

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Dan G. Blair, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton;  
Ruth Y. Goldway; and  
Tony L. Hammond

Modification of Analytic Principles  
Used in Periodic Reporting

Docket No. RM2009-7

COMMENTS OF THE  
NATIONAL NEWSPAPER ASSOCIATION (NNA)  
(July 31, 2009)

Pursuant to Order No 245 establishing a period of comment following a notice of proposed rulemaking, National Newspaper Association hereby offers its comments for the record.

National Newspaper Association (NNA) represents approximately 2,500 newspapers, including weekly and small daily publications that typically rely heavily upon periodicals mail for delivery. Since NNA's founding in 1885, the concerns of community newspapers in the mail have driven much of the organization's work. NNA appeared before the Postal Rate Commission in every omnibus rate case under the cost-of-service cases mandated by the Postal Reorganization Act of 1970. A review of Commission dockets would demonstrate that NNA has appeared as the primary—and usually the sole—party to represent the interests of Within County periodicals mailers.

NNA applauds the United States Postal Service's continuing desire to improve its measurement systems and to shave costs from the methods that may have worked well (or not so well as in the case of the instant system) in the past. But it fears the changes

in the Revenue Piece and Weight (RPW) measurement intended for Within County mail suggested here will simply pluck Within County mail out of the fire and put it into the frying pan.

NNA here expresses its concerns. It further advances its belief that the Commission should pose some questions before accepting the USPS proposal. NNA notes that estimates from nonautomated post offices still produce a significant portion of the subclass's volume totals. It posits that possibly a quarterly or even an annual census of the nonautomated offices should continue until many more of the nonautomated offices are converted to Postal One. It also raises the possibility of continuing the Commission's requirement of using multi-year averages to provide the basis for annual volumes when rates are calculated, in the interest of cushioning the subclass from potential data flaws and protecting it from the results of outcomes that may produce dramatically new—whether better or worse—results.

In this rulemaking, the Postal Service proposes a change in the methodology of producing its volume and weight metrics that strikes at the heart of NNA's principal concern in the proceedings of this Commission and its predecessor PRC: the accurate measurement of the subclass. NNA raised concerns about data quality for Within County mail, particularly volume data, in the omnibus rate cases of R94-1, R97-1, R2000-1, R2005-1 and R2006-1. NNA has developed a robust record on the Postal Service's building of Within County mail data from a combination of automated volume-county programs (first the BRAVIS system, then the PERMIT system and now Postal One) and a stratified sample of nonautomated post offices. In the early years, nearly half the volume in the subclass derived from the sampling systems. In the final litigated case, R2006-1, Within County Mail comprised nearly 40 percent of volume counted through the sampling system. Postal Rate and Fee Changes, 2006, Docket No. R2006-1, Tr.9/2556.

NNA has repeatedly questioned the paucity of the samples drawn from the panel of nonautomated offices. In R2006-1, for example, data were drawn from only 44 out of 5,141 post offices. R2006-1, Tr. 9/2259, LR-L-17, Table 1 at 2. Not surprisingly, the small samples led to high co-efficients of variation (CVs). For example, PostalOne census data provided in that docket yielded CVs of .07 for volume estimates, but the stratified sample yielded a CV of 2.29. Tr. 9/2252.

Inaccuracies in volume measurement carried grave consequences in the era of cost-of-service cases. The accuracy of volume estimates was important because too-few pieces in a subclass meant higher rates for the remaining pieces. In a large subclass, the miscounting of a few pieces has little effect. In a small subclass, omitting any volumes can affect rates. Also, the low reliability of the data from the stratified sample repeatedly produced the impression that wild and unexplainable variations in the subclass volumes occurred from year to year, despite publishers' testimony that their use of the mail had changed very little.

Below is a summary from Docket R2006-1 of some historic volume numbers drawn from this system showing how erratically the volumes appeared to swing from year to year.

Within-County Volume  
Changes over previous year

Year	Volume change
1971	-1.72%
1974	-6.05%
1980	-12.47%
1984	+4.35%
1985	+34.80%
1987	-14.87%
1991	-14.09%
1992	-0.67%
1995	-11.20%
1998	+8.15%
1999	-2.80%
2004	-4.22%

These dramatic volume swings have never made real-world sense to NNA and the organization has repeatedly pointed out that they do not comport with publishing patterns witnessed within NNA's membership. NNA's expert witness, Max Heath, testified that through observations made during his national educational seminars, his consulting for newspapers and investigation of activity within his own community newspaper company, he could not support the supposition that the actual volume of Within County mail from year to year could be so erratic. NNA T-1 at 12. The Postal Service has never offered a rationale that would explain such changes from year to year. In R2006-1, USPS witness Thress, the forecasting expert in that case, testified that he thought the subclass was relatively inelastic, Tr. 6/1261, so price changes likely would not have caused volumes to rise or fall dramatically. No witness has ever raised data that indicate major mailing changes by community newspapers; indeed, the venerable USPS witness Tolley, expert in so much of mailers' behavior, often lamented

the inability to find real data about weekly newspaper mailing habits, and simply used industry studies of irrelevant large daily newspaper circulations (usually delivered outside the mails) to explain his forecasts.

