

Official Transcript of Proceedings

file

FEB 27 9 12 AM '98

Before the

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGES

Docket No. R97-1

VOLUME 27

DATE: Thursday, February 26, 1998

PLACE: Washington, D.C.

PAGES: 14477 - 15254

ANN RILEY & ASSOCIATES, LTD.

1250 I St., N.W., Suite 300

Washington, D.C. 20005

(202) 842-0034

1 BEFORE THE
2 POSTAL RATE COMMISSION

3 - - - - - X

4 In the Matter of: :

5 POSTAL RATE AND FEE CHANGES : Docket No. R97-1

6 - - - - - X

7

8 Third Floor Hearing Room

9 Postal Rate Commission

10 1333 H Street, N.W.

11 Washington, D.C. 20268

12

13 Volume 27

14 Thursday, February 26, 1998

15

16 The above-entitled matter came on for hearing,
17 pursuant to notice, at 9:30 a.m.

18

19 BEFORE:

20 HON. EDWARD J. GLEIMAN, CHAIRMAN

21 HON. W. H. "TREY" LeBLANC, III, COMMISSIONER

22 HON. GEORGE W. HALEY, COMMISSIONER

23 HON. GEORGE A. OMAS, COMMISSIONER

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES:

2 On behalf of the United States Postal Service:

3 SUSAN DUCHEK, ESQUIRE

4 ERIC KOETTING, ESQUIRE

5 RICHARD COOPER, ESQUIRE

6 MICHAEL TIDWELL, ESQUIRE

7 ANNE REYNOLDS, ESQUIRE

8 DAVID RUBIN, ESQUIRE

9 KENNETH N. HOLLIES, ESQUIRE

10 SCOTT L. REITER, ESQUIRE

11 ANTHONY ALVERNO, ESQUIRE

12 United States Postal Service

13 475 L'Enfant Plaza West, SW

14 Washington, D.C. 20260

15

16 On behalf of American Business Press:

17 DAVID STRAUS, ESQUIRE

18 Thompson Coburn

19 700 14th Street, NW, Suite 900

20 Washington, D.C. 20005

21 (202) 508-1013

22 fax (202) 508-1010

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Association of Alternate Postal Systems:

3 BONNIE S. BLAIR, ESQUIRE

4 Thompson Coburn

5 700 14th Street, NW, Suite 900

6 Washington, D.C. 20005

7 (202) 508-1003

8 fax (202) 508-1010

9

10 On behalf of Nashua Photo, Inc.; District Photo, Inc.;

11 Mystic Color Lab; Seattle FilmWorks, Inc.; ValPak Direct

12 Marketing Systems, Inc.; ValPak Dealers' Association; Carol

13 Wright Promotions:

14 WILLIAM J. OLSON, ESQUIRE

15 ALAN WOLL, ESQUIRE

16 JOHN S. MILES, ESQUIRE

17 JOHN F. CALLENDER, JR., ESQUIRE

18 William J. Olson, P.C.

19 8180 Greensboro Drive, Suite 1070

20 McLean, VA 22102-3823

21 (703) 356-5070

22 fax (703) 356-5085

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Readers Digest Association, Parcel Shippers
3 Association:

4 TIMOTHY J. MAY, ESQUIRE

5 Patton Boggs, LLP

6 2550 M Street, NW

7 Washington, D.C. 20037

8 (202) 457-6050

9

10 On behalf of Advertising Mail Marketing Association:

11 IAN D. VOLNER, ESQUIRE

12 Venable, Baetjer, Howard & Civiletti

13 1201 New York Avenue, NW

14 Washington, D.C. 20005

15 (202) 962-4814

16 fax (202) 962-8300

17

18 On behalf of the Dow Jones & Company, Inc.:

19 SAM BEHREND, ESQUIRE

20 MICHAEL F. McBRIDE, ESQUIRE

21 LeBoeuf, Lamb, Greene & Macrae

22 1875 Connecticut Avenue, NW

23 Washington, D.C. 20009

24 (202) 986-8018

25 fax (202) 986-8102

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Major Mailers Association:

3 RICHARD LITTELL, ESQUIRE

4 1220 19th Street, NW, Suite 400

5 Washington, D.C. 20036

6 (202) 466-8260

7

8 On behalf of the Office of Consumer Advocate:

9 SHELLEY S. DREIFUSS, ESQUIRE

10 KENNETH E. RICHARDSON, ESQUIRE

11 Office of the Consumer Advocate

12 Postal Rate Commission

13 1333 H Street, NW, Suite 300

14 Washington, D.C. 20268

15

16 On behalf of the United Parcel Service:

17 JOHN E. McKEEVER, ESQUIRE

18 Piper & Marbury

19 3400 Two Logan Square

20 18th and Arch Streets

21 Philadelphia, PA 19103

22 (215) 656-3310

23 fax (215) 656-3301

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Hallmark Cards, Incorporated:

3 DAVID F. STOVER, ESQUIRE

4 2070 S. Columbus Street, Suite 1B

5 Arlington, VA 22206

6 (703) 998-2568

7 fax (703) 998-2987

8

9 On behalf of ADVO, Inc.:

10 JOHN M. BURZIO, ESQUIRE

11 THOMAS W. McLAUGHLIN, ESQUIRE

12 Burzio & McLaughlin

13 1054 31st Street, NW, Suite 540

14 Washington, D.C. 20007

15 (202) 965-4555

16 fax (202) 965-4432

17

18 On behalf of Time Warner, Inc.:

19 JOHN M. BURZIO, ESQUIRE

20 TIMOTHY L. KEEGAN, ESQUIRE

21 1054 31st Street, NW, Suite 540

22 Washington, D.C. 20007

23 (202) 965-4555

24 fax (202) 965-4432

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Direct Marketers Association:

3 DANA T. ACKERLY, II, ESQUIRE

4 MICHAEL D. BERGMAN, ESQUIRE

5 Covington & Burling

6 1201 Pennsylvania Avenue, NW

7 Washington, D.C. 20016

8 (202) 662-5296

9 fax (202) 778-5296

10

11 On behalf of the Newspaper Association of America:

12 WILLIAM B. BAKER, ESQUIRE

13 ALAN R. JENKINS, ESQUIRE

14 MICHAEL YOURSHAW, ESQUIRE

15 Wiley, Rein & Fielding

16 1776 K Street, NW

17 Washington, D.C. 20006

18 (202) 429-7255

19 fax (202) 429-7049

20

21 ROBERT J. BRINKMANN

22 Newspaper Association of America

23 529 14th Street, NW, Suite 440

24 Washington, D.C. 20045-1402

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the McGraw-Hill Companies, Inc.:

3 TIMOTHY W. BERGIN, ESQUIRE

4 Squire, Sanders & Dempsey

5 1201 Pennsylvania Avenue, NW, Suite 500

6 P.O. Box 407

7 Washington, D.C. 20044

8 (202) 626-6608

9 fax (202) 626-6780

10

11 On behalf of the Mail Order Association of America:

12 DAVID C. TODD, ESQUIRE

13 Patton Boggs, LLP

14 2550 M Street, NW

15 Washington, D.C. 20037

16 (202) 457-6410

17 fax (202) 457-6513

18

19 On behalf of David B. Popkin:

20 DAVID B. POPKIN

21 P.O. Box 528

22 Englewood, NJ 07631-0528

23 (201) 569-2212

24 fax (201) 569-2864

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Magazine Publishers of America:

3 JAMES R. CREGAN, ESQUIRE

4 Magazine Publishers of America

5 1211 Connecticut Avenue, NW, Suite 610

6 Washington, D.C. 20036

7 (202) 296-7277

8 fax (202) 296-0343

9

10 On behalf of the Alliance of Nonprofit Mailers:

11 JOEL T. THOMAS, ESQUIRE

12 11326 Dockside Circle

13 Reston, VA 20191

14 (703) 476-4646

15 fax (703) 620-2338

16

17 On behalf of the National Newspaper Association:

18 TONDA F. RUSH, ESQUIRE

19 King & ~~Ballon~~ Ballou

20 P.O. Box 50301

21 Arlington, VA 22205

22 (703) 534-5750

23 fax (703) 534-5751

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the National Newspaper Association:

3 [continued]

4 SENNY BOONE

5 National Newspaper Association

6 1525 Wilson Boulevard, Suite 550

7 Arlington, VA 22209

8 (703) 907-7900

9

10 On behalf of the National Federation of Nonprofits:

11 CAROLYN EMIGH, ESQUIRE

12 Nonprofit Service Group

13 815 15th Street, NW, Suite 822

14 Washington, D.C. 20005

15 (202) 628-4380

16

17 On behalf of the Florida Gift Fruit Shippers Association:

18 M.W. WELLS, JR., ESQUIRE

19 Maxwell W. Wells, Jr., P.A.

20 105 E. Robinson Street, Suite 201

21 Orlando, FL 32801

22 (407) 422-8250

23 fax (407) 422-8262

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Recording Industry Association of America,
3 and Advertising Mail Marketing Association:

4 N. FRANK WIGGINS, ESQUIRE

5 Venable, Baetjer, Howard & Civiletti, L.L.P.

6 1201 New York Avenue, NW

7 Washington, D.C.

8 (202) 962-4957

9

10 On behalf of Edison Electric Institute:

11 R. BRIAN CORCORAN, ESQUIRE

12 Oliver & Oliver, P.C.

13 1090 Vermont Avenue, NW, Suite 800

14 Washington, D.C. 20005

15 (202) 371-5656

16 fax (202) 289-8113

17

18 On behalf of American Business Press:

19 STEPHEN FELDMAN, ESQUIRE

20 Ramsey, Cook, Looper & Kurlander

21 c/o Thompson Coburn

22 700 14th Street, NW, Suite 900

23 Washington, D.C. 20005

24 (202) 508-1022

25 fax (202) 508-1010

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Douglas F. Carlson:

3 DOUGLAS F. CARLSON

4 P.O. Box 12574

5 Berkeley, CA 94712-3574

6 (510) 597-9995

7

8 On behalf of the Alliance of Non Profit Mailers:

9 DAVID M. LEVY, ESQUIRE

10 Sidley & Austin

11 1722 I Street, NW

12 Washington, D.C. 20006-3704

13 (202) 736-8214

14

15 On behalf of the National Association of Presort Mailers:

16 HENRY HART, ESQUIRE

17 Hazel & Thomas

18 P.O. Box 820

19 Alexandria, VA 22313

20 (703) 838-5153

21 fax (703) 836-8062

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of Brooklyn Union Gas Company:

3 MICHAEL HALL, ESQUIRE

4 Cullen & Dykman

5 1225 19th Street, NW

6 Washington, D.C. 20036

7 (202) 223-8890

8

9 On behalf of Niagara Telephone Company:

10 TIMOTHY E. WELCH, ESQUIRE

11 Hill & Welch

12 1330 New Hampshire Avenue, NW, Suite 113

13 Washington, D.C. 20036

14 (202) 775-0070

15 fax (202) 775-9026

16

17 On behalf of the Coalition of Religious Press Associations:

18 JOHN STAPERT

19 Associated Church Press

20 18653 N. 41st Place

21 Phoenix, AZ 85024-3759

22 (602) 569-6371

23 fax (602) 569-6180

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 APPEARANCES: [continued]

2 On behalf of the Greeting Card Association:

3 ALAN R. SWENDIMAN, ESQUIRE

4 Jackson & Campbell, P.C.

5 1120 20th Street, NW, Suite 300 South

6 Washington, D.C. 20036-3437

7 (202) 457-1645

8 fax (202) 457-1617

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1	C O N T E N T S				
2	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
3	GODFRED OTUTEYE				
4	BY MS. HANBERY	14492			
5	CHRISTOPHER M. LITTLE				
6	BY MR. CREGAN	14540			
7	MICHAEL DONLAN				
8	BY MR. BAKER	14666			
9	MAX HEATH				
10	BY MS. RUSH	14737			
11	BY MS. REYNOLDS		14871		
12	BY MS. RUSH			14887	
13	PATSEY SPEIGHTS				
14	BY MS. RUSH	14889			
15	DENNIS MacHARG				
16	BY MR. HART	14952			
17	BY MR. TIDWELL		14975		
18	SANDER A. GLICK				
19	BY MR. GOLD	14993			
20	BY MR. RUBIN		15025		
21	DR. JOHN HALDI				
22	BY MR. OLSON	15034			
23	JOSEPH E. SCHICK				
24	BY MR. WIGGINS	15232			
25	BY MR. HOLLIES		15248		

1	DOCUMENTS TRANSCRIBED INTO THE RECORD:	PAGE
2	Direct Testimony and Exhibits of Godfred	
3	Otuteye, AISOP-T-1	14494
4	Designation of Written Cross-Examination of	
5	Godfred Otuteye, AISOP-T-1	14511
6	Direct Testimony and Exhibits of Christopher	
7	M. Little, MPA-T-1	14542
8	Designation of Written Cross-Examination of	
9	Christopher M. Little, MPA-T-1	14554
10	Additional Designation of Written Cross-	
11	Examination of Christopher M. Little,	
12	MPA-T-1	14660
13	Direct Testimony and Exhibits of Michael	
14	Donlan, NAA-T-2	14668
15	Designation of Written Cross-Examination of	
16	Michael Donlan, NAA-T-2	14682
17	Direct Testimony and Exhibits of Michael K.	
18	Hehir, MT-T-1	14702
19	Designation of Written Cross-Examination of	
20	Michael K. Hehir, MT-T-1	14729
21	Direct Testimony and Exhibits of Max Heath,	
22	NNA-T-1	14740
23	Designation of Written Cross-Examination of	
24	Max Heath, NNA-T-1	14785
25		

1	DOCUMENTS TRANSCRIBED INTO THE RECORD: [continued]	PAGE
2	Additional Designation of Written Cross-	
3	Examination of Max Heath, NNA-T-1	14869
4	Direct Testimony and Exhibits of Patsy	
5	Speights, NNA-T-2	14891
6	Designation of Written Cross-Examination of	
7	Patsy Speights, NNA-T-2	14928
8	Direct Testimony and Exhibits of Dennis	
9	MacHarg, NAPM-T-1	14954
10	Designation of Written Cross-Examination of	
11	Dennis MacHarg, NAPM-T-1	14964
12	Direct Testimony and Exhibits of Sander A.	
13	Glick, MPA-T-4	14995
14	Designation of Written Cross-Examination of	
15	Sander A. Glick, MPA-T-4	15006
16	Direct Testimony and Exhibits of Dr. John	
17	Halldi, VP/CW-T-1	15038
18	Designation of Written Cross-Examination of	
19	Dr. John Halldi, VP/CW-T-1	15167
20	Direct Testimony and Exhibits of Joseph E.	
21	Schick, AMMA-T-1	15234
22	Designation of Written Cross-Examination of	
23	Joseph E. Schick, AMMA-T-1	15244
24		
25		

1	E X H I B I T S		
2	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
3	Direct Testimony and Exhibits of		
4	Godfred Otuteye, AISOP-T-1	14493	14493
5	Designation of Written Cross-		
6	Examination of Godfred		
7	Otuteye, AISOP-T-1	14510	14510
8	Direct Testimony and Exhibits of		
9	Christopher M. Little, MPA-T-1	14541	14541
10	Designation of Written Cross-		
11	Examination of Christopher M.		
12	Little, MPA-T-1	14553	14553
13	Additional Designation of		
14	Written Cross-Examination of		
15	Christopher M. Little, MPA-T-1	14658	14658
16	Direct Testimony and Exhibits of		
17	Michael Donlan, NAA-T-2	14667	14667
18	Designation of Written Cross-		
19	Examination of Michael Donlan,		
20	NAA-T-2	14681	14681
21	Direct Testimony and Exhibits of		
22	Michael K. Hehir, MT-T-1	14701	14701
23	Designation of Written Cross-		
24	Examination of Michael K.		
25	Hehir, MT-T-1	14701	14701

ANN RILEY & ASSOCIATES, LTD.
 Court Reporters
 1250 I Street, N.W., Suite 300
 Washington, D.C. 20005
 (202) 842-0034

E X H I B I T S [continued]			
	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
1	Direct Testimony and Exhibits of		
4	Max Heath, NNA-T-1	14738	14738
5	Designation of Written Cross-		
6	Examination of Max Heath,		
7	NNA-T-1	14784	14784
8	Additional Designation of		
9	Written Cross-Examination		
10	of Max Heath, NNA-T-1	14868	14868
11	Direct Testimony and Exhibits of		
12	Patsy Speights, NNA-T-2	14890	14890
13	Designation of Written Cross-		
14	Examination of Patsy		
15	Speights, NNA-T-2	14927	14927
16	Direct Testimony and Exhibits of		
17	Dennis MacHarg, NAPM-T-1	14953	14953
18	Designation of Written Cross-		
19	Examination of Dennis MacHarg,		
20	NAPM-T-1	14963	14963
21	Direct Testimony and Exhibits of		
22	Sander A. Glick, MPA-T-4	14993	14993
23	Designation of Written Cross-		
24	Examination of Sander A.		
25	Glick, MPA-T-4	15005	15005

ANN RILEY & ASSOCIATES, LTD.
 Court Reporters
 1250 I Street, N.W., Suite 300
 Washington, D.C. 20005
 (202) 842-0034

1	E X H I B I T S [continued]		
2	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
3	Direct Testimony and Exhibits of		
4	Dr. John Haldi, VP/CW-T-1	15037	15037
5	Designation of Written Cross-		
6	Examination of Dr. John		
7	Haldi, VP/CW-T-1	15166	15166
8	Direct Testimony and Exhibits of		
9	Joseph E. Schick, AMMA-T-1	15233	15233
10	Designation of Written Cross-		
11	Examination of Joseph E.		
12	Schick, AMMA-T-1	15243	15243
13	Cross-Examination Exhibit		
14	USPS/AMMA-T1-XE-1	15251	
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			

P R O C E E D I N G S

[9:30 a.m.]

CHAIRMAN GLEIMAN: Good morning. We continue hearings in Docket R97-1 today. We are scheduled to receive testimony from Alliance of Independent Store Owners and Professionals, Witness Otuteye; Magazine Publishers of America, Witnesses Little and Glick; Newspaper Association of America, Witness Donlan; McGraw-Hill and Companies, Witness Hehir, National Newspaper Association, Witnesses Heath and Speights; National Association of Presort Mailers, Witness MacHarg; and ValPak, Carol Wright, Witness Haldi; and then we have rescheduled for today Advertising Mail Marketing Association, Witness Schick.

Does any participant have a procedural matter to raise before we begin today?

[No response.]

CHAIRMAN GLEIMAN: Well, I want to thank you all for not having any procedural matters to raise today.

Ms. Hanbery, if you would identify your witness so that I can swear him in.

