

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

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POSTAL RATE COMMISSION  
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Postal Rate and Fee Changes )  
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Docket No. R2000-1

**Rebuttal Testimony of Max Heath**  
**On Behalf of the National Newspaper Association**  
**(NNA RT-1)**

Respectfully submitted,



\_\_\_\_\_  
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1

2 ***I. Introduction***

3 My name is Max Heath. I am vice president/executive editor for Landmark  
4 Community Newspapers, Inc. (LCNI), Shelbyville, KY, a division of Landmark  
5 Communications, Norfolk, VA. I have previously appeared in this case through  
6 my direct testimony for the National Newspaper Association. My biographical  
7 description is available at NNA T1.

8 ***II. Purpose***

9 The purpose of this testimony is to rebut the accuracy of certain costs  
10 claimed by the Postal Service in the filing of the Supplemental Testimony of  
11 Richard Patelunas on behalf of the United States Postal Service in Response to  
12 Order No. 1294. I want to urge the Commission to treat these costs with  
13 skepticism and to consider adjustments before using them in developing rates for  
14 within county mail.

15 ***III. FY 1999 costs should not be accepted without question***

16 Mr. Patelunas offers changes to the revenue requirement and test year  
17 costs that result from utilizing FY '99 actual audited accounting data and costs by  
18 class of mail as the base year. His filing resulted from the Commission's order for  
19 the Postal Service to provide updated cost data, presumably to offer an  
20 opportunity to adjust the 1998 base year used in the Postal Service's initial  
21 request.

1           As chairman of the National Newspaper Association's Postal Committee, I  
2 want to express our industry's fears about an unquestioned adoption of these  
3 largely untested FY '99 cost data in developing recommended rates for within  
4 county mail. In general principle, I commend the Commission for seeking the  
5 most recent costing data and thereby taking some of the guesswork out of the  
6 roll-forward estimates. But the timing of the '99 cost data filing inevitably means  
7 information will be included in the record of this case that has not been fully  
8 examined. Much of it has to be taken at face value, despite the fact that  
9 increases of the magnitude we see in some of the within county cost segments  
10 simply defy reason. Their adoption without adjustment could be extremely  
11 harmful to community newspapers in the mailstream.

12           I address my testimony primarily to two cost segments, although much of  
13 my concern could be applied to other segments as well.

14   ***IV. Cost Segment 3.1 most likely incorporates unreliable statistical***  
15   ***anomalies***

16           Cost Segment 3.1 represents clerk and mail handler costs. NNA has had  
17 occasion to question the accuracy of these costs in the past.

18           At NNA's request, the Commission dealt with corrections in misassigned  
19 IOCS tallies in the 1994 rate case. In R97-1, because of resource limitations,  
20 NNA chose to focus upon its questions about the volume measurement systems  
21 and not upon IOCS, but it participated with other Periodicals intervenors in  
22 raising questions about the thinness of IOCS direct tallies in mail processing

1 costs. Because within county is only about a half of one percent of total domestic  
2 mail, it is reasonable to assume that thinness created severe problems in  
3 accurately tracking mail processing costs in that case.

4 In R2000-1, once again, NNA has heretofore focused on issues other than  
5 costs, but has joined with the Periodicals Coalition to raise concern about  
6 Periodicals mail processing cost trends in general. The history of this  
7 subsegment indicates that the size of our subclass causes accurate  
8 measurement to elude the IOCS/MODS cost measurement systems.

9 In BY 1998, that segment for within county mail was reported at \$13,182  
10 million. By FY 1999, that segment had leapt to \$17,229 million. The unit cost  
11 between the '98 base year grew from 1.4 cents to 1.9 cents. For a small  
12 subclass--particularly one whose accurate mail volumes are in question--this  
13 increase is most sobering.

14 Because of the tight time schedule for this case, the due process that  
15 would ordinarily test newly-reported costs is lacking. The Postal Service has told  
16 us in response to NNA/USPS ST44-2 that it has not calculated the confidence  
17 intervals for these data. We are unable to ask about operational changes that  
18 may have created new costs. We cannot explore real world meanings of this  
19 increase.

