2 And we asked you what other factors you were

3 talking about, and you said it was the factors in your first

4 quote on that question.

5 The first item in that quote is shape. Did

6 Witness Daniel separately analyze for shape?

7 [Pause.]

8 A I think she made some effort to do so, but

9 mentioned that it was impossible to fully control for the

10 shape factor.

11 Q That was your understanding, that it was

12 impossible to control for the shape factor?

13 [Pause.]

14 A That she could not control for all of the factors.

15 Q Did she control for shape? Did she do separate

16 analyses of letters and flats?

17 A As I recall, that was data in that dimension.

18 Q You also mention level of presort as one of the

19 factors. Did she do separate analyses by presort level?

20 [Pause.]

21 For example, saturation and basic?

22 [Pause.]

23 A As I think the quote says, she made some attempt

24 to control for these

25 Q Did she do separate analyses for saturation and

1 high density mail separate from basic level mail?

2 [Pause.]

3 A Well, as I think I said in the quote, she made an

4 attempt to control for it.

5 Q Okay.

6 Did Witness Daniel do any analyses where she

7 normalized for drop shipping differences?

8 [Pause.]

9 A I think there was some effort made to control for

10 that, but as I have said before, she, herself, said it was

11 impossible to control for all these factors.

12 Q Have you done any analyses yourself that are

13 different from what she has done?

14 A I have reviewed the data and evidence that she

15 provided.

16 Q I would like to now have you turn to your response

17 to Advo Number 4. This was in reference to your discussion

18 about the thinness of IOCS tally data for enhanced carrier

19 route mail above 7 ounces.

20 The question asked you whether thinness of data by

21 itself was sufficient reason to reject a reduction in the

22 pound rate.

23 You say the thinnest data is certainly one factor.

24 By that are you saying no, it is not standing alone a reason

25 to reject a lower pound rate?

1 A I think thinness of data is a substantial problem
2 in Ms. Daniel's study. I also point out by this answer that
3 there are a number of other factors which I examine in my
4 testimony that lead to the same conclusion, so they are all
5 pointing in the same direction.
6 Q What is the problem that thinness causes? Is it
7 that you end up with erratic data, with unit costs that jump
8 around in a random fashion?
9 A Well, it's the problem the Commission identified
10 in its decision in R97-1. There's a number of anomalies
11 that occur. Random jumps is certainly one thing that
12 happens, but thinness of data undermines the reliability of
13 the conclusions based on the study.
14 Q And can you tell us, isn't the reason that there
15 is thinness of tallies the fact that there is a small amount
16 of volume in those heavier weight ranges and in fact when
17 you get out to 16 ounces there's very, very tiny amounts of
18 volume?
19 A Well, I believe I addressed an interrogatory
20 response on that very question, that at the higher weight
21 range there's actually more tallies even though the volume
22 is thin so I concluded on that basis that efforts to throw
23 out that datapoint were problematical -- I mean the whole
24 thinness of data is an issue, but you wouldn't necessarily
25 throw out a datapoint that had more observations. That was

1 my point about the 15 to 16 ounce --

2 Q Well, no, I am not asking you now about the 15 --

3 I am not asking you specifically about -- I am not asking

4 about the 15 to 16 ounce increment specifically, just in

5 general if volume does decline to very small levels as you

6 get over 7, 8, 9 ounces, is that correct, and that accounts

7 for the thinness of tallies?

8 A The thinness of tallies is caused by not enough

9 tallies.

10 Q Are you familiar with the volume data above the 7

11 ounce mark?

12 A I have looked at it. I don't have it right in

13 front of me at this very moment.

14 Q Would you call the volume thick or thin above 7

15 ounces?

16 A In percentage terms, it does decline at the higher

17 weights.

18 Q Now is it possible that one reason the volume is

19 thin in those high weight ranges is because of the high

20 pound rate?

21 A I don't think you can necessarily draw that

22 conclusion.

23 Q You say that is not possible?

24 A I don't think you can pin it on any one factor, I

25 would say.

1 Q I don't believe I was asking you to pin it on one
2 factor. The question was is it possible that one reason for
3 the low volumes in the higher weight cells is because of the
4 high pound rate.
5 A I don't agree that the pound rate is high. I
6 think it should be higher.
7 Q Now I would like to refer you to your response to
8 Advo Interrogatory Number 1 and this interrogatory was in
9 relation to your statement that Daniel's data showed rapidly
10 increasing costs at the highest weights and we asked you
11 whether that statement applies to ECR high density and
12 saturation flats.
13 It is your statement that it does apply to that as
14 well?
15 A I believe that part (b) to the answer says that it
16 shows that costs are also rapidly increasing for ECR, high
17 density and saturation flats.
18 Q So the answer is yes, it does apply, your
19 statement does apply to that?
20 A With my look at the data, yes.
21 Q Your source for that is Witness Daniel's response
22 to Advo Interrogatory Number 13? Do you see that reference?
23 A Yes, I do.
24 Q And you give a transcript page reference. I
25 happen to have copies of those documents from the

1 transcript. Let me just show those to you, since you cited
2 those.
3 [Pause.]
4 Now, these were the transcript pages you were
5 referring to?
6 A They are.
7 Q I would now like to show you something else from
8 Witness Moeller's transcript, which was an Advo
9 cross-examination exhibit based on these very same cost
10 numbers. It is Advo Cross-Examination Exhibit T35-2. It
11 appears on transcript page 3987. And let me show you that.
12 Now, the transcript for Mr. Moeller will show that
13 he confirmed that the lower line that you see with the data
14 points are the very same data as in the transcript page from
15 Witness Daniel's testimony. Would you be willing to accept
16 that?
17 A Subject to check.
18 Q Do you see a resemblance in looking at the
19 Daniel's chart versus this table in terms of the unit cost
20 figures?
21 A It appears to be the same regression.
22 Q And the data points appear to be a similar
23 pattern?
24 A Just visually inspecting it, yes.
25 Q Now, what is the range of rapidly increasing unit

1 costs that you see in this cross-examination exhibit
2 Advo-XE-T35-2?
3 A I am not sure what you mean by range.
4 Q Well, I believe it is your statement, in your
5 response to Advo Interrogatory 1, that Witness Daniel's data
6 show that costs are also rapidly increasing for ECR High
7 Density and Saturation Flats. So, I am asking you, what
8 range are you referring to?
9 A It appears to be a steady increase in this
10 particular set of data. Let me say there is a problem with
11 this particular regression, however, in that it includes the
12 data points which are less than at the breakpoint, thereby
13 having an affect on the outcome, which, as I explained in my
14 testimony, is improper.
15 Q Do you know whether Witness Daniel also did a
16 regression for just points above the breakpoint, too?
17 A Sometimes she did, sometimes she didn't.
18 Q You don't know whether she did in this case?
19 A Not sitting here, no.
20 Q Okay.
21 A I will say that what this shows, if you look at
22 the points above the breakpoint, exactly what I described in
23 my answer to this interrogatory, which is rapidly increasing
24 costs. I think it is pretty clear from looking at the
25 figure.

1 Q Now, the unit costs that Witness Daniel has here,
2 they are normalized for drop-shipping level. In other
3 words, this is an average level of drop shipment, as opposed
4 to being a Destination Delivery Unit drop shipment or a
5 basic level no drop ship, is that your understanding?
6 MR. BAKER: Is the question regarding the Advo
7 cross-examination exhibit?
8 MR. McLAUGHLIN: Yes, it is relating to Witness
9 Daniel's unit costs.
10 THE WITNESS: It says High Density Saturation
11 Flats unit costs is what it says.
12 BY MR. McLAUGHLIN:
13 Q Okay. So you don't know whether -- this is an
14 average, in other words, and it is not, for example, for the
15 Destination Delivery Unit type mail only?
16 A It doesn't appear to distinguish it.
17 Q Okay.
18 A It appears to be a total from the description.
19 Q So, for example, if you were to look at mail that
20 were just Destination Delivery Unit entered, that might, for
21 example, have less transportation, whatever, the unit costs
22 might be lower than these that are shown here, is that
23 correct? Or might be flatter.
24 A I would want to look at the data.
25 Q No, I understand that. But that is certainly

1 possible that the more a mailer drop-shipped, the more
2 weight-related costs we avoided, and the flatter the cost
3 curve might be?
4 A Well, that is one of the difficulties here, and
5 that is why Ms. Daniel seems to have not a lot of confidence
6 in this, because she can't control for everything at once.
7 Q Okay.
8 A So that is -- you put your finger on the problem.
9 Q Now, if you would describe the unit costs as
10 rapidly increasing, how would you describe the ECR
11 Saturation DDU rate, would it be even more rapidly
12 increasing? This, by the way, is the Postal Service
13 proposed ECR saturation rate.
14 A Well, as I mentioned before, this is an apples and
15 oranges comparison, because you appear to have forced the
16 regression through the origin, including piece rated pieces
17 in the regression.
18 Q Well, let's not look at -- let's try to look at
19 that without seeing that regression line there, and just
20 looking at the data points generally. A regression line is,
21 an essence, an effort to try to straighten out a pattern.
22 But just looking at the points in general, without seeing
23 that visual line there, does it look to you as though the
24 saturation DDU proposed rate is steeper and increases more
25 rapidly than what the unit costs appear to do?

