

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

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POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R2006-1

DIRECT TESTIMONY  
OF  
MAX HEATH, NNA-T-1  
ON BEHALF OF  
NATIONAL NEWSPAPER ASSOCIATION

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## APPENDIX A



**Autobiographical sketch**

1  
2  
3 My name is Max Heath. I am Vice-President for Circulation/  
4 Postal/Acquisitions with Landmark Community Newspapers, Inc., Shelbyville,  
5 KY, a division of Landmark Newspapers, Norfolk, Va. LCNI has 56 paid  
6 community weekly or daily newspapers in 13 states with a combined circulation  
7 of 350,000. I have appeared before this commission in Dockets No. R94-1, R97-  
8 1, MC96-1 and R2000-1. My professional background began in the newsroom of  
9 a community newspaper. I have been involved in managing postal affairs for  
10 Landmark since 1983.

11  
12 I am also the community newspaper industry's primary trainer on using  
13 periodicals and standard ECR mail. I conduct about 6-10 state association or  
14 company postal seminars each year and write a monthly column, "Postal Tips"  
15 for NNA's trade newspaper, Publishers' Auxiliary.

16  
17 I am also chairman of the NNA Postal Committee and have been NNA's  
18 industry representative to the Mailers Technical Advisory Committee since 1986.  
19 At present, I serve on the following MTAC task forces: Periodicals Operations  
20 Advisory Committee, Periodicals Advisory Group, FSS Addressing Work Group,  
21 and the recently-sunseted Flats Presort Optimization Work Group.

22  
23 NNA is a 121-year old community newspaper trade association,  
24 representing primarily weekly and small daily newspapers. The median weekly  
25 newspaper size is about 3,000-5,000 circulation and the median daily size is  
26 5,000-10,000 circulation. The weekly newspapers rely most heavily upon Within  
27 County periodicals mail and, I believe, provide the mail volume that constitutes  
28 most of the subclass. Increasingly, however, small daily newspapers are turning  
29 to Within County mail as well.

30  
31

1 **Summary of Testimony**

2

3 The purpose of my testimony here is threefold:

4 First, to urge the Commission to adopt new rules for costing data for

5 Within County mail to cushion the damaging effects of unreliable costing

6 procedures on a small and price sensitive mail class;

7

8 Second, to eliminate the container charge on non-containerized mail and

9 to reduce the proposed charge on flats tubs so mailers will have incentives to

10 eliminate sacks;

11

12 Third, to provide for more equitable passthroughs in some rate cells, so

13 that more efficient mail will be encouraged.

14

15 **I. The Commission should require the Postal Service to significantly**  
16 **improve Within County costing and volume data to prevent seriously**  
17 **damaging effects upon small newspapers**

18

19 **A. *History of NNA and costing and verification error in IOCS***

20

21 The magnitude of the possible rate shock proposed in this case is not new

22 to NNA. In 1994, the Postal Service proposed a 10.1 percent increase for most

23 mail, but a 34 percent increase for Within County mail. That case began a long

24 journey for NNA into the mystical In Office Costing System (IOCS). Because of a

25 Presiding Officer's request, the Postal Service discovered multiple errors in IOCS

26 in the process of responding to the request. USPS witness Degen confessed

27 that IOCS had not been adjusted after a 1986 legislative change affected Within

28 County eligibility. Although there was some dispute over the nature of the tallies,

29 the Commission accepted a revised estimate from witness Degen and eliminated

30 most of the proposed increase. It noted that costing data had been wrong from

31 1986 to BY1996, however, and that the adjustments did not fully explain the 34%

1 proposal. It asked the Postal Service to undertake serious study of the  
2 identification of periodicals pieces in IOCS, and suggested identifying markings  
3 on the pieces. The commission also adjusted volume figures because of  
4 testimony provided by NNA witness Haldi, who found numerous anomalies:  
5 offices that reported Within County revenues but no volumes or average  
6 revenues per piece that were impossible under the prevailing rates.

7

8 In R97-1, NNA chose for fiscal reasons to focus on the volume issues and  
9 rate design, but continued to have questions about IOCS. The Postal Rate  
10 Commission noted in its Opinion and Recommended Decision that the Postal  
11 Service conduct a study of Within County costs, noting that nonprofit mail costs  
12 had to be used as proxies for passthrough discount calculations. The  
13 Commission in that case also had serious problems with the IOCS tallies system-  
14 wide.

15

16 In R2000-1, NNA again chose because of limited resources to focus on  
17 other issues. The Commission again had questions about IOCS, some of which  
18 may have affected Within County rates.

19

20 I am not an economist, nor a rate expert. My testimony is intended to  
21 support the work of NNA-T-3, witness Siwek, who has examined some of the  
22 flaws in IOCS.