20 In this case, however, the real world may not shed much light upon the  
21 increase. My experience on the Postal Committee and my historical review of the  
22 data tell me that the most likely root cause is statistical anomaly.

1           For example, according to my understanding of USPS reports,<sup>1</sup> cost  
2 segment 3.1 for within county was reported as 2.2 cents in FY 1993. That  
3 number fell to 1.4 cents in 1996, the year just before (the allegedly cost-reducing)  
4 reclassification would have taken hold. Inexplicably, it rose to 1.7 cents in the  
5 R97-1 base year, before reclassification changes would have begun to take  
6 effect, and to 2.2 cents again in FY 1997, right after reclassification changes  
7 were implemented. In FY 1998, it was down to 1.1 cents, and now it catapults  
8 back up again to 1.9 cents. The reported cost levels in this sub-segment are like  
9 Tarzan swinging aimlessly through the trees.

10           Although the numbers leap around, there has been no accompanying  
11 change in behavior within the community of newspaper mailers that would  
12 explain any shifts or trends toward higher processing costs. To the contrary,  
13 there is evidence that the need for use of the Postal Service's internal handling  
14 processes would have decreased over the past several years.

15           I want to emphasize here that my familiarity is with newspaper usage of  
16 within county subclass--particularly with weekly newspapers--and not with other  
17 users of the subclass. But as my earlier testimony demonstrated, NNA has  
18 reason to believe the use of within county by weekly newspapers largely drives  
19 this subclass. The Postal Service has not refuted that belief, to my knowledge.

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<sup>1</sup> The Postal Service has been asked to confirm these figures, but discovery response was not available by the time of my rebuttal testimony.

1           Here are some elements that I believe demonstrate that mail processing  
2 needs by newspapers have not significantly changed in recent years.

3           1. Carrier route sorting of within county newspapers has always been  
4 high and I see no reason for that high level sorting to have declined in recent  
5 years. If anything, it should be increasing. Certainly I emphasize the need for  
6 carrier route sorting in my nationwide seminars, and many publishers have asked  
7 for my help in responding to my insistence that maximum sortation must occur.  
8 In my informal survey of 1995, publishers were asked to tell us what percentage  
9 of their total circulations were sorted to carrier routes. Our data showed  
10 1,206,894 of 1,498,403 addresses were prepared to the carrier route. That's 81  
11 percent of the mail represented in the survey. From surveying my own  
12 company's newspapers, I see that far more than 81 percent of all within county  
13 copies are presented at least at the carrier route level. I don't know the industry  
14 averages, but I generally find our titles are fairly representative of the industry.  
15 Indeed, there is no reason for dramatic differences between most community  
16 newspapers and Landmark's titles.

17           2. The 1996 reclassification case required Coding Accuracy Sorting  
18 System (CASS) certificates to accompany each mailing. List processing  
19 necessary to earn the certification must be made every 90 days.

20           For many small within county newspapers, this certification is permitted  
21 through use of Carrier Route Information System (CRIS) updates, or local-office  
22 updates approved in 1997, which are often more accurate than CASS because

1 they are based upon local knowledge of route scheme changes, housing  
2 additions or deletions and address re-assignments. The total effect of these  
3 requirements would have been to improve newspaper addressing hygiene and  
4 avoid unnecessary handlings.

5         3. In addition, because newspapers were required to produce the CASS  
6 certificates, many upgraded or improved their software after reclassification. As a  
7 consequence of these upgrades some publishers would have realized they had  
8 sufficient concentrations in some carrier routes to claim sortation discounts.  
9 Some would have made a concerted effort to increase their penetration in some  
10 carrier routes to bridge a small gap between existing penetration and carrier  
11 route threshold eligibility, so they could earn the discounts, Some would have  
12 rerun their lists to make sure they had properly packaged their mail. It is  
13 reasonable to assume that, prompted by the new knowledge that improved  
14 software brings, newspapers overall improved their sorting schemes in a variety  
15 of ways. It follows that more mail is being diverted from mail processing to far  
16 downstream handlings, even to greater use of the so-called third bundle, where  
17 the Postal Service has to do nothing but deliver the piece.