1 A I would have to say I would want to run the
2 numbers and take a look and compare the slopes. I mean you
3 are asking me to speculate about some imaginary line on this
4 figure.
5 MR. McLAUGHLIN: Mr. Chairman, this particular
6 cross-examination exhibit is already in the record in Mr.
7 Moeller's transcript. However, I think for purposes of
8 someone being able to follow the cross-examination, it would
9 be useful to have it placed in the transcript here as well,
10 I guess including the original transcript page number with
11 whatever new page number goes on top of that, simply so that
12 it will be followable in the transcript.
13 MR. BAKER: No objection.
14 CHAIRMAN GLEIMAN: It is so ordered. The
15 cross-examination exhibit will be transcribed into the
16 record, but not admitted into evidence.
17 [Cross-Examination Exhibit No.
18 Advo-XE-T35-2 was transcribed into
19 the record.]
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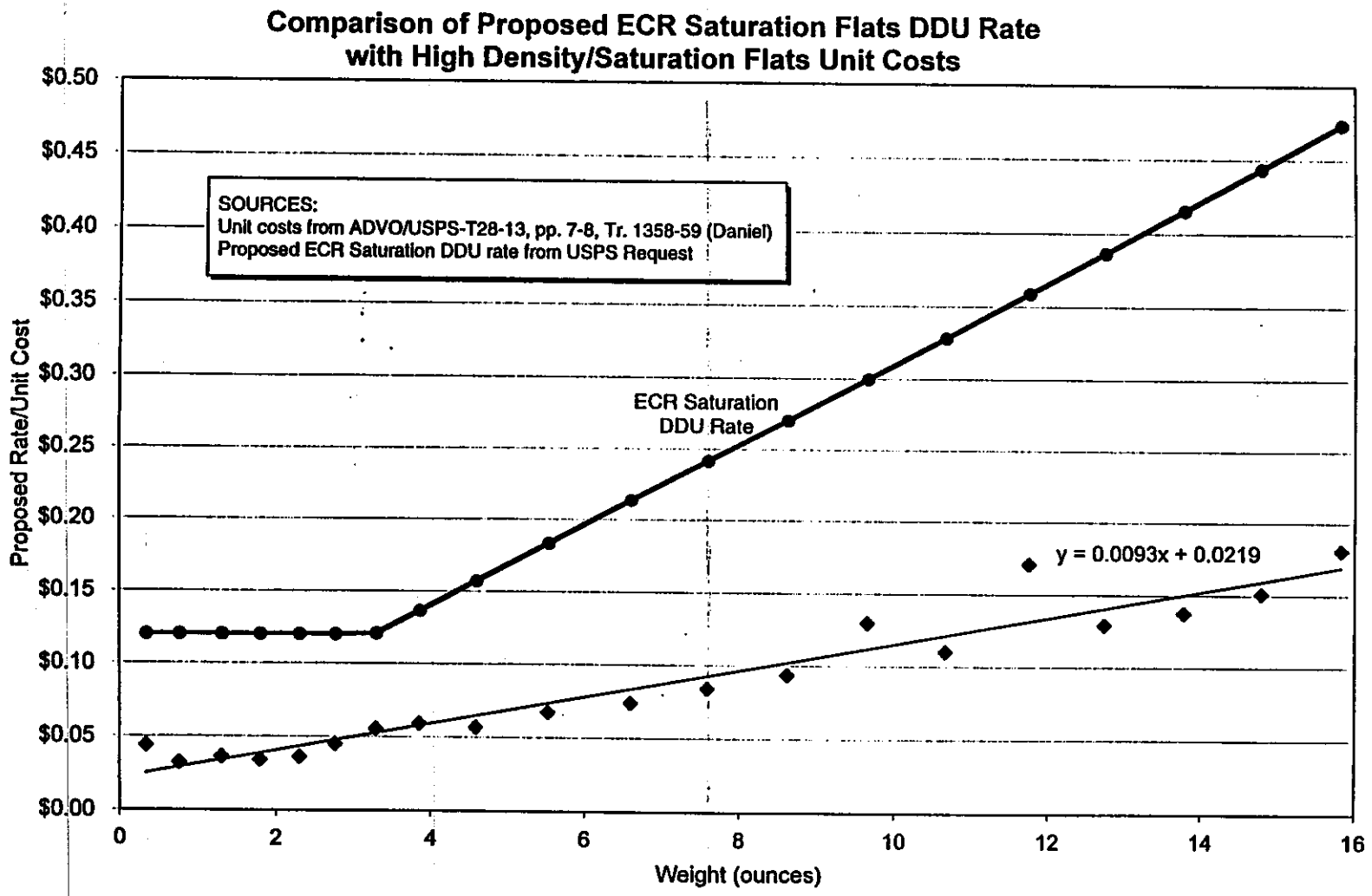

ADVO-XE-T35-2

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1 MR. McLAUGHLIN: Mr. Chairman, I am going to keep
2 the -- I am not going to change the designation, it will
3 still be referenced as a Witness Moeller cross-examination
4 exhibit.
5 CHAIRMAN GLEIMAN: That's fine.
6 BY MR. McLAUGHLIN:
7 Q I would like to now have you turn to your response
8 to Postal Service Interrogatory 29. In 29(b), you
9 acknowledge that the Postal Service's proposed unit
10 contribution is higher for ECR mail than it is for Standard
11 A Regular mail. Do you see that?
12 A I do.
13 Q In part (c), you were asked, what factors support
14 having a higher unit contribution for Regular than for ECR
15 mail? And your answer was, "I have not determined optimal
16 rates for Standard A Regular mail." Does that mean that you
17 view the Standard A Regular relationship with ECR not to be
18 relevant to your testimony?
19 A Not at all, I discuss it at length in the
20 discussion of the crossover between the problem with the
21 five digit automation rate for the Regular class and the ECR
22 Basic. So, to the contrary, it is quite relevant.
23 Q Okay. Now then let's turn to your response to
24 USPS 45. Excuse me. Actually, USPS Interrogatory 45
25 references your testimony at page 24 where you propose a

1 simple solution of raising the cost coverage for ECR
2 relative to Regular rate. Do you see that?
3 A I am at 45 and I see the reference to 29. I am
4 sure I have said that. If you wish, I can check to see that
5 I said it at 29.
6 I don't see the reference to the crossover at 29.
7 Perhaps I am confused. But I am ready to discuss it because
8 it is discussed at some length in my testimony, but I don't
9 find it at Number 29.
10 Q Well, what I am -- let's just turn to page 24 of
11 your testimony, which is reference -- which is the subject
12 of Interrogatory 45.
13 A Yes.
14 Q And starting at line 18, you advocate a simple
15 solution of the rate design problem is for the Commission to
16 raise the Postal Service's proposed cost coverage for ECR.
17 Do you see that statement?
18 A I do.
19 Q And that is to raise the cost coverage in relation
20 to Standard A Regular cost coverage, is that correct?
21 A No -- raise it in relation to the Postal Service's
22 own proposals.
23 As I discussed in my testimony, they were lowering
24 the cost coverage of ECR causing this crossover problem,
25 which in turn created the anomalies in the rate design, so

1 that is what I am referring to there.

2 It is not a comparison with the cost coverage in

3 Standard A Regular. It is a comparison to -- my proposal

4 here with the Postal Service's proposal to reduce the cost

5 coverage for ECR.

6 This is a point that is discussed in the

7 Commission's decision in R97.

8 Q But aren't you talking about raising ECR rates in

9 relation to the regular rates? If you raise them both

10 together, would that address this issue you are talking

11 about?

12 A Not in and of itself. The point here --

13 Q Okay, so you are talking then about raising ECR

14 rates in relation to the Postal Service's proposed Regular

15 rates?

16 A What I am proposing is raising the cost coverage

17 for Standard A ECR so that there is more headroom for the

18 discounts which are not compacted in Witness Moeller's

19 proposal so that by the time you get through the

20 pass-throughs from the nonletter to the letter, then you

21 don't have this anomaly associated with the crossover.

22 Q Yes. I think my question is really simpler than

23 you are making it.

24 You would be proposing to raise the ECR cost

25 coverage in relation to the cost coverage for Standard A

1 Regular?

2 A Mathematically you are right, but that is not the

3 logic behind the recommendation. The assumption is --

4 Q But that is the effect?

5 A It is the effect because I am assuming in this

6 discussion that the five digit automation rate is not

7 changed and I am proposing to solve this other problem in

8 the ECR subclass.

9 Q And if that were done, that would result in a even

10 larger difference in the unit cost contribution between the

11 higher ECR contribution and the lower Standard A Regular

12 contribution compared to the Postal Service proposal?

13 A The math that you are citing is correct.

14 Since it would be raising the cost coverage of

15 Standard A ECR it would be raising the unit cost

16 contribution as well and resulting in that mathematical

17 result.

18 Q Well, let's go back to Interrogatory -- Postal

19 Service Interrogatory 29(c), and let me just flip it on you

20 a little bit.

21 What factors support having an even higher unit

22 contribution for ECR mail than for Standard A Regular mail?

23 A Your question is what factors support raising the

24 cost coverage and contribution of Standard A ECR?

25 Q The unit cost contribution of ECR to a level even

1 higher than it is already greater than Standard A Regular
2 contribution.
3 A Well, there are a number of rationales for
4 increasing it.
5 You are focusing at this point on one of them, the
6 crossover phenomenon that, as I mentioned before, was
7 discussed in the Commission's decisions in the Docket Number
8 R97 and MC95.
9 It is the issue of the crossover between the basic
10 letter rate and the five digit automation rate.
11 In the Postal Service's proposals in the last rate
12 case, they mentioned that this was one of the objectives in
13 setting the cost coverage for Standard A ECR and therefore
14 in my testimony I point out that the low cost coverage
15 assigned -- or lower, I should say -- for Standard A ECR
16 creates this anomaly that in turn creates discrepancies
17 between the pass-throughs at the various tiers, and that
18 problem of those anomalies could be readily solved, as I
19 pointed out in my testimony at that point, by raising the
20 cost coverage and unit contribution of Standard A ECR and
21 eliminating these anomalies.
22 Q Is that your sole reason for having a higher, an
23 even higher unit contribution from ECR than from Standard A
24 Regular?
25 A No.