23

24 However, I am a newspaper expert. I have a high degree of confidence  
25 that newspaper mailing practices remain relatively stable over time. This is an  
26 industry that is in many ways publishing much like it did in 1970. Though it is  
27 more sophisticated, and engages in a much higher degree of mail preparation  
28 and the mail piece may have smaller length and width dimensions, the core  
29 product is pretty much the same. But nothing I can see in the real world--either  
30 in my own paper or in my postal consulting--explains the magnitude of cost  
31 increases with IOCS carrier or clerk processing. Since the Postal Service has not

1 had major new labor contracts with the employee groups involved in that work  
2 since the base year in the most recent rate case, R2005-1, the dynamic swings  
3 in costing seem to me, as a layman, to be highly questionable.  
4

5         Witness Siwek addresses some of the problems with unreliable costing  
6 and verification procedures within USPS in general, including operational errors.  
7 My testimony is to explain, from an operational point of view, some of the  
8 potential identification flaws in the USPS' current approach. I have read the  
9 testimony of USPS witness Thress, and I can see that although the Postal  
10 Service has clearly put admirable effort into improving mail piece identification,  
11 the system is still far from perfect.  
12

### 13         **1. Possible Identification Flaws in Tallies.**

14

15         I can see several possibilities for IOCS processes to identify a mailpiece  
16 as Within County when it in fact paid Outside County postage. I will cite just a few  
17 here.  
18

#### 19         **a. Wandering routes**

20

21         It is not unusual for the Postal Service to have carrier routes that begin  
22 within a newspaper's County of publication but contain households outside the  
23 county. Because Within County eligibility rests upon political boundaries decided  
24 by Congress while the Postal Service deals with the real geographic world,  
25 routes may begin with one county, wander into a second County and back again,  
26 or begin in one County and conclude in another.  
27

28         In those cases, a Within County newspaper is required to pay Outside  
29 County postage. But when the piece is cased, it is going to appear at the same  
30 delivery unit as the one from which it was entered. Perhaps the carrier would  
31 know outside County postage is required. But it is doubtful a data collector would,

1 nor even the tallies editor. So the piece belonging to the other subclass is likely  
2 to be tallied as in-County. Admittedly, this should be a small volume, but with the  
3 size of sampling error in this system, small errors loom large.

4  
5 **b. Nonsubscriber copies.**

6  
7 A Within County newspaper is permitted, like other periodicals, to reach a  
8 relatively high percentage of nonsubscribers--up to nearly 50 percent of  
9 distribution. Domestic Mail Manual 707.9.6. It is permitted, further, to send a  
10 small percentage of those nonsubscriber copies at the Within County rate, for  
11 purposes of sampling the product to persons who may wish to subscribe. DMM  
12 707.7.9.3.

13  
14 However, there are numerous circumstances, outside the realm of  
15 intentional marketing of sample copies, where nonsubscriber copies may appear  
16 within an in-County mailing that should be paying the outside county rate. For  
17 example:

- 18
- 19 ■ A newspaper is permitted to mail a free proof copy to an advertiser. The  
20 privilege extends to advertisers in that single issue. Many newspapers  
21 have regular lists of advertisers that appear in each paper, and those  
22 would be mailed at Within County rates. But a newspaper may, for  
23 business reasons, place non-advertisers on a complimentary copy list,  
24 including those that advertise sporadically, to maintain their awareness of  
25 the product. Those copies would be considered complimentary, and not  
26 proof copies under DMM Section 707.9.7. They would be required to  
27 travel at outside County rates. To a data collector and a tally editor,  
28 however, nothing would distinguish the complimentary copy from a proof  
29 copy. If it appeared in a sample within the County of entry, it likely would  
30 be marked as a Within-County copy.

31

- 1       ▪ A newspaper is permitted to continue to mail to a subscriber for a certain  
2       period after a subscription lapses, while the publisher attempts to market  
3       various offers to entice a renewal. Under DMM 708.7.6, that lapsed  
4       subscriber can be carried at Within County rates for six months. At the  
5       conclusion of six months, the subscriber may remain on the list so long as  
6       the paid circulation eligibility is not violated, but must be mailed at Outside  
7       County rates. The data collector or the editor would have no way of  
8       checking the subscription term, and so likely would tally such a copy as  
9       Within County.

- 10
- 11       ▪ Advertisers may, for their own marketing reasons, choose to purchase  
12       copies for their own customers. Under DMM 707.7.3, these copies are  
13       required to travel at the outside County postage rate as well, but would  
14       appear to IOCS , again, as a Within County periodical.