18         Ironically, the adoption of the post-reclassification addressing practices  
19 would have occurred in Government Fiscal Year 1997, but for that period, the  
20 Postal Service shows CS 3.1 rising. By FY 1998, most of the newspapers should  
21 have completed the transition to new software and new list management. In that  
22 year, the Postal Service shows CS 3.1 falling. The trends appear to have no  
23 anchor in any sea of reality for newspaper mailers.



1 **V. Cost Segment 6.1 is also unreliable.**

2 According to USPS Witness Meehan, the in-office direct labor segment  
3 6.1 for within county was \$8,024 million in base year 1998. Witness Patelunas  
4 tells us it rose to \$9,386 million in fiscal year 1999, almost a 17% increase.

5 Given the alarming increases in periodicals costs in other segments, this  
6 increase may not be startling at first blush. But there is a good reason why  
7 newspapers should be using less carrier in office time, not more.

8 In R97-1, the Commission granted within county mailers the right to claim  
9 a high density per piece rate of 2.9 cents (a 1.4 cent discount off the basic carrier  
10 route rate) if they could present mail for 25% of the addresses on a carrier route.

11 The threshold density requirement was reduced from a static 125 piece  
12 requirement put into place in earlier cases.

13 This liberalization of density requirements was a major assistance to  
14 community publishers. With the change, for example, a publisher serving 50  
15 readers on a 200 route stop would be newly-eligible for the discount and would  
16 then have an incentive to perform walk-sequencing, where no incentive existed in  
17 the past.

18 As far as I know, the Postal Service has not presented any data in this  
19 case to show how much mail was shifted by within county mailers into the high  
20 density category since January 10, 1999, when the R97-1 rates went into effect.  
21 But it is reasonable to assume there was some shift and that the shift would have

1 caused carriers to spend less time in the office sorting within county newspapers.  
2 All other things being constant, that should have resulted in declining carrier  
3 office time in Fiscal Year 1999. Yet, the cost segment has been reported with  
4 alarming increases.

5 I recognize that there are influences in all of these costs outside the  
6 control of mailers. My testimony is designed primarily to assure the Commission  
7 that, to my knowledge, however, there are no significant shifts within this  
8 subclass in mailer behavior, preparation, mail mix or other elements that would  
9 cause the steep increases reported by the Postal Service in the FY 99 updates. I  
10 believe that if time permitted adequate examination, a reasonable inference  
11 would be raised that these increases derive largely from statistical anomalies.

12 ***VI. The Commission should adjust the costs before recommending rates***

13 It has been the practice of the Commission in handling statistical  
14 anomalies for this subclass to make reasonable adjustments to protect mailers  
15 from the unfair consequences of being in a small subclass--a position over which  
16 they have no control whatever. Passing along the increases from FY '99 without  
17 adjustment will have a devastating effect upon community newspapers.

18 I am not an economist. It is beyond my expertise to suggest how the  
19 Commission might best adjust these highly volatile costs. I hope the Commission  
20 will use its own expertise and judgment in making these adjustments.

21

1 **VII. Summary**

2                   Wide and dramatic variations in mail handling and carrier office  
3 costs are among the costing areas where statistical anomalies are likely to play a  
4 harmful role in the total within county cost picture. Other areas may suffer from  
5 the historical softness in IOCS tallies, the inherent volatility in small subclass  
6 measurements and other problems within the cost segments. The use of new  
7 FY' 99 cost data in this docket, without adjustment to recognize the volatility in  
8 these measurements, will be harmful to community newspapers. I urge the  
9 Commission to explore the use of weighted averages, hybrids and other  
10 corrective adjustments before recommending rates based upon the costs  
11 presently in the record.

Certificate of Service

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

A handwritten signature in black ink, appearing to read 'Tonda F. Rush', is written over a solid horizontal line.

Tonda F. Rush

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