

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20068-0001**

Postal Rate and Fee Changes, 2006

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Docket No. R2006-1

**RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS HEATH TO
INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS/NNA T1-7-25)**

NNA hereby provides responses to interrogatories of the United States Postal Service, USPS/NNA T1-7-25. Each interrogatory is repeated verbatim and a response follows.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have filed the foregoing document online in accordance with the Commission's Rules of Practice.

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October 18, 2006
Arlington, VA 22206

RESPONSES OF NATIONAL NEWSPAPER ASSOCIATION WITNESS HEATH TO
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USPS/NNA-T1-7 In your testimony on page 14, lines 26 to 33, you describe a 2003 experiment involving the Searchlight newspaper in Prentiss, MS, which is edited by NNA member Patsy Speights. In that experiment, Mrs. Speights shifted her Outside County mail out of sacks and into flats tubs. In your testimony on page 15, lines 5 to 6, you state, "Mrs. Speights has reduced her container use from 68 sacks to 26-27 tubs."

(a) Please describe the 68 sacks prepared by Mrs. Speights prior to the experiment by reference to the sacks' i) presort level, and ii) average size, in terms of pieces.

(b) Of the 68 sacks, approximately how many contained fewer than 24 pieces?

(c) Please describe the 26-27 flats tubs prepared by Mrs. Speights as a result of the experiment by reference to the tubs' i) presort level, and ii) average size, in terms of pieces.

(a-c) I do not have access to the specifics of Mrs. Speights's mailing profile. My description of her sack reduction comes from her oral reports to me, as I was an informal consultant to newspapers in Mississippi at the time of this experiment, trying to help them improve very poor in-state delivery of newspapers.

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USPS/NNA-T1-8

- (a) Please describe the usage of sacks by newspapers following the promulgation of the 24-piece sack rule.
- (b) What are the approximate median piece counts of sacks prepared by a typical LCNI, and an NNA-member, newspaper?
- (c) Based on typical mail piece characteristics, what is an approximate or median quantity of pieces that such newspapers are able to place in a flat tub?

RESPONSES:

(a) I am not sure what usage you refer to here, but I can confirm that newspapers I am aware of continue to use them. Newspapers now must comply with the 24-piece sack rule, at considerable degradation of service, I might add. Therefore sack use has been cut considerably, as much as half at some papers I am familiar with, less at others. The range is from about 22% reduction to as high as 71%, depending on volume.

(b) Median piece counts for a typical LCNI newspaper are approximately 35 per sack. Most of that is outside the trade area of the newspaper, as we typically do unsacked bundles to DDU within the county and sometimes extended trade area. I could not estimate a typical piece count for an NNA newspaper.

(c) Depending on the size in pages and sections, i.e. the bulk of a newspaper, a newspaper can put as many as 200 pieces of a small two-fold tabloid in a flats tub. Larger, bulkier broadsheet papers may be limited to as few as 15-20 per tub. So it can run the gamut from 20 to 200.

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USPS/NNA-T1-9 In your testimony on page 15, lines 10 to 11, you state in reference to the experiment in Maine, "I understand it is still ongoing and has produced container reductions and improved service." Please quantify the "container reductions" that have occurred as a result of the experiment.

Response:

My company does not own newspapers in Maine. I have not directly consulted with Maine newspapers on this experiment. I do not have a container count for Maine newspapers. But I have been told by NNA members there that it has greatly improved service within the state and may have resulted in a small container reduction based on preferred sortations to certain postal operations.

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USPS/NNA-T1-10 In your testimony on page 16, lines 19 to 20, you state, "I believe tubs actually do avoid some expense for the Postal Service and for mailers, besides the apparent service improvements, compared to sacks." Also, in your testimony on page 17, lines 16 to 17, you propose that the Commission "reject the proposed charge on [flats tubs] altogether.'

(a) Please confirm that a flats tub is a container. If you do not confirm, please explain.

(b) Please confirm that flats tubs do cause the Postal Service to incur some costs for handling them. If you do not confirm, please explain.

(c) Please confirm that if the container charge is imposed on flats tubs, it would provide mailers with an incentive to utilize tubs more efficiently, which would thereby reduce the number of tubs that are entered. If you do not confirm, please explain.

RESPONSES:

(a) Confirmed.

(b) I presume that there are costs, but I am unaware of any quantification by the Postal Service of such costs. USPS operational personnel have frequently told me that trays are easier to unload, handle, and sort, often with the use of a Low Cost Tray Sorter, and that leads to quicker processing times. Ease and speed for USPS should equal minimal costs. USPS has repeatedly complained about newspapers' use of sacks, and sack "surcharges" were suggested to be appropriate. To me, providing a more efficient, easier-to-use alternate container like a tray and then sticking it with the same charge as the supposedly highly inefficient sack is a "bait and switch" tactic of the worst order.

