

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.
(MPA/USPS-T41-2-6)

The United States Postal Service hereby files the response of witness L. Paul Loetscher to the following interrogatories of the Magazine Publishers of America, Inc.:
MPA/USPS-T41-2-6, filed on October 26, 2001.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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November 9, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS L. PAUL LOETSCHER TO INTEROGATORIES OF
ASSOCIATION FOR POSTAL COMMERCE (POSTCOM)**

MPA/USPS-T41-2. Please refer to MPA/USPS-T34-3, Table 2. For each row in this table, please identify the number of publications that are local publications. Please also describe the source of these numbers.

RESPONSE:

To my knowledge the Postal Service does not define publications as local or non-local.

I assume that the definition of "local," as it is used here, means publications that are produced and distributed within the same geographic area. To my knowledge the Postal Service does not maintain origin and destination data for Periodical pieces.

However, if a publication contains advertising, the zone profile of the publication can be estimated from mailing statement data. Table 1 MPA/USPS-T41-2 presents publication counts by percentage of copies that pay DDU, DSCF and Zone 1&2 advertising pound charges, using PERMIT system mailing statement data. The zone distributions for publications that had no advertising in more than 50 percent of FY 2000 copies are not presented. Publications with a large percentage of copies paying the DDU, DSCF and Zone 1&2 rates are not necessarily "local" publications. The values in Table 1 also include drop-shipped publications. The data available do not enable me to distinguish between a "local" publication and a drop-shipped publication.

Table 1 MPAISPS-T41-2
PERMIT System Periodicals Regular and Nonprofit
Publication Copies by Percentages DDJ,DDCF and Zone 1&2
By Estimated Issue Size

Percent DDJ,DDCF and Zone 1&2																				
0 to 5%	5 to 10%	10 to 15%	15 to 20%	20 to 25%	25 to 30%	30 to 35%	35 to 40%	40 to 45%	45 to 50%	50 to 55%	55 to 60%	60 to 65%	65 to 70%	70 to 75%	75 to 80%	80 to 85%	85 to 90%	90 to 95%	95 to 100%	Editorial Publications
Regular																				
0-1,000	482	681	1,204	619	439	371	279	241	243	237	307	299	324	305	242	213	202	132	85	110
1,000-2,000	151	168	111	80	72	67	39	23	27	30	16	27	22	39	31	26	32	59	57	39
2,000-5,000	282	210	133	107	73	55	39	30	34	18	18	22	17	27	34	23	46	43	74	78
5,000-10,000	248	164	80	63	34	28	31	14	17	10	10	13	7	10	13	20	37	39	40	58
10,000-25,000	771	487	172	130	88	82	67	50	29	28	22	18	20	21	37	31	30	36	37	123
25,000-50,000	171	121	52	35	20	17	10	6	1	3	2	6	9	10	6	8	3	6	3	7
50,000-75,000	79	52	28	17	10	8	3	4	4	2	3	6	1	5	2	3	2	4	4	11
75,000-100,000	44	38	24	12	10	14	7	7	4	6	9	10	8	12	3	0	2	6	7	7
100,000-200,000	10	2	3	1	1	2	2	2	2	2	1	1	1	1	0	2	0	2	0	1
200,000-500,000	31	13	5	4	6	3	3	2	2	6	6	8	6	9	4	7	14	7	4	2
500,000-1,000,000	6	3	1	1	0	2	5	5	6	4	4	4	4	7	7	13	4	2	4	0
1 Million+	3	0	2	2	0	0	2	1	1	2	2	3	5	4	7	7	13	4	2	0
Issue Estimate Not Available	122	134	118	64	42	30	27	17	13	16	13	18	14	19	10	8	15	11	8	53
Nonprofit																				
0-1,000	18	17	24	25	18	25	19	9	10	9	11	18	8	10	8	7	4	9	5	13
1,000-2,000	19	10	14	7	7	4	4	2	3	2	4	5	6	4	1	6	5	1	7	2
2,000-5,000	41	46	37	17	10	7	5	5	4	5	4	4	8	8	11	11	9	13	17	7
5,000-10,000	46	39	29	19	10	8	2	4	2	4	3	4	3	4	5	6	7	11	14	8
10,000-25,000	96	103	43	26	10	9	7	4	11	12	4	8	11	19	9	12	13	13	27	63
25,000-50,000	18	21	9	4	1	1	3	0	2	1	1	1	2	2	1	3	3	3	1	12
50,000-75,000	4	9	3	1	1	4	3	0	1	1	0	1	2	1	0	0	0	0	1	4
75,000-100,000	20	15	6	4	1	1	2	1	1	2	1	1	0	0	0	0	0	0	4	4
100,000-200,000	3	1	1	0	0	0	0	0	0	0	0	1	0	0	0	2	0	0	0	0
200,000-500,000	12	5	2	0	0	0	0	0	0	0	1	1	2	0	0	2	0	0	0	0
500,000-1,000,000	4	4	2	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0
1 Million+	4	2	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0
Issue Estimate Not Available	8	8	3	4	2	0	0	2	1	0	0	4	1	2	0	0	1	0	3	1
Regular & Nonprofit																				
0-1,000	0	2	1	0	2	0	0	0	1	1	0	0	0	0	0	0	0	1	1	24
1,000-2,000	1	1	1	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000-5,000	1	1	2	1	0	1	0	0	0	0	0	0	0	1	0	0	0	0	0	10
5,000-10,000	2	2	2	0	0	0	0	0	0	0	0	1	0	0	2	1	0	0	0	1
10,000-25,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	4
25,000-50,000	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7
50,000-75,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
75,000-100,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
100,000-200,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
200,000-500,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
500,000-1,000,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1 Million+	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Issue Estimate Not Available	2	2	1	0	0	0	1	0	1	0	0	1	0	0	0	0	0	3	0	24