15

16       All of these circumstances could combine, in an environment where small  
17       errors loom large, to cause a tally to be wrongly marked.

18

19       I believe the Postal Service has made an admirable effort to improve  
20       identification problems in the subclass. It has not taken the Commission's  
21       suggestion of requiring a mark on the copy. That is fortunate for the industry,  
22       because it would be nearly impossible for the industry to comply in a high speed  
23       press run with marking copies such as those I described above.

24

25       The lesson in this exercise is that the unique legal characteristics of this  
26       subclass make a proper measurement system extremely difficult to improve  
27       without adding significant cost to the Postal Service and, therefore, to the mail.

28

29       Accepting witness Siwek's sound reasoning for pooling IOCS tallies is, I  
30       believe, a good route for the Commission to take. It would greatly improve the

1 costing systems without adding significant cost. It would also reduce the potential  
2 magnitude of a mis-guess such as the ones I describe above.

3

#### 4 **B. History of NNA and volume data**

5

6 The fragment of domestic mail volume occupied by Within County mail  
7 plagues the USPS volume estimates as well. Here, again, NNA has developed a  
8 history with this problem.

9

10 In R94-1, the Commission recognized potential problems with volume  
11 data. Opinion and Recommended Decision, Postal Rate and Fee Changes,  
12 1994, Docket No. R94-1 at V-73. NNA had asked the Postal Service to identify  
13 the locations of the samples taken in the Revenue Piece Weight (RPW) study, so  
14 it could check newspapers' mailing volume against the RPW results. The Postal  
15 Service declined to do so. As the Commission noted, NNA chose to resolve the  
16 issues outside the case.

17

18 In R97-1, NNA again questioned the volume figures produced by the post  
19 offices samples in the RPW studies. The Commission noted the absence on the  
20 record of evidence that USPS had attempted to work out NNA's concerns, as the  
21 Commission had recommended after R94-1. Opinion and Recommended  
22 Decision, Postal Rate and Fee Changes, 1997, Docket No. R97-1 at 546. Again  
23 the Commission urged a cooperative effort to resolve concerns. But it adjusted  
24 the volumes to mitigate the effects of fluctuations in the estimates.

25

26 In R2000-1, NNA again tackled the issue. Having failed to gain access to  
27 the Postal Service's sample data so it could be tested against the real world,  
28 NNA tried its own estimate. It attempted to survey 1,600 newspapers to  
29 determine whether their circulations were rising or falling and whether their use of  
30 Within County mail was growing or falling. However, speaking as the person who  
31 oversaw this survey, I found the results about what I expected: we could not get

1 busy publishers to drop their work to answer the survey. As a result, we got 340  
2 responses and only 161 were able to provide comparative data. That small  
3 sample indicated an increase in Within County volume of 3 percent between  
4 1991 and 1998. The Commission recited our efforts in its Opinion and  
5 Recommended Decision, Postal Rates and Fees 2000, R2000-1 at 451,  
6 commended our attempts and noted that our failure to improve upon the Postal  
7 Service's margins of error because of the low response. I was chagrined, but not  
8 surprised. I was surprised that we were able to get responses at all. Publishers  
9 are generally inundated with surveys on all topics--political, economic and  
10 marketing--and NNA was trying to gather responses from non-members as well  
11 as members.

12

13 In that case, the Commission noted that the Postal Service had improved  
14 its sample, which I should note allegedly included a new AIC to tie revenue into  
15 the sample. Still, it had reservations about whether the system was still what it  
16 needed to be, and it used a four year average of volume.

17

18 In this case, NNA has not attempted any more surveys. We have  
19 discovered, I believe, that the AIC code failed to work. We also have been told in  
20 discovery that nearly 40 percent of Within County volumes are still coming from  
21 the sampling system.

22

23 We are left in a conundrum. The result of our attempts to negotiate in  
24 1994 was a drained budget. The Postal Service drew NNA into motion practice  
25 over the confidentiality issue to the point that we were forced to concede, settle  
26 on revised figures and attempt to work out the ongoing statistical problem outside  
27 the case. We did, in fact, proceed down that path for a time, and were promised  
28 a continued effort toward improvement. But changes at the Postal Service as well  
29 as at NNA--including cost cuts and reorganization--intervened, and little was  
30 accomplished. Our work in 2000 was our best effort to demonstrate to the  
31 Commission that community newspaper circulations are at least steady, if not

1 growing somewhat, and that since Within County mail is the best delivery option,  
2 it should also be growing, not shrinking as this record appears to show.

3  
4 **C. The Revenue Piece Weight (RPW) system produces results**  
5 **that do not fit the small newspaper trends.**

6  
7 My observations are all anecdotal, but I can offer the following to  
8 demonstrate why I believe the RPW continues to be flawed.