The Commission has urged the Postal Service over the years to improve the system. But in the face of continued unreliability in the volume estimates, it has resorted to using a total volume figure derived from a multi-year average. It began this practice in Dockets No. R97-1 and R2000-1 and continued it, albeit with some reluctance, with a four-year average in R2006-1. Opinion and Recommended Decision, R2006-1 at 358.

In the 1990s, the Postal Service announced it intended to develop a separate accounting cost to measure Within County revenues, so that it could try to validate the questioned results from the sampling system against a more reliable system that tabulates publishers' postage payments. But then in R2006-1, after a substantial period during which NNA believed a new accounting (AIC) code was being used for validation, the Postal Service announced that the AIC had proven unreliable, and was not being used to validate volumes. The colloquy between NNA and USPS Witness Bradley Pafford is provided here:

**NNA/USPS-T3-6.** Please confirm that the Postal Service maintains an AIC specifically for Within-County revenues and identify that account. If you confirm, please explain why sampling is necessary to estimate revenues associated with this subclass.

**RESPONSE:**

Confirmed. AIC224 is the account number for Within County. It was established in FY1999 with some interest in tying the BRPW Within County estimates to this AIC. The current approach controls each sub-category of Periodicals by the ratio of total Periodicals AIC revenue to BRPW estimated revenue (see formula (2). USPS-LR-L-17/R2006-1, page 4). These ratios have been consistently near 1 .0. However, AIC224 revenue ratios have not been consistent. AIC224 revenue for FY2004 was \$66,241,000 while the estimated Within County revenue was \$72,127,000. In FY2005 AIC224 revenue was \$67,517,000 while the estimate was \$71,714,000. These differences could be related to the manual reporting of Within County revenue for smaller offices, the fact that Centralized Postage

Payment postage statements (AICI 36) may report some Within County revenue, or other reasons unknown. Until such issues are resolved, we will not use AIC224 revenue for this subclass.  
R2006-1, Tr. 9/2254.

Now comes the Postal Service with a proposal to eliminate the sampling panel altogether, deeming it increasingly unreliable as Postal One offices come online, and too costly to retain. It proposes instead to match the nonautomated offices with Postal One offices of similar size and to impute volume estimates to the nonautomated offices from models created by the Postal One census data. But it admits it had questions about whether the new system would produce reliable results for Within County volumes.

Having found that 31 percent of Within County volumes derive from the sampling system, USPS initiated a survey of 4,100 offices for FY 2008 Quarter 2 volumes. It reports that response rate from these offices was over 91 percent. It believes the missing 9 percent would not have mattered much to the outcomes unless those missing offices had dramatically different data. It matched the survey results to the model and found only a 2 percent point discrepancy between the survey-reported volumes and the model-reported volumes. But the aged sampling panel's results compared to the survey would have shown an 8 point spread, USPS reports. Thus, while it finds the model result to be somewhat imperfect, it assures the Commission that the new model will work better than the old one. It discloses, however, that the new model now finds 11.7 % fewer pieces than the sampling panel would have reported.

The implications of this change for Within County mail are potentially grave. Though postal rates are now set through the price cap system required by the 2006 Postal Accountability and Enhancement Act (PAEA), the Postal Service has insisted upon the right to apply the cap to mailing *classes*, not *subclasses*. Undercounted subclass volumes in a cost-of-service case could lead to higher apparent incremental costs per unit and greater imposition of institutional costs per unit, and thus higher rates.

A price cap that rested upon a subclass level would yield some protection from price increases flowing from flawed volume measurements. But that is not the system provided by PAEA. A price cap system resting over a mailing class comprising over 90 percent Outside County subclass and a 10 percent Within County subclass gives the Postal Service substantial discretion to impose disproportionate increases upon the smaller subclass. To the extent that Within County mailers sometimes faced 20-30% rate increases and an occasional 1-5% decrease in cost-of-services cases where systemwide increases might be 10-12 percent, PAEA offers even less protection because of the limited ability of ratepayers to examine and challenge underlying data. The mailers are even more heavily dependent upon the Commission's oversight in these matters now than in the past.

Thus, NNA hopes the Commission will thoroughly examine this proposal before agreeing to adopt the new methodology for Within County Mail. NNA provides here a list of questions whose answers might help the Commission to examine the fairness and efficacy of the new system, and to examine potential solutions to help to protect the small mailers within the subclass.