MS. HANBERY: Thank you. Godfred Otuteye from Money Mailer. Whereupon,

GODFRED OTUTEYE,

a witness, was called for examination by counsel for the

1 Alliance of Independent Store Owners and Professionals and,
2 having been first duly sworn, was examined and testified as
3 follows:

4 CHAIRMAN GLEIMAN: Please be seated, and if you
5 could flip the mike on, there's a switch on the side of it.
6 Counsel, whenever you are ready.

7 DIRECT EXAMINATION

8 BY MS. HANBERY:

9 Q Mr. Otuteye, I am going to hand you two copies of
10 Direct Testimony of Godfred Otuteye on behalf of the
11 Alliance of Independent Store Owners and Professionals,
12 identified as AISOP-T-1. Would you identify this as
13 testimony prepared by you and under your direction?

14 A It is.

15 Q And is it -- if you were asked to testify to the
16 matters in that testimony, would that testimony be true and
17 correct as of today?

18 A Yes, it is.

19 MS. HANBERY: Chairman, we would ask that this
20 testimony be received and transcribed into the record.

21 CHAIRMAN GLEIMAN: Are there any objections?

22 [No response.]

23 CHAIRMAN GLEIMAN: Hearing none, Mr. Otuteye's
24 testimony and exhibits are received into evidence and I
25 direct that they be transcribed into the record at this

1 point.

2 [Direct Testimony and Exhibits of
3 Godfred Otuteye, AISOP-T-1, was
4 received into evidence and
5 transcribed into the record.]
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

AISOP-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Docket No. R97-1

POSTAL RATE AND FEE CHANGES

DIRECT TESTIMONY OF

GODFRED OTUTEYE

ON BEHALF OF

ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS

Communications with respect to this document may be sent to:

Donna E. Hanbery, Esq.
Hanbery, Neumeyer & Carney, P.A.
3725 Multifoods Tower
Minneapolis, MN 55402

Counsel for
ALLIANCE OF INDEPENDENT STORE
OWNERS AND PROFESSIONALS

December 29, 1997

DIRECT TESTIMONY OF GODFRED OTUTEYE

PERSONAL AND BUSINESS BACKGROUND

I am the Executive Vice President and Chief Operating Officer of Money Mailer, Inc. I joined the company in February, 1992. Previously I served as the Chief Operating Officer for DATADESK, a leading edge keyboard and input device manufacturer. I have an MBA from the University of Southern California and a BA in applied mathematics from Harvard University. Money Mailer is a member of the Alliance of Independent Store Owners and Professionals (AISOP) and a number of our customers are also AISOP members.

Money Mailer is a privately owned company started by our founder, Kris Friedrich, in 1979. Our company's vision and mission is:

To help businesses get and keep more customers
and to help consumers save money every day.

Money Mailer does business in the United States, Canada, and other nations. Our corporate headquarters are in Garden Grove, California. We have approximately 250 franchisees or licensees that provide direct mail advertising services to our 30,000 advertising customers.

Money Mailer's franchise network currently covers 30% of the United States. Locally zoned saturation mail advertising through a shared mail coupon envelope is the primary business of our company and our franchisees. We also offer solo mail advertising services and a program targeted to new movers.

PURPOSE AND SCOPE OF TESTIMONY

I am testifying on behalf of AISOP to explain the importance of affordable saturation mail advertising to small businesses. Over 90 percent of our customers are small businesses whose ability to get started, survive, and grow depends on reaching consumers residing in their local market area. In addition, most of our franchisees are themselves small businesses. Our

experiences in working with our small business customers are not unique, but are representative of hundreds of thousands of similar small businesses throughout the country.

Affordable postal rates are a key factor for both our own business and those of our customers. For this reason, on behalf of AISOP, Money Mailer, our 250 franchisees, and our 30,000 customers, we support the rates proposed by the United States Postal Service for Enhanced Carrier Route (ECR) saturation mail and the reduction in the pound rate for that type of mail. My testimony addresses the following matters from a marketplace perspective:

1. The nature and needs of small business advertisers.
2. The benefits of saturation mail advertising services in meeting those needs.
3. The price sensitivity of ECR saturation mail, both from the perspective of small business advertisers and our own business.
4. The benefits of affordable saturation mail rates to mailers, advertisers, and the Postal Service in generating not only saturation mail volumes but other mail volumes as well.
5. The marketing disincentive of the current high ECR saturation pound rate, and the benefits of the proposed pound rate in stimulating new volumes and postal revenue.

AFFORDABLE SATURATION MAIL RATES HELP SMALL BUSINESS ADVERTISERS

I understand that one of the questions the Commission asks in considering a Postal Service proposal is, "How will this affect Aunt Minnie?" I passionately believe that companies like Money Mailer, that provide saturation shared mail services, are helping America's small firms get in business and compete. These businesses are the Aunt Minnies of America.

More than 90% of our customers are "mom and pop" businesses. Many are sole proprietors or tradespeople who make a living by offering services to customers. These advertisers include professionals like realtors and dentists and service providers like manicurists,

seamstresses, snow removal contractors, and chimney sweeps. The "gross sales" of these small businesses are the equivalent of wages. The manicurist that does nails for \$20 per service thinks long and hard about paying \$350 to mail a coupon.

Our retail customers usually have a single store and employ fewer than 10 employees. These neighborhood businesses typically draw on customers in a three to five mile radius from their business. Most print and electronic media cover too broad a territory, and cost too much, to be effective for these stores.

Because our customers need to reach consumers who live near their businesses, we divide our advertising coverage into zones averaging about 10,000 households. We work closely with our customers to tailor their advertising coverage to their individual marketing areas and their limited advertising budgets. Some customers may mail to the same zones every time, while others, especially those with the most limited budgets, may rotate single-zone mailings among different zones over the course of the year, or even mail only once a year to one or two zones. The average buy for a Money Mailer customer is 1.7 zones, or about 17,000 households, mailed two or three times a year. Our average customer's annual advertising expense with Money Mailer's shared mail envelope program is \$1,200 to \$1,700. That may not seem like a lot of money in the context of these proceedings, but it is often a major financial decision for our customers.

The best way to show how Money Mailer and the Postal Service work together to help small business is by example:

Affordable Saturation Mail Can Help a Small Business Get Started

Closet Encounters started in the Washington, DC area as a new concept business selling closet organizing products and services. The entrepreneur who started the business had invested a lot of money in a beautiful new store. But when our Money Mailer sales representative called on the store, there were virtually no customers.

Like many small business owners, this entrepreneur had put everything he had into opening a business but had little capital left for promotion and advertising. Although this new business owner knew he had to do something to bring in customers, price and terms were of critical importance. To help him, Money Mailer allowed the Closet Encounters customer to purchase a coupon ad with installment payments. His coupon brought customers into the store and helped his business "take off." This customer became a regular advertiser. To attract and retain many of our customers, we offer term payments. Often, we must discount our prices. We truly are partners in our customers' success.

Many Small Businesses Need Mail Advertising to Survive

Many of our customers could not stay in business without mail advertising. The pizza business, for example, depends on coupons to generate customer calls and sales. The independent fast food, family restaurant, and carry out food businesses also depend on Money Mailer and the Postal Service to survive. But these businesses are all intensely cost conscious. Because they compete with large concerns that pay a much lower percentage of overall expenses to advertise (due to the efficiencies of more locations and greater buying power), the independent food business is one of our most penny pinching customers.

We have a family owned carry out and delivery Chinese restaurant that is typical of this advertising customer. Everyone in the family works in the restaurant. The owners, and their employees, do not speak English as a first language. All of their business comes in by telephone.

Because their menu is extensive, customers need to have the menu in front of them to place an order. We recommend to advertisers like this that selections be numbered to overcome language barriers and make it easier to take orders.

This restaurant needs to get menus in customers' hands to survive. But because cost is critical, the business cannot afford to mail its full-size 8½" x 11" menu in every coupon envelope. To stretch their advertising dollars as far as possible, they do a coupon size ad with some menu features into one zone and do a full page 8½" x 11" menu into another. They stagger the zones every mailing to get maximum coverage. As a service to this customer, Money Mailer also does overrun printing so that the restaurant can put copies of its menu in the bag with each order.

This customer would like to send its full menu into two zones with each mailing, but cannot afford to. This customer simply will not pay a cent more to advertise. If our prices go up, the response of customers like this is to cut back on their ads or to stop advertising all together.

Affordable Saturation Mail Can Help Small Businesses Grow

A new franchise business named Furniture Medic used Money Mailer to open its business. Furniture Medic is a mobile unit service that comes to consumers' homes to fix burn holes in carpet, repair damaged linoleum or countertops, reinforce broken chair legs, etc. The owner of a Furniture Medic franchise worked with a Money Mailer sales representative to pick the most promising territory and zone for starting his business. The business succeeded because the advertiser offered a great service and because Money Mailer helped him select the most productive zones to get started. The owner has now expanded his fleet by adding new mobile units and works closely with us to open and develop new territory.

Money Mailer Does Everything for the Small Business Customer but Deliver the Mail

Most small businesses lack the resources for a marketing or advertising department, and while they are good at running their businesses, most lack marketing expertise. Money Mailer

fills this need. We act as the printer, designer, marketing department, and often financial analyst and consultant for our customers.

Our franchisees work with advertisers to design and proof the ad. This includes making suggestions on the products and services to offer. Sometimes, our efforts can help turn a business around. This happened when a little upholstery shop owner complained to his Money Mailer sales representative that his coupon did not work and he could not afford to do more advertising. Our sales representative analyzed the ad and decided the shop needed a coupon with more than one promotion. The ad had been featuring big ticket items that only interested a few customers. He needed a low price item that could draw more customers.

In the course of discussing the shop owner's business needs and problems, our representative learned that the upholsterer had numerous bolts of remnant fabric left over from prior jobs. Working together, they designed an offer where the shop could reupholster dining room chairs for \$30 a chair--fabric and service included! Future coupons included this good value, low ticket item as well as another service. This ad has been working beautifully. The upholsterer, who is a Korean immigrant to this country, is typical of many of the first generation entrepreneurs who rely on Money Mailer and the Postal Service to help them earn a living or start a business to support themselves and their families.

There are other national, regional, or local businesses that provide shared mail programs or coupon books that are distributed other than by the U.S. mail. We want and need to offer more in price and service to keep and retain our customers. An example of one of the initiatives we launched to do more for our small business customers is our H.O.T! (Home Office Travel) Coupons™ internet site. In 1996, each customer that bought a coupon in our shared mail program was given an opportunity to have its coupon displayed on our internet page for free. We are constantly striving to come up with new ways to give value to our customers to keep their

business. We invested a lot to develop and promote our internet site and gave it to our advertisers. To keep and retain customers in a competitive environment, Money Mailer, like our advertising distribution competitors, has to do more and charge less.

PRICE SENSITIVITY OF SATURATION MAIL

The price sensitivity of our saturation mail business is due to several factors.

For our small business customers, the amount they can spend on advertising is constrained by their limited budgets. Most small businesses are already paying relatively more to reach their customers than their big business competitors. An independent pizza parlor might spend twice as much, as a percentage of overall sales, than its national chain competitor. Small businesses are particularly prone to respond to a price increase by cutting back, or eliminating, their advertising.

For our national and regional business customers, competition from other media plays a much larger role. Although national and regional businesses appreciate the ability of saturation mail to reach every home in a geographic area, these businesses have the economic bargaining power and number of geographic locations to make it cost-effective to use other mass media. Big advertisers have a variety of print and electronic media choices. Larger companies usually work with fixed media budgets and demand stable prices and discounts over an agreed to (contractual) period of time. When postal rates go up, the response of our non-postal competitors is to offer these big advertisers even better deals and deeper discounts. To get and hold the business of national and regional businesses, we have to offer much more attractive pricing. These are the customers that are very difficult for Money Mailer and its franchisees to attract or retain because postal distribution is generally more expensive than other mass media.

From Money Mailer's standpoint, we have learned from bitter experience that we cannot absorb or pass on large postal rate increases. The 14.4% postal rate increase of January, 1995 had a devastating affect on our company and our system.

Between 1992 and 1995, Money Mailer was on track to see its business double. The large and unexpected increase in saturation mail rates of over 14% in January, 1995 resulted in a big step backward for our company in number of franchisees and mail volumes. Volumes for our saturation shared mail envelopes are lower for 1997 than they were in 1994.

In human terms, the 1995 postage rate increase hurt many of the small businesses that make up our franchise system. Under our system, the responsibility for paying the 14.4% postage rate increase was passed on to our franchisees.

Most of the franchisees in the Money Mailer system are individuals or husband and wife teams. A typical franchisee might mail six or seven times a year into four or five zones of 10,000 homes each. Our franchisees have to find and serve a large number of customers to make their business a success.

As of 1994, a typical franchisee in our system might do \$200,000 in gross sales per year. When postal rates went up by over 14% in January, 1995, this added an additional \$5,000 in overhead to a typical franchisee. This may not seem like a lot of money in the world of postal finance, but it was the straw on the camel's back for many people in our system.

The shared mail coupon business is very price competitive. In the past five years, prices have not increased. In general, they have fallen by 10% to 20%. Most franchisees could not pass on increased postage costs to their customers. Our franchisees had to swallow all or part of the increased postage rates. Many of our franchisees found their gross profits cut by almost 50% in 1995. Throughout 1995 and 1996, we saw franchisees cut back on areas mailed and number of mailings. Some could not survive. They quit!

In 1995 and 1996, Money Mailer experienced its highest franchisee failure rate. Many left our system. Most of our franchisees tried to make up for their lost profits with higher revenues by selling more coupons. To fill the envelope to the break point, most franchisees found they had

to offer deep discounts or special pricing to sell the last spots in the envelope. Sales beyond the break point often seemed counterproductive to our franchisees because of the high pound rate.

Prior to reclassification, there was tremendous interest and pressure in the system to switch our distribution out of the mail. Some franchisees wanted us to explore ways to eliminate high postal costs through newspaper distribution or private delivery. We believe our advertisers get the best response rate when our envelopes are sent in the mail. But concerns about unpredictable or unreasonable postal rate increases keep us mindful of other options.

Our company name and logo makes it clear that we are committed to distributing our product through the United States Postal Service. We show this on our letterhead:

MONEY MAILER®
SUCCESS IS IN THE MAIL.

We do not want to switch our envelope distribution to newspapers or private delivery. But this business is tremendously price competitive. Most of our sales are to small businesses that appreciate our ability to provide a turnkey product that is targeted to their geographic market. In major metropolitan areas we have numerous competitors offering this type of service. Our competitors might include other national or local coupon envelope or shared mail programs that distribute by the United States Postal Service. Our mail competitors share the same high fixed costs we pay to be part of the mail stream. We also face fierce competition from daily newspapers, weekly newspapers, and free distribution papers like shoppers that may be distributed by mail, private delivery, or in racks. These papers often sell "run of press" coupons in a booklet, magazine, or tabloid that is inserted in the paper. Because many of these papers have very low distribution costs, they can always beat us in price.

This is one of the reasons it is often impossible to pass on cost increases to our customers. When postal costs go up, our non-postal competitors know this is the time to fight hardest for the business.

**REASONABLE RATES FOR ECR SATURATION MAIL
BOOST OTHER MAIL VOLUMES**

Money Mailer's saturation shared mail coupon envelope program is our core business. It gives local businesses a cost-effective way to do mass media advertising to geographic zones near their business.

Money Mailer has developed and is promoting two other advertising programs. We have a "new mover" program called "Home At Last®" that targets the approximately 15% of new households that move into a community each year. The Home At Last® envelope contains advertising of particular interest to people that just moved like cable TV and curtain and carpet installation as well as general advertising from businesses that are hoping the new resident might "try me" first. Because of the highly targeted nature of this mail, the price for participation in this envelope is much higher than our saturation mailings. To give the envelope the greatest value and impact possible, our advertisers are all requested to give consumers a substantial deal or discount. This gives our Home At Last® envelope the same appeal to consumers as a visit from the neighborhood Welcome Wagon.

Another new mail program we offer is our solo direct mail sent either as saturation to all households or to a customer mailing list. The advertiser's goals in terms of timing of the ad, and impact, might be such that a solo saturation mailing makes more sense (and is worth the higher cost) than buying a coupon in our shared mail envelope. The announcement of a new store opening, or a special seasonal promotion, would present timing concerns that could not be accommodated by our shared mail program. Increasingly, our solo mailings are not done on a

saturation mail basis but to a mailing list that is created by Money Mailer on a custom basis for each advertiser to cultivate and develop "loyal" customers.

As part of our consultative selling approach, Money Mailer explains to our advertisers that 80% of the revenues for a typical retail or service business comes from 20% of its customers. If a retailer can identify these "loyal" customers, and develop special marketing approaches and mailings to them, it can increase the business done by existing "loyals" and increase their number.

In some businesses, it is easy to identify loyal customers. The barber, veterinarian, and manicurist keep records or appointment books. These can be used to create a mailing list of "loyal" customers. For other businesses, we can compile this information through credit card receipts, and customer recognition recommendations that we make to produce a list of "loyal" customers. Because the response rate from mailings sent to "loyal" customers is higher than the response rate of a general, mass media type ad sent in our shared mail envelope, an advertiser can justify higher postage and printing costs for solo mailings to loyal customers. The development and maintenance of a customized mailing list for our advertisers is one of the value added services Money Mailer offers to its customers.

Although our new mover and solo mail programs are still in their infancy, they have generated almost \$2,000,000 in postage revenue for the United States Postal Service in the last two and a half years. The success and growth of these programs depend in large part on the success and growth of our shared mail program. Most of our customers see the coupon sent in our shared mail envelope as their primary advertising vehicle to reach the mass audience of consumers. When our customers have success in our shared mail program, they are more receptive to trying other forms of direct mail like the new mover and solo programs. Saturation mailings are what turn potential consumers into customers of a business. If our advertisers do not have an affordable

way to bring in new customers, they are not willing to spend more ad dollars to reach a more limited audience--even where it is a very promising audience like new movers or loyal customers.

Our development and promotion of the new mover and solo mail programs are examples of Money Mailer's belief that the United States Postal Service is the best way for local businesses to get and keep customers. With reasonable and stable rates for our saturation shared mail program, we can attract and sell advertisers on the mail as a media. This brings additional revenues to the United States Postal Service in the form of higher value, higher rate postal products. For example, mailings to loyal customers may be sent by first class letters or postcards. The type of mail sent depends on the volume and density of the mailing list. A small business might send as few as 50 first class pieces. For a bigger business, or a business with a large customer base, a mailing list of loyal customers might qualify for high density ECR.

We believe there is tremendous opportunity for growth for Money Mailer both geographically in the United States and through the breadth of postal products we offer. The key to our success and growth, and for new volumes for the United States Postal Service, remains affordable postage rates for ECR saturation mail.

**A REDUCTION IN THE PRESENT POUND RATE
WILL BE BENEFICIAL FOR OUR MAILERS
AND THE POSTAL SERVICE**

The present pound rate acts as a disincentive for our franchisees to sell more, or heavier, pieces into our shared mail envelopes. The impact of the present pound rate on our business is like a high marginal tax rate. It does not make economic sense for our company and I do not believe it makes good economic sense for the United States Postal Service.