9  
10 Within my own company, using only comparable titles owned the entire  
11 period, circulation has grown 4.7% from 1983 to 2005, 2% from 1990-2005 and  
12 7.9% from 1995-2005.

13  
14 Around the country, I am counseling several small daily newspaper groups  
15 on switching from private carriers to Within County mail. I have personally  
16 assisted seven newspapers in five states. There is great interest, because of  
17 difficulty in recruiting carriers, rising fuel cost and pressure on management time  
18 in moving out of private delivery into in-County periodicals mail. Admittedly, this  
19 is not enough to note a trend. However, it wouldn't take very many dailies to add  
20 to this mailstream to make up for a considerable amount of weekly mail shifts, if  
21 the latter are occurring, since a daily will be mailing 5-6 times a week and a  
22 weekly, obviously, only once.

23  
24 I notice in reading witness Thress's testimony that he believes weekly  
25 newspapers are the main component of this subclass, and I agree. He knows  
26 very little about them and relies on RPW to be accurate in forecasting volumes. I  
27 know a lot more about them, and I wouldn't rely on RPW to be an accurate  
28 forecaster of volumes. I believe much of our mail is entered at rural post offices  
29 where automated systems are still sparse, and that the amount of sampling error  
30 buried in the past for this system has undermined its accuracy for many years.

31

1 Even if NNA had the burden of proof to demonstrate RPW's weaknesses,  
2 it lacks the resources or the access to information to do so. NNA also respects  
3 the stress on resources at the Postal Service, which I think would like to fix this  
4 problem if it could be done without great cost. It is not in our interest to create a  
5 cost where a better solution can be found.

6  
7 The Commission has provided some relief for this subclass by averaging  
8 volumes over a multi-year period and should do so again. If, indeed, volumes  
9 are falling, at least mailers will be cushioned from more dramatic declines than  
10 really exist as averages are considered. If they are not falling, the averaging will  
11 help us to hold the line until the Postal Service brings more post offices into the  
12 Postal One System. If the Commission used a four year look-back, as it did in  
13 the past, the average number of pieces would be 791,553 for the base year.

14  
15 **II. The Commission should decline to adopt a container charge for**  
16 **Outside County periodicals entered as loose or bundled mail at delivery**  
17 **units, and should create better incentives for the use of flats trays or tubs.**

18  
19 **A. A change in containers is important for newspapers.**

20  
21 Witness Tang proposes an 85 cent per piece charge on all containers for  
22 Outside County periodicals. The charge would apply whether mail is in sacks or  
23 in other acceptable containers such as flats trays or flats tubs (terms that seem to  
24 be used interchangeably.) Ironically, she also proposes the same container  
25 charge on Outside County periodical mail that is in no container whatever.

26  
27 NNA vigorously opposed charges on mail sacks in C2004-1. I testified at  
28 the time:

29  
30 Sacks may not be the most desirable of containers, either from the Postal  
31 Service's viewpoint or the mailers. The plastic sacks in use today draw  
32 some criticism from mail handlers within our industry. They have a

1 tendency to produce plastic splinters, which can be painful to the  
2 mailhandler. Brown sacks are difficult to obtain, and the good canvas ones  
3 are becoming rare as USPS moves into the cheap plastic sacks. These  
4 cheap sacks are hard to stack, because they are slick. The sack tag  
5 holders break and separate and are missing when the sacks are shipped.  
6 So sacks are not very popular with publishers. Publishers do not use  
7 these containers because they wish to, but rather because they must.  
8 Testimony of Max Heath on Behalf of the National Newspaper  
9 Association, Complaint of Time Warner et. al, Concerning Periodicals  
10 Rates, Docket No. C2004-1 at 5

11  
12 The Commission rightly denied a proposed surcharge on sacks in that  
13 case, but expressed an interest in seeing a different proposal to recover their  
14 costs. That proposal appears in this case, but in a surprising way, to me.

15  
16 Two surprises are in this case: 1) that despite much Postal Service  
17 rhetoric about wanting to eliminate sacks, it proposes a financial disincentive for  
18 using the alternative containers; and 2) it proposes an even more senseless  
19 disincentive for eliminating containers altogether. I want the Commission to  
20 understand how disjointed this proposal is to an industry that has been working  
21 diligently since 2004 to do what we believed the Postal Service and our brethren  
22 in the larger publishing world wanted us to do.