1 Q What are your other reasons?

2 A Well, I believe I identified those in my

3 testimony, starting at page 23 through page 40 and discussed

4 the effect of that lowering of the cost coverage in

5 reduction of the pound rate, its impact on diversion.

6 It's everything I talked about between pages 23

7 and 50 of my testimony.

8 Q So in other words, for example, because ECR has

9 mail that competes with newspapers, there ought to be a

10 higher unit contribution for that mail than there is for

11 Standard A Regular mail that may not compete with

12 newspapers?

13 A Well, in making that indication that there was a

14 competitive rationale, I was not comparing ECR mail with the

15 Standard Regular Class. I was looking at the effects, as I

16 discuss there, about the reduced pound rate, the reduced

17 coverage, its effect of diverting volume out of the private

18 sector, the lack of any justification for a reduction in the

19 cost coverage -- all of the factors that are discussed

20 there.

21 I mean do you want me to go through them all?

22 Q Well, let's just turn to your response to Postal

23 Service Interrogatory 33, and this is in response to your

24 statement in your testimony that there is no evidence that

25 there are different levels of competition within different

1 rate cells for ECR.

2 Consider the case of, let's say, two saturation

3 mailers, one that typically mails out two ounce pieces and

4 one that typically mails out 8 to 10 ounce pieces.

5 Do you have any view as to which one might more

6 likely find private delivery to be an affordable, attractive

7 alternative?

8 In other words, does weight have any influence on

9 a mailer's decision about whether or not to use private

10 delivery -- or do you know?

11 A I don't believe that the Postal Service put in

12 evidence that would support for competitive reasons a

13 reduction of the pound rate for these heavier categories.

14 Q My question was perhaps different. It was does

15 the weight of a piece in ECR saturation mail have any effect

16 on the attractiveness of private delivery as an alternative

17 to the mail for those mailers.

18 A Well, I think there's competition certainly in the

19 ECR class. I think it is the case that the heavier weighted

20 pieces represent a Postal Service effort to target that

21 particular competitive segment. I believe that is true.

22 Q I don't believe you have answered my question yet.

23 Is weight a factor in a mailer's decision about

24 whether or not private delivery is an affordable, attractive

25 alternative? Is it more likely that a mailer of a

1 saturation one ounce piece is going to find private delivery
2 attractive or that the mailer of a 12-ounce piece?
3 If you don't have an opinion --
4 A I think it would depend on the circumstances of
5 the mailer.
6 Q So you just don't know then, do you? You don't
7 have an opinion?
8 A I did express an opinion. I thought I did. I
9 said I thought that the attempt to cut the pound rate was to
10 go after a competitive sector of the market to target that
11 particular mailings.
12 It is also true that there is competition for
13 other classes of -- or weights as well, and I also said that
14 I think it depends on the circumstances of the particular
15 mailer.
16 Q In other words there might be some mailer out
17 there that mails one ounce pieces that might find the
18 private delivery alternatives attractive and there might be
19 a mailer of a 15-ounce piece that wouldn't find it
20 attractive. Is that what you are saying?
21 A I think it would depend on the circumstance.
22 Q Okay, and you have no feel as to whether weight
23 would be an important factor in those determinations?
24 A What I said was we don't have any evidence based
25 on what the Postal Service has submitted that there is a

1 difference here that ought to be recognized by a cut in the
2 pound rate.
3 Q So you are referring just strictly to the Postal
4 Service's testimony, is that correct?
5 A Well, the record here as well.
6 Q I'd now like to refer you to your response to --
7 first, let me refer you to your response to Postal Service
8 Interrogatory 38(e) and (f).
9 [Pause.]
10 Those two interrogatories asked you -- actually,
11 it's subparts; those two subparts asked you whether the
12 prices offered by alternative delivery and newspapers for
13 products competing with ECR were higher or lower than those
14 proposed by the Postal Service.
15 And you response was you relied on elasticities
16 estimated by Witness Thress.
17 A I believe you've misquoted the answer.
18 [Pause.]
19 Q Are you at Postal Service Interrogatory 38, (e)
20 and (f)?
21 A Oh, I'm sorry; I was looking at the -- where you
22 referred to price indices. I thought you were referring to
23 D.
24 Q Okay. Do you know whether the prices offered by
25 newspapers or private delivery companies are higher or lower

1 than those proposed by the Postal Service?

2 A Well, as I explained in that answer, I looked at

3 the effects of price changes over time. That's

4 Interrogatories 32 and 52 explained --

5 Q That doesn't give you what the Postal Service

6 asked in Questions (e) and (f), though, does it?

7 A As I explain there, I looked at the data on price

8 trends for newspapers and for the pound rate for the ECR

9 rate. I looked at the fact that newspaper rates were going

10 up, while the pound rate and ECR rates were going down.

11 So I looked at the data provided by the Postal

12 Service when I prepared my testimony.

13 Q But you don't know whether the prices are higher

14 or lower than those through the mail?

15 A Well, as I explained what I looked at, I did not

16 compare the absolute levels of prices. I looked at the

17 effect of price changes on what was happening to the

18 volumes, and I was able to determine that a substantial

19 volume of mail had been diverted into the ECR subclass as a

20 result of the rate changes that had been in effect in the

21 past four or five years.

22 Q Do you have any evidence from newspaper sources of

23 diversion into the mail?

24 A Not from newspapers sources. I think I fully

25 explained the basis for my conclusions.

1 Q Okay.

2 I'd like to refer now to your response to Advo
3 Interrogatory 5. And this relates to your testimony at
4 pages 20 and 21, where you discuss the Postal Service's
5 proposed pound rates for ECR commercial mail and ECR
6 non-profit mail.

7 Do you have that response?

8 A Yes, I see that.

9 Q Now, what you are talking about here is that in
10 this case, the Postal Service is proposing to raise the
11 nonprofit ECR pound rate, but reduce the regular ECR pound
12 rate; is that the context of your discussion?

13 A I discuss that in my testimony, yes. This
14 interrogatory raises questions about what the rates were.

15 Q Yes. Now, the interrogatory pointed out that the
16 existing nonprofit rate is substantially lower than the rate
17 the Postal Service proposed in R97; is that correct?

18 [Pause.]

19 A Where does it say substantially here?

20 Q Well, let's not say substantial and we'll get to
21 that in a moment.

22 First of all, your conclusion from this aspect is
23 that this proposal to increase the nonprofit ECR pound rate,
24 which is less price elastic, while reducing the ECR regular
25 pound rate, in your terms, quote, "conforms to a pattern of

1 stealth competition reductions."

2 Do you see that quote in your testimony on page 20

3 and 21?

4 [Pause.]

5 A Yes, I do. I don't recall exactly your quotation,

6 but I assume you quoted it correctly.

7 Q Okay. I'd like at this point to hand you a

8 document that I handed to you and your counsel a few minutes

9 before the morning break, which is a comparison of the

10 Postal Service's proposed pound rates in the R97 case and in

11 this case.

12 It also shows what the PRC recommended in R97.

13 [Pause.]

14 MR. McLAUGHLIN: Mr. Chairman, I'd like to mark

15 this as Cross Examination Exhibit Advo-XE-NAA-T1-1. It's

16 kind of wordy, I know.

17 [Exhibit Number Advo-XE-NAA-T1-1

18 was marked for identification.]

19 MR. McLAUGHLIN: I'm handing two copies to the

20 Reporter, and I ask that it be transcribed into the record.

21 I will ask that this also be received into evidence,

22 although I would state that it is simply straight out of the

23 Postal Service's rate filings in the -- it's the recommended

24 rates that it requested, and it's straight out of the

25 Commission's decision, so it's essentially noticeable

1 material.

2 MR. BAKER: I have no objection, but I note that

3 there are some percentage calculations that I haven't

4 verified. They can be done with the numbers, so I don't

5 object.

6 CHAIRMAN GLEIMAN: The material will be

7 transcribed into the record and received into evidence.

8 [Exhibit Number Advo-XE-NAA-T1-1

9 was received into evidence and

10 transcribed into the record.]

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ADVO-XE-NAA-T1-1

Comparison of Proposed and Recommended Pound Rates
for ECR and Nonprofit ECR
in Dockets R97-1 and R2000-1

Docket R97-1	ECR	Nonprofit ECR
Current (pre-R97) Pound Rate	66.3¢	45.1¢
USPS Proposed Pound Rate	53.0¢	35.0¢
USPS % Change	-20.1%	-22.4%
PRC Recommended Pound Rate	66.3¢	29.0¢
PRC % Change	0.0%	-35.7%

Docket R2000-1	ECR	Nonprofit ECR
Current Pound Rate	66.3¢	29.0¢
USPS Proposed Pound Rate	58.4¢	37.0¢

USPS Proposed % Change Compared to:	ECR	Nonprofit ECR
Pre-R97 Rates	-11.9%	-18.0%
USPS R97 Proposed Rates	10.2%	5.7%

1 BY MR. McLAUGHLIN:

2 Q Now, did you have a chance to look at the rate
3 figures that are shown here and compare those with the
4 Postal Service's rate requests in Docket R97 and in this
5 docket?

6 A That appears to be what's in this exhibit, yes.

7 Q And, likewise, the PRC's recommended pound rates
8 that are shown there for ECR regular, nonprofit, are those,
9 as far as you know, correct?

10 A It appears to be correct.

11 Q So the only questions might be just the percentage
12 calculations that have been shown there, but those are
13 easily verifiable; is that correct?

14 A I would think so, yes.

15 Q Okay. In Docket R97-1, doesn't this cross
16 examination exhibit appear to show that the Postal Service
17 requested a larger percentage reduction in the pound rate
18 for ECR nonprofit than it did for ECR regular?

19 [Pause.]