To understand how this works, let me explain our business. For a franchisee in our system to do well, he or she strives to "fill" the envelope to the pound rate break point. The franchisee might be able to fill part of the envelope with local businesses that will buy coupons "at retail."

It is unlikely, however, that remaining sales, particularly sales to bigger accounts, can be made at retail prices.

This is a situation where the pound rate is a real hurdle for our business. If a franchisee has five zones, and the envelope is under the pound rate break point in some of these zones, the franchisee really has an incentive to offer deals to fill those envelopes. But if these advertisers want to cover zones where the envelope is almost full, the franchisee may find he or she is working too hard to make a sale that only benefits the Postal Service.

Other problems we face with the present pound rate are the high costs associated with putting bigger pieces or heavier pieces in our envelope. Our standard coupon weighs a tenth of an ounce. This can have sufficient impact for most of our customers. But our customers would like it if we could offer more varied ads at reasonable prices. A take-out and delivery restaurant might want to reproduce its menu. This could weigh as much as four or five coupons. If our envelope is underweight, we can do this and offer the customer a deal. If the envelope goes overweight or the customer wants multiple zones, we have a pricing dilemma. Similarly, Money Mailer sells a magnet ad that can be placed on the refrigerator. This ad is very popular with our customers. But the magnet weighs four times more than a coupon. This gets our mailings into the pound rate real fast.

Our pricing dilemmas are compounded when we have different franchisees wanting to do cross-sales with other franchisees in our network. This should be a way for Money Mailer to reach more customers and serve more regional or national businesses. This should be a win-win proposition for Money Mailer and the United States Postal Service. But the high pound rate makes it too much trouble in too many circumstances for our franchisees to set prices that make sense. I am aware of many franchisees that basically "stop selling" when they near a full envelope. It is simply too much work for too little benefit to sell more ads.

The present pound rate makes it harder for Money Mailer and its franchisees to expand our market coverage. It would be easier to provide our standard coupon service for local businesses if we could also do larger and more varied ads for businesses in that community, and national concerns. Our ability to offer the prices demanded by big business for their media is sorely limited by the present pound rate.

My experience with Money Mailer's business, and that of our franchisees, causes me to conclude that the present high pound rate is repressing the Postal Service's pound rate revenues. I believe the relief in the pound rate proposed by the United States Postal Service will reduce the disincentives found in the present pricing structure and will ultimately result in our generating more mail pieces and pound rate volumes, and revenues, for the Postal Service.

CONCLUSION

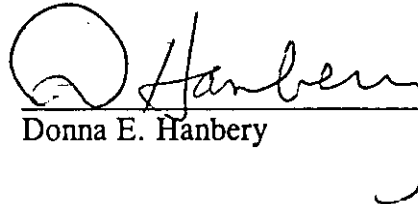
Money Mailer's core business is to help local businesses get and keep more customers. The Postal Service has a delivery network in place to help us connect local merchants to the consumers in their neighborhood. The stable rates proposed by the Postal Service for our saturation mailings will allow us to continue to serve our existing 30,000 customers. It will also allow new and existing franchisees to brave the risks of expanding their business.

Currently, we are serving less than one-third of the businesses we could reach in this country. Reasonable rates will allow us to open new territory with our shared mail programs and will create additional mail revenues for Money Mailer and the United States Postal Service through our new mover and solo direct programs. Most importantly, these rates will help us, and the United States Postal Service, do more to help our small business customers. It will be more affordable for the family owned restaurant to mail its entire menu. Our franchisees, and our customers, will not see a rate hike that makes them say, "I can't afford the mail."

The decision on the rates Money Mailer and its customers will pay is in the hands of this Commission. On behalf of shared mail businesses like Money Mailer, and the thousands of small businesses we serve, I hope I have given you some reasons to approve the United States Postal Service proposals.

CERTIFICATE OF SERVICE

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


Donna E. Hanbery

December 29, 1997

1 CHAIRMAN GLEIMAN: Mr. Otuteye, I believe you and
2 your counsel had an opportunity to examine the package of
3 what we call designated written cross-examination. Those
4 are the answers that you provided to questions earlier.

5 THE WITNESS: Yes, we have, Chairman Gleiman.

6 CHAIRMAN GLEIMAN: And if you were asked those
7 questions today, would your answers be the same as those you
8 previously provided in writing?

9 THE WITNESS: That is correct.

10 CHAIRMAN GLEIMAN: That being the case, I am going
11 to provide two copies of the designated written
12 cross-examination of the witness to the reporter and direct
13 that it be accepted into evidence and transcribed into the
14 record at this point.

15 [Designation of Written
16 Cross-Examination of Godfred
17 Otuteye, AISOP-T-1, was received
18 into evidence and transcribed into
19 the record.]

20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF ALLIANCE OF INDEPENDENT STORE OWNERS AND
PROFESSIONALS
WITNESS GODFRED OTUTEYE
(AISOP-T1)

Party

Interrogatories

Advo, Inc.

AAPS/AISOP-T1-1-9, 11-12, 15
NAA/AISOP-T1-1-2, 6-8

Mail Order Association of America

AAPS/AISOP-T1-1-15
NAA/AISOP-T1-2-8

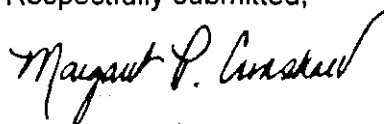
Newspaper Association of America

NAA/AISOP-T1-1-5

United States Postal Service

AAPS/AISOP-T1-1-13, 15
NAA/AISOP-T1-1-2, 4, 6-8

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
ALLIANCE OF INDEPENDENT STORE OWNERS AND
PROFESSIONALS
WITNESS GODFRED OTUTEYE (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

AAPS/AISOP-T1-1
AAPS/AISOP-T1-2
AAPS/AISOP-T1-3
AAPS/AISOP-T1-4
AAPS/AISOP-T1-5
AAPS/AISOP-T1-6
AAPS/AISOP-T1-7
AAPS/AISOP-T1-8
AAPS/AISOP-T1-9
AAPS/AISOP-T1-10
AAPS/AISOP-T1-11
AAPS/AISOP-T1-12
AAPS/AISOP-T1-13
AAPS/AISOP-T1-14
AAPS/AISOP-T1-15
NAA/AISOP-T1-1
NAA/AISOP-T1-2
NAA/AISOP-T1-3
NAA/AISOP-T1-4
NAA/AISOP-T1-5
NAA/AISOP-T1-6
NAA/AISOP-T1-7
NAA/AISOP-T1-8

Designating Parties:

ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS
MOAA, USPS
MOAA
ADVO, MOAA, USPS
ADVO, NAA, USPS
ADVO, MOAA, NAA, USPS
MOAA, NAA
MOAA, NAA, USPS
MOAA, NAA
ADVO, MOAA, USPS
ADVO, MOAA, USPS
ADVO, MOAA, USPS

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-1. At page 5, you testify that your restaurant customer cannot afford to send its full menu into two zones but mails a coupon-size ad into one zone and the full-page menu into another. With respect to this testimony, please answer the following questions:

- (a) How much does the coupon weigh?
- (b) How much does the menu weigh?
- (c) What do you charge for mailing the coupon?
- (d) What do you charge for mailing the menu?
- (e) What is the typical or range of weights for the set in which the coupon and menu are mailed?
- (f) What is the average number of pieces per set?

The example given in my testimony referred to an actual family owned oriental restaurant, but was illustrative of a situation faced by many of our franchisees' restaurant customers where they would like to mail a larger/heavier piece, but price constraints make it difficult for them to do so. This answer will give the general range of weights and prices charged by franchisees in our system in this type of situation.

- (a) The coupon weighs approximately 1/10th of an ounce.
- (b) An 8½ x 11 full-size page menu might weigh from approximately 2/10th of an ounce to approximately one-half an ounce depending on whether paper or a type of card stock is used.
- (c) We do not charge for "mailing the coupon." Our pricing includes design, printing, mail distribution, and servicing the customer's account. It also includes placement of the coupon on the Internet. Each individual franchisee is free to set his or her own rates. Discounts or a reduction in rates are given for volume and frequency. In the example in my testimony involving a small business that had been a loyal customer of the franchisee for many years, the price charged was a "package price" for mailing a coupon and a menu on a frequent basis. Because of the longstanding business relationship between our franchisee and this restaurant, this restaurant customer is getting a ride along or package price for her menu and coupon mailing that is discounted approximately 30% from the average range of rates charged by our franchises. The average charges of our franchises for a coupon mailing to one zone of 10,000 homes is approximately \$250 to \$350. Lower prices are usually charged to get a first time customer to try the mail, to induce an existing customer to mail an additional zone, and to medium to larger customers buying throughout the region. The coupon price for a regional buy ranges from \$150 to \$250. The pricing to national accounts is substantially lower (\$30 to \$100) and may involve advertisers that supply the advertising piece.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

- (d) As discussed above, Money Mailer does not "charge for mailing" a menu. Our prices would include design, printing, distribution, and servicing the account. In the example given in my testimony, the desire of our franchisee to help this struggling family business resulted in the business getting a discount of approximately 30% off typical prices. This restaurant customer is not getting a separate charge for mailing the coupon and mailing the menu. In a more typical situation throughout our system, the charge for distributing an 8½ x 11 page menu to one zone would depend on the type of paper used for the piece and whether or not we had mailed the piece in the past. If it is a first time mailing, it is necessary for us to charge a special printing set up fee to get the menu to fit on an 8½ x 11 standard format. Our typical print set up charge is a one-time fee of \$90. The printing, distribution, and account servicing charges paid by the customer for distributing the menu to one zone thereafter would range from approximately \$460 for a 2/10ths of an ounce piece to \$560 for a menu printed on heavier card stock that is approximately 4/10ths of an ounce.
- (e) 2 to 4 ounces. Our system wide average weight for our coupon envelopes is .1757 pound or 2.211 ounces.
- (f) If system wide extremes of high and low piece counts are excluded, the average number of pieces in our envelopes ranges from 25 to 28 pieces.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-2. Have you run into any situations in which a small retailer is unwilling to place his advertisement in a package containing the advertisement of a competitor with lower prices?

This occasionally happens but it is rarely an impediment to an advertiser buying an ad in a Money Mailer envelope. The number one consideration of small retailers in determining to place ads in our envelope is the price and their return on investment. Our shared mail advertising is no different than any other advertising media. Competitors' billboards are seen on the same street and newspapers carry display and insert advertising where competitors often appear on the same page. Even when advertising giants like Coca-Cola buy spots on TV, they have little or no control about Pepsi ads running moments later.

Price resistance is the biggest obstacle we face in selling a coupon to the small retailer.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-3. At page 8, you refer to the "14.4 percent postal rate increase of January, 1995. . . ." Please provide quantitative support for this statement, including the postage for a typical Money Mailer mailing prior to the increase and for an identical mailing after the increase.

Prior to January, 1995, most of Money Mailer's mailings were at the basic saturation rate of 12.4 cents. After January, 1995, the basic saturation rate increased to 14.2 cents for a typical Money Mailer saturation mailing below the break point. This resulted in an increase of 14.5% for our typical mailings. With drop ship discounts, our system wide average postage rate increase was approximately 14.4%.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-4. At page 8, you state that, between 1992 and 1995, Money Mailer "was on track to see its business double." What does this mean? Double by when?

My testimony was based on the business our company was doing with the United States Postal Service before the 14.4% postage rate increase we experienced in 1995. Our postage payments for saturation mailings to the Postal Service for 1992 through 1994 (a period of rate stability) were as follows:

1992	\$7.1 million
1993	\$9.0 million
1994	\$11.8 million

Our business was on track to have the volume of saturation mailings we did in 1992 double by approximately 1996 or 1997.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-5. Did the rate changes made on July 1, 1996, in connection with the reclassification case affect your business? Please explain.

The rate changes of July 1, 1996 had a positive affect on our business but we have still not recovered from the setback of the January, 1995 14.4% postal rate increase. This is discussed in my testimony. The rate changes of reclassification sent a signal to our business, and our franchisees, that the Postal Service was making an effort to be a cost-effective provider of distribution services for saturation advertising. This has helped us rebuild some of the business we lost. The rate changes of reclassification resulted in Money Mailer developing incentive programs for franchisees to increase the frequency of their mailings and to expand into additional territory.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-6. At page 8, you state that the volumes for your saturation mail envelopes are lower in 1997 than they were in 1994. What was the typical or range of weights and number of pieces per envelope for each year 1994 to 1997?

The chart below shows what happened to our mail volumes when postage rates went up in January, 1995. As a result of prior commitments made by our franchisees to mail, the affect of the postage rate increase, and the attrition of franchisees in our system, began in 1995 and continued throughout 1996. The benefits of reclassification helped us rebuild confidence in the Postal Service as a vendor.

<u>Year</u>	<u># of Saturation Shared Mail Envelopes Mailed</u>	<u>Range of Weight</u>	<u>Range of Pieces</u>
1994	9,922,000	1.7 to 3.7 ounces	16 to 36
1995	10,825,000	1.7 to 3.7 ounces	16 to 36
1996	9,331,000	1.6 to 3.6 ounces	15 to 35
1997	8,703,000	2.0 to 4.0 ounces	20 to 40

AAPS/AISOP-T1-7. At page 9, you state that some of your franchisees could not survive and quit. Did another company replace them? In the areas in which your franchisees quit, are small retailers without any options for low-cost delivery of advertisements?

In most cases where franchises quit, no other company "replaced them." The markets where franchisees quit covered the whole spectrum from large, highly developed metropolitan areas where advertisers have a variety of advertising choices (including other saturation mail coupon programs) to areas where small retailers were left without a comparable option for low cost delivery of their advertisements.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-8. At page 9, you state that "sales beyond the breakpoint often seemed counterproductive to our franchisees because of the high pound rate."

- (a) What is the weight of a typical coupon carried by one of your franchisees?
- (b) For the pound rates that were in effect both prior to July 1, 1996, and after July 1, 1996, what was the cost of additional postage at the pound rate for mailing one additional coupon?
- (c) What was the typical charge by your franchisees to advertisers wishing to have such a coupon mailed?

- (a) The typical weight of a coupon is 1/10th of an ounce.
- (b) We cannot look at the pound rate alone to determine the additional cost for postage when a franchisee adds an additional coupon to the package that converts our package from a letter size mailing under the break point to a mailing that pays postage at the pound rate. Because pieces entered at over the break point must pay the surcharge for flats, the additional cost for postage at the pound rate for mailing one additional coupon includes the flat surcharge as well as postage at the pound rate. The approximate cost for additional postage and the flat surcharge that needed to be paid before reclassification for adding an additional coupon to the package that brought us over the break point was .63 cents. After July 1, 1996, the combined cost of postage for that additional coupon is approximately .81 cents.
- (c) Your hypothetical question assumes that we have a franchisee that knows it is making an advertising sale that will add just one coupon to the package that will push the package from below or at the break point to the pound rate. This would not be a "typical" situation for a franchisee. If this was to occur, the franchisee would make sure that the price it charged would be sufficient to cover the extra charges due to postage and the other costs of doing business. What makes this entire situation difficult for our franchisees and our system is that the last sales made to fill up the envelope are seldom "typical" sales. The full retail price charged by a franchisee to a typical local merchant mailing to one to three zones of 10,000 homes per zone might range from \$275 to \$350. This is our "typical" retail price for an advertiser making a small buy.

By the time a franchisee is making a sale that may fill the envelope so that it might exceed the break point, the franchisee is usually not making "typical" "full retail" sales. The franchisee has already sold as many coupons as he or she can at "retail" to the small merchant. The last sales into the envelope are likely to be sales like the following:

- (1) Sales to larger or regional businesses that can demand a lower rate for coupon advertising because we are competing with the rates charged for other media. The rates paid for high volume advertisers covering a broad geographic area typically range from \$150 to \$250. National advertisers receive even lower rates ranging from \$30 to \$100.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

- (2) Sales made to advertisers who want to sell untypical pieces that weigh more than the standard coupon.
- (3) Sales made to advertisers being offered a discount to experiment with mailing into an additional zone or a new territory.

Because of the nature of our business, where advertisers often make decisions at the last minute, it is not possible to accurately predict when a mailing will exceed the break point. This also is true because some advertisers want to mail to zones where there is more than one franchisee involved. Multiple zone sales create special problems for us in pricing as some fair compensation or commission needs to be paid to another franchisee who will have a coupon added to the envelope. This is part of what makes it so difficult to address your question. A franchisee might be offering a significant discount to get a new advertiser into its mailing program. If the franchisee has lots of room in its envelope, it might offer a price of \$225. If the advertiser then decides it wants to mail into a zone that is at or near the break point handled by another franchisee, the combined costs of the second sale for postage, printing, and payment to the other franchisee, may be equal to or exceed the entire second zone price.

Because the sales that are likely to fill the envelope beyond the break point are not "typical" and often involve larger advertisers, larger pieces, or multiple zones and franchisees, the combined impact of the high pound rate plus the surcharge for pieces that weigh more than the break point often make sales beyond the break point counterproductive.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-9. At page 10, you describe a "Home at Last" program.

- (a) At what rate is this program mailed?
- (b) Would you favor a rate change that decreased rates for saturation ECR and increased rates for other Standard mail?
- (a) Automation rate 3 digit or 5 digit.
- (b) From the standpoint of our business, the saturation ECR rate is most important to our business health and success. Affordable saturation ECR rates help us generate other types of standard mail like our Home at Last and solo mail programs. Because of the uniquely targeted and higher value of mailings sent to new movers, our customers and our franchisees are better able to pay higher rates for this type of mail than can be paid for saturation ECR mail which is less targeted and competes with a greater variety of other mass media advertising. However, my testimony is in support of the United States Postal Service proposal. I am not advocating any further rate change or shifting of rates between standard mail and saturation ECR.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-10. At page 11, you describe a program that mails to a customer mailing list.

- (a) Are such mailings typically mailed at the piece rate or the pound rate?
 - (b) Would you favor a rate change that reduced the pound rate but increased the piece rate?
-
- (a) Piece rate.
 - (b) My testimony is in support of the rates proposed by the Postal Service. We are not requesting or submitting testimony in favor of a different rate proposal.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-11. At page 13, you testified that the present pound rate does not make "good economic sense for the United States Postal Service." Does this mean that it could attract more business with a lower pound rate? Please explain.

Yes. See pages 13 through 15 of my testimony.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-12. At page 13, you discuss a situation in which the envelope is under the breakpoint in some zones, and the franchisee "really has an incentive to offer deals to fill those envelopes." Please confirm that, as they fill those envelopes up to but not exceeding the breakpoint, there are added costs to the Postal Service to process and deliver the envelopes but no additional revenues for the Postal Service. In your view, does this make good economic sense for the Postal Service?