Note: Editorial Publications are defined as publications entering at least 80 percent of FY 2000 copies with 0 percent advertising

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MPA/USPS-T41-3. Please refer to MPA/USPS-T34-2, Table 1. For each row in this table, please identify the number of publications that are local publications. Please also describe the source of these numbers.

RESPONSE:

To my knowledge the Postal Service does not define publications as local or non-local.

I assume that the definition of "local," as it is used here, means publications that are produced and distributed within the same geographic area. To my knowledge the Postal Service does not maintain origin and destination data for Periodical pieces.

However, if a publication contains advertising, the zone profile of the publication can be estimated from mailing statement data. Table 2 MPA/USPS-T41-3 presents publication counts by percentage of copies that pay DDU, DSCF and Zone 1&2 advertising pound charges, using PERMIT system mailing statement data. The zone distributions for publications that had no advertising in more than 50 percent of FY 2000 copies are not presented. Publications with a large percentage of copies paying the DDU, DSCF and Zone 1&2 rates are not necessarily "local" publications. The values in Table 2 also include drop-shipped publications. The data available do not enable me to distinguish between a "local" publication and a drop-shipped publication.

Table 2 MPACUSPS-T41-3
PERMIT System Periodicals Outside-County Mail
Publication Counts by Percentage DDU, DSCF and Zone 1&2 and
By Average Annual Advertising Percentage

Advertising Percentage	Percent DDU, DSCF and Zone 1&2																	Editorial Publications
	0 to 8%	8 to 16%	16 to 24%	24 to 32%	32 to 39%	39 to 46%	46 to 54%	54 to 62%	62 to 69%	69 to 76%	76 to 83%	83 to 90%	90 to 97%	97 to 104%	104 to 111%	111 to 118%	118 to 125%	
0-10%	404	655	370	237	189	43	29	31	19	17	14	12	5	8	16	9,567	16	
10-20%	294	370	186	120	94	58	38	38	45	28	38	35	34	33	36	34	109	
20-30%	359	327	156	84	76	74	38	38	53	29	44	39	49	56	54	48	22	
30-40%	419	320	182	102	94	75	62	55	57	54	76	89	81	86	86	81	9	
40-50%	525	304	146	89	113	90	86	82	87	107	115	102	112	105	114	89	4	
50-60%	430	238	112	63	85	87	66	66	97	103	98	112	85	81	85	105	131	
60-70%	117	80	56	53	50	47	49	52	53	60	57	56	70	78	48	51	79	
70-80%	28	4	8	14	26	30	21	22	17	21	25	18	15	16	17	26	1	
80-90%	9	0	6	14	14	14	10	13	5	5	7	3	1	1	1	3	1	
90-100%																	0	

Note: Editorial Publications are defined as publications entering at least 50 percent of FY 2000 copies with 0 percent advertising.

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MPA/USPS-T41-4. Please refer to MPA/USPS-T34-3. Table 2.

- (a) Please confirm that the majority of pieces in mailings of publications with issue sizes above one million pieces are almost 100 percent palletized. If not confirmed, please explain fully.
- (b) Please confirm that the majority of pieces in mailings of publications with issue sizes between 500,000 and one million pieces are almost 100 percent palletized. If not confirmed, please explain fully.
- (c) Please confirm that the majority of pieces in mailings of publications with issue sizes between 200,000 and 500,000 are almost 100 percent palletized. If not confirmed, please explain fully.