### 23 24 **1. Flats tubs will grow in usage if properly encouraged.**

25  
26 I first participated in 2003 in an experiment with the use of tubs<sup>1</sup>, as  
27 periodicals service problems in and around Mississippi reached a boiling point.  
28 Shortly after several members of the Commission visited community newspapers  
29 in Oxford and Brookhaven, MS, the manager of the Jackson SCF (serving 390,  
30 391, 392 3-digit zones), decided to try an experiment with tubs (flats trays). I  
31 advised NNA member Patsy Speights, editor of the Searchlight in Prentiss, MS,  
32 in shifting her out of county and out of state mail out of sacks into white tubs with  
33 green lids.

---

<sup>1</sup> Like many USPS personnel, I use flats tubs and flats trays interchangeably. Both terms refer to the white plastic containers identified by witness McCrery as a flats tub.

1

2           The experiment was a success immediately. It improved service Within  
3 Mississippi and out of state. (Today, however, I understand the Jackson SCF  
4 processing is bogged down once again, while the out of state mail is being cross-  
5 docked to Memphis and continues to be moving smoothly.) Mrs. Speights has  
6 reduced her container use from 68 sacks to 26-27 tubs.

7

8           Shortly thereafter, NNA members in Maine tried to replicate this  
9 experiment. Although I have not been as directly involved in advising members in  
10 this experiment, I understand it is still ongoing and has produced container  
11 reductions and improved service.

12

13           Thus, in June 2004, I began urging NNA members to seek alternatives to  
14 sacks where possible. I also asked the Postal Service to make some adjustments  
15 to help them in doing so, specifically:

16

- 17           ▪ To formalize in the Domestic Mail Manual the ability to enter bundles of  
18 mail at delivery offices unsacked, which USPS did on Sept 30, 2004;
- 19
- 20           ▪ To permit pallets below the 250 pound minimum for DDUs, SCFs and  
21 ADCs serving the origin area, which the Postal Service did in 2005 with a  
22 100pound pallet minimum for DDU and SCF entry.
- 23
- 24           ▪ To permit greater use of tubs. A promising outcome is the new Origin  
25 Mixed (OMX) ADC sort which was made optional October 27, 2005, a  
26 product of the USPS and MTAC Flats Presort Optimization work Group.  
27 Though mandatory July 6, 2006, it offers optional use of flats trays for the  
28 OMX and MADC residual sorts in any quantity and any ADC of 24 copies  
29 or more.

30

1 I wrote about this need in my column, Postal Tips, in Publishers' Auxiliary,  
2 in June 2004. A copy is attached as NNA Appendix A.

3  
4 I have continued to preach the gospel of "sack the sacks" since then. I  
5 have contacted all major software vendors that supply our segment of the  
6 industry to ask them to make a tub election (which requires a larger tag) available  
7 for mail preparation. Most recently, NNA invited USPS operations expert Marc  
8 McCrery to explain to our leadership why tubs are valuable at an NNA Postal  
9 Summit in Washington on Aug. 11, 2006.

10 Given our positive experience so far in solving a world of service  
11 problems, which NNA Witness Sosniecki describes well on behalf of many of our  
12 members with similar problems, and given our success so far in doing that we  
13 have been encouraged to do, it makes no sense at all for the Postal Service to  
14 recommend the exact same 85 cent surcharge on the tub as on the sack. After  
15 its orchestrated press announcements about sending price signals to encourage  
16 greater efficiency, this recommendation seems to be coming from the one  
17 untuned second violin in the pit.

18  
19 I believe tubs actually do avoid some expense for the Postal Service and  
20 for mailers, besides the apparent service improvements, compared to sacks.  
21 From my experience in witnessing mail processing operations: they offer several  
22 advantages:

- 23
- 24 ▪ They are easier for the mailer to use for newspaper preparation than the  
25 inferior stock lately used in sacks and even new clear plastic sacks with  
26 Velcro ties that are often too short;
  - 27 ▪ They are easier for the mailer to carry and transport;
  - 28 ▪ They typically travel through USPS plants on wheeled containers, like  
29 APCs and are not in bedloads as often as sacks, therefore they require  
30 less manual labor;

- 1       ▪ They are easier to empty into SPBS or APPS sorters; and flat-sorting  
2       machines; Pieces in the new OMX, MADC and ADCs of 24 are unbound,  
3       faced in the same direction, for easy feed in flat-sorting machines;
- 4       ▪ They are far less susceptible to leaving behind undetected pieces that are  
5       sometimes ignored in opaque sacks;
- 6       ▪ They may be handled with Tray Management Systems through sortation  
7       systems at many HASPS and at some tray-management facilities;
- 8       ▪ They can accommodate loose pieces, and may not require bundles at all,  
9       therefore avoiding any costs associated with bundle handling.

10  
11       Most importantly for me, as a trainer in our industry, they give me a  
12       popular and easily understood tool to encourage newspaper members to get out  
13       of sacks. Postal workers have told me they like them better for handling and  
14       routing.