I cannot confirm that adding additional pieces to envelopes under the break point adds additional cost to the Postal Service. It is my understanding that there are Postal Service studies that support the existing rate structure for standard mail and suggest that the costs for mail up to the break point have very little relationship to weight. If there are any additional costs, I would expect these costs to be very small.

It is the nature of our business that Money Mailer and its franchisees do better as more advertisers and coupons are added to our envelopes. As Money Mailer and its franchisees do well, we are able to expand the number of mailings we do and the geographic areas we serve. This makes good sense for both Money Mailer and the Postal Service.

I would stress in responding to this question that Money Mailer and its franchisees assume the risk of paying all the postage due for its mailings whether or not the envelopes are "full enough" for the franchisees to break even. Your question seems to suggest that the Postal Service is not benefitting from our franchisees that have "full" envelopes. Our franchisees do not get a reduction in postage or a rebate if they fail to sell enough coupons to cover their postage, printing, and expenses of running a business.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-13. You also testify in the same paragraph at page 13 that if advertisers want to cover zones where the envelope is almost full, the franchisee may find that he or she is working too hard "to make a sale that only benefits the Postal Service." Please provide all necessary data and calculations to support this statement that an additional sale of a coupon benefits only the Postal Service if the incremental weight of that coupon is charged at the pound rate.

See my answer to AAPS/AISOP-T1-8.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-14. You testify at page 13 that you face "the high costs associated with putting bigger pieces or heavier pieces in our envelope." Are you referring just to postage costs or to internal handling costs as well? If the latter, please explain why your handling costs increase with heavier or bigger pieces.

I was just referring to the additional postage costs.

AISOP WITNESS OTUTEYE RESPONSES TO AAPS

AAPS/AISOP-T1-15. At page 14, you state that many of your franchisees basically "stop selling" when they "near a full envelope." For a coupon weighing one-tenth of an ounce, which is what you say at page 13 your standard coupon weighs, confirm that the incremental postage at a 55.2 cent pound rate is 0.345 cents a piece, or \$3.45 per thousand. How much do your franchisees charge to mail 1,000 coupons?

I cannot confirm that the incremental postage for an additional coupon is .345 cents a piece. Most of Money Mailer's mailings are not drop shipped and our incremental costs for postage at the break point alone, without consideration of the flat surcharge, is .4143 cents per piece. The .4 cent surcharge for pieces entered above the break point brings the additional postage related costs for one more coupon to approximately .81 cents.

Our franchisees do not "charge" to mail 1,000 coupons. See my answers to AAPS/AISOP-T1-1 and AAPS/AISOP-T1-8 for a more detailed discussions of our pricing.

NAA/AISOP-T1-1. For the most recent fiscal year, please provide the following data on the Standard A mailings of your company. (If precise data are not available, estimates can be provided.)

- a. What was the total volume of Standard A mail for the most recent fiscal year?
- b. What percentage of your volumes were shared mail packages versus solo mail advertising?
- c. What percentage of your shared mail packages qualified for the letter rate?
- d. What was the average weight of your shared mail packages?
- e. What percentage of your shared mail packages were dropshipped to:
 - i. the destination BMC,
 - ii. the destination SCF, and
 - iii. the destination delivery unit.
- f. What percentage of your shared mail packages were entered at the saturation rate?
- g. What percentage of your shared mail packages were entered at the high density rate?
- h. What percentage of your total mailings were entered at the pound rate?
- i. What percentage of your total mailings, if any, qualified for Standard A Non-Profit rates?
- j. What percentage of your total mailings were entered as Standard A Regular (non-ECR) mail?

- a. 90,626,404
- b. Approximately 97.5% shared mail, 2.5% solo
- c. All of our shared mail packages are letter size but mail entered at the pound rate does not qualify for the letter rate. See answer to 1h.
- d. .1757 pounds

AISOP WITNESS OTUTEYE RESPONSES TO NAA

14531

- e.
 - i. less than 1%
 - ii. approximately 30%
 - iii. less than 1%
- f. Approximately 80%
- g. Approximately 15%
- h. Approximately 20.3%
- i. None
- j. Less than 1%

NAA/AISOP-T1-2. Please list Money Mailers' principal competitors in its shared mail coupon business. Please indicate which of these competitors rely on the Postal Service to deliver their product.

Our principal competitors include:

1. Daily newspapers with classified ads and free-standing inserts.
2. Weekly, community, and specialty newspapers with display ads, classified ads, and free-standing inserts.
3. Shoppers and flyers delivered door-to-door.
4. National and regional direct mail advertising programs including, Val-Pak, SuperCoups, United Coupon, and Advo. These companies rely on the Postal Service to deliver their product.
5. Yellow Pages and directories.
6. Coupon magazines and coupon booklets published by a variety of small, local companies. Some of these may rely on the Postal Service to deliver their product.

AISOP WITNESS OTUTEYE RESPONSES TO NAA

NAA/AISOP-T1-3. Please list Money Mailers' principal competitors in its solo mail advertising services. Please indicate which of these competitors rely on the Postal Service to deliver their advertising product.

Our principal competitors in the delivery of solo mail advertising services are generally local companies with a direct mail or letter shop business. Val Pak also operates a solo mail business. Companies offering solo mail advertising services rely on the Postal Service to deliver their advertising product.

AISOP WITNESS OTUTEYE RESPONSES TO NAA

NAA/AISOP-T1-4. Please list Money Mailers' principal competitors in its program targeted to new movers. Please indicate which of these competitors rely on the Postal Service to delivery[sic] their product.

The principal competitors of our new mover program are Welcome Wagon, Getting To Know You, and regional telephone companies. Most of these businesses do not rely on the Postal Service to deliver their product.

AISOP WITNESS OTUTEYE RESPONSES TO NAA

NAA/AISOP-T1-5. Please refer to your testimony at page 8-9. Did factors other than postal rates, such as increases in the prices of paper, contribute to the "big step backward for [your] company" in number of franchisees and mail volumes in 1995 and 1996? Please discuss.

Increases in paper prices did contribute to the reduction in franchisees and mail volumes for our company in 1995 and 1996. However, Money Mailer was able to negotiate with our paper suppliers and vendors to better control the timing and amount of these price increases. Money Mailer as the franchisor absorbed the cost of paper increases in its printing and mail preparation pricing structure and these prices were not passed on to our franchisees as additional costs. It is frustrating for us as a company that our largest vendor, the United States Postal Service, can increase prices in a way that is unpredictable and uncontrollable. The price increase of 1995 of more than 14% was passed on directly to our franchisees and had the biggest impact on their ability to stay in business and mail volumes.

AISOP WITNESS OTUTEYE RESPONSES TO NAA

NAA/AISOP-T1-6. Is it in your interest to maintain a viable alternative delivery option even if you do not choose to use it?

If the point of this question is to suggest that the rates for the United States Postal Service should be higher than they need to be to help or stimulate the economic viability of the alternate delivery business, we are not interested. It is our desire to have the United States Postal Service be an efficient and effective vendor at affordable prices.

AISOP WITNESS OTUTEYE RESPONSES TO NAA

NAA/AISOP-T1-7. Do you believe that your customers get a better response rate when their advertisements are mailed than when they are delivered with a newspaper?

This question cannot be accurately answered as written. You are asking me to make an apples and oranges type of comparison. The type of advertisement our customers deliver through Money Mailer is a geographically targeted, four color coupon. Most newspapers do not offer this same type of advertising service or product.

Absolute response rates do not mean anything, as such, in advertising. What matters is the return on investment to the advertiser, the response in relationship to the investment. Even in our own envelope, a home improvement contractor gets a very different response rate than a hamburger restaurant. Viewed this way, businesses advertise in the newspaper because they get an acceptable rate of return and businesses use direct mail because they get an acceptable rate of return. As discussed in my testimony, the turnkey, geographically targeted advertising service offered by Money Mailer to small business often gives local merchants their most affordable and most efficient buy for their advertising dollar. Ever increasing postage rates for the mail diminish the return of our advertisers on their investment and make it more difficult for small business to be able to afford to advertise.

NAA/AISOP-T1-8. Are the prices that you charge customers usually more or less than the prices charged to them by newspapers?

Once again, this question cannot be meaningfully answered as written. (See my answer to NAA/AISOP-T1-7.) What matters is price per lead or price per order from the ad. Again, I believe businesses advertise where they do because they find these numbers acceptable. The home improvement contractor might be able to place a classified ad in a newspaper for one-tenth of the cost of a one-zone coupon in Money Mailer. A four-color insert delivered with the paper might cost the same contractor 10 times more than a Money Mailer coupon. Depending on the circulation, penetration, and readership of the paper, these newspaper advertising choices may, or may not, provide acceptable rates of return for the advertiser and be a meaningful, competitive choice for the business.

The point of my testimony remains that increases in postage prices raise the cost per lead for our clients and can have the affect of driving business away from us and the United States Postal Service.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: There doesn't appear to be any.
5 No participant submitted a request for oral
6 cross-examination of this witness. Does any participant
7 wish to cross-examine the witness today?

8 [No response.]

9 CHAIRMAN GLEIMAN: There doesn't appear to be
10 anybody who wishes to cross-examine.
11 Do the Commissioners have any questions for the
12 witness?

13 [No response.]

14 CHAIRMAN GLEIMAN: No questions from the bench.
15 That being the case, Mr. Otuteye, we appreciate your
16 appearance today and your contributions to our record, and
17 if there is nothing further, you are excused, sir.

18 THE WITNESS: Thank you very much.

19 [Witness excused.]

20 CHAIRMAN GLEIMAN: Mr. Cregan, would you identify
21 your witness so that I can swear him in?

22 MR. CREGAN: MPA calls Christopher Little.
23 Whereupon,

24 CHRISTOPHER M. LITTLE,
25 a witness, was called for examination by counsel for

1 Magazine Publishers of America, on behalf of the Alliance of
2 Nonprofit Mailers, American Business Press, the Coalition of
3 Religious Press Associations, Dow Jones & Co., Inc., The
4 McGraw-Hill Companies, Inc., the National Newspaper
5 Association, and Time Warner, Inc. and, having been first
6 duly sworn, was examined and testified as follows:

7 CHAIRMAN GLEIMAN: Please be seated, sir.

8 MR. CREGAN: For the record, my name is Jim
9 Cregan, representing MPA.

10 DIRECT EXAMINATION

11 BY MR. CREGAN:

12 Q Mr. Little, do you have in front of you a document
13 designed MPA-T-1, Direct Testimony of Christopher M. Little
14 on Behalf of Magazine Publishers of America, Alliance of
15 Non-Profit Mailers, American Business Press, Coalition of
16 Religious Press Associations, Dow-Jones and Company, Inc.,
17 the McGraw Hill Companies, Inc., National Newspaper
18 Association and Time-Warner, Inc.?

19 A I do.

20 Q Was this document prepared by you or under your
21 supervision?

22 A Yes, it was.

23 Q Do you have any revisions to this document today?

24 A No, I don't.

25 Q If you were to testify orally today, would your

1 testimony be the same?

2 A Yes, it would be.

3 MR. CREGAN: Mr. Chairman, I am going to hand two
4 copies of this document designated MPA-T-1 to the reporter,
5 and I ask that the testimony of Mr. Little be admitted into
6 evidence.

7 CHAIRMAN GLEIMAN: Are there any objections?

8 [No response.]

9 CHAIRMAN GLEIMAN: Hearing none, Mr. Little's
10 testimony and exhibits are received into evidence, and I
11 direct that they be transcribed into the record at this
12 point.

13 [Direct Testimony and Exhibits of
14 Christopher M. Little, MPA-T-1, was
15 received into evidence and
16 transcribed into the record.]

17
18
19
20
21
22
23
24
25

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

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

**DIRECT TESTIMONY
OF CHRISTOPHER M. LITTLE
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS PRESS
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DOW JONES & CO., INC.
THE MCGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
TIME WARNER, INC.**

1 INTRODUCTION/SCOPE AND PURPOSE

2 My name is Christopher M. Little, and I am the President of the Meredith
3 Corporation Publishing Group (Meredith). A brief description of my background, and of
4 my company, is appended to this testimony.

5 I serve as the Chairman of the Government Affairs Council of the Magazine
6 Publishers of America (MPA) and as Secretary of the association. I am testifying,
7 however, not just on behalf of MPA, but also on behalf of the Alliance of Nonprofit
8 Mailers, American Business Press, the Coalition of Religious Press Associations, Dow
9 Jones & Co., Inc., the McGraw-Hill Companies, Inc., the National Newspaper
10 Association, and Time Warner, Inc. It's an honor – and a pleasure, given our track
11 record of strong disagreement on many postal rate issues – to be testifying on behalf of
12 a unified industry.

13 At the outset, I wish to express the industry's recognition of, and appreciation
14 for, the Postal Service's proposal for a relatively modest average rate increase for
15 Periodicals. However, two overriding concerns have forged our alliance and fueled the
16 industry's unprecedented cooperation in this proceeding: (1) the continuing and
17 potentially explosive problem of, in our view, the unexplained and excessive increases
18 in reported mail processing costs for Periodicals over the past decade; and (2) the
19 steadfast position taken by the Postal Service in previous proceedings that there is no
20 problem. My task is to present the facts that have generated such alarm in all
21 segments of our industry. Together with that of my colleague Keith Crain (ABP-T-1),
22 my testimony provides a "policy" framework for your consideration of the testimony of
23 our industry's "expert" witnesses.

24

25 MAIL PROCESSING COST TRENDS FOR PERIODICALS

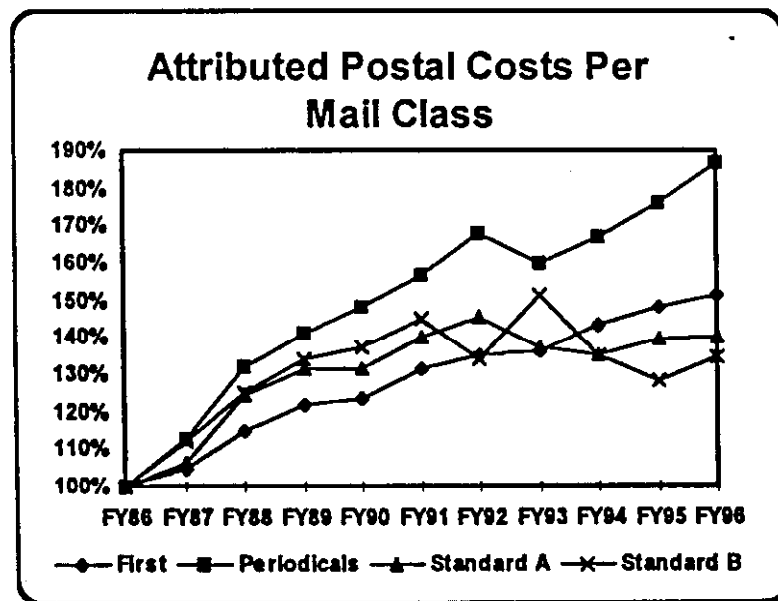
26 I am a businessman. I know that controlling the costs of producing and delivering
27 my product to my customers is critically important to my business. If those costs are
28 out of control, I want to know why; and I want action plans put in place to bring the
29 costs back under control. I would hope that the Postal Service feels the same way. As
30 you read the rest of this testimony, I would like you to keep in mind our continuing
31 frustration in dealing with the Postal Service on the Periodicals cost problem. In each

of the past two rate cases (and now in this one), the Postal Service has presented data purporting to show that Periodicals costs were increasing far faster than costs for other mail and far faster than wages. In each case, Periodicals mailers contested the accuracy of these results. We made strong arguments that our costs were overstated. We tried to get from the Postal Service an explanation of why our costs were supposedly increasing so rapidly. And, in each case, the Postal Service responded, essentially, that it did not know why – it was just what the data showed.

We have waited in vain for an end to the upward spiral in these costs. And we continue to wait, also in vain, for an explanation.

At the risk of appearing to present myself as a postal expert (which I'm not), let me now try to paint this disturbing picture with some very basic graphs and charts. Figure 1 shows the trend line for overall unit costs of Periodicals (as reported in the

Figure 1



Postal Service's annual Cost Segments and Components and Cost and Revenue Analysis reports) and similar trend lines for other major mail classes (First-Class Mail, Standard A, and Standard B)¹. As you can readily see, unit costs for Periodicals, as

¹ All charts and figures are based on data from these two Postal Service annual reports. The unit cost figures are normalized to FY 1996 volume proportions by subclass. Wage data are from National Payroll Hour Summary Report.

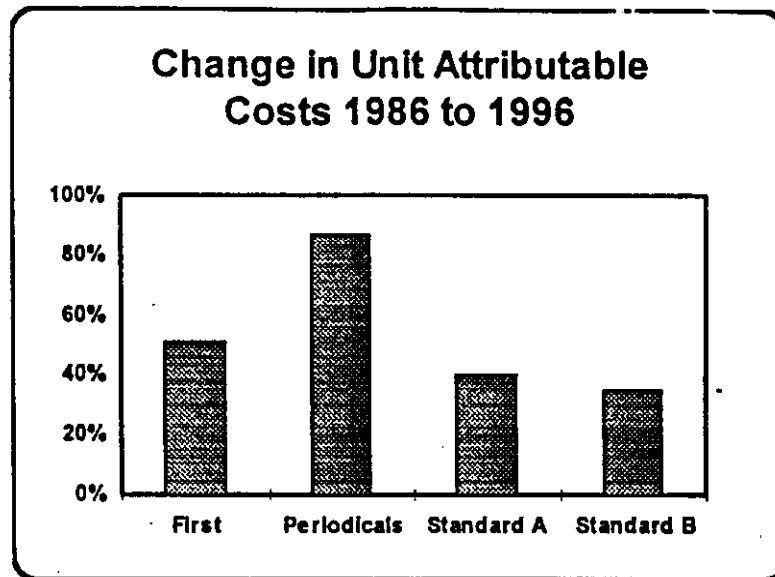
1 calculated by the Postal Service, have increased far more rapidly than costs for any
2 other class over the past decade.

3 Figure 2 illustrates the total percentage cost increases over this period: 87
4 percent for Periodicals; 51, 40, and 35 percent for First-Class Mail, Standard A, and
5 Standard B, respectively.