RESPONSE:

- (a) Not confirmed. Table 2 of MPA/USPS-T34-3 presents PERMIT system volumes, advertising weight, and total weight by estimated issue size. The percentage of pieces that are palletized cannot be inferred from this table. To my knowledge the Postal Service does not collect data on the containerization of all Periodicals publications, so it is not possible to respond to the question with absolute certainty. Further the phrase "almost 100 percent" is ambiguous and I am reluctant to speculate on what is meant by "almost." From the sample of Outside County Periodicals presented in LR-J-114, I estimate a palletization distribution using the 41 publications sampled that had an estimated issue size greater than 1 million pieces (estimated issue size based on methodology used in USPS/MPA-T34-3). These estimates are presented in Table 3 MPA/USPS-T41-4. Based on these estimates, 63.4 percent of publications with an estimated issue size greater than 1 million pieces palletized 95 percent or more of their pieces; 83.9 percent of publications with an estimated issue size greater than 1

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million pieces palletized 90 percent or more of their pieces; and 90.2 percent of publications with an estimated issue size greater than 1 million pieces palletized 85 percent or more of their pieces. All sampled publications with estimated issue size greater than 1 million pieces palletized at least 83 percent of their pieces.

- (b) Not confirmed. Table 2 of MPA/USPS-T34-3 presents PERMIT system volumes, advertising weight, and total weight by estimated issue size. The percentage of pieces that are palletized cannot be inferred from this table. To my knowledge the Postal Service does not collect data on the containerization of all Periodicals publications, so it is not possible to respond to the question absolute certainty. Further the phrase "almost 100 percent" is ambiguous and I am reluctant to speculate on what is meant by "almost." From the sample of Outside County Periodicals presented in LR-J-114, I estimate a palletization distribution using the 38 publications sampled that had an estimated issue size between 500,000 and 1 million pieces (estimated issue size based on methodology used in USPS/MPA-T34-3). These estimates are presented in Table 3 MPA/USPS-T41-4. Based on these estimates 60.5 percent of publications with estimated issue size between 500,000 and 1 million pieces palletized 95 percent or more of their pieces; 84.2 percent of publications with an estimated issue size between 500,000 and 1 million pieces palletized 90 percent or more of their pieces; and 94.7 percent of publications with an estimated issue size between 500,000 and 1 million pieces palletized 85 percent or more of their pieces. All sampled
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publications with estimated issue size between 500,000 and than 1 million pieces palletized at least 80 percent of their pieces.

- (c) Not confirmed. Table 2 of MPA/USPS-T34-3 presents PERMIT system volumes, advertising weight, and total weight by estimated issue size. The percentage of pieces that are palletized cannot be inferred from this table. To my knowledge the Postal Service does not collect data on the containerization of all Periodicals publications, so it is not possible to respond to the question absolute certainty. Further the phrase "almost 100 percent" is ambiguous and I am reluctant to speculate on what is meant by "almost." From the sample of Outside County Periodicals presented in LR-J-114, I estimate a palletization distribution using the 37 publications sampled that had an estimated issue size between 200,000 and 500,000 (estimated issue size based on methodology used in USPS/MPA-T34-3). These estimates are presented in Table 3 MPA/USPS-T41-4. Based on these estimates 16.2 percent of publications with estimated issue size between 200,000 and 500,000 pieces palletized 95 percent or more of their pieces; 37.8 percent of publications with an estimated issue size between 200,000 and 500,000 pieces palletized 90 percent or more of their pieces; and 59.5 percent of publications with an estimated issue size between 200,000 and 500,000 pieces palletized 85 percent or more of their pieces. An estimated 18.9 percent of sampled publications with estimated issue size between 200,000 and 500,000 pieces palletized less than 70 percent of their pieces.

Table 3 MPA/JSPS-T41-4
Percent of Sampled Publications
By Percent Palletized and Estimated Issue Size