20 A In percentage terms there, it is somewhat larger;
21 that's correct.

22 I might add that that docket, as I understand it,
23 was controlled by the relationship of the coverage factors
24 between ECR and nonprofit.

25 Q Give me that again?

1 A As I understand it, in that docket, the
2 relationships between the coverages, the cost coverages of
3 the two classes were linked.
4 Q Now, then, if we were to compare -- isn't, in
5 fact, the Postal Service's requested ECR pound rate --
6 excuse me.
7 Isn't the Postal Service's requested nonprofit ECR
8 pound rate a bigger reduction off of the pre-R97 rates than
9 is the Postal Service's ECR regular rate?
10 A I think you have a completely apples and oranges
11 comparison here. I'd be happy to explain the answer if you
12 want.
13 Q Please do.
14 A Well, I think this set of figures explains the
15 point in my testimony fairly well.
16 What's consistent about what's going on here is
17 that in every one of the proceedings, the Postal Service has
18 come in and proposed cuts in the ECR pound rate.
19 So there is a consistent set of proposals,
20 starting with the proposals in the classification case, in
21 R97 and 2000, with ECR commercial rates. It's the pound
22 rate that is always going down, which I think is illustrated
23 here.
24 Your comparison of the 10.2 percent at the very
25 bottom, I think is highly misleading, because I was just

1 thinking it's sort of like coming home from a day at the
2 track and saying, honey, I made $500.
3 And you say, well, how do you figure that? And
4 you said, well, I usually lose a thousand, but this time, I
5 only lost $500.
6 Q Well, let me -- let me just step in here for a
7 minute. Let's take a look at what happened in R97 in terms
8 of the Commission's recommended decision, which put us into
9 this situation where the Postal Service is requesting an
10 increase in the nonprofit pound rate.
11 In R97, the Commission ended up recommending no
12 change in the ECR regular pound rate; is that correct?
13 A That's correct, and that's what your figures show.
14 Q The did not adopt the Postal Service's proposed
15 reduction?
16 A That's correct.
17 Q And yet the Commission recommended a 35 percent
18 reduction in the nonprofit pound rate?
19 A That's what your figures show.
20 Q Do you know the rationale for that 35-percent
21 reduction in the nonprofit pound rate when the Commission
22 was recommending no reduction in the regular rate?
23 [Pause.]
24 A I don't recall, sitting here; I'd have to see the
25 decision.

1 Q In terms of what the Postal Service has requested
2 over these years -- I'm not talking about what the Rate
3 Commission put into place in R97 -- in terms of what the
4 Postal Service has proposed in R97 and here, isn't it true
5 that in both cases, compared to the rates that are in
6 existence before 97, the ECR pound rate goes down by less
7 than what they propose for the ECR nonprofit pound rate?
8 A Well, I think that's another apples and oranges
9 comparison here. I was noticing the children here with
10 YoYos. I think we have a YoYo here with regard to what's
11 happened with the ECR pound rate.
12 The Commission proposed that it go down. And if
13 -- or recommended that it go down in the R97-1 proceeding.
14 What's happening, I think, if you look at the
15 middle figures here, it illustrates my point, which is that
16 the ECR pound rate is being proposed to decrease by almost
17 12 percent, 11.9 percent, whereas the nonprofit ECR pound
18 rate is proposed to go up by 27 percent.
19 So, in part, that's against a measure of the
20 Commission's reduction of 35.7 percent.
21 Q Okay, so in other words --
22 A What's happening is that there is a YoYo going on
23 with regard to the ECR rate.
24 Q And in terms of that YoYo, the big YoYo is on the
25 nonprofit ECR rate; is that correct?

1 A Well, that makes my point, that it's consistently
2 down for ECR, the commercial rate.
3 Q And you don't know the rationale the Commission
4 used for reducing the nonprofit ECR rate by 35 percent?
5 A Sitting here, I don't have the opinion in front of
6 me.
7 MR. McLAUGHLIN: I have no further questions.
8 CHAIRMAN GLEIMAN: Next is the Mail Order
9 Association of America. I'd just like to note for the
10 record that the Commission does not put rates into place.
11 The Commission recommends rates, and the Governors put rates
12 into effect, if they choose to do so.
13 MR. McLAUGHLIN: I do apologize if I said it that
14 way.
15 CHAIRMAN GLEIMAN: Well, you know, we get accused
16 a lot of things, some of which we stand guilty of, but we
17 did not put the rates into effect.
18 Sometimes the Governors don't listen to us, as
19 people in the community learned recently with respect to a
20 complaint case that we disposed of.
21 Mr. Todd?
22 CROSS-EXAMINATION
23 BY MR. TODD:
24 Q I'm David Todd on behalf of the Mail Order Ass of
25 America. Mr. Tye, you have, -- perhaps out of modesty you

1 wouldn't agree, but I am sure everyone else would agree, --
2 a really stunning curriculum vitae here in terms of studies,
3 having to do in large part with pricing products. Is that a
4 fair summation of your curriculum vitae?
5 A There are certainly papers and research in that
6 area, but there is other matter~~s~~ as well.
7 Q If you were to prepare a paper attempting to
8 analyze the competitive relationship between, let's say, a
9 group of private competitors and an organization that was
10 subject to regulation, unlike the private competitors, would
11 you expect -- would you find it useful to know the prices
12 charged by both the group of private competitors, as well as
13 the regulated industry?
14 A Well, it would certainly be an additional piece of
15 data that, if I had it available, I would certainly look at
16 it, but I would also look at the kind of data which I looked
17 at it in preparing my testimony, which was looking at the
18 effects of price changes over time. So these are two
19 different ways of looking at the matter.
20 I think that the data I did look at was enough to
21 draw the conclusions I did.
22 Q But, again, we are going back to a study that is
23 being done just -- nobody is paying for it, you are just
24 doing it because you are an eminent scholar and you have
25 decided this is an area that needs investigation. Would you

1 want to know the prices charges by both the private
2 competitors and the regulated industry before doing your
3 study and making conclusions?
4 A If the data were available, I would certainly look
5 at it, yes.
6 Q And yet, in response to MOAA-T-1, you neither
7 requested nor received that data from the Newspaper
8 Association, it that correct?
9 A Well, as I explained, I thought I had the data I
10 needed to draw the conclusions that I did, and so I thought
11 my conclusions were reasonable based on the data I had.
12 Q But you didn't request, nor did you receive, any
13 data about the prices charged by newspapers for competitive
14 products?
15 A I believe that is the answer I gave, yes.
16 MR. TODD: Thank you. No further questions.
17 CHAIRMAN GLEIMAN: Next is the Postal Service.
18 Mr. Alverno, can you give me a sense of how long your
19 cross-examination might go?
20 MR. ALVERNO: I would say approximately one hour.
21 CHAIRMAN GLEIMAN: That being the case, I think we
22 are going to break at this point for lunch, and we will pick
23 up with Postal Service cross-examination of the witness when
24 we come back.
25 Let's take a short lunch today, come back at 1:00.

1 [Whereupon, at 12:17 p.m., the hearing was
2 recessed, to reconvene at 1:00 p.m., this same day.]
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1 A F T E R N O O N S E S S I O N

2 [1:04 p.m.]

3 Whereupon,

4 WILLIAM B. TYE,

5 the witness on the stand at the time of the recess, having

6 been previously duly sworn, was further examined and

7 testified as follows:

8 CHAIRMAN GLEIMAN: Mr. Alverno.

9 MR. ALVERNO: Thank you, Mr. Chairman.

10 CROSS-EXAMINATION

11 BY MR. ALVERNO:

12 Q Good afternoon, Dr. Tye. My name is Tony Alverno,

13 and I will be conducting the cross-examination for the

14 Postal Service today. Could I ask you, please, to turn to

15 your response to Interrogatory Number 6 of the Postal

16 Service?

17 A I have that.

18 Q In particular, subpart (c). Now, in that subpart,

19 you were asked about the statistical tools of which you are

20 aware that serve to evaluate thinness of data, isn't that

21 correct?

22 A That's correct.

23 Q And in the first part of your response to subpart

24 (c), you cite to Witness Clifton's testimony at pages 46 to

25 47, isn't that right?

1 A That's correct.

2 Q Okay. Did you also consider Clifton's Workpaper

3 Number 3 in considering your response here?

4 A Sitting here, I can't recall whether I did or not.

5 MR. ALVERNO: Well, I have a copy here. If I can

6 approach the witness, Mr. Chairman, I will see if I can

7 refresh his recollection.

8 CHAIRMAN GLEIMAN: Certainly. While Mr. Alverno

9 is doing that, let me mention again, and someone reminded me

10 during the break, that when you are not participating in the

11 exchange, either as a witness or presenting some

12 cross-examination or comments, it is a good idea to turn

13 your mike off because if you think you are having a

14 conversation with someone sitting next to you and you are

15 sitting next to an open mike, it is going to be transmitted

16 over the Internet.

17 Also, when you finish your participation or when

18 we take a break, if you are still involved in the

19 proceedings, it is a good idea to turn your mike off at that

20 point, too, otherwise, conversations in the room will be

21 picked up and transmitted. We wouldn't want to give away

22 litigation strategies and the like now, would we, fellows?