6

7

Figure 2



8

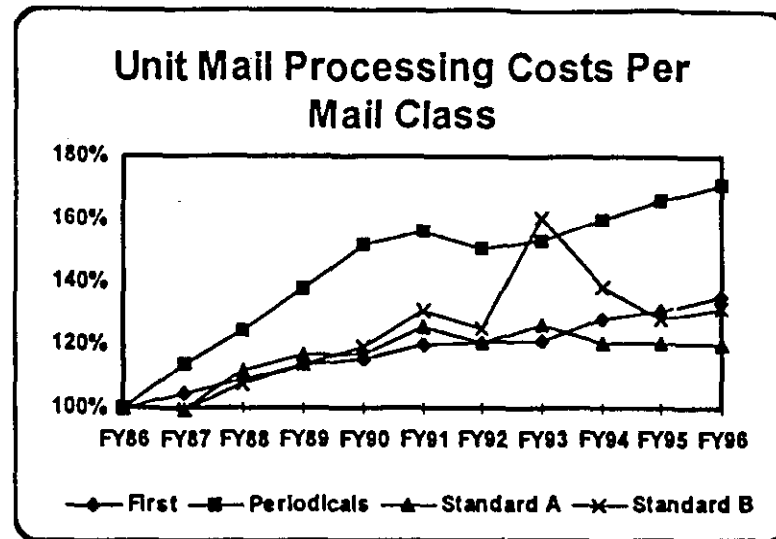
9 An examination of some basic statistics, as illustrated in Figures 3 and 4 below,
10 quickly reveals the major cause of this dramatic increase in overall, reported
11 Periodicals costs: mail processing. I understand that when so-called "piggybacked"
12 costs (e.g. supervision, equipment, and facility costs) are included, mail processing
13 accounts for more than 50 percent of the costs attributed to Periodicals. And,
14 unfortunately for us, it is these very costs that have skyrocketed for Periodicals -- out of
15 all proportion to the mail processing costs for other classes.

16 Over the 11-year period from fiscal year 1986 through fiscal year 1996,
17 Periodicals mail processing unit costs have increased 71 percent, while those for First-
18 Class Mail, Standard A, and Standard B have increased by 35, 20, and 31 percent
19 respectively. Figure 3 shows the trends in mail processing unit costs for Periodicals
20 versus other classes. Figure 4 shows the total percentage cost increase for mail

1 processing.

2

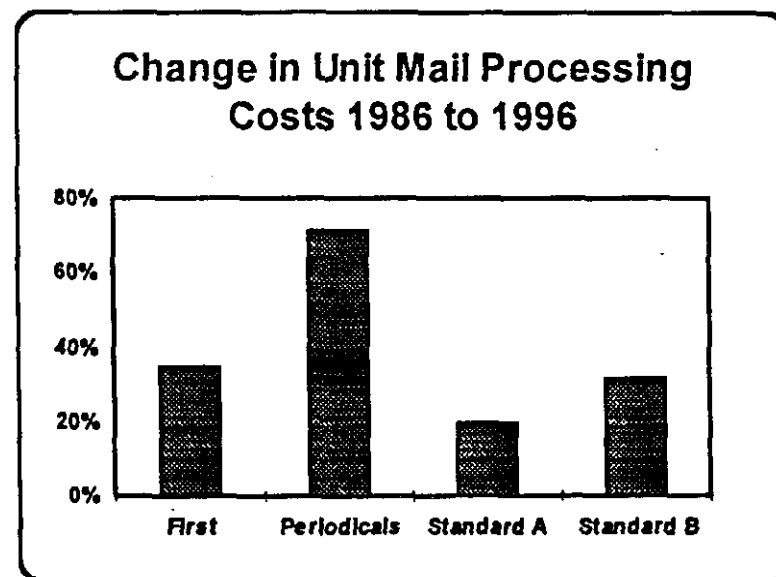
Figure 3



3

4

Figure 4

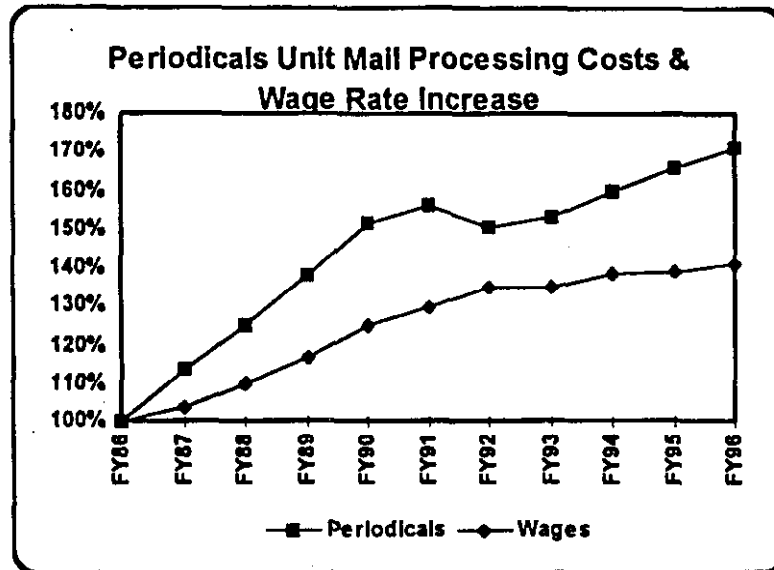


5

6 Finally, not only are Periodicals mail processing costs increasing
 7 disproportionately to those of other classes, they are increasing disproportionately to
 8 increases in USPS wage rates. As everyone knows, USPS is a very labor-intensive
 9 organization. About 80 percent of its costs are labor-related, and one would expect
 10 that at worst (assuming – contrary to fact – that there has been no increase in mailer

worksharing and automation) mail processing costs would increase at a rate roughly similar to that for wages. This has not been the case. Figure 5 shows that, over the 11-year period, USPS wage rates have increased by 41 percent while, again, the costs of processing Periodicals have increased to a far greater extent – 71 percent.

Figure 5



Equally disturbing are data reported, I understand, in witness Stralberg's testimony (TW-T-1) which show drastic declines in productivity. For example, he reports an 18 percent decline in the productivity of equipment used to process Periodicals – flats sorting machines.

As a businessman I have to ask, "How can this be?" These cost increases and productivity declines have occurred despite many efforts by Periodicals mailers to prepare their mail more efficiently than ever before, through increased levels of presortation, palletization, and drop shipping, and despite many USPS operational initiatives, such as installation of flats sorting machines, that were supposed to lead to lower costs. It appears to me that Periodicals are being processed less efficiently today than they were ten years ago.

1 **USPS'S REFUSAL TO ACKNOWLEDGE THE PROBLEM**

2 The Periodicals industry has tried, unsuccessfully so far, to obtain a USPS
3 acknowledgement that there is a problem. Witness Cohen (MPA-T-2) discusses in
4 detail past efforts in this regard. The Commission knows that industry participants
5 raised these concerns in the R90-1 and the R94-1 omnibus rate cases. Indeed, I
6 understand that the PRC initiated an inquiry in 1992, but had to abandon the effort,
7 *reluctantly, because of the Postal Service's refusal to cooperate.*

8 In his testimony, my colleague Keith Crain (ABP-T-1) discusses a recent meeting
9 between representatives from the Periodicals industry and senior USPS officials,
10 including the Postmaster General. There have been others, but we still have been
11 unable to move the USPS to acknowledge once and for all that there is a problem.

12 In this case, to its credit, the USPS attempts to improve its costing methodology.
13 The fundamental problem set forth at the beginning of this testimony, however,
14 remains unsolved. I understand that, even under this new methodology, mail
15 processing costs for Periodicals appear to be increasing disproportionately without
16 logical explanation. As witnesses Cohen (MPA-T-2), Stralberg (TW-T-1), and Shew
17 (DJ-T-1) demonstrate, the new approach advocated by USPS to distribute mail
18 processing costs, *unless significantly modified, will only exacerbate the problem.*

19 The Periodicals industry has pleaded with the Postal Service to explain what is
20 happening with mail processing costs. In the past, the answer has always been the
21 same: the cost numbers are right; we just cannot explain them. Recently, we have
22 heard expressions of concern by various postal officials. I am encouraged by this. But
23 we must deal with the reality and the immediacy of Docket R97-1; and, as witnesses
24 Crain and Cohen indicate, all that we have in hand right now is the promise of a study
25 which -- no matter what its scope, methodology or results -- will have no impact on this
26 proceeding.

27

28 **THE PROPOSED RATE INCREASE**

29 The USPS proposes a relatively modest overall rate increase for Periodicals.
30 That increase, however, depends on a relatively low cost coverage for regular rate
31 Periodicals of 107 percent. Of course, the Postal Reorganization Act, through the

1 "ECSI provision," suggests a relatively low coverage for Periodicals. Witnesses
2 Stralberg, Shew, and Cohen offer methods and reasons for attributing certain mail
3 processing costs that, in the end, could increase the coverage for the class and still
4 retain the modest overall rate increase. I'm not a ratemaking expert, but it seems to me
5 that the proposal for a low coverage – and a modest rate increase – is certainly
6 reasonable, not only in light of the "ECSI" factor, but also in light of a decade of
7 serious, unanswered questions about mail processing cost increases for Periodicals.

8 Our experts say that our costs have been, and still are, badly overstated. The
9 Postal Service doesn't really have a definitive explanation for the statistical phenomena
10 I've summarized in this testimony. Either way, it seems to us, the Periodicals industry –
11 a united Periodicals industry – is fully justified in asking for your careful consideration
12 of this important matter.

13 I respectfully urge the Commission to approve only moderate rate increases for
14 Periodicals, certainly no higher than those proposed by the Postal Service; and I ask
15 the Commission to do whatever it can to encourage the Postal Service *finally* to solve
16 the problem I have described.

APPENDIX
TO TESTIMONY OF CHRISTOPHER M. LITTLE
(MPA-T-1)

I. Biography

Christopher M. Little is president of the Meredith Corporation Publishing Group. Little is responsible for the strategic direction and day-to-day management of all of Meredith's magazine and book operations. The Publishing Group is the corporation's largest business unit. Previously, Little had served as President of the Meredith Magazine Group, beginning in July 1994. He assumed his current position in July 1995 when book publishing and magazine operations at Meredith were combined into one operating group.

Prior to becoming Magazine Group president, Little was vice president and publishing director responsible for *Better Homes and Gardens* magazine, as well as for the database, production and circulation operations of the Magazine Group.

Before joining Meredith in October 1992, Little had been president of Cowles Magazines, Inc., since 1989. At Cowles, he was responsible for its 20 titles, among them *Country Journal*, *American History Illustrated*, *Horse & Rider* and *Vegetarian Times*.

Prior to joining Cowles, Little served in various capacities with The Washington Post Company, including president of *Newsweek* magazine, chief financial officer of *Newsweek*, president and publisher of the Everett (Wash.) Herald, and vice president and counsel for The Washington Post. His background also includes experience on Capitol Hill as a congressman's top aide, private law practice and a stint at the Environmental Protection Agency.

1 Little, who was reared in Texas, earned his bachelor's degree from Yale and his law
2 degree from the University of Texas. He also completed the senior executive
3 program at Stanford University Graduate School of Business.

4 Little has testified before the Postal Rate Commission in one other proceeding. In
5 Docket No. MC91-3, he appeared as a witness on behalf of the Magazine
6 Publishers of America.

7 II. Meredith Corporation

8 Meredith Corporation is one of America's leading media companies. Founded in
9 1902 by Edwin Thomas Meredith, the company began as the publisher of
10 *Successful Farming* magazine. Today, Meredith employs more than 2,000 people
11 and its magazines reach approximately 65 million U.S. readers annually.

12 Meredith publishes a variety of home and family magazines, including *Better*
13 *Homes and Gardens*, *Country Home*, and *Midwest Living*. Books published by
14 Meredith include more than 200 home and family, craft, and special interest books
15 – including the *Better Homes and Gardens Cook Book*, which remains one of the
16 most familiar and widely owned hardcover books ever published.

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.



James R. Cregan

December 30, 1997

1 CHAIRMAN GLEIMAN: Mr. Little, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would be.

9 CHAIRMAN GLEIMAN: That being the case, I am going
10 to provide two copies of the designated written
11 cross-examination of Witness Little to the reporter and
12 direct that it be accepted into evidence and transcribed
13 into the record at this point.

14 [Designation of Written
15 Cross-Examination of Christopher M.
16 Little, MPA-T-1, was received into
17 evidence and transcribed into the
18 record.]

19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF MAGAZINE PUBLISHERS OF AMERICA
WITNESS CHRISTOPHER M. LITTLE
(MPA-T1)

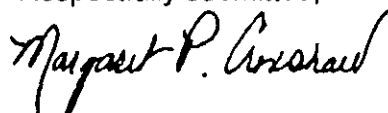
Party

United States Postal Service

Interrogatories

USPS/MPA-T1-1-34

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with the first name "Margaret" being the most prominent.

Margaret P. Crenshaw
Secretary

Designating Parties:

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

USPS

Interrogatory:

USPS/MPA-T1-27
USPS/MPA-T1-28
USPS/MPA-T1-29
USPS/MPA-T1-30
USPS/MPA-T1-31
USPS/MPA-T1-32
USPS/MPA-T1-33
USPS/MPA-T1-34

Designating Parties:

USPS
USPS
USPS
USPS
USPS
USPS
USPS
USPS

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-1. For each year fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide a list of publications published by Meredith Corporation Publishing Group and mailed at second-class regular or periodical regular rates.

Response:

A chart containing this information is attached hereto and designated "Response to USPS/MPA-T1-1".

MEREDITH CORPORATION

PUBLICATIONS MAILED SECOND CLASS

BY FISCAL YEAR

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
	"X" denotes years Publication produced											
AMERICAN PATCHWORK & QUILTING (4)								X	X	X	X	X
BETTER HOMES AND GARDENS (1)	X	X	X	X	X	X	X	X	X	X	X	X
COUNTRY AMERICA (4)				X	X	X	X	X	X	X	X	X
COUNTRY GARDENS (5)									X	X	X	X
COUNTRY HOME (4)	X	X	X	X	X	X	X	X	X	X	X	X
CRAFT & WEAR (4)								X	X	X		
CRAFTING FOR PROFIT (1)									X			
CRAFTS SHOWCASE (5)												X
CRAYOLA KIDS (4)									X	X	X	X
CROSS STITCH & NEEDLEWORK (4)		X	X	X	X	X	X	X	X	X	X	X
DECORATIVE WOODCRAFTS (4)						X	X	X	X	X	X	X
DECORATING (5)										X	X	X
DO IT YOURSELF (5)									X	X	X	X
FAMILY MONEY (5)												X
FLORAL & NATURE CRAFTS (4)									X	X	X	X
GARDEN, DECK & LANDSCAPE (5)												X
GOLF FOR WOMEN (4)					X	X	X	X	X	X	X	X
home garden (4)										X	X	
LADIES' HOME JOURNAL (1)	X	X	X	X	X	X	X	X	X	X	X	X
METROPOLITAN HOME (1)	X	X	X	X	X	X	X					
MIDWEST LIVING (4)		X	X	X	X	X	X	X	X	X	X	X
RENOVATION STYLE (5)												X
SAIL (1)	X	X	X	X								
SUCCESSFUL FARMING (1)	X	X	X	X	X	X	X	X	X	X	X	X
TRADITIONAL HOME (4)				X	X	X	X	X	X	X		
WEEKEND WOODWORKING PROJECTS (4)			X	X	X	X	X	X	X	X		
WOOD (3)	X	X	X	X	X	X	X	X	X	X	X	X
Frequency:	Second Class Pending:											
(1) Twelve issues	Family Money											
(2) Ten issues	Garden, Deck & Landscape											
(3) Nine issues	Renovation Style											
(4) Six issues												
(5) Four issues												

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-2. For each fiscal year (or calendar year if -fiscal year is unavailable) from 1986 to present, please for each publication listed in response to interrogatory number 1 the following information:

- (a) The number of issues mailed.
- (b) The average number of editions (versions) per issue.
- (c) An indication of the kind or type of each version.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-3. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the total volumes mailed at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1.

USPS/MPA-T1-4. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular required presort rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-4. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular required presort rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-5. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular 3-digit city/5-digit presort rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-6. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular carrier route presort rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-7. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular destination delivery office discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-8. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular destination SCF discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-9. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular high density discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-10. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular saturation discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-1 I. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the required presort volumes mailed at second class regular or periodical regular prebarcoded letter size discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-12. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular prebarcoded flat size discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-13. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the 3-digit city/5-digit volumes mailed at second class regular or periodical regular prebarcoded 3-digit letter size discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-14. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the 3-digit city/5-digit volumes mailed at second class regular or periodical regular prebarcoded 5-digit letter size discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-15. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the 3-digit city/5-digit volumes mailed at second class regular or periodical regular prebarcoded flat size discount rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-16. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zones 1&2 for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-17. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zone 3 for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-18. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zone 4 for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-19. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zone 5 for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-20. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zone 6 for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-21. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zone 7 for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-22. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zone 8 for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-2-23".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-23. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the average percentage of nonadvertising content mailed at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing mailing information for the period 1994-1997. That information is provided by individual title, and in summary form, in the compilation of documents attached hereto designated "Responses to USPS/MPA-TI-2-23".

**Magazine Publishers of America Witness Christopher Little
Responses to USPS/MPA-T1-2-23**

**[Consisting of 2 pages (i and ii) of summary information
and 21 pages of individual title information.]**

[All volume figures are annual copies in thousands.]