Source LR-J-114

Percentage of Pieces on Pallets	Estimated Issue Size		
	1 Million +	500K-1MM	200K-500K
100	2%	5%	5%
99	7%	11%	5%
98	17%	13%	0%
97	12%	11%	0%
96	20%	21%	3%
95	5%	0%	3%
94	5%	8%	3%
93	7%	3%	5%
92	5%	8%	11%
91	2%	0%	3%
90	0%	5%	0%
89	0%	3%	3%
88	2%	6%	11%
87	2%	0%	3%
86	0%	3%	3%
85	2%	0%	3%
84	7%	0%	0%
83	2%	3%	3%
82	0%	0%	3%
81	0%	0%	3%
80	0%	3%	0%
79	0%	0%	0%
78	0%	0%	3%
77	0%	0%	0%
76	0%	0%	3%
75	0%	0%	0%
74	0%	0%	0%
73	0%	0%	3%
72	0%	0%	3%
71	0%	0%	3%
70	0%	0%	0%
69	0%	0%	0%
68	0%	0%	0%
67	0%	0%	0%
66	0%	0%	0%
65	0%	0%	0%
64	0%	0%	0%
63	0%	0%	0%
62	0%	0%	0%
61	0%	0%	0%
60	0%	0%	3%
59	0%	0%	3%
58	0%	0%	3%
57	0%	0%	0%
56	0%	0%	0%
55	0%	0%	0%
54	0%	0%	3%
53	0%	0%	0%
52	0%	0%	0%
51	0%	0%	3%
50	0%	0%	0%
49	0%	0%	0%
48	0%	0%	0%
47	0%	0%	0%
46	0%	0%	0%
45	0%	0%	0%
44	0%	0%	0%
43	0%	0%	0%
42	0%	0%	0%
41	0%	0%	0%
40	0%	0%	0%
39	0%	0%	0%
38	0%	0%	0%
37	0%	0%	0%
36	0%	0%	0%
35	0%	0%	0%
34	0%	0%	0%
33	0%	0%	0%
32	0%	0%	0%
31	0%	0%	0%
30	0%	0%	0%
29	0%	0%	0%
28	0%	0%	0%
27	0%	0%	0%
26	0%	0%	0%
25	0%	0%	0%
24	0%	0%	0%
23	0%	0%	0%
22	0%	0%	0%
21	0%	0%	0%
20	0%	0%	0%
19	0%	0%	0%
18	0%	0%	0%
17	0%	0%	0%
16	0%	0%	0%
15	0%	0%	0%
14	0%	0%	0%
13	0%	0%	0%
12	0%	0%	0%
11	0%	0%	0%
10	0%	0%	0%
9	0%	0%	0%
8	0%	0%	0%
7	0%	0%	0%
6	0%	0%	0%
5	0%	0%	0%
4	0%	0%	0%
3	0%	0%	0%
2	0%	0%	0%
1	0%	0%	0%
0	0%	0%	5%
Publications Sampled	41	38	37

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MPA/USPS-T41-5. Please refer to your response to MPA/USPS-T34-3 where you state, "Estimated issue size used to produce this table is the ratio of PERMIT system annual volume to reported issue frequency. This estimate will produce erroneous estimates for numerous reasons." Please provide your expert opinion about the extent to which the total mail volume, total weight, and advertising weight by issue are erroneous.

- (a) By what percentage do you think these figures are likely to be wrong? Please explain your answer fully.
- (b) Do you think this analysis would tend to overstate issue size or understate issue size? Please explain your answer fully.
- (c) If you estimated that the issue size for a particular publication was greater than 1 million, is it likely that the issue size was actually less than 500,000?
- (d) If you estimated that the issue size for a particular publication was greater than 500,000, is it likely that the issue size was actually less than 200,000?

Response:

- (a) In order to estimate the extent to which the PERMIT-based estimates are in error, I use observations from LR-J-114 to compare the PERMIT-based estimates of issue size to observed mailings in the LR-J-114 sample period. To reduce the possibility of erroneous comparisons the following adjustments are made to the LR-J-114 data set. Pending publications and publications where reported issue frequency is missing are removed from the dataset. Publications recording revenue at more than one office are also removed. Finally, total volume for publications that submitted more than one issue during the sample period are converted into average issue size by dividing total volume in the sample period by the number of issues sampled. The PERMIT-based estimate of issue size is then compared to observed issue size in Table 4 MPA/USPS-T41-5. Table 4 demonstrates that the classification of publications by issue size

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is generally accurate as indicated by the high frequency of diagonal entries.

When misclassification occurs it is generally one classification higher or lower.

There is no apparent pattern in the errors – high or low.

(b) See response to part (a).

(c) See response to part (a).

(d) See response to part (a).

Source LR-J-114, FY 2000 PERMIT System

[illegible]

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MPA/USPS-T41-6. Please refer to your response to MPA/USPS-T34-4 where you state, "The Postal Service produced estimates of the cost savings that would result from increasing the piece minimum of Carrier Route sacks to 24 pieces. The estimated cost savings and underlying calculations are presented in LR-I-332 in Docket No. R2000-1".

- (a) Are the costs presented in USPS-LR-I-332 adjusted to match Cost and Revenue Analysis (CRA) costs?
- (b) If your response to subpart (a) of this interrogatory is affirmative, where in USPS-LR-I-332 does the Postal Service adjust the costs to Match CRA costs?
- (c) If the cost presented in USPS-LR-I-332 are not adjusted to match CRA costs, has the Postal Service or any of its contractors performed any analysis (whether preliminary or final) to determine the appropriate proportional and fixed CRA adjustment factors that should be used to adjust the costs presented in USPS-LR-I-332 to match CRA costs?
- (d) If your response to subpart (c) of this interrogatory is affirmative please provide the proportional and fixed Cra adjustment factors resulting from these analyses and provide all underlying calculations in electronic spreadsheet format.

Response:

- (a) No.
- (b) Not applicable.
- (c) No.
- (d) Not applicable.

DECLARATION

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


L. PAUL LOETSCHER

Dated: November 9, 2001

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.


Brian M. Reimer

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November 9, 2001