1. USPS said it surveyed 4,100 offices with Periodicals activity. Appendix B, Table 1, of its Proposal shows 7,125 nonautomated offices amassed into their stratum groupings.
  - a. Does that mean over 3,000 nonautomated offices had no Periodicals mailings in the measured quarter?
  - b. If 7,125 offices are nonautomated, what system captures revenue totals that would enable the survey designers to eliminate them from the census?
2. Which AIC code is presently used to capture revenue totals for Within County?

- a. Is it AIC 135, formerly used for all periodicals, or is AIC 224 presently in use? If AIC 135 or some other class-level accounting code is used, how does the Postal Service determine revenues for Within County mail?
  - b. Has USPS ever audited its nonautomated offices to determine whether they reliably report Within County revenues by the correct AIC?
  - c. Was the revenue total for the quarter measured ever matched to the results of the 4,100 office survey, and if so, was the reported revenue an amount that would be presumed from the volumes reported in the census? If not, why not?
3. Will the strata used for the matching in the proposed model remain the same as reported in Table 1?
4. The Postal One offices in the 3 lowest strata represent 43, 31 and 17 percent of the total offices in those strata, respectively.
  - a. What proportion of Within County volumes come from those three strata?
  - b. What are the high-low ranges of potential volumes that reliably could be estimated from the model, given the disproportionate numbers of nonautomated offices in those strata?
  - c. Would the Postal Service expect the volume estimates from the new model to report less dramatic swings in year-to-year or even quarter-to-quarter results than those that came out of the old sampling panels?
5. What was the cost of producing the census with a 91% response rate?
  - a. What would be the cost of producing quarterly reports from an updated sampling model?
  - b. What about annual reports? Would it be reasonable to replace the sampling model with an actual annual census for Within County mail?

- c. Were most of the 9% of nonreporting offices in the lowest strata? What could be done to encourage their participation in the future, should the Commission require a periodic volume census for the subclass?
6. The Postal Service reports the pace of conversion of nonautomated offices to Postal One in Appendix A, Table 2. It appears that the conversion rate has slowed considerably in FY 2009.
  - a. Is the slower rate expected to continue?
  - b. Has the Postal Service reached its anticipated ceiling for these conversions, given the smaller and more rural nature of the remaining nonautomated offices? Will some of these offices be closed, in light of the Postal Service's continued rationalization of its network and post office operations?
  - c. How many offices are likely to remain nonautomated throughout their tenure as operating offices, and what proportion of Within County mail volumes are likely to need to be estimated through some non-census method for the foreseeable future?
7. If the reliability of the new model is not considered sufficiently sound to protect Within County mailers from rate increases that may be based upon data resulting from imputed data rather than true changes in volume, does it make sense for the Postal Service to produce multi-year averages for purposes of calculating rates, as the Commission has imposed in PRA-era rate recommendations? Even if the Postal Service declines to view its new model as insufficiently reliable, should it consider softening the impact of the adjustments by using multiyear averages in the interest of fairness to the mailer?

NNA fully appreciates the magnitude of challenged faced by the Postal Service in this fiscal year, and in the foreseeable future. Any enterprise that leads to a reduction in cost is worth considering. Also, as the earlier dockets have amply

demonstrated, NNA has lost no love for the sampling panels. Thus, NNA is not categorically opposed to the use of the new system. It does question the reliability of the results.

Beyond questions of data quality, as cost-reduction proposals emanate that appear to threaten the ongoing ability of mailers to generate mail volumes in the immediate and middle-range future, NNA believes it is incumbent upon stakeholders to examine which cost-reductions will eliminate unnecessary work and which will drive a downward spiral of mail. Though this subclass may represent a small amount of revenue within Periodicals class, the mailers involved in this mail bring business for the system that reaches far beyond the Periodicals mailing class. Taking steps to drive this particular subclass further from the mails will cause publishers to develop alternative delivery systems, which can siphon other volumes from the mail and accelerate a downward spiral that can reach system-wide. Thus, even if the new system is deemed worth enough to warrant scrapping the old sampling model, NNA believes the Commission and Postal Service should employ the multi-year averages used in previous rate cases to help avoid dramatic impacts upon the mailers. It hopes the examination in this rulemaking will lead to results that help the Postal Service to eliminate costs, and the mailers to continue to support the system.

**Respectfully submitted,**

Tonda F. Rush  
Counsel for  
NATIONAL NEWSPAPER  
ASSOCIATION, INC

Tonda F. Rush  
King & Ballou  
PO Box 50301  
Arlington, VA 22205  
(703) 465-8808; (703) 812-4555 fax  
[NewsBizLaw@aol.com](mailto:NewsBizLaw@aol.com)  
July 31, 2009