Meredith Corporation 2nd Class Postage Zone and Presort Summary

14582

Includes all titles.					
		<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>
Distribution By Zone					
	SCF	89,145	90,783	101,505	114,252
	1 & 2	16,534	17,054	17,599	15,877
	3	13,328	14,124	11,799	8,669
	4	16,101	18,038	13,948	11,325
	5	19,918	19,407	16,232	14,951
	6	6,395	5,617	5,231	4,966
	7	6,063	5,958	5,049	4,718
	8	<u>1,481</u>	<u>2,333</u>	<u>2,026</u>	<u>1,948</u>
	Total	168,965	173,314	173,389	176,706
					-
Level Of Presort					-
	A Non-Barcode	9,683	10,851	6,354	5,479
	A Barcode	3,675	4,272	7,784	12,910
	B Non-Barcode	12,816	19,052	11,404	9,511
	B Barcode	25,749	25,704	32,141	33,901
	C	<u>117,043</u>	<u>113,435</u>	<u>115,706</u>	<u>114,905</u>
	Total	168,965	173,314	173,389	176,706

(1)

Meredith Corporation 2nd Class Postage Zone and Presort Summary

14583

Only Includes titles with 4 years of history.					
		1994	1995	1996	1997
Distribution By Zone					
SCF		89,145	90,783	101,505	114,179
1 & 2		16,534	17,054	17,598	15,852
3		13,328	14,122	11,791	8,608
4		16,101	18,035	13,935	11,203
5		19,918	19,400	16,196	14,583
6		6,395	5,614	5,214	4,871
7		6,063	5,956	5,039	4,630
8		1,481	2,333	2,025	1,930
Total		168,965	173,297	173,303	175,856
Level Of Presort					
A Non-Barcode		9,683	10,850	6,351	5,337
A Barcode		3,675	4,259	7,731	12,659
B Non-Barcode		12,816	19,052	11,403	9,449
B Barcode		25,749	25,701	32,112	33,569
C		117,043	113,435	115,706	114,842
Total		168,965	173,297	173,303	175,856

Meredith Corporation Postage Statistics

14584

	Better Homes and Gardens			
	1994	1995	1996	1997
Frequency/Issues	12	12	12	12
Distribution By Zone				
SCF	58,800	59,737	63,558	65,789
1 & 2	4,800	5,051	6,165	6,603
3	3,120	3,343	3,366	3,319
4	2,760	2,749	2,616	2,729
5	4,560	3,944	3,993	4,402
6	1,800	2,065	2,208	2,448
7	1,200	1,207	1,221	1,293
8	600	579	564	533
Total	77,640	78,675	83,691	87,116
Level Of Presort				
A Non-Barcode	2,065	2,646	1,983	2,251
A Barcode	311	339	1,605	2,756
B Non-Barcode	4,395	9,047	5,708	5,658
B Barcode	5,901	4,488	8,569	9,203
C	64,968	62,155	65,826	67,248
Total	77,640	78,675	83,691	87,116
Editorial Percentage	43%	42%	43%	42%
Average Copy Weight	0.7000	0.7666	0.8072	0.8552
Average Number of Editions	123	120	120	125
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14585

	Midwest Living			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	102	90	99	2,379
1 & 2	360	451	374	239
3	1,860	1,930	1,929	829
4	1,680	1,766	1,770	760
5	300	300	287	189
6	108	85	87	76
7	78	65	54	52
8	6	6	7	5
Total	4,494	4,693	4,607	4,529
Level Of Presort				
A Non-Barcode	435	564	209	216
A Barcode	225	128	441	470
B Non-Barcode	325	1,143	472	497
B Barcode	809	494	1,692	1,020
C	2,700	2,364	1,793	2,326
Total	4,494	4,693	4,607	4,529
Editorial Percentage	48%	47%	46%	47%
Average Copy Weight	0.7000	0.7750	0.7583	0.8956
Average Number of Editions	N/A	6	9	7
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14586

	Country Gardens			
	1994	1995	1996	1997
Frequency/Issues	4	4	4	4
Distribution By Zone				
SCF	-	2	3	7
1 & 2	12	15	21	38
3	20	27	36	111
4	28	43	60	202
5	52	83	117	361
6	8	9	15	103
7	24	36	45	130
8	8	8	12	18
Total	152	223	309	970
Level Of Presort				
A Non-Barcode	37	67	55	143
A Barcode	23	30	35	186
B Non-Barcode	3	17	11	65
B Barcode	49	76	132	407
C	40	33	76	159
Total	152	223	309	970
Editorial Percentage	65%	64%	69%	68%
Average Copy Weight	N/A	0.6360	0.6314	0.6371
Average Number of Editions	1	1	1	1
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14587

	Floral & Nature CRAFTS			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	6	11	9	6
1 & 2	48	66	49	34
3	84	122	93	65
4	168	235	178	125
5	300	425	310	214
6	66	96	70	48
7	138	196	141	95
8	30	48	35	25
Total	840	1,199	885	612
Level Of Presort				
A Non-Barcode	96	218	269	46
A Barcode	84	102	80	240
B Non-Barcode	50	107	116	12
B Barcode	370	525	241	206
C	240	247	179	108
Total	840	1,199	885	612
Editorial Percentage	86%	85%	88%	87%
Average Copy Weight	0.2800	0.2738	0.2896	0.2857
Average Number of Editions	2	2	2	2
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14588

		Renovation Style		
		1997		
Frequency/Issues		2		
Distribution By Zone				
	SCF	1		
	1 & 2	2		
	3	16		
	4	26		
	5	65		
	6	29		
	7	20		
	8	1		
	Total	160		
Level Of Presort				
	A Non-Barcode	103		
	A Barcode	-		
	B Non-Barcode	57		
	B Barcode	-		
	C	-		
	Total	160		
Editorial Percentage		76%		
Average Copy Weight		0.5970		
Average Number of Editions		1		
Type of Editions		Geographic		

Meredith Corporation Postage Statistics

14589

	LADIES' HOME JOURNAL			
	1994	1995	1996	1997
Frequency/Issues	12	12	12	12
Distribution By Zone				
SCF	30,000	30,720	31,150	32,675
1 & 2	9,120	9,029	8,460	6,530
3	2,880	2,998	2,507	1,901
4	2,160	2,456	1,669	2,456
5	2,160	2,470	1,626	2,538
6	360	382	278	448
7	900	994	666	878
8	480	523	442	706
Total	48,060	49,572	46,798	48,132
Level Of Presort				
A Non-Barcode	2,868	2,934	878	732
A Barcode	192	284	1,492	3,054
B Non-Barcode	4,986	5,826	1,572	568
B Barcode	4,614	4,826	6,897	9,197
C	35,400	35,702	35,959	34,581
Total	48,060	49,572	46,798	48,132
Editorial Percentage	45%	40%	41%	43%
Average Copy Weight	0.7200	0.7190	0.6963	0.6903
Average Number of Editions	N/A	N/A	N/A	90
Type of Editions	Demographic	Demographic	Demographic	Geographic

Meredith Corporation Postage Statistics

14590

		SUCCESSFUL FARMING			
		1994	1995	1996	1997
Frequency/Issues		12	12	12	12
Distribution By Zone					
	SCF	60	56	2,588	3,162
	1 & 2	1,020	992	1,244	1,272
	3	1,464	1,484	421	86
	4	2,196	2,222	712	411
	5	840	898	596	543
	6	144	144	143	142
	7	156	142	138	144
	8	12	8	9	9
	Total	5,892	5,946	5,851	5,769
Level Of Presort					
	A Non-Barcode	257	196	179	208
	A Barcode	295	395	460	521
	B Non-Barcode	378	298	271	119
	B Barcode	1,002	1,144	1,123	1,165
	C	3,960	3,913	3,818	3,756
	Total	5,892	5,946	5,851	5,769
Editorial Percentage		52%	49%	52%	49%
Average Copy Weight		0.3900	0.4358	0.4176	0.4243
Average Number of Editions		N/A	570	569	836
Type of Editions		Demographic	Demographic	Demographic	Demographic

	Country Home			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	18	6	1,037	2,834
1 & 2	90	170	157	145
3	498	610	489	295
4	942	1,685	1,281	654
5	1,722	1,390	1,048	505
6	738	165	136	84
7	498	327	251	121
8	18	434	330	137
Total	4,524	4,787	4,729	4,775
Level Of Presort				
A Non-Barcode	425	586	468	737
A Barcode	271	360	301	229
B Non-Barcode	202	697	1,275	1,729
B Barcode	2,126	1,869	1,525	1,102
C	1,500	1,275	1,160	978
Total	4,524	4,787	4,729	4,775
Editorial Percentage	53%	47%	52%	49%
Average Copy Weight	0.7000	0.8785	0.9011	1.0395
Average Number of Editions	N/A	N/A	24	28
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14592

	TRADITIONAL HOME			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	12	5	816	2,333
1 & 2	42	143	143	109
3	324	444	367	177
4	582	1,151	923	419
5	1,380	1,027	793	345
6	558	87	81	47
7	402	260	208	85
8	12	317	244	89
Total	3,312	3,434	3,575	3,604
Level Of Presort				
A Non-Barcode	461	335	286	225
A Barcode	199	232	273	369
B Non-Barcode	270	304	808	504
B Barcode	1,590	1,660	1,275	1,465
C	792	903	933	1,041
Total	3,312	3,434	3,575	3,604
Editorial Percentage	57%	51%	52%	50%
Average Copy Weight	0.6600	0.7966	0.8351	0.9758
Average Number of Editions	34	34	40	55
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14593

	WOOD			
	1994	1995	1996	1997
Frequency/Issues	9	9	9	9
Distribution By Zone				
SCF	9	10	1,053	2,320
1 & 2	378	408	280	179
3	738	790	544	304
4	1,305	1,387	1,023	706
5	1,422	1,495	1,124	767
6	243	265	245	193
7	657	695	474	255
8	117	124	86	78
Total	4,869	5,174	4,829	4,802
Level Of Presort				
A Non-Barcode	134	468	223	138
A Barcode	487	508	771	1,067
B Non-Barcode	779	437	179	18
B Barcode	2,435	2,877	3,072	3,098
C	1,035	884	584	481
Total	4,869	5,174	4,829	4,802
Editorial Percentage	63%	61%	62%	57%
Average Copy Weight	0.4200	0.4706	0.4703	0.4976
Average Number of Editions	2	2	2	2
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14594

	COUNTRY AMERICA			
	1994	1995	1996	1997
Frequency/Issues	10	10	9	6
Distribution By Zone				
SCF	60	62	1,105	2,576
1 & 2	250	264	214	132
3	1,250	1,260	898	373
4	2,400	2,443	1,762	744
5	3,800	3,847	2,704	1,055
6	1,300	1,284	903	333
7	800	793	536	163
8	30	29	30	21
Total	9,890	9,982	8,152	5,397
Level Of Presort				
A Non-Barcode	1,060	1,076	658	185
A Barcode	890	1,050	980	1,289
B Non-Barcode	741	344	220	58
B Barcode	3,659	4,250	3,774	2,682
C	3,540	3,262	2,520	1,183
Total	9,890	9,982	8,152	5,397
Editorial Percentage	48%	54%	62%	55%
Average Copy Weight	0.4800	0.5108	0.4336	0.5338
Average Number of Editions	3	3	3	3
Type of Editions	Geographic	Geographic	Geographic	Geographic

	GOLF for WOMEN			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	18	17	18	18
1 & 2	102	115	120	124
3	180	203	211	214
4	270	307	313	317
5	540	646	662	683
6	162	165	167	185
7	282	280	281	284
8	18	79	77	79
Total	1,572	1,812	1,849	1,904
Level Of Presort				
A Non-Barcode	66	56	41	43
A Barcode	126	148	120	217
B Non-Barcode	71	56	60	33
B Barcode	409	472	424	515
C	900	1,080	1,204	1,096
Total	1,572	1,812	1,849	1,904
Editorial Percentage	58%	54%	52%	53%
Average Copy Weight	0.5000	0.5639	0.5805	0.6271
Average Number of Editions	4	4	5	5
Type of Editions	Geographic	Geographic	Geographic	Geographic

		AMERICAN PATCHWORK & QUILTING			
		1994	1995	1996	1997
Frequency/Issues		6	6	6	6
Distribution By Zone					
	SCF	6	9	9	9
	1 & 2	48	47	47	49
	3	96	92	94	97
	4	168	164	163	166
	5	258	253	243	245
	6	60	57	57	58
	7	126	125	124	130
	8	30	31	30	31
	Total	792	778	767	785
Level Of Presort					
	A Non-Barcode	171	153	104	28
	A Barcode	111	80	140	255
	B Non-Barcode	41	42	36	4
	B Barcode	253	244	253	242
	C	216	259	234	256
	Total	792	778	767	785
Editorial Percentage		82%	80%	75%	78%
Average Copy Weight		0.2800	0.2809	0.3602	0.3602
Average Number of Editions		2	2	2	2
Type of Editions		Geographic	Geographic	Geographic	Geographic

	Crayola Kids			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	12	20	22	28
1 & 2	90	135	149	190
3	138	208	231	306
4	234	357	399	549
5	498	781	893	1,144
6	84	127	154	208
7	168	249	302	389
8	48	75	88	105
Total	1,272	1,952	2,238	2,919
Level Of Presort				
A Non-Barcode	272	446	457	96
A Barcode	76	148	62	498
B Non-Barcode	155	304	392	157
B Barcode	229	501	543	1,227
C	540	553	784	941
Total	1,272	1,952	2,238	2,919
Editorial Percentage	75%	72%	76%	66%
Average Copy Weight	0.2800	0.4177	0.3542	0.4415
Average Number of Editions	8	8	7	8
Type of Editions	Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14598

	Cross Stitch & NEEDLEWORK			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	24	22	19	22
1 & 2	96	87	78	105
3	510	448	395	305
4	900	783	690	557
5	1,620	1,386	1,210	954
6	660	575	510	317
7	420	370	324	303
8	30	29	26	47
Total	4,260	3,700	3,252	2,610
Level Of Presort				
A Non-Barcode	979	792	220	195
A Barcode	341	314	754	828
B Non-Barcode	295	371	74	13
B Barcode	2,045	1,798	1,996	1,327
C	600	425	208	247
Total	4,260	3,700	3,252	2,610
Editorial Percentage	80%	76%	76%	77%
Average Copy Weight	0.2200	0.2568	0.3071	0.345
Average Number of Editions	3	3	3	3
Type of Editions	Geographic	Geographic	Geographic	Geographic

	Decorative WOODCRAFTS			
	1994	1995	1996	1997
Frequency/Issues	6	6	6	6
Distribution By Zone				
SCF	18	16	18	19
1 & 2	78	80	92	97
3	162	156	176	186
4	300	274	318	339
5	450	426	477	505
6	96	94	110	121
7	210	206	234	260
8	42	42	43	45
Total	1,356	1,294	1,468	1,572
Level Of Presort				
A Non-Barcode	331	302	281	77
A Barcode	41	100	105	529
B Non-Barcode	114	58	199	14
B Barcode	258	454	455	511
C	612	380	428	441
Total	1,356	1,294	1,468	1,572
Editorial Percentage	84%	79%	78%	79%
Average Copy Weight	0.2800	0.2866	0.3179	0.3141
Average Number of Editions	2	2	2	2
Type of Editions	Geographic	Geographic	Geographic	Geographic

		Do It Yourself Ideas for Your Home & Garden			
		1994	1995	1996	1997
Frequency/Issues		4	4	4	4
Distribution By Zone					
	SCF	-	-	1	2
	1 & 2	-	1	5	6
	3	4	7	34	40
	4	8	13	58	69
	5	16	29	113	133
	6	8	14	50	60
	7	4	11	40	48
	8	-	1	2	2
	Total	40	76	303	360
Level Of Presort					
	A Non-Barcode	24	11	40	17
	A Barcode	4	41	112	141
	B Non-Barcode	10	1	10	-
	B Barcode	2	23	141	202
	C	-	-	-	-
	Total	40	76	303	360
Editorial Percentage		82%	83%	83%	84%
Average Copy Weight		0.2800	0.4735	0.4715	0.4700
Average Number of Editions		1	1	1	1
Type of Editions		Geographic	Geographic	Geographic	Geographic

Meredith Corporation Postage Statistics

14601

	family Money			
	1997			
Frequency/Issues	2			
Distribution By Zone				
SCF	71			
1 & 2	17			
3	21			
4	54			
5	211			
6	30			
7	38			
8	13			
Total	455			
Level Of Presort				
A Non-Barcode	15			
A Barcode	114			
B Non-Barcode	5			
B Barcode	258			
C	63			
Total	455			
Editorial Percentage	57%			
Average Copy Weight	0.5657			
Average Number of Editions	4			
Type of Editions	Geographic			

Meredith Corporation Postage Statistics

14602

	Decorating			
	1995	1996	1997	
Frequency/Issues	2	4	4	
Distribution By Zone				
SCF	-	-	-	
1 & 2	-	1	1	
3	2	8	11	
4	3	13	19	
5	7	36	52	
6	3	17	24	
7	2	10	14	
8	-	1	1	
Total	17	86	122	
Level Of Presort				
A Non-Barcode	1	3	10	
A Barcode	13	53	60	
B Non-Barcode	-	1	-	
B Barcode	3	29	52	
C	-	-	-	
Total	17	86	122	
Editorial Percentage	75%	75%	78%	
Average Copy Weight	0.5021	0.5178	0.5204	
Average Number of Editions	1	1	1	
Type of Editions	Geographic	Geographic	Geographic	

Meredith Corporation Postage Statistics

14603

		Gardens, Decks & Landscapes	
		1997	
	Frequency/Issues	4	
	Distribution By Zone		
	SCF	-	
	1 & 2	-	
	3	3	
	4	6	
	5	12	
	6	5	
	7	4	
	8	-	
	Total	30	
	Level Of Presort		
	A Non-Barcode	7	
	A Barcode	20	
	B Non-Barcode	-	
	B Barcode	3	
	C	-	
	Total	30	
	Editorial Percentage	80%	
	Average Copy Weight	0.5007	
	Average Number of Editions	1	
	Type of Editions	Geographic	

Meredith Corporation Postage Statistics

14604

		Crafts Showcase		
		<u>1997</u>		
Frequency/Issues		4		
Distribution By Zone				
	SCF	1		
	1 & 2	5		
	3	10		
	4	17		
	5	28		
	6	7		
	7	12		
	8	<u>3</u>		
	Total	83		
Level Of Presort				
	A Non-Barcode	7		
	A Barcode	57		
	B Non-Barcode	-		
	B Barcode	19		
	C	<u>-</u>		
	Total	83		
Editorial Percentage		45%		
Average Copy Weight		0.6609		
Average Number of Editions		1		
Type of Editions		Geographic		

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-24. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed on pallets at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1 by the following pallet presort levels:

- (a) 5-digit pallets
- (b) 3-digit pallets
- (c) SCF pallets
- (d) ADC/SDC pallets
- (e) BMC pallets Mixed-BMC pallets.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. That information (for Better Homes and Gardens [BHG] and Country America) is contained in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-24-28".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-25. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed on pallets at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per pallet by the following pallet presort levels:

- (a) 5-digit pallets
- (b) 3-digit pallets
- (c) SCF pallets
- (d) ADC/SDC pallets
- (e) BMC pallets Mixed-BMC pallets.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. That information (for Better Homes and Gardens [BHG] and Country America) is contained in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-24-28".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-26. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed on pallets at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average pallet weight by the following pallet presort levels:

- (a) 5-digit pallets
- (b) 3-digit pallets
- (c) SCF pallets
- (d) ADC/SDC pallets
- (e) BMC pallets Mixed-BMC pallets.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. That information (for Better Homes and Gardens [BHG] and Country America) is contained in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-24-28".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-27. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed in sacks at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1 by the following sack presort levels:

- (a) Carrier route(s) sacks
- (b) Firm sacks
- (c) 5-digit sacks
- (d) 3-digit unique city sacks
- (e) 3-digit sacks
- (f) SCF sacks
- (g) ADC/SDC sacks
- (h) Mixed sacks.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. That information (for Better Homes and Gardens [BHG] and Country America) is contained in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-24-28".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-28. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed in sacks at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per sack by the following sack presort levels:

- (a) Carrier route(s) sacks
- (b) Firm sacks
- (c) 5-digit sacks
- (d) 3-digit unique city sacks
- (e) 3-digit sacks SCF sacks
- (g) ADC/SDC sacks
- (h) Mixed sacks.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. That information (for Better Homes and Gardens [BHG] and Country America) is contained in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-24-28".