23 Mr. Alverno, I am sorry for the interruption.

24 MR. ALVERNO: Thank you.

25 BY MR. ALVERNO:

1 Q Did you have a chance to review that document, Dr.
2 Tye?
3 A Briefly, yes.
4 Q Okay. You reviewed, in other words, in advance of
5 preparing your response, or in advance -- or are you just
6 reviewing it now?
7 A I recall the specific formula on the first page --
8 it is, rather, page 2, in which he calculated sample size.
9 Q Okay. So then you did examine the methodology
10 that Witness Clifton used in Workpaper 3 to evaluate
11 thinness of data, isn't that correct?
12 A Not in detail, no.
13 Q Not in detail, but in some form?
14 A The question asked what tools was I aware of, and
15 I was aware of this tool, that was my response to the
16 interrogatory.
17 Q Okay. And I am asking you about Workpaper 3 now.
18 You were aware of this tool as well, correct?
19 A As I said, I was aware of the formula that he was
20 using, yes.
21 Q Okay. Now, do you know whether or not Witness
22 Clifton's methodology depends on the sample size at each
23 weight step?
24 A As I recall, he was focusing on sample sizes at
25 weight steps, yes.

1 Q And are you aware that Witness Clifton's
2 methodology depends on the variability of unit costs between
3 weight steps?
4 A I didn't specifically focus on that, no.
5 Q Well, may I direct your attention then to page 4
6 of Workpaper 3. The sentence is marked I think on the
7 righthand column, it begins with "Since."
8 A I see that.
9 Q Does that refresh your recollection at all?
10 A It refreshes my recollection with regard to the
11 first part. I now see the second part.
12 Q Okay. In other words, you do see that Witness
13 Clifton's methodology depends on the variability of unit
14 cost between weight steps?
15 A I don't see that it says that. The second part
16 says, "The simple standard deviation of the unit cost
17 figures across the weight increments is used."
18 Q Well, then how do you interpret that sentence?
19 A It says he uses the simple standard deviation of
20 the unit cost figures.
21 Q Okay. Did you also have a chance to review the
22 transcript of Witness Clifton's appearance here last week?
23 A I think I may have briefly, yes.
24 MR. ALVERNO: Okay. I have a portion of that
25 transcript, Dr. Tye, that I would like to show you.

1 May I approach the witness, Mr. Chairman?

2 CHAIRMAN GLEIMAN: Certainly.

3 BY MR. ALVERNO:

4 Q In particular I'd like to address your attention,

5 please, to lines 1 through 9 and also to lines 15 to 19.

6 A Is that on page 12,677?

7 Q Yes, I'm sorry. The reason why I gave you the

8 previous page was just to show you that this was cross

9 examination by Postal Service counsel.

10 [Pause.]

11 THE WITNESS: I've read that, yes.

12 BY MR. ALVERNO:

13 Q And do you understand what he is saying at lines 1

14 to 9 and lines 15 to 19?

15 A Not really. I haven't followed this example you

16 dealt with in the cross examination.

17 Q Let me turn your attention back to Question Number

18 6(c). You were asked of the statistical tools of which you

19 are aware that served to evaluate thinness of data.

20 I would like to ask you also if you endorse

21 Witness Clifton's approach, that is, his methodology in Work

22 Paper 3.

23 A I haven't studied that methodology in enough

24 detail to endorse the details of his approach.

25 Q Do you know of anything that is wrong with Dr.

1 Clifton's methodology?

2 MR. BAKER: Mr. Chairman, is the -- the question

3 is asking the witness if he knows anything wrong, as I

4 understand it, with the entire methodology that is in Work

5 Paper 3 and I don't think it's even been established that

6 the witness has reviewed Work Paper 3.

7 What was established was that he was familiar with

8 the formula that is on page 2, which did not necessarily

9 mean it came from -- he was familiar with it from the Work

10 Papers, so I think we need, if we want to ask the witness if

11 he agrees with the methodology here, the witness needs to

12 have a chance to be familiar with the entire thing and have

13 that foundation laid.

14 CHAIRMAN GLEIMAN: Mr. Baker, I don't disagree

15 with you. On the other hand, I think if the witness is

16 unable to answer the question because he hasn't studied the

17 material then the witness can attest to that.

18 The question stands.

19 BY MR. ALVERNO:

20 Q Are you aware of any errors in Witness Clifton's

21 methodology?

22 A No, I am not aware of any errors.

23 Q Let's turn now to your response to Interrogatory 9

24 of the Postal Service, in particular subpart (g).

25 [Pause.]

1 BY MR. ALVERNO:

2 Q In subpart (g) you were asked whether you would
3 expect that heavily workshared subclasses would have fewer
4 tallies, that is, IOCS tallies, than workshared subclasses
5 if all other things were the same.

6 In your answer you stated, "Yes, assuming that the
7 number of tallies was directly proportional to the amount of
8 processing." Isn't that correct?

9 A That is correct.

10 Q And are you aware of any studies or analyses in
11 this rate case proceeding that would demonstrate the
12 converse, that is, would demonstrate that the number of IOCS
13 tallies, that is the In Office Cost System tallies, is not
14 directly proportional to the amount of processing?

15 A Well, I am aware of evidence that there's a lot of
16 variability and sampling problems associated with the
17 tallies. These kinds of sampling errors would create a
18 situation in which the number would not be directly
19 proportional.

20 Q I'm sorry. You said that you are aware of
21 evidence? What evidence is that, Dr. Tye?

22 A Sampling error would create this.

23 Q And is the sampling error reported in a particular
24 witness's testimony or a particular Library Reference
25 or exhibit in this proceeding?

1 A I believe Witness Ramage attempted to estimate
2 some of the errors in sampling or he has data on this
3 subject.
4 CHAIRMAN GLEIMAN: Dr. Tye, can you please speak
5 up or pull the mike a little bit closer.
6 THE WITNESS: Sure.
7 BY MR. ALVERNO:
8 Q Okay, so is that the only example that you can
9 think of in terms of evidence in this case that's been
10 presented that would demonstrate the converse of the
11 condition in your response to subpart (g), or is there
12 anything else?
13 A There might be other sources of bias in the
14 sampling that would produce anomalies in the data.
15 Q But you don't know what they are?
16 A I think I demonstrated there was evidence of them
17 in the comparisons I made between the various ECR
18 subclasses.
19 Q And where was that?
20 A It was in my testimony. It's the page that has
21 the comparisons of unit costs.
22 [Pause.]
23 THE WITNESS: There is a discussion at page 13.
24 BY MR. ALVERNO:
25 Q Is there a particular portion of page 13 to which

1 you are referring?

2 A Well, the entire page.

3 Q In other words, these datapoints in the four

4 charts at the top of the page, is that what you are

5 referring to?

6 A Plus the text below it and the footnotes.

7 Q Okay. Is there any other evidence or analyses in

8 this rate case proceeding of which you are aware that show

9 the converse to your response to subpart (g)?

10 A Well, I have an entire discussion about the

11 reliability of Witness Daniel's study. It starts at page 8.

12 Q And what page is that on?

13 A The discussion of the reliability of the data

14 starts on page 8 of my testimony.

15 Q Okay. And how does this discussion of the

16 reliability of Witness Daniel's data support the converse;

17 that is, the number of IOCS tallies is not directly

18 proportional to the amount of processing?

19 A It shows that there's unexplained anomalies in the

20 data which would help explain why I gave the answer to the

21 question that I did in response to your question.

22 I discussed here, starting at page 8, the problems

23 with Ms. Daniel's study.

24 Q So that you see a direct relationship between the

25 problems in Witness Daniel's study and between IOCS tallies

1 that are not directly proportional to the amount of
2 processing?
3 [Pause.]
4 A Well, more generally I see the errors coming into
5 the analysis, and those errors could possibly explain the
6 situation in which there would be a lack of proportionality.
7 Q Let's turn now to your response to USPS-16.
8 [Pause.]
9 In particular, Subpart B where you were asked to
10 explain how markups for the nonprofit subclasses are
11 selected.
12 [Pause.]
13 Okay, and in your response, you cite to Witness
14 Mayes's testimony at pages 37 to 40, on nonprofit and
15 nonprofit ECR; isn't that correct?
16 A That's correct.
17 Q Now, Witness Mayes, on page 39 of her testimony,
18 states that under the revenue foregone reformat, the
19 nonprofit enhanced carrier route subclass is required to
20 have a markup equal to one-half of the commercial ECR.
21 Do you agree or disagree with that proposition?
22 MR. BAKER: I object insofar as it calls for a
23 legal conclusion. The witness can state his understanding.
24 CHAIRMAN GLEIMAN: Mr. Alverno?
25 MR. ALVERNO: He offered to allow the witness to

1 say his understanding, so --

2 THE WITNESS: I'm not a lawyer, so I can't give a

3 legal answer, but my understanding from reading her

4 testimony at that point is that that's the case.

5 BY MR. ALVERNO:

6 Q So under the current version of the Revenue

7 Foregone Reform Act, the nonprofit enhanced carrier route

8 subclass markup is completely dependent on the markup for

9 commercial ECR; isn't that correct?

10 A Are you saying in the Postal Service's proposals

11 in this case, or under --

12 Q I'm asking you, under the RFRA, the Revenue

13 Foregone Reform Act.

14 A The nonprofit ECR markup is dependent upon the

15 commercial ECR markup, yes.

16 Q Okay.

17 And would you agree that it's completely dependent

18 on the commercial ECR markup?

19 [Pause.]

20 A I'd have to say that it appears to be a legal

21 conclusion, which I'm not sure what you mean by the term,

22 completely.

23 Q Okay. Do you agree that under the Revenue

24 Foregone Reform Act, once the enhanced carrier route markup

25 is selected, that USPS pricing witnesses have no discretion

1 to select the nonprofit enhanced carrier route markup?
2 [Pause.]
3 A Well, I'm not sure that that's true in this case,
4 because my understanding was that --
5 Q I asked you about the RFRA, not about this case.
6 [Pause.]
7 A Again, I'm not sure, under the law, what
8 discretion they have.
9 Q Okay.
10 A My understanding is that there is this
11 relationship, but what additional discretion they might
12 have, appears to be asking me about a conclusion about the
13 law that I'm not an expert on.
14 Q Now, let's look at Subpart F of Interrogatory 16.
15 There you were asked about your belief concerning
16 Witness Moeller's proposed pound rate for nonprofit ECR.
17 And you were asked if it would have been lower if
18 demand for nonprofit ECR had been less inelastic.
19 [Pause.]
20 A I see that.
21 Q Okay, now, in your response in the second sentence
22 you state that Mr. Moeller is proposing a cut in the pound
23 rate for a subclass where he previously expressed concerns
24 over competition, and he is proposing an increase in the
25 pound rate for a subclass where the Postal Service estimates

1 a relatively inelastic demand; isn't that correct?