15       As far as I know, the Postal Service has done no cost studies on the use  
16       of tubs. I believe the Commission should reject the proposed charge on them  
17       altogether and allow the Postal Service to capture greater savings through sack  
18       abandonment before slowing a positive trend with a surcharge on tubs.

## 19 20       **2. There should be no charge on uncontainerized mail.**

21  
22       It is hard for me to understand how a charge for a container came to be  
23       associated with mail in no container. Here is how newspapers enter mail without  
24       containers:

- 25  
26       ▪ Mail is prepared in bundles or as loose pieces in tubs for a nearby  
27       destination delivery unit;
- 28  
29       ▪ It is typically hauled in a personal auto or in a small truck;

30

- 1       ▪ It is typically dropped on a dock--sometimes a covered dock late at night  
2           when the office is closed. Often it is deposited into a wheeled nutting cart  
3           or hamper or even left inside lobbies for the morning opening personnel;  
4
- 5       ▪ The post office moves the mail to the carrier for secondary processing or,  
6           since the overwhelming majority of this mail is already walk sequenced,  
7           the carrier may simply take the bundle or pieces onto the route as a third  
8           bundle;  
9
- 10      ▪ There is no container; therefore, there is no emptying activity.  
11

12           The transportation of the bundles or pieces through the office is the same  
13 as it would have been if the mail had arrived in a sack or a tub: they are walked  
14 by a human being to a carrier. Whatever that cost, it has no association with a  
15 container.  
16

17           Many NNA members have entered mail like this for some time because  
18 the postmasters prefer it. The official DMM recognition in 2004 simply gave me  
19 as a trainer the ability to rapidly accelerate this practice. When I do training  
20 seminars, this change is the one most rapidly adopted by publishers--they are  
21 delighted to "sack the sacks" if they can do so without much trouble.  
22

23           A surcharge gives me no leverage to push this practice further. It may  
24 create a disincentive, because the tub or even the sack may be less work for the  
25 transporter, who may well prefer to move one thing than to walk back and forth to  
26 a dock with many bundles. So this surcharge may cast us back in time to pre-  
27 2004.  
28

29           The Commission should simply reject the charge as unfounded.  
30  
31

1  
2 **III. The Commission should reward more efficient Within County mail by**  
3 **increasing incentives for carrier route sorting and high density deliveries.**

4  
5 ***A. Impact is Greater than Postal Service Foretells***

6  
7 In considering our proposal, the Commission should understand that the  
8 impact of the proposed rates upon Within County newspaper mail hits harder  
9 than the Postal Service's press releases predict.

10  
11 My projection for LCNI is that postage would increase 28.349 percent--a  
12 lot closer to 30 percent than to the 25 percent the Postal Service announced in  
13 May. Many publishers who have consulted with me for budgets are finding  
14 similar ranges of impact.

15  
16 More remarkable is that despite much rhetoric from the Postal Service  
17 about price signals and efficiency, the "price signals" sent by these rates create  
18 more of a maze than a sense of direction. Less efficient mail is increased by  
19 smaller percentages than more efficient mail, which appears backward and  
20 wrong-headed to me.

21  
22 For example, although the high increases in mail processing would seem  
23 to suggest greater incentives should be given for presorting, a periodical sorted  
24 to carrier route high density presort that is not entered at the delivery office could  
25 experience a 47.3% increase, while a lower presort periodical also not DU  
26 entered would experience a 24.1% increase. Similarly, of particular concern for  
27 publishers that have listened to my insistence on barcoding, a 5 digit auto  
28 newspaper would see a 39.71% increase while the same newspaper without a  
29 bar code would see an 18.11% increase. In the table below, I show that by my  
30 calculations on the prices for a 4 ounce newspaper, the mail that *is* DU entered

1 and is most highly presorted actually has a larger increase than the basic Carrier  
2 Route rate.

3

4

Table 1

5

The Second Most Efficient - Delivery Unit Entered; CR sorted

<i>2006</i>	<i>2007</i>	<i>% increase</i>
.0685	.0888	29.63

6

7

Table 2

8

The Most Efficient - Delivery Unit Entered; CR High Density Walk Sequence

9

<i>2006</i>	<i>2007</i>	<i>% increase</i>
.05425	.0715	31.79%

10

11

12 The new prices do send a positive signal toward greater drop shipping,  
13 with which I agree, and which is essential in this era of declining service. In fact,  
14 the only mail that does approach the 25% announced average increase is the  
15 delivery-unit entered, carrier route sorted mail which is the most commonly used  
16 by a typically efficient newspaper. However, the discounts for delivery office  
17 entry are miserly, saving the publisher only about 1.7 cents per copy (on a four  
18 ounce paper). As my colleague Sosniecki testifies, when a publisher is dropping  
19 bundles of 100 or so newspapers to other post offices and likely traveling 20-50  
20 miles round trip to do so, the payback is hardly an incentive. The \$1.70 cents  
21 earned in the discount for that 100 papers wouldn't even pay for the driver's Big  
22 Mac on the road.