**Magazine Publishers of America Witness Christopher Little
Responses to USPS/MPA-T1-24-28**

**[Consisting of 12 pages of information regarding Better Homes and Gardens
and 6 pages of information regarding Country America.]**

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	498381	970	4864827	107264	21228	2498	5495168
USPS/MPA-T1-25	Avg. Pieces per pallet	1128	970	2673	670	231	278	5950
USPS/MPA-T1-26	Avg. Pallet Weight	603.48	518.95	1430.06	358.45	123.585	148.73	3183.25
	Total Pallets	442	1	1820	160	92	9	2524
USPS/MPA-T1-27	Copies in Sacks	13450	4284	17454	0	6671	8671	50530
USPS/MPA-T1-28	Avg. Pieces per Sack	34	29	41	0	54	33	191
	Total Sacks	396	148	426	0	124	263	1355

3 FEB97

		CARRIER					MIXED	
		ROUTE	6-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	1962708	1699	4357026	63813	31345	7983	6424574
USPS/MPA-T1-25	Avg. Pieces per pallet	886	850	1898	483	490	1331	5938
USPS/MPA-T1-26	Avg. Pallet Weight	726.52	697	1556.36	396.06	401.8	1091.42	4869.16
	Total Pallets	2215	2	2296	132	64	6	4715
USPS/MPA-T1-27	Copies in Sacks	4307	4010	12851	0	25260	12738	59166
USPS/MPA-T1-28	Avg. Pieces per Sack	23	20	30	0	40	39	152
	Total Sacks	187	201	428	0	632	327	1774

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2785319	72571	3517196	37129	17525	2370	6432110
USPS/MPA-T1-25	Avg. Pieces per pallet	752	477	1471	360	417	1185	4662
USPS/MPA-T1-26	Avg. Pallet Weight	789.6	500.85	1544.55	378	437.85	1244.25	4895.1
	Total Pallets	3704	152	2391	103	42	2	6394
USPS/MPA-T1-27	Copies in Sacks	2246	3190	9010	0	4662	9465	28573
USPS/MPA-T1-28	Avg. Pieces per Sack	17	16	23	0	26	36	118
	Total Sacks	132	199	392	0	179	263	1165

APR97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2903845	122191	3452502	44939	34287	7666	6565430
USPS/MPA-T1-25	Avg. Pieces per pallet	753	493	1459	374	490	1533	5102
USPS/MPA-T1-26	Avg. Pallet Weight	778.602	509.762	1508.61	386.716	506.66	1585.122	5275.468
	Total Pallets	1214	53	771	120	3	1	2162
USPS/MPA-T1-27	Copies in Sacks	2392	2291	4478	0	11342	10116	30619
USPS/MPA-T1-28	Avg. Pieces per Sack	16	18	17	0	28	40	119
	Total Sacks	150	127	263	0	405	253	1198

END MAY97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2552469	28154	3915684	50442	71316	20011	6638076
USPS/MPA-T1-25	Avg. Pieces per pallet	807	494	1648	394	517	1668	5528
USPS/MPA-T1-26	Avg. Pallet Weight	750.51	459.42	1532.64	366.42	480.81	1551.24	5141.04
	Total Pallets	3163	57	2376	128	138	12	5874
USPS/MPA-T1-27	Copies in Sacks	3002	1787	13406	0	6153	9049	33397
USPS/MPA-T1-28	Avg. Pieces per Sack	20	18	25	0	36	36	135
	Total Sacks	150	99	536	0	171	251	1208

b. JUN97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2320588	27166	3816788	48636	55005	17309	6285492
USPS/MPA-T1-25	Avg. Pieces per pallet	786	503	1630	392	500	1574	5385
USPS/MPA-T1-26	Avg. Pallet Weight	728.622	466.281	1511.01	363.384	463.5	1459.098	4991.895
	Total Pallets	2952	54	2342	124	110	11	5593
USPS/MPA-T1-27	Copies in Sacks	3317	1969	8500	0	14047	10452	38285
USPS/MPA-T1-28	Avg. Pieces per Sack	20	21	17	0	29	35	122
	Total Sacks	166	94	500	0	484	299	1543

b. JUL97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2135224	0	4245887	51722	39597	10343	6482773
USPS/MPA-T1-25	Avg. Pieces per pallet	863	0	1814	457	535	1724	5393
USPS/MPA-T1-26	Avg. Pallet Weight	759.44	0	1596.32	402.16	470.8	1517.12	4745.84
	Total Pallets	2474	0	2341	113	74	6	5008
USPS/MPA-T1-27	Copies in Sacks	4473	2148	4074	0	11782	10535	33012
USPS/MPA-T1-28	Avg. Pieces per Sack	22	23	21	0	30	29	125
	Total Sacks	203	93	194	0	393	363	1247

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	1672823	0	4178687	75603	109623	29312	6066048
USPS/MPA-T1-25	Avg. Pieces per pallet	837	0	1835	463	571	1954	5680
USPS/MPA-T1-26	Avg. Pallet Weight	734.049	0	1609.3	406.051	500.767	1713.658	4963.82
	Total Pallets	1999	0	2277	163	192	15	4646
USPS/MPA-T1-27	Copies in Sacks	5062	3175	12067	0	17578	12245	50127
USPS/MPA-T1-28	Avg. Pieces per Sack	23	22	24	0	32	36	137
	Total Sacks	220	144	503	0	549	340	1757

b. SEP97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2488716	49145	3771120	77707	123372	43684	6553744
USPS/MPA-T1-25	Avg. Pieces per pallet	780	592	1591	413	482	1899	5757
USPS/MPA-T1-26	Avg. Pallet Weight	762.06	578.384	1554.41	403.501	470.914	1855.323	5,624.59
	Total Pallets	3191	83	2370	188	256	23	6111
USPS/MPA-T1-27	Copies in Sacks	2420	1795	26819	0	12416	7496	50946
USPS/MPA-T1-28	Avg. Pieces per Sack	19	18	25	0	38	32	132
	Total Sacks	127	100	1073	0	327	234	386

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2949857	147528	3219537	94408	89487	23457	6524274
USPS/MPA-T1-25	Avg. Pieces per pallet	710	490	1348	396	481	1564	4989
USPS/MPA-T1-26	Avg. Pallet Weight	816.5	563.5	1550.2	455.4	553.15	1798.6	5737.35
	Total Pallets	4155	301	2388	238	186	15	7284
USPS/MPA-T1-27	Copies in Sacks	1796	2144	21695	0	19411	5622	50668
USPS/MPA-T1-28	Avg. Pieces per Sack	16	17	19	0	29	30	111
	Total Sacks	112	126	1142	0	669	187	2237

Br. NOV97

		CARRIER					MIXED	
		ROUTE	6-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	1459672	121785	2940729	133272	145768	46730	4847956
USPS/MPA-T1-25	Avg. Pieces per pallet	587	432	1224	376	388	1558	4563
USPS/MPA-T1-26	Avg. Pallet Weight	704.4	518.4	1468.8	451.2	463.2	1869.6	5475.6
	Total Pallets	2487	282	2403	354	378	30	5933
USPS/MPA-T1-27	Copies in Sacks	2339	2702	36941	0	22037	8902	70921
USPS/MPA-T1-28	Avg. Pieces per Sack	15	16	21	0	24	32	108
	Total Sacks	156	169	1759	0	918	216	3218

b. JEC97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2018359	4131	4143740	174508	134948	31265	6506951
USPS/MPA-T1-25	Avg. Pieces per pallet	829	590	1761	504	496	1563	5743
USPS/MPA-T1-26	Avg. Pallet Weight	727	517	1544	442	435	1371	5036
	Total Pallets	2435	7	2353	346	272	20	5433
USPS/MPA-T1-27	Copies in Sacks	4331	2235	10318	0	6647	6878	30409
USPS/MPA-T1-28	Avg. Pieces per Sack	22	21	19	0	21	23	106
	Total Sacks	197	106	543	0	317	299	1462

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	649549	136358	44458	830365
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1412	718	2964	5094
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	791.4966	402.4749	1661.47	2855.442
	Total Pallets	0	0	0	460	190	15	665
USPS/MPA-T1-27	Copies in Sacks	20	60	14952	0	38515	12867	66414
USPS/MPA-T1-28	Avg. Pieces per Sack	20	30	27	0	44	52	173
	Total Sacks	1	2	554	0	875	247	1680

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	620064	161299	45147	826510
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1393	827	2822	5042
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	781.1944	463.7816	1582.578	2827.554
	Total Pallets	0	0	0	445	195	16	656
USPS/MPA-T1-27	Copies in Sacks	0	0	25178	0	42893	11161	79232
USPS/MPA-T1-28	Avg. Pieces per Sack	0	0	31	0	45	42	118
	Total Sacks	0	0	812	0	953	266	2031

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	642420	105823	33698	781941
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1643	936	3063	5642
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	734.421	418.392	1369.161	2521.974
	Total Pallets	0	0	0	391	113	11	515
USPS/MPA-T1-27	Copies in Sacks	128	702	45878	0	55313	10476	112497
USPS/MPA-T1-28	Avg. Pieces per Sack	43	44	34	0	48	39	208
	Total Sacks	3	16	1349	0	1152	269	2789

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	592003	78198	23924	694125
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1579	899	3418	5896
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	737.8667	420.1027	1597.231	2755.201
	Total Pallets	0	0	0	375	87	7	469
USPS/MPA-T1-27	Copies in Sacks	0	166	38019	0	73300	11448	122933
USPS/MPA-T1-28	Avg. Pieces per Sack	0	28	32	0	16	9	85
	Total Sacks	0	6	1188	0	4581	1272	7047

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	440581	217559	56837	714957
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	985	880	3343	5208
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	524.7095	488.776	1780.818	2774.302
	Total Pallets	0	0	0	447	247	17	711
USPS/MPA-T1-27	Copies in Sacks	20	4233	93971	0	98535	14678	211437
USPS/MPA-T1-28	Avg. Pieces per Sack	20	29	35	0	58	42	184
	Total Sacks	1	146	2685	0	1699	349	4880

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	439840	231637	56503	727980
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1105	1038	3768	5909
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	484.432	455.0592	1851.0144	2590.506
	Total Pallets	0	0	0	398	223	15	636
USPS/MPA-T1-27	Copies in Sacks	0	5386	76243	0	77828	16081	175518
USPS/MPA-T1-28	Avg. Pieces per Sack	0	34	39	0	58	48	177
	Total Sacks	0	158	1955	0	1342	349	3804

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-29. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed in trays at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1 by the following tray presort levels:

- (a) Carrier route(s) trays
- (b) Firm trays
- (c) 5-digit trays
- (d) 3-digit unique city trays
- (e) 3-digit trays SCF trays
- (g) ADC/SDC trays
- (h) Mixed trays.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. No trays were used.

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-30. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed in trays at second class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per tray by the following tray presort levels:

- (a) Carrier route(s) trays
- (b) Firm trays
- (c) 6-digit trays
- (d) 3-digit unique city trays
- (e) 3-digit trays SCF trays
- (g) ADC/SDC trays
- (h) Mixed trays.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. No trays were used.

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-31. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed in bundles at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. This information with regard to "bundles" is being compiled and will be provided in a supplementary response to USPS/MPA-T1-31.

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-32. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed in bundles at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per bundle.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. This information with regard to "bundles" is being compiled and will be provided in a supplementary response to USPS/MPA-T1-32.

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-33. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular rates that were plant loaded in USPS provided transportation for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith intends to provide information in response to this interrogatory for calendar year 1997. The matter is being researched and a supplementary response to USPS/MPA-T1-33 will be provided.

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-34. Please also provide all data furnished in response to interrogatories 1 through 33 above in electronic format.

Response:

A disk will be provided to the Postal Service and filed as a Library Reference (MPA-LR-4).

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
SUPPLEMENTARY RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-31. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed in bundles at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. This information with regard to "bundles" is contained in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-31-32".

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
SUPPLEMENTARY RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-T1-32. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed in bundles at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per bundle.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for the main file of two publications for calendar year 1997. This information with regard to "bundles" is contained in the compilation of documents attached hereto designated "Responses to USPS/MPA-T1-31-32".

**Magazine Publishers of America Witness Christopher Little
Responses to USPS MPA-T1-31-32**

**[Consisting of 12 pages of information regarding Better Homes and Gardens
and 6 pages of information regarding Country America]**

		CARRIER					MIXED	
		ROUTE	6-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
		498381	970	4864827	107264	21228	2498	5495188
USPS/MPA-T1-24	Copies on Pallets	1128	970	2673	670	231	278	5950
USPS/MPA-T1-25	Avg. Pieces per pallet	603.48	518.95	1430.08	358.45	123.585	148.73	3183.25
USPS/MPA-T1-26	Avg. Pallet Weight	442	1	1820	160	92	9	2524
	Total Pallets	13450	4284	17454	0	6671	8671	50530
USPS/MPA-T1-27	Copies In Sacks	34	29	41	0	54	33	191
USPS/MPA-T1-28	Avg. Pieces per Sack	396	148	428	0	124	263	1355
	Total Sacks							5851911
USPS/MPA-T1-31	Volumes in bundles							18.24
USPS/MPA-T1-32	Avg. Pieces per Bundle							

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	1962708	1899	4357028	83813	31345	7983	6424574
USPS/MPA-T1-25	Avg. Pieces per pallet	886	850	1898	483	490	1331	5938
USPS/MPA-T1-26	Avg. Pallet Weight	726.52	697	1556.38	396.06	401.8	1091.42	4869.16
	Total Pallets	2215	2	2296	132	64	6	4715
USPS/MPA-T1-27	Copies in Sacks	4307	4010	12851	0	25260	12738	59166
USPS/MPA-T1-28	Avg. Pieces per Sack	23	20	30	0	40	39	152
	Total Sacks	187	201	428	0	632	327	1774
USPS/MPA-T1-31	Volumes in bundles							6503184
USPS/MPA-T1-32	Avg. Pieces per Bundle							15.65

LONG MAR97

		CARRIER					MIXED	
		ROUTE	6-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2785319	72571	3517198	37129	17525	2370	6432110
USPS/MPA-T1-25	Avg. Pieces per pallet	752	477	1471	360	417	1185	4682
USPS/MPA-T1-26	Avg. Pallet Weight	789.6	500.85	1544.55	378	437.85	1244.25	4895.1
	Total Pallets	3704	152	2391	103	42	2	6394
USPS/MPA-T1-27	Copies in Sacks	2246	3190	9010	0	4662	9465	28573
USPS/MPA-T1-28	Avg. Pieces per Sack	17	16	23	0	26	36	118
	Total Sacks	132	199	392	0	179	263	1165
USPS/MPA-T1-31	Volumes in bundles							6469988
USPS/MPA-T1-32	Avg. Pieces per Bundle							13.35

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2903845	122191	3452502	44939	34287	7668	8565430
USPS/MPA-T1-25	Avg. Pieces per pallet	753	493	1459	374	490	1533	5102
USPS/MPA-T1-26	Avg. Pallet Weight	778.602	509.762	1508.61	386.716	506.66	1585.122	5275.468
	Total Pallets	1214	53	771	120	3	1	2162
USPS/MPA-T1-27	Copies in Sacks	2392	2291	4478	0	11342	10116	30619
USPS/MPA-T1-28	Avg. Pieces per Sack	16	18	17	0	28	40	119
	Total Sacks	150	127	263	0	405	253	1198
USPS/MPA-T1-31	Volumes in bundles							6612371
USPS/MPA-T1-32	Avg. Pieces per Bundle							13.38

B713 MAY97

		CARRIER	6-DIGIT	3-DIGIT	SCF	ADC/SDC	MIXED	TOTALS
		ROUTE						
USPS/MPA-T1-24	Copies on Pallets	2552469	28154	3915884	50442	71316	20011	6638076
USPS/MPA-T1-25	Avg. Pieces per pallet	807	494	1848	394	517	1668	5528
USPS/MPA-T1-26	Avg. Pallet Weight	750.51	459.42	1532.84	368.42	480.81	1551.24	5141.04
	Total Pallets	3163	57	2376	128	138	12	5874
USPS/MPA-T1-27	Copies in Sacks	3002	1787	13406	0	6153	9049	33397
USPS/MPA-T1-28	Avg. Pieces per Sack	20	18	25	0	36	36	135
	Total Sacks	150	99	536	0	171	251	1208
USPS/MPA-T1-31	Volumes in bundles							6688825
USPS/MPA-T1-32	Avg. Pieces per Bundle							14.35

JUN97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2320588	27166	3816788	48636	55005	17309	6285492
USPS/MPA-T1-25	Avg. Pieces per pallet	786	503	1630	392	500	1574	5385
USPS/MPA-T1-26	Avg. Pallet Weight	728.622	466.281	1511.01	363.384	463.5	1459.098	4891.895
	Total Pallets	2952	54	2342	124	110	11	5593
USPS/MPA-T1-27	Copies In Sacks	3317	1969	8500	0	14047	10452	38285
USPS/MPA-T1-28	Avg. Pieces per Sack	20	21	17	0	29	35	122
	Total Sacks	166	94	500	0	484	299	1543
USPS/MPA-T1-31	Volumes in bundles							6342499
USPS/MPA-T1-32	Avg. Pieces per Bundle							14.17

6.13 JUL97

		CARRIER					MIXED	
		ROUTE	6-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2135224	0	4245887	51722	39597	10343	6482773
USPS/MPA-T1-25	Avg. Pieces per pallet	863	0	1814	457	535	1724	5393
USPS/MPA-T1-26	Avg. Pallet Weight	759.44	0	1596.32	402.16	470.8	1517.12	4745.84
	Total Pallets	2474	0	2341	113	74	6	5008
USPS/MPA-T1-27	Copies In Sacks	4473	2148	4074	0	11782	10535	33012
USPS/MPA-T1-28	Avg. Pieces per Sack	22	23	21	0	30	29	125
	Total Sacks	203	93	194	0	393	363	1247
USPS/MPA-T1-31	Volumes In bundles							6524921
USPS/MPA-T1-32	Avg. Pieces per Bundle							15.39

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	1672823	0	4178687	75803	109623	29312	6066048
USPS/MPA-T1-25	Avg. Pieces per pallet	837	0	1835	463	571	1954	5660
USPS/MPA-T1-26	Avg. Pallet Weight	734.049	0	1609.3	406.051	500.767	1713.658	4963.82
	Total Pallets	1999	0	2277	163	192	15	4646
USPS/MPA-T1-27	Copies in Sacks	5062	3175	12067	0	17578	12245	50127
USPS/MPA-T1-28	Avg. Pieces per Sack	23	22	24	0	32	36	137
	Total Sacks	220	144	503	0	549	340	1757
USPS/MPA-T1-31	Volumes in bundles							6135285
USPS/MPA-T1-32	Avg. Pieces per Bundle							15.12