2 A That's correct.

3 Q Okay. Now, when you say that Witness Moeller

4 previously expressed concerns over competition, are you

5 referring to Witness Moeller's testimony in Docket Number

6 R97-1, or is there other information to which you are

7 referring?

8 [Pause.]

9 A That's the primary reference I had in mind.

10 Q You state primary reference. Is there any other

11 reference to which you were referring that's secondary?

12 A I can't recall, sitting here, exactly what he said

13 in the classification case.

14 Q That is MC95-1?

15 A Yes.

16 Q Okay. But there --

17 A I know he proposed a cut in that proceeding as

18 well.

19 Q Okay. Now, reading the sentence here, are we to

20 interpret this, Dr. Tye, as an allegation that the USPS is

21 proposing an increase in the nonprofit enhanced carrier

22 route pound rate element in this case, because the demand

23 for nonprofit enhanced carrier route mail is relatively

24 inelastic?

25 [Pause.]

1 A I think my testimony -- it's clearly stated in the
2 quote that you have up at the top of that interrogatory. It
3 says it would appear that the Postal Service is proposing
4 pound rate decreases in a more competitive Standard A
5 subclass and pound rate increases in what are perceived to
6 be less competitive Standard A subclasses.
7 Q Well, is appearance the same thing as a statement
8 of fact?
9 A I've tried to be careful not to impute my beliefs
10 about what is going on in the minds of Postal Service
11 witnesses or the Postal Service. I've tried to talk about
12 the basic underlying economics.
13 And as I stated at the beginning of my answer to
14 this, I'm not in a position to speak for Mr. Moeller, so I'm
15 looking at the basic underlying economics. I'm not
16 attempting to speak for him.
17 Q Let's just assume that is true for a moment, that
18 the Postal Service is, in fact, proposing to reduce the
19 nonprofit -- excuse me, to increase the nonprofit ECR pound
20 rate element, because the demand for nonprofit is relatively
21 inelastic. Assuming that that is true, what impact would
22 that have on piece rates for nonprofit ECR?
23 A As compared to what?
24 Q What -- as compared to, I'm sorry, what?
25 A As compared to what?

1 Q What impact would they be. In other words, would
2 piece rates be higher or lower if the Postal Service is
3 proposing an increase in nonprofit ECR pound rate element?
4 A That would depend on a lot of factors, including
5 things such as the cost coverage
6 Q Well, is the cost coverage constrained by law?
7 A Well, I think we went through that, part of is the
8 distinction between what would happen in Mr. Moeller's
9 proposal, as opposed to what the provision in the law is.
10 Q Okay. Let's consider that for a second then.
11 Isn't it true, Dr. Tye, that the Postal Service's proposal
12 for nonprofit ECR is, in fact, lower than what would be the
13 case were the Postal Service proposing rates that were
14 consistent with the current version of RFRA?
15 A I believe that is true, yes.
16 Q Let's go on now to your response to Interrogatory
17 29. In subpart (e), you were asked if you believe that unit
18 contribution should be a standard used in determining
19 optimal prices for an array of products for a typical
20 multiproduct enterprise. And in your response, you said
21 that it, referring to unit contribution, should be one
22 factor, but not the only one, isn't that correct?
23 A That's correct.
24 Q Can you please identify for us other factors that
25 rational multiproduct enterprises take into account in

1 determining optimal prices for an array of products?
2 A Is this a regulated multiproduct enterprise or a
3 private sector multiproduct enterprise?
4 Q If you want -- if you think that there is a
5 distinction there, then state how that distinction would
6 affect your response?
7 A Well, if it were regulated, it would have to
8 account for regulations in setting its prices.
9 Q Okay. And if it were not regulated?
10 A It would not account for regulation.
11 Q And are there any other factors that would be
12 considered in addition to unit contribution, for either the
13 regulated or the non-regulated enterprise?
14 A Well, there are many factors that would be
15 considered.
16 Q Okay. And I am asking you what those factors
17 might be.
18 A There might be strategic elements of the firm's
19 development of products or introductions. There would be
20 the demand. There would be costs. Those are a few that
21 come to mind just sitting here.
22 Q And would those factors be different for a
23 regulated form, as opposed to a non-regulated firm?
24 A Yes.
25 Q Which ones would not apply to the regulated firm?

1 A Well, there would be a number of factors such as
2 regulations. Examples of what I am referring to would be
3 the statutory criteria for the Postal Service would be an
4 example.
5 Q You mean the ratemaking criteria used by the
6 Commission to recommend rates, correct?
7 A That would be a factor that would have to be taken
8 in account, yes.
9 Q Let's turn now to your response to subpart (d) of
10 that same question. Now, there you were asked whether the
11 unit contribution for Priority Mail should be higher or
12 lower than First Class single piece. And in your response,
13 you stated, "I have not determined optimal rates for Priority
14 Mail." Do you know, Dr. Tye, whether the unit contribution
15 to Priority Mail in relation to First Class mail, whether
16 that relationship is -- what that relationship is, or
17 whether or not the Priority Mail unit contribution is higher
18 or lower than First Class?
19 A Not sitting here right now.
20 Q Do you believe that there is a difference in the
21 content of Priority Mail as opposed to First Class mail?
22 A Sitting right here, I don't have the data on the
23 difference in the content.
24 Q What data would you need in order to evaluate
25 this, or to make an informed opinion, or give us an informed

1 opinion on this?

2 MR. BAKER: Is his question still on the content

3 of Priority Mail?

4 MR. ALVERNO: Yes.

5 THE WITNESS: Well, I would want to look at the

6 mailing regulations, for example.

7 BY MR. ALVERNO:

8 Q That is, the domestic mail manual regulations

9 concerning what can be mailed in the various subclasses?

10 A That sort of thing and the other publications that

11 the Postal Service publishes as a guide to mailers.

12 Q Let's turn now to your response to Interrogatory

13 38. Now, in the introductory subpart, you were asked about

14 your statement that dropping the pound rate and lowering the

15 ECR cost coverage would have the effect of diverting volume

16 from private enterprise competitors of ECR mail. Now, let's

17 consider the USPS proposal for ECR for one moment. The USPS

18 is currently proposing to reduce the pound rate, correct?

19 A Correct.

20 Q And the USPS is also proposing to decrease the

21 cost coverage for ECR, isn't that correct?

22 A I cover that in my testimony. I think ~~Mrs~~ Ms. Mayes

23 says that it goes up, but I believe you are correct, it is

24 going down.

25 Q Well, according to your testimony then, the USPS

1 is proposing to decrease the cost coverage for ECR, correct?
2 A That's true.
3 Q Okay. And nevertheless, despite these two
4 conditions, the USPS is still proposing to increase Enhanced
5 Carrier Route subclass rates in total in this docket, isn't
6 that correct?
7 A Well, let me say that Mr. Moeller's calculations
8 show an increase in rates. I have testimony explaining why
9 I believe that that calculation has a bias in it. But I
10 will confirm that Mr. Moeller does calculate an increase.
11 The problem is some rates are going up and others are going
12 down, and the problem has to do with the weighting between
13 the price increases and the price decreases.
14 Q Okay. And Mr. Moeller shows an increase of about
15 4.9 percent, isn't that correct?
16 A Let me check. Yes, 4.9 is the number he
17 calculates.
18 Q Okay. And notwithstanding your criticisms or your
19 allegations of bias, you would also agree that there is an
20 increase proposed for ECR subclass, isn't that correct?
21 A That would depend on the mailer reaction to the
22 increases and decreases, because some classes, particularly,
23 the pound rated, the rates are going down, so that there
24 would be a tendency for mail to shift into the categories
25 where the rates are going down and away from the rate

1 categories where rates are going up.

2 Q And on what information are you relying in order

3 to draw that conclusion about this alleged migration?

4 A The evidence looking at the demand elasticity for

5 ECR and the schedule of rate cuts that I show in my

6 testimony.

7 Q And which elasticities are you referring to in

8 particular?

9 A The elasticity of demand for ECR mail.

10 Q The own price elasticity for ECR mail or some

11 other elasticity?

12 A I believe I used the new elasticity in my

13 testimony.

14 MR. BAKER: Was the question the old or the own?

15 MR. ALVERNO: Own price.

16 THE WITNESS: Oh, I'm sorry. I'm sorry. I

17 thought you said old.

18 The problem is there are two -- there's a new

19 elasticity and an old elasticity.

20 MR. ALVERNO: I apologize.

21 BY MR. ALVERNO:

22 Q The own price elasticity.

23 A Yes, yes.

24 Q That is what you are referring to when you say

25 elasticities in your prior response.

1 A Right.

2 Q So it is your testimony that the own price

3 elasticity of Enhanced Carrier Route mail would show or

4 would allow us to make conclusions about intra-subclass

5 shifts of volume in ECR, isn't that correct?

6 A You put your finger on a difficulty that is

7 addressed by the Commission in Appendix -- I believe in the

8 R97 decision because the problem is that the disaggregated

9 elasticities are not necessarily the same as the aggregate

10 elasticity.

11 This, by the way, is one of the problems

12 associated with proposing a radical change in the rate

13 design, which is it makes it difficult to use the aggregate

14 elasticities you have and gives you less confidence in your

15 volume projections.