(c) I cannot confirm. A charge might induce mailers already using tubs to use fewer tubs, but it also would discourage mailers presently using sacks from shifting to tub use, so it might not encourage efficiency with regard to tub use at all. Newspaper mailers are more interested in getting timely delivery for their non-local subscribers, and may well choose to use more tubs if that works best for delivery. But if USPS wants to eliminate sacks, the pricing signal should not be the same for trays as sacks.

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USPS/NNA-T1-11 In your testimony on pages 17 and 18 you assert that the container charge should not be applied to "uncontainerized mail." Please confirm that by "uncontainerized mail," you mean unsacked bundles entered at the delivery unit pursuant to DMM 707.23.4. If you do not confirm, please explain.

RESPONSES:

I mean unsacked bundles. If loose copies were permitted to be entered in some smaller post offices, these would also fit into the "uncontainerized mail" category.

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USPS/NNA-T1-12 In your testimony at page 18, lines 23 to 24, you state in reference to applying the Outside County container charge to “uncontainerized mail,” “A surcharge gives me no incentive to push this practice further.” Please also refer to the Postal Service’s response to Presiding Officer’s Information Request No. 30 (Tr. 7/1615-18) and to Tr. 7/1857. Please confirm that a mailer who enters mail in unsacked bundles rather than in sacks or tubs would pay a lower container charge in situations where the number of 5-digit ZIP Codes to which the mail is destined is lower than the number of containers that would be required to hold the mail. If you do not confirm, please explain.

RESPONSE:

Confirmed as the hypothetical you pose, but for many community newspapers, only one container would be used at many 5-digit zip entry points. So the number of hypothetical containers in many cases would equal the number of 5 digit ZIP codes.

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USPS/NNA-T1-13 Please confirm that mailers utilizing flats tubs and unsacked bundles pay the same piece rates as all other Outside County mailers. If you do not confirm, please explain.

RESPONSE:

If you mean Outside County mailers using flats tubs and unsacked bundles, confirmed.

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USPS/NNA-T1-14 In your testimony on page 19, lines 13 to 14, you state, “Many publishers who have consulted with me for budgets are finding similar ranges of impact.”

- (a) How many publishers are you referring to?
- (b) Please provide the percentage changes that they reported, and provide the underlying calculations supporting those percentage changes.

RESPONSES:

(a) I speak to or e-mail with 5-6 publishers in a typical week, in addition to conducting mail seminars for larger groups a half dozen times within a typical year. Those that produce highly-efficient newspaper mail, high-density walk-sequenced and entered at a delivery office, are simply getting larger percentage increases than less efficient mail not meeting those characteristics.

(b) I do not ask them for their calculations and therefore do not have them, but the ranges I am hearing from publishers run from 25% to 31%. Please see also Appendix B of my testimony.

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USPS/NNA-T1-15 In your testimony on page 19, lines 18 to 20, you state, "Less efficient mail is increased by smaller percentages than more efficient mail, which appears backwards and wrong-headed to me."

(a) Is it your testimony that the appropriateness of a rate design is measurable only in terms of relative percentage increases? Please explain.

(b) Please confirm that for any two pieces of mail paying different rates, if a fixed amount is added to the rates paid by both pieces of mail, the mail at the lower rate will have a larger percentage increase than the mail at the higher rate. If you do not confirm, please explain.

(c) In the hypothetical posed in part (b), assume that the fixed amount of cost incurred by both pieces of mail is independent of their worksharing activity. Do you believe that, in order to obtain proper rates, the mailer with the lower initial rate should be given less of the fixed amount originally added to both rates? Please explain.

RESPONSES:

(a) I suppose "appropriateness" is meant as a subjective term, but I would not consider it appropriate to encourage lower density mail, or not properly incent high-density mail.

(b) Confirmed.

(c) My understanding is that fixed costs are generally assigned to mailers through a variety of criteria. I don't know in this hypothetical whether you are asking if two periodicals' mailers in the same subclass should receive the same markup, but if you are, I would agree with you and point out that the mailer with the most efficient mail, if properly recognized with discounts, would end up paying the lower rate.

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USPS/NNA-T1-16 Please refer to page 19, line 30, of your testimony. Based on your experience, please provide your best estimate as to the typical weight of a weekly community newspaper that utilizes Within County rates.

RESPONSE:

In my experience, I believe 4 to 8 ounces would be a valid mean range.

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USPS/NNA-T1-17 Please refer to page 20, lines 16 to 22, of your testimony.

(a) Please explain the derivation of the 1.7 cents figure, with specific citations to supporting materials.

(b) Please confirm that discounts are based on the costs avoided by the Postal Service rather than the costs incurred by a mailer.

RESPONSES:

(a) 1.7 cents is the amount of the DU entry discount, pound and piece combined, for a paper weighing about 5 oz. That is an ounce more than stated in colleague Sosniecki's testimony, but perhaps he was estimating.

(b) Not confirmed. The Postal Service seems to measure its avoided costs, but to apply an array of passthroughs in deciding how much of that cost savings to pass on. I would say the discounts are not wholly based on either, from that perspective.

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USPS/NNA-T1-18 Please refer to your testimony from page 20, line 24, to page 21, line 4.