23

24

25 And most shocking is the fact that high density in-county Delivery Unit  
26 entered mail (requiring 125 pieces per route or 25% of active possible deliveries  
27 and prepared in walk-sequence order) is in for a heavy 33.3% piece rate hike  
and a 30.88% to 32.72% over all increase. But its carrier route alternative for

1 fewer pieces (6-124 or fewer than 25% of Active Possibles) is increasing 22.4%  
2 per piece with overall increases ranging from 22.21 to 27.63 percent. Why USPS  
3 would punish the most efficient high-density mail with up to a 9% higher increase  
4 is beyond my comprehension.

5  
6 To make things worse, a 4 ounce carrier route weekly NOT entered at the  
7 office of delivery would see prices 23.96% higher, about the same as the carrier  
8 route delivery office piece. The Postal Service, if it is serious about efficiency,  
9 should in all cases reward the DU entered mail with lower price hikes.

10  
11 Finally, I am amazed that witness Tang seems to think that the 2006 small  
12 rate reduction somehow is qualified to be considered in the context of this year's  
13 proposed increase. She believed the reduction was about 1.5 percent. My  
14 estimates show that the decrease was 2.5-3 percent for LCNI newspapers, which  
15 is somewhat higher, but hardly enough to make a difference. Whatever that  
16 small "windfall," it seems to have resulted from the same capricious sampling  
17 estimates we see in this case, and I believe few publishers would trade the  
18 occasional small reduction for the wallop that the sampling produces in years like  
19 this one.

20  
21 ***B. If there are price signals they are often pointing in the***  
22 ***wrong direction.***

23  
24 Work-sharing is extremely important in Within County mail. Because of the  
25 Postal Service's legendary problems in controlling mail processing costs for flats,  
26 NNA urges its members to do all they can afford to do to make its mail easy to  
27 handle. The billing determinants supplied by Witness Tang in LR-L-126 show  
28 how highly efficient this subclass has become. In 2005, the total of pieces  
29 presorted to carrier route rates equaled 596,043, 496 in a subclass reporting  
30 762,709,809 pieces. So **78.1** percent of the subclass qualifies for carrier route  
31 rates. Of the carrier route category about 25% of the pieces qualify for either high

1 density or saturation discounts. To be eligible for the high density or saturation  
2 rate levels, a route must have 125 pieces or 25% of a carrier route for high  
3 density and 90 percent of deliverable addresses for saturation and must be  
4 prepared according to the walking sequence of the route. However, preparation  
5 of carrier route mail requires a certain degree of walk sequence preparation,  
6 whether or not the mailing has sufficient density to qualify for the discounted  
7 piece rate levels.

8

9 I wish I could be as proud of the automation levels for the remainder of the  
10 mail. For the 22% of Within County mail that remains at the basic, 5-digit and 3-  
11 digit levels,. 170.8 million pieces are nonautomation flats, which is about 14% of  
12 the subclass. Although this may be a small volume to the Postal Service and in  
13 fact may not be of material concern since much of our volume is in  
14 nonautomated offices, the publisher that prepares nonautomation flats for Within  
15 County is probably also preparing nonautomation flats for Outside County. where  
16 it could make a larger cost difference. Because relatively few pieces may go into  
17 Outside County, the publisher may not have sufficient incentive to make the  
18 software investment under the existing rates. It would be even more true under  
19 proposed rates.

20

21 However, NNA is concerned about its smallest publishers that may not  
22 have adapted to the 11 digit barcode yet. Soon, along will come a 4-state  
23 barcode that will be truly bewildering. The Commission should recommend  
24 better incentives to urge them along.

25

26 It is important for publishers to continue refining their mail preparation. We  
27 still have some publishers in our industry, to my regret, that have not yet  
28 upgraded to PAVE certified software. NNA urges them to make this investment,  
29 and I personally campaign for publishers to do so whenever I have an  
30 opportunity. But the Postal Service is serving up reverse momentum in this case.  
31 First, by relying too heavily upon the pound rate for revenue, it sends a price

1 signal that underemphasizes the presort discounts. Second, it discourages  
2 automation. Third, it does not provide sufficient incentive for high density mail,  
3 which is the category that publishers should be aiming for by increasing their  
4 readership on routes where they could achieve the density targets.