16 Q I guess I am not quite certain. Your response is

17 suggesting that in fact there is a problem with using the

18 own price elasticity of the ECR subclass in order to make or

19 draw conclusions about intra subclass migration within ECR,

20 so are you suggesting that the own price elasticity should

21 not be used for that purpose or that it should be used for

22 that purpose?

23 A Well, we know that demand curves are downward

24 sloping and therefore price increases will generally cause

25 decreases in a quantity demanded and conversely price --

1 whatever the converse is -- however, it is true that as the
2 Commission discussed that the disaggregate elasticities are
3 not necessarily the same as the aggregate elasticities, and
4 this is one of the difficulties that the Commission
5 addressed in the Appendix on this matter.
6 Q Are you alleging that there are in fact
7 disaggregated elasticities on the record in this case for
8 purposes of being able to evaluate these intra subclass
9 migration or shifts that you described?
10 A In the volume projections Professor Tolley applies
11 the aggregate elasticity for ECR to the seven rate
12 subcategories and applies the same elasticity at the
13 disaggregate level as was computed as the aggregate level,
14 so the same elasticities are being used in the Postal
15 Service's case.
16 Q Now earlier you described a demand curve
17 relationship that is between quantity and price. Isn't it
18 true that in this case, Dr. Tye, that the Postal Service is
19 proposing rates that will result in a ~~rejection~~ reduction in the
20 forecasted volume of Enhanced Carrier Route pieces in the
21 test year?
22 A The aggregate volume is down as a result to the
23 rate increases in the forecast, yes.
24 The difference between before rates and after
25 rates volumes shows a decrease in the aggregate.

1 Q And in fact Dr. Tolley, isn't it true that there
2 is nothing in the USPS volume forecast that shows that
3 volumes for ECR pieces will increase?
4 A I believe you misspoke.
5 Q Oh -- Dr. Tye, I'm sorry.
6 [Laughter.]
7 BY MR. ALVERNO:
8 Q There is nothing in the USPS volume forecast that
9 shows that volumes for ECR pieces will increase?
10 A Well, actually, as a matter of fact you do have
11 some increasing --
12 Q I am asking you about the aggregate level.
13 A For all classes and subclasses?
14 Q No, I am asking you about ECR.
15 A I'm sorry, I don't understand. This sounds like
16 the same question you just asked me a moment ago, and I said
17 in the aggregate demand is projected to go down for the ECR
18 subclass.
19 Q Okay. There is nothing in the USPS volume
20 forecast that showed that volumes for ECR pieces will in
21 fact -- will increase?
22 Do you agree or disagree with that proposition?
23 A Well, if they are going down, they are not
24 increasing in the aggregate.
25 Q Okay.

1 A I would agree with the mathematics of that, but
2 there are other categories --
3 Q Thank you --
4 A -- subcategories.
5 Q Okay --
6 MR. BAKER: Has the witness completed his answer?
7 MR. ALVERNO: I heard my answer.
8 MR. BAKER: He was still talking.
9 CHAIRMAN GLEIMAN: Well, he is not talking now so
10 we'll go on with the next question.
11 [Laughter.]
12 BY MR. ALVERNO:
13 Q Now let's look at your response to Interrogatory
14 38(a).
15 There you were asked to provide a quantitative
16 analysis that you have performed to support your contention,
17 that is, in the interrogatory subpart, that dropping the
18 pound rate and lowering the ECR cost coverage would have the
19 effect of diverting volume from private enterprise
20 competitors of ECR mail.
21 In your response you cross referenced your
22 response to Interrogatory 32(c), correct?
23 A Correct.
24 Q Let's turn now to Interrogatory 32(c).
25 A Okay.

1 Q In your response to 32(c), you were asked to
2 confirm that Dr. Tolley's estimate of a 16.43 percent
3 increase in ECR volume on account of increases in the price
4 of newspaper advertising is independent of any changes in
5 any aspect of the ECR rates, including the ECR pound rate.
6 And in you response you state the 16.43 percent
7 increase in ECR volume is independent of the change in ECR
8 rates, correct?
9 A That's correct.
10 Q Then you go on to discuss Dr. Tolley's Table 12 on
11 page 132 of his testimony, correct?
12 A Correct.
13 Q Do you have a copy of that with you?
14 A I do.
15 MR. ALVERNO: I do have a copy here for others who
16 would like one.
17 [Pause.]
18 BY MR. ALVERNO:
19 Q Now, Dr. Tye, Table 12 addresses the changes in
20 ECR volume over the last five years for a number of
21 variables; isn't that correct?
22 A That's correct.
23 Q Okay. Let me ask you a hypothetical:
24 Let's suppose for a moment that the USPS were
25 proposing an increase in the ECR cost coverage, and an

1 increase in the ECR pound rate element.

2 Would you agree with me that if that were the USPS

3 proposal, the numbers in Table 12 would be unchanged?

4 A I believe that's true. That does not include the

5 current rate proposals.

6 Q And that's because Table 12 covers the 1994 to

7 1999 time period; isn't that correct?

8 A It doesn't say on the table, exactly what the time

9 period is.

10 Q Well, the last five years, whatever that may have

11 been at the time this was filed, correct?

12 A It says the last five years, yes.

13 Q Okay. So, it's true then, is it not, Dr. Tye,

14 that the figures in Table 12 -- that none of these figures

15 in Table 12 relate specifically to a test year forecast for

16 the ECR subclass volumes?

17 [Pause.]

18 A Well, that's not quite true because the price

19 elasticity in that table is the same used by Dr. Tolley for

20 making his projections into the test year.

21 And as I recall, he also makes other projections

22 as well.

23 Q Okay.

24 CHAIRMAN GLEIMAN: Excuse me, Mr. Alverno. I just

25 need a clarification. I know that it says last five years,

1 and I do recall that you said '94 through '99.

2 In some cases, in many, in perhaps most cases when

3 the case is originally filed by the Postal Service, we were

4 dealing with a base year of 1998 and data from 1998.

5 And I just want to make sure that when we're

6 talking about the last five years here, we're, indeed,

7 talking about '94 to '99, as opposed to the last year of

8 that five-year period being '98, which was the base year in

9 the case that you filed.

10 MR. ALVERNO: The information provided to me was

11 that it was '94 to '99.

12 CHAIRMAN GLEIMAN: Okay, thank you. I just wanted

13 to make sure I understood.

14 BY MR. ALVERNO:

15 Q Okay, so you mentioned that the own price

16 elasticity was used -- what is this note -- here in the

17 Table 12 on line 9, was used in Witness Tolley's forecast;

18 isn't that correct?

19 A That's my understanding, yes.

20 Q What about the other variables; did they inform

21 the test year forecast for ECR subclass volumes?

22 A I'm not sure what assumptions he made about the

23 difference between -- in his projections, but my

24 understanding is the before rates and after rates of volume

25 differences measure only the effect of the own price change.

1 Q So, based on that knowledge, then, the price of
2 newspaper advertising variable would not have informed the
3 test year forecast in this particular proceeding; isn't that
4 correct?
5 A I don't believe I said that. I believe what I
6 said was that I wasn't familiar with what assumption he was
7 making about the test year, but that we asked an
8 interrogatory to make sure that the difference in volumes
9 between the before rates and after rates was due only to the
10 Postal Service's proposed price changes, and the answer was
11 yes.
12 Q Okay, so doesn't that mean then that under that
13 response, that the price of newspaper advertising variable
14 would not have informed the test year forecast of volumes?
15 A It would not have informed the difference due to
16 the price change, because the price change only looks at the
17 price change.
18 Sitting here, I can't tell you that someplace in
19 his workpapers, there's not another projection for the test
20 year that made some assumptions about the other variables.
21 I can tell, because we asked the interrogatory, to
22 make sure that we were focusing on the price change only;
23 that the difference between before test year and after test
24 year -- I'm sorry, before rates and after rates was due to
25 rates only.

1 Q Okay. Nevertheless, you don't know whether or not
2 the price of newspaper advertising variable informed the
3 forecast then; isn't that right?
4 A I can only give you the answer I gave before. I
5 don't know what assumption, if any, he made about newspaper
6 advertising in the test year.
7 Q Let's turn now to the introductory subpart to
8 Question number 32. Now, there you were asked about the
9 quotation from page 45 of your testimony, and at the end of
10 that quoted passage, you state, "Rates of private enterprise
11 competitors have gone up," isn't that correct?
12 A That's correct.
13 Q And for this proposition, you cite Witness
14 Tolley's testimony at page 132, Table 12, isn't that
15 correct?
16 A Yes.
17 Q And turning back now to Witness Tolley's Table 12,
18 I take it what you are referring to in particular is the
19 20.7 percent figure reported for the price of newspaper
20 advertising, isn't that correct?
21 A At that point, I was, but I also have to point
22 out, in answer to Interrogatory 52, I did a different
23 computation of similar price changes over the period in
24 which ECR rates had gone down. So, when I referred back to
25 this interrogatory, I had not prepared my answer to Number

1 52. But, yes, you are correct at that point.
2 Q Let's focus for a second on the 20.7 percent
3 figure. Now, is it your understanding that this figure
4 would represent some type of average rate of advertising,
5 that it is a price for advertising over a range of newspaper
6 advertising products?
7 A Yes.
8 Q So, for example, different forms of newspaper
9 advertising such as run of press or inserts, whatever other
10 forms there are, could be included in this 20.7 percent
11 figure, isn't that right?
12 A Upon checking with the procedures of the Bureau of
13 Labor Statistics, which I believe collects these data, both
14 types of advertising are included, yes.
15 Q Are you aware of other forms of advertising that
16 are included in that particular figure, other than run of
17 press or inserts?
18 A Not sitting here, no.
19 Q Well, you said you had reviewed some information
20 from the Bureau of Labor Statistics.
21 A I did.
22 Q Okay. And you don't recall whether or not that
23 information yielded the response that I am looking for here?
24 A I think you are correct that those were the two
25 forms of advertising that went into construction of the

1 price index.