(a) Please confirm that the Postal Service's proposed rate differential between the carrier route basic piece rate and the carrier route high density rate is the same as the differential in current rates.

(b) Considering your answer to part (a), please explain how can it be said that the Postal Service's proposal "punish[es]" high density mail?

RESPONSES:

(a) confirmed.

(b) because the percentage increase is significantly higher for high density mail entered at a DDU (22-27% from 1-16oz.) than for carrier route entered at DDU (33-31%).

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USPS/NNA-T1-19 In your testimony on page 22, lines 10 to 12, you state, “For the 22% of Within County mail that remains at the basic, 5-digit, and 3-digit levels, 170.8 million pieces are nonautomation flats, which is about 14% of the subclass.” Please confirm that the correct figure is 107.9 million non-carrier route nonautomation pieces rather than 170.8. If you do not confirm, please explain your derivation of the 170.8 million figure, with citations to supporting materials.

RESPONSE:

Confirmed.

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USPS/NNA-T1-20 In your testimony on page 23, lines 2 to 4, you state that the Postal Service's proposed Within County rates "do[] not provide sufficient incentive for high density mail, which is the category that publishers should be aiming for by increasing their readership on routes where they could achieve the density targets."

(a) Is it your testimony that the passthrough for the high density rate should be increased in order to provide publishers with an incentive to seek out new subscribers on particular carrier routes? If this is not your testimony, please explain.

(b) Do you agree that increasing the passthrough for the high density rate would increase the rates for other types of pieces assuming a fixed Within County revenue requirement? If you do not agree, please explain.

(c) Do you agree that a newspaper's incentive to increase its circulation is independent of any desire to qualify for a particular postage rate? If you do not agree, please explain.

RESPONSES:

(a) That would make a lot of sense. It would benefit both the Postal Service and the mailer.

(b) I agree. Witness Siwek has proposed a number of adjustments within the subclass that make more sense than the rate design proposed here.

(c) I do not agree. Publishers have many reasons to seek subscribers, but I often work with publishers to concentrate their subscription campaigns in carrier routes where they might gain a discount with an increase in subscribers. The 25% level needed for high density is a realistic and acceptable level of mail delivery route penetration to be strived for, for many reasons, postage savings included.

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USPS/NNA-T1-21 Based on your experience, please describe those Within
County newspapers that typically use the non-carrier-route rate categories.

RESPONSE:

Most community newspapers I am familiar with use non-carrier-route rate categories. Generally those categories are used because the mail in a given carrier route does not achieve the density required for the discounts and therefore, even if the mail is sorted to the carrier route, it would not be reported as carrier route mail in the billing determinants.

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USPS/NNA-T1-22

(a) Please approximate, or provide your best estimate of, the percentage of i) LCNI newspapers, and ii) NNA newspapers, that use the carrier route rate categories.

(b) Please approximate, or provide your best estimate of, the percentage of i) LCNI newspapers, and ii) NNA newspapers, that use the carrier route high density category.

RESPONSES:

(a) (i) In my company, it is 100%. (ii) I can only guess at it, but from seeing numerous postage statements, it is probably 95% or more.

(b) For LCNI Newspapers, it is about 64% of titles that have some high density rate usage, representing 50% of our in-county volume. (ii) I can only guess at it, but from my viewing of member postage statements, it may be closer to 50%.

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USPS/NNA-T1-23 Please refer to page 5, lines 30 to 31, of your testimony. Please confirm that the base year in Docket No. R94-1 was FY 1993 rather than FY 1996. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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USPS/NNA-T1-24 In your testimony on page 6, lines 24 to 25, you state, “I have a high degree of confidence that newspaper mailing practices remain relatively stable over time.” However, at lines 26 to 28 of that same page, you state that the newspaper industry is “more sophisticated, and engages in a much higher degree of mail preparation,” and at lines 27 to 28 of page 21 you state that the billing determinants “show how highly efficient this subclass has become.”

Please explain what you mean when you state that “newspaper mailing practices remain relatively stable over time” in light of your other statements.

RESPONSE:

I mean that newspapers use the mail for relatively the same purposes from year to year, as opposed to other delivery options--such as single copy or private carrier delivery. Thus, the apparent fluctuations in volumes make no sense to me. I find that the subscriber numbers remain relatively stable over time, which drives the mailing practices for carrier route, high density, DU entry, etc.

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USPS/NNA-T1-25 In your testimony on page 13, lines 12 to 13, you state, "If the Commission used a four year look-back, as it did in the past, the average number of pieces would be 791,553 for the base year." Please explain how this figure was estimated, with specific citations to supporting materials.

RESPONSE:

I calculated this figure from the volume data for Within-County mail provided by witness Pafford in LR-L-20, the Revenue, Piece, Weight system summary report. The total annual volumes provided there for 2002-2005 are as follows:

2005	762,763
2004	760,020
2003	793,521
2002	849,911

The total of those years' volumes equals 3,166,215. Divided by four, the average volume total would be 791, 553.8