5  
6           Witness Siwek proposes a variety of changes in the proposed  
7 passthroughs that will put the emphasis upon the mailing practices that the  
8 industry is trying to encourage to produce a more efficient mailstream. The  
9 Commission would aid our work and help the Postal Service achieve its goals for  
10 the shape-based mailstream by adopting witness Siwek's rates and  
11 recommendations.

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APPENDIX A

From Publishers' Auxiliary, a publication of the National Newspaper Association

NNA needs member input on alternate containers

USPS wants to 'sack' the sacks ... ending their use

The Postal Service is getting serious about forcing small mailers like newspapers to "get out of sacks." This is driven in large part by a Postal Rate Commission complaint by five large magazines publishers (as reported earlier in Publishers' Auxiliary) objecting to the current Periodical regular rate structure. (In-county mail is not included.) Much to the surprise of many postal pundits, and over the opposition of USPS, the complaint was accepted by the PRC.



POSTAL TIPS

Max Heath

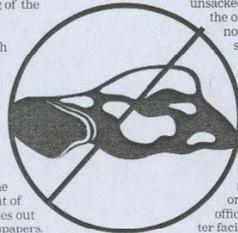
While the outcome of the complaint case is uncertain, it could create a shell class without rates, but with separate charges for bundles and sacks that would greatly increase costs for newspaper copies mailed outside the county. Should the PRC ultimately decide against implementing the "Gang of 5" proposals, the pressure is on USPS to make adjustments in the next general rate case, likely effective in January 2006. The National Newspaper Association was approached in March at the "Friends of NNA" reception about meeting with USPS Pricing Manager Ashley Lyons and Senior Vice President John Rapp to discuss how to get newspapers out of sacks. That meeting hasn't yet happened, but NNA put forth some ideas

at the April 28 meeting of the Periodical Operations Advisory Committee.

USPS estimates much higher costs to handle sacks than bundles on pallets, and magazines that mostly palletize large quantities want those using sacks to pay higher costs that are now averaged in with all Periodical rates. Yet the minimum pallet weight of 250 pounds of mail rules out most community newspapers. No alternate container, such as a tub, has yet been offered NNA members, although some districts encourage newspapers to prepare mail in white plastic flat tubs, at least for delivery within their sectional center facility.

NNA has taken these positions so far to help newspapers and their related shoppers adjust to a changing container environment:

- Formalize in the Domestic Mail Manual the ability to enter bundles of mail at delivery offices unsacked. This practice, widespread in the newspaper industry, prevents mailer costs of unsacking. Carrier route bundles placed on a dock or cart can be quickly taken to carrier stations. Most postmasters prefer to received unsacked bundles. If you are not already taking



unsacked bundles of mail for the office of delivery (but not beyond), you should start now. It's allowed, informally. But we hope to change the rules to make it formal, so that you can't be charged for containers in the 2006.

- Allow pallets below the 250-pound minimum if they go only to postal delivery offices and sectional center facilities or area distribution centers serving the origin post office. In most cases only one pallet of out-of-area mail would be prepared for trucking to the SCF or ADC to be broken and worked. USPS would incur little handling costs moving such pallets multiple times between facilities, overcoming the primary objection that small pallets don't stack well in trucks. Still, some post offices can't accept and load pallets onto trucks because they lack forklifts or pallet jacks.
- Allow postal software used to prepare sacked mail to be acceptable for pallets without forcing mailers to invest in much more costly palletization software. Bundles of mail are made up the same, and the requirement to use pallet software is specious. In fact, many newspapers are already being pal-

letized and approved at acceptance offices using sack software, often at the request of local operations personnel.

If the Postal Service is serious about helping newspapers get out of sacks, it will approve these proposals. In the past, NNA members have merely been nagged about the cost of sacks but given no alternative. That could hardly be considered due process for an industry with a gun to its head, in the hands of the Gang of 5. And in a real sense, the same gun is being held to the collective USPS head. Here's what NNA desperately needs from you, its mailing members.

- Tell us of any success you are having in entering DDU mail unsacked in bundles only (for delivery at the post office where it's entered).
- Tell us of any success you are having in either entering mail in white tubs or on pallets already.
- Tell us how feasible it may be for you to enter bundles on pallets or in tubs rather than sacks, even if you aren't already.
- Tell us of other ideas on how to prepare mail without sacks, or alternate practices you have experienced.

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Send your replies to MAX HEATH via e-mail to [maath@kmi.com](mailto:maath@kmi.com), or by regular mail: P.O. Box 549, Shelbyville, KY 40066. I'd like to get your input immediately, but knowing it may take some time to assess your situation and respond, let's shoot for an Aug. 1, 2004 deadline.

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