2 Q Now, would you agree with me, Dr. Tye, that there
3 are some forms of newspaper advertising, for example,
4 inserts, that are more likely to viewed as substitutes for
5 ECR pound rated mail than other types of newspaper
6 advertising?

7 A Well, I will agree with you that the stuff I find
8 in my mailbox looks almost exactly like the stuff I find in
9 my Sunday Washington Post.

10 Q Okay. By the stuff you are referring to in the
11 Washington Post, are you referring to the inserts or are you
12 referring to the ads that are actually placed in the
13 editorial text?

14 A The inserts, yes.

15 Q Okay. The inserts. So, would you agree then with
16 me that inserts are more likely to be viewed as substitutes
17 for ECR pound rated mail than other types of newspaper
18 advertising, for example, run of press?

19 A Certainly, the type of product, a loose insert
20 type advertising material is similar. I have not done a
21 study to determine the substitution of advertisers between
22 run of press and inserts to determine just how closely they
23 perceive these, the two alternatives.

24 Q So the price of newspaper advertising figure
25 reported in Table 12 of Dr. Tolley's testimony, would, in

1 fact, be an aggregate of those products that are, in fact,
2 viewed as being substitutable with ECR mail and those
3 products that may not be viewed as being substitutable with
4 ECR mail?
5 A I think you have just leapt to a conclusion there.
6 I said I hadn't done a study determining whether, in the
7 minds of advertisers, how closely substitutable they were.
8 What I am aware of is that this price series was the one
9 that Dr. Tolley found to be the most useful in measuring
10 price trends of competitive alternatives. He also had
11 another series previous to this on the prices of radio
12 advertising which he -- I'm sorry, which Mr. Thress used in
13 his regressions also to measure competition with ECR mail.
14 So, in his view, just because it wasn't exactly the same
15 format didn't mean that these were not competing
16 alternatives.
17 Q Let's turn now to your response to Interrogatory
18 14 of the Postal Service.
19 There you were asked about the table on page 19 of
20 your testimony which shows implicit cost coverages for piece
21 rated and pound rated Regular subclass mail, isn't that
22 right?
23 A That is correct.
24 Q Now the question in 14 asked you if you had
25 considered revenue from the residual shaped surcharge, isn't

1 that correct?

2 A That is correct.

3 Q In your response you stated, "No, I was following

4 the methodology used by Witness Moeller in which he does not

5 include residual shaped surcharge revenues in his

6 calculation of unit revenue figures for ECR piece rated and

7 pound rated pieces, isn't that right?

8 A That is correct.

9 Q Let's look at the table on page 19 for a second.

10 A I have it.

11 Q Okay. Now would you agree with me that the rows

12 entitled Difference represent what you claim to be the

13 growing differential between the implicit cost coverages of

14 Standard A Regular piece rated and pound rated pieces from

15 the before rates to after rates scenarios?

16 A That is correct.

17 Q So for example using the 3 ounce dividing line,

18 the difference in regular subclass implicit cost coverage

19 goes up from 5.6 percent to 9.1 percent, isn't that right?

20 A Correct.

21 Q I am going to ask you to assume for a moment, Dr.

22 Tye, that the average weight per piece for regular subclass

23 parcels is roughly 8 or 9 ounces. In this circumstance,

24 assuming that to be the case, would it be fair to say that

25 the residual shaped surcharge would have the effect of

1 increasing the net revenue for Regular pound rated pieces?
2 A I think that's likely but I certainly haven't done
3 the calculations to show that.
4 Q Assume that is in fact the case, that it is likely
5 that it would in fact increase the net revenue for regular
6 pound rated pieces, wouldn't it then also be fair to say
7 that the residual shaped surcharge would be more likely to
8 have a greater influence on the revenues for Regular
9 subclass pound rated nonletters than piece rated nonletters?
10 A As I said, I have not done the calculations but it
11 seems reasonable that if the parcels are greater than 3.3
12 ounce on average they would tend to have that effect.
13 Q Let me just ask you now about the Enhanced Carrier
14 Route subclass. I am going to ask you to assume that the
15 average weight per piece for Enhance Carrier Route parcels
16 is roughly 3 ounces.
17 Now would it be fair to say that in that scenario
18 it is more likely that the residual shaped surcharge would
19 be more likely to influence the revenue of piece-rated
20 pieces in Enhanced Carrier Route as opposed to pound rated
21 pieces in Enhanced Carrier Route?
22 A Again, I'd need to look at the data to determine
23 the answer. My understanding is that the weight
24 distribution for the Regular is different from that of the
25 ECR.

1 Q What weight distribution, the weight distribution
2 for residual shaped surcharge pieces?
3 A I believe so, yes.
4 Q Okay, and if I am asking you to assume that they
5 are, that they average out to about 3 ounces then wouldn't
6 that have the effect of influencing to a greater degree the
7 revenues of piece rated pieces in Enhanced Carrier Route as
8 opposed to pound rated pieces in Enhanced Carrier Route?
9 A Again, I haven't checked the data but that seems
10 reasonable, but I haven't done the calculations.
11 Q Now do you know what the revenue for the residual
12 shaped surcharge is for Regular as compared to ECR?
13 A No.
14 Q Would you be surprised if I told you that
15 according to our calculations the revenue from the residual
16 surcharge for Regular is 38 times greater than that for
17 Enhanced Carrier Route?
18 A I said I hadn't done the calculations so I can't
19 confirm that.
20 Q I am asking you -- okay. Assume that it is, in
21 fact, 38 times greater for Regular than for Enhanced Carrier
22 Route. Are you surprised?
23 A As I said, I haven't looked at the data. As I
24 explained here, I used Mr. Moeller's methodology. I
25 reproduced, I did exactly for the Standard A Regular what he

1 had done for the ECR using exactly that same methodology and
2 showed what the impact would be on the implicit coverages so
3 I tried to have an apples-to-apples comparison using the
4 same methodology.
5 Q Let's turn now to your response to Interrogatory 7
6 of the Postal Service.
7 [Pause.]
8 BY MR. ALVERNO:
9 Q Now let me direct your attention to subpart (a).
10 In subpart (a) you were asked whether Standard Mail A pieces
11 will get heavier if the pound rate is reduced as proposed by
12 the Postal Service, is that correct?
13 A Correct.
14 Q And you answer was yes, correct?
15 A Yes.
16 Q Now to help me illustrate the next line of
17 questions, I have prepared a cross examination exhibit which
18 I sent to your counsel yesterday.
19 Do you have a copy of that with you?
20 A I do.
21 MR. ALVERNO: Mr. Chairman, I would like to mark
22 this as USPS Cross Examination Exhibit Number 1 and I can
23 make a distribution, if you would like.
24 CHAIRMAN GLEIMAN: If it is going to be used as a
25 cross examination exhibit, I think that would be a really

1 good idea.

2 MR. ALVERNO: Mr. Chairman, I ask that this be

3 transcribed into the record to help illustrate the line of

4 questions. I don't want to ask that it be moved into

5 evidence.

6 MR. BAKER: Did you move it into evidence?

7 MR. ALVERNO: No, I ask that it not be moved into

8 evidence.

9 MR. BAKER: Okay.

10 CHAIRMAN GLEIMAN: The Cross Examination Exhibit

11 Number 1 will be transcribed into the record and not

12 admitted into evidence.

13 [Cross-Examination Exhibit

14 NAA-T-1-Tye was marked for

15 identification and transcribed into

16 the record.]

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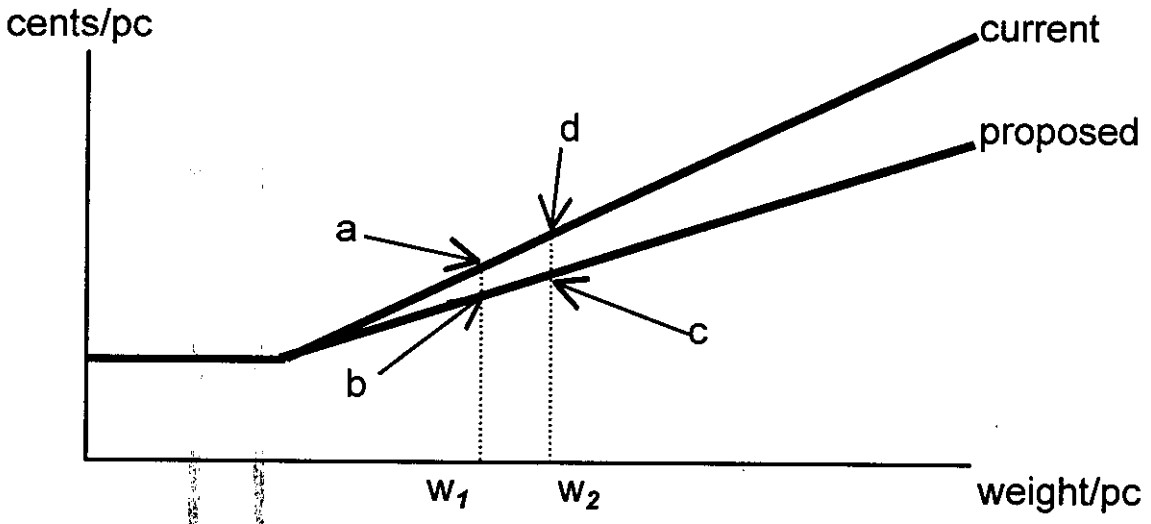
NAA-T-1 (Tye)
USPS Cross-Examination Exhibit No. 1

Standard Mail (A) Pound Rate Revenue Illustration