		CARRIER					MIXED	
		ROUTE	6-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2488716	49145	3771120	77707	123372	43684	6553744
USPS/MPA-T1-25	Avg. Pieces per pallet	780	592	1591	413	482	1899	5757
USPS/MPA-T1-26	Avg. Pallet Weight	782.06	578.384	1554.41	403.501	470.814	1855.323	5,624.59
	Total Pallets	3191	83	2370	188	258	23	6111
USPS/MPA-T1-27	Copies in Sacks	2420	1795	26819	0	12416	7498	50946
USPS/MPA-T1-28	Avg. Pieces per Sack	19	18	25	0	38	32	132
	Total Sacks	127	100	1073	0	327	234	386
USPS/MPA-T1-31	Volumes in bundles							8624030
USPS/MPA-T1-32	Avg. Pieces per Bundle							14.01

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2949857	147528	3219537	94408	89487	23457	8524274
USPS/MPA-T1-25	Avg. Pieces per pallet	710	490	1348	396	481	1564	4989
USPS/MPA-T1-26	Avg. Pallet Weight	816.5	583.5	1550.2	455.4	553.15	1798.6	5737.35
	Total Pallets	4155	301	2388	238	186	15	7284
USPS/MPA-T1-27	Copies in Sacks	1798	2144	21695	0	19411	5622	50668
USPS/MPA-T1-28	Avg. Pieces per Sack	16	17	19	0	29	30	111
	Total Sacks	112	126	1142	0	669	187	2237
USPS/MPA-T1-31	Volumes in bundles							6594368
USPS/MPA-T1-32	Avg. Pieces per Bundle							12.56

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	1459672	121785	2940729	133272	145768	46730	4847956
USPS/MPA-T1-25	Avg. Pieces per pallet	587	432	1224	376	388	1558	4583
USPS/MPA-T1-26	Avg. Pallet Weight	704.4	518.4	1468.8	451.2	463.2	1869.6	5475.6
	Total Pallets	2487	282	2403	354	378	30	5933
USPS/MPA-T1-27	Copies in Sacks	2339	2702	36941	0	22037	6902	70921
USPS/MPA-T1-28	Avg. Pieces per Sack	15	16	21	0	24	32	108
	Total Sacks	156	169	1759	0	918	216	3218
USPS/MPA-T1-31	Volumes in bundles							4947956
USPS/MPA-T1-32	Avg. Pieces per Bundle							11.32

BHG DEC97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	2018359	4131	4143740	174508	134948	31265	6506951
USPS/MPA-T1-25	Avg. Pieces per pallet	829	590	1761	504	496	1563	5743
USPS/MPA-T1-26	Avg. Pallet Weight	727	517	1544	442	435	1371	5036
	Total Pallets	2435	7	2353	346	272	20	5433
USPS/MPA-T1-27	Copies in Sacks	4331	2235	10318	0	6647	6878	30409
USPS/MPA-T1-28	Avg. Pieces per Sack	22	21	19	0	21	23	106
	Total Sacks	197	106	543	0	317	299	1462
USPS/MPA-T1-31	Volumes in bundles							6559028
USPS/MPA-T1-32	Avg. Pieces per Bundle							14.85

CTRY AMER FEB-MAR 97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	849549	136358	44458	830365
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1412	718	2964	5094
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	791.4966	402.4749	1661.47	2855.442
	Total Pallets	0	0	0	460	190	15	665
USPS/MPA-T1-27	Copies in Sacks	20	80	14952	0	38515	12867	66414
USPS/MPA-T1-28	Avg. Pieces per Sack	20	30	27	0	44	52	173
	Total Sacks	1	2	554	0	875	247	1680
USPS/MPA-T1-31	Volumes in Bundles							897621
USPS/MPA-T1-32	Avg. pieces per Bundle							12.69

CTRY / MER APR-MAY 97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	620064	161299	45147	826510
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1393	827	2822	5042
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	781.1944	463.7816	1582.578	2827.554
	Total Pallets	0	0	0	445	195	16	656
USPS/MPA-T1-27	Copies in Sacks	0	0	25178	0	42893	11161	79232
USPS/MPA-T1-28	Avg. Pieces per Sack	0	0	31	0	45	42	118
	Total Sacks	0	0	812	0	953	266	2031
USPS/MPA-T1-31	Volumes in Bundles							906574
USPS/MPA-T1-32	Avg. pieces per Bundle							12.73

CTRY AMER JUN-JUL 97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	642420	105823	33698	781941
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1643	938	3083	5642
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	734.421	418.392	1369.161	2521.974
	Total Pallets	0	0	0	391	113	11	515
USPS/MPA-T1-27	Copies In Sacks	128	702	45878	0	55313	10476	112497
USPS/MPA-T1-28	Avg. Pieces per Sack	43	44	34	0	48	39	208
	Total Sacks	3	16	1349	0	1152	269	2789
USPS/MPA-T1-31	Volumes In Bundles							895215
USPS/MPA-T1-32	Avg. pieces per Bundle							12.94

CTRY AMIER AUG-SEP 97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	592003	78198	23924	694125
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1579	899	3418	5896
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	737.8667	420.1027	1597.231	2755.201
	Total Pallets	0	0	0	375	87	7	469
USPS/MPA-T1-27	Copies in Sacks	0	166	38019	0	73300	11448	122933
USPS/MPA-T1-28	Avg. Pieces per Sack	0	28	32	0	16	9	85
	Total Sacks	0	6	1188	0	4581	1272	7047
USPS/MPA-T1-31	Volumes in Bundles							817856
USPS/MPA-T1-32	Avg. pieces per Bundle							13.025

CTRY AMER OCT-NOV 97

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	440581	217559	56837	714957
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	985	880	3343	5208
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	524.7095	488.778	1780.816	2774.302
	Total Pallets	0	0	0	447	247	17	711
USPS/MPA-T1-27	Copies in Sacks	20	4233	93971	0	98535	14678	211437
USPS/MPA-T1-28	Avg. Pieces per Sack	20	29	35	0	58	42	184
	Total Sacks	1	146	2685	0	1699	349	4880
								927192
USPS/MPA-T1-31	Volumes in Bundles							
USPS/MPA-T1-32	Avg. pieces per Bundle							14.65

		CARRIER					MIXED	
		ROUTE	5-DIGIT	3-DIGIT	SCF	ADC/SDC	BMC/ADC	TOTALS
USPS/MPA-T1-24	Copies on Pallets	0	0	0	439840	231637	56503	727980
USPS/MPA-T1-25	Avg. Pieces per pallet	0	0	0	1105	1038	3768	5909
USPS/MPA-T1-26	Avg. Pallet Weight	0	0	0	484.432	455.0592	1851.0144	2590.506
	Total Pallets	0	0	0	398	223	15	636
USPS/MPA-T1-27	Copies in Sacks	0	5388	76243	0	77828	16061	175518
USPS/MPA-T1-28	Avg. Pieces per Sack	0	34	39	0	58	46	177
	Total Sacks	0	158	1955	0	1342	349	3804
USPS/MPA-T1-31	Volumes in Bundles							897461
USPS/MPA-T1-32	Avg. pieces per Bundle							14.98

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
SUPPLEMENTARY RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-33. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular rates that were plant loaded in USPS provided transportation for each publication listed in response to interrogatory number 1.

Response:

As indicated in the objections filed by MPA on February 2, 1998, Meredith is providing information in response to this interrogatory for calendar year 1997. The attached table, designated "Response to USPS/MPA-T1-33", sets forth 1997 volumes for Meredith publications plant loaded in USPS provided transportation.

MEREDITH CORPORATION CALENDAR 1997
PLANT LOAD COPIES
[In thousands]

	1997
	Plant Load
Title	Volume
Better Homes & Gardens	1,831
Midwest Living	-
Country Gardens	-
Floral & Nature CRAFTS	612
Renovation Style	-
LADIES' HOME JOURNAL	6,668
SUCCESSFUL FARMING	1,781
Country Home	1,221
TRADITIONAL HOME	964
WOOD	2,175
COUNTRY AMERICA	-
GOLF for WOMEN	1,904
AMERICAN PATCHWORK & QUILTING	785
Crayola Kids	2,919
Cross Stitch & NEEDLEWORK	2,610
Decorative WOODCRAFTS	1,572
Do It Yourself Ideas for Your Home & Garden	-
family Money	455
Decorating	-
Gardens, Decks & Landscapes	-
Crafts Showcase	83
Total Plant Load Copies	25,580

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness? Ms.
3 Duchek?

4 MS. DUCHEK: Yes, Mr. Chairman, the Postal Service
5 would like to additional designate Mr. Little's answers to
6 USPS/MPA-T-1-35 and 36. I have two copies of each, which I
7 will hand to the witness.

8 CHAIRMAN GLEIMAN: Please approach the witness
9 then.

10 Mr. Little, you have had an opportunity to examine
11 the additional designated written cross-examination?

12 THE WITNESS: Yes.

13 CHAIRMAN GLEIMAN: And if the questions were asked
14 of you today, would your answers be the same as those you
15 previously provided in writing?

16 THE WITNESS: Yes, they would be.

17 CHAIRMAN GLEIMAN: That being the case, if you
18 would please provide the copies to the reporter, Ms. Duchek.

19 I will direct that the additional designated
20 written cross-examination of this witness be accepted into
21 evidence and transcribed into the record at this point.

22 [Additional Designation of Written
23 Cross-Examination of Christopher M.
24 Little, MPA-T-1, was received into
25 evidence and transcribed into the

record.]

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-35. In response to USPS/MPA-TI-24-28, Meredith Corporation provided information for the main file of two publications for calendar year 1997.

- a. Please describe generally how Meredith Corporation's mailings are prepared and how that preparation has changed for each of the last ten years.
- b. Please indicate, by year, the changes in make-up such as changes in average bundle size, changes in containerization, and the average number of bundles and pieces per container.
- c. Please indicate in percentage terms, what savings, if any, Meredith Corporation has experienced in its mail preparation costs (excluding postage) due to changes in the make-up of its mailings.
- d. Even if a percentage cannot be calculated for such savings, as requested in subpart (c) above, please indicate whether or not Meredith Corporation has experienced savings.

Response:

(a) Such detailed information as we possess, which pertained to calendar years 1994-1997, was provided in response to interrogatories USPS/MPA-T1-1-33. Generally, the Meredith Corporation Publishing Group has, over the years, prepared its mailings to conform to the requirements published by the Postal Service in the Domestic Mail Manual. As those requirements have changed, Meredith's mailing practices have changed. I am confident this practice will continue.

(b) Such detailed information as we possess, which pertained to calendar year 1997, was provided in response to USPS/MPA-T1-24-28. With regard to the matter of "make-up" generally, it may be helpful to point out that in recent years Meredith began using the co-mailing services of Quad Graphics. Quad Graphics' co-mailing operation dramatically increases the number of pallets, increases the average weight per pallet, decreases the

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

number of sacks, and improves the level of sortation as compared to what the individual titles would experience if mailed separately. I also expect that co-mailing increases the average bundle size.

(c)-(d) I do not know of any non-postal savings that Meredith has experienced as a result of changes in its mail preparation over the last four years. I am aware of several things that have increased our costs:

—We started using automated polywrap in order to make our poly-wrapped copies automation compatible. Automatable poly costs approximately 50% more than non-automatable poly. Prior to making our polywrapped copies automation compatible, we had to redesign most of our renewal and billing envelopes. We use our renewal and billing envelopes as the address carrier. A redesign was required because we had to increase the size of the window to allow for a barcode. This required us to redesign the outer envelope in some cases and to redesign the order form in most cases. A great deal of time and effort was required by our production and creative staffs to make this happen.

—We started having our subscription file go through two separate postal sortation software files to increase the amount of non-carrier route mail with barcodes.

—We increased the number of copies we drop ship to sectional center facilities which increased freight costs.

**MAGAZINE PUBLISHERS OF AMERICA WITNESS CHRISTOPHER LITTLE
RESPONSES TO INTERROGATORIES OF USPS**

USPS/MPA-TI-36. In response to USPS/MPA-TI-24-28, Meredith Corporation provided pallet and sack information for the main file of two publications for calendar year 1997. If possible, please provide a similar table of pallet and sack information only for mail that was dropshipped to destination.

Response:

This information is not available.

1 CHAIRMAN GLEIMAN: No participant requested oral
2 cross-examination of Witness Little. Does anyone wish to
3 cross-examine today?

4 [No response.]

5 CHAIRMAN GLEIMAN: There doesn't appear to be
6 anyone who wants to ask you any questions.

7 Let me just add at this point that it is obvious
8 that some witnesses, yourself, Mr. Little, and Mr. Otuteye,
9 obviously did quite a good job in responding to the written
10 cross-examination and answered all the questions that other
11 parties might have had.

12 But if there is no cross-examination --

13 COMMISSIONER LeBLANC: I have one question.

14 CHAIRMAN GLEIMAN: One question from the bench.
15 Perhaps one question from the bench.

16 COMMISSIONER LeBLANC: Maybe two, stretch it to
17 two.

18 Mr. Little, you talk in your testimony, page 1,
19 where you say the steadfast position taken by the Postal
20 Service in previous proceedings that there is no problem,
21 and that is concerning mail processing costs for
22 periodicals. Then in the very back of the testimony, you
23 talk about, "I respectfully urge the Commission to approve
24 only moderate rate increases for periodicals." And there
25 was a number of questions asked -- not a number, but a few

1 questions asked by the Postal Service concerning this. But
2 my question would be moderate to you?

3 THE WITNESS: Well, I think what the Postal
4 Service has proposed is moderate, given the time since the
5 last increase. And I think, given the effort that we have
6 made to make our mail more efficient, I think that it is
7 appropriate. And the Postal Service has asked for it. Our
8 concern is simply that, although they have asked for a
9 moderate increase, their costing system seems to be showing
10 what we would say are illogical results, and our concern
11 would be that an increase might be based on illogical cost
12 information rather than on what would seem to us to be
13 appropriate here.

14 COMMISSIONER LeBLANC: Well, my question is then,
15 given that last statement, then is what they are proposing
16 moderate still, in your opinion?

17 THE WITNESS: What they are proposing as a rate
18 increase for periodicals, I would consider moderate.

19 COMMISSIONER LeBLANC: Even though you say here
20 its steadfast position that there, in effect, is no problem,
21 coming from them?

22 THE WITNESS: Well, their position is that they
23 believe that we should not receive a significantly higher
24 rate increase than the other classes, and I agree with that.
25 But in order to get to that, to support that conclusion,

1 they have to give us a relatively low coverage. And so,
2 although I appreciate their sentiments about where they
3 think we ought to come out, we are very troubled about how
4 they have to get there, and don't think it is necessary to
5 get there. And my concern would be that someone would look
6 not at their conclusion, but at some of the ways in which
7 they got there, and disagree with the way they got there.

8 COMMISSIONER LeBLANC: Thank you very much.

9 Thank you, Mr. Chairman.

10 CHAIRMAN GLEIMAN: Any other questions from the
11 bench?

12 [No response.]

13 CHAIRMAN GLEIMAN: Follow-up as a consequence of
14 questions from the bench?

15 [No response.]

16 CHAIRMAN GLEIMAN: If not, that brings us to
17 redirect. Mr. Cregan, would you like some time with your
18 witness?

19 MR. CREGAN: No redirect, Mr. Chairman.

20 CHAIRMAN GLEIMAN: That being the case, I want to
21 thank you, Mr. Little. We appreciate your appearance here
22 today and your contributions to our record. And if there is
23 nothing further, you are excused.

24 THE WITNESS: Thank you, Mr. Chairman.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: I like to think it is because
2 the witnesses did a good job, but looking out the window and
3 seeing all the bright sun and knowing that it is going to be
4 60 degrees, I wonder if all the members of the Bar weren't
5 prescient about the weather today and don't want to get out
6 onto the golf course or something this afternoon.

7 Our next witness is from the National Newspaper
8 Association of America. Excuse me.

9 Mr. Baker, if you could identify your witness.

10 MR. BAKER: The Newspaper Association of America
11 calls Michael Donlan.
12 Whereupon,

13 MICHAEL DONLAN,
14 a witness, was called for examination by counsel for the
15 Newspaper Association of America and, having been first duly
16 sworn, was examined and testified as follows:

17 CHAIRMAN GLEIMAN: Please be seated.

18 DIRECT EXAMINATION

19 BY MR. BAKER:

20 Q Mr. Donlan, I am handing you two copies of a
21 document entitled, "The Direct Testimony of Michael Donlan
22 on Behalf of the Newspaper Association of America," and
23 marked as NAA-T-2. And was that document prepared by you or
24 under your supervision?

25 A Yes, it was.

1 Q And do you have any changes to make to that
2 document?

3 A There is one typographical change. There is one
4 typographical change I would like to make at this time. On
5 Table 4 on page 6, from the title of that table, I would
6 like to cross off the words "and delivery", and that's the
7 only change I have.

8 Q And with that change -- and would you mark those
9 changes on those two copies?

10 A Yes, I will.

11 Q And with that change, if you were to testify here
12 today, would that be your testimony?

13 A Yes, it would.

14 MR. BAKER: Mr. Chairman, I move the admission of
15 this testimony into the record as evidence.

16 CHAIRMAN GLEIMAN: Are there any objections?

17 [No response.]

18 CHAIRMAN GLEIMAN: Hearing none, Mr. Donlan's
19 testimony and exhibits are received into evidence, and I
20 direct that they be transcribed into the record at this
21 point.

22 [Direct Testimony and Exhibits of
23 Michael Donlan, NAA-T-2, was
24 received into evidence and
25 transcribed into the record.]

DUPLICATE

NAA-T-2

RECEIVED

14668

Dec 30 2 55 PM '97

OFFICE OF THE
CLERK OF THE COMMISSION

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

POSTAL RATE AND FEE CHANGES, 1997

)
) Docket No. R97-1
)

DIRECT TESTIMONY OF

MICHAEL DONLAN

ON BEHALF OF

THE NEWSPAPER ASSOCIATION OF AMERICA

Dated: December 30, 1997

1 AUTOBIOGRAPHICAL SKETCH

2 My name is Michael Donlan, and I am a Senior Associate with Industrial
3 Economics, Inc. of Cambridge, Massachusetts. I have been employed by Industrial
4 Economics for approximately five years. I am a regulatory economist, with expertise in
5 utility restructuring and rate setting. I have worked on rate setting issues in the electric
6 utility industry, and have assisted in the analysis of the restructuring of Pennsylvania
7 Power and Light and West Penn Power. This is my first appearance before the Postal
8 Rate Commission. I received a Bachelor of Arts from Dartmouth College in 1989, and a
9 Masters in Business Administration from Stanford University in 1995.

10 SUMMARY OF TESTIMONY

11 On behalf of the Newspaper Association of America, I was asked to review the
12 analysis included as Exhibit A in USPS-ST-44, "Standard Mail (A) Mail Processing ECR
13 Costs." The Postal Service originally filed this analysis as Library Reference H-109.
14 This testimony presents the results of my review.

15 In Exhibit USPS-44A, Postal Service Witness McGrane provides estimates of the
16 mail processing costs for Standard A Commercial Enhanced Carrier Route (ECR)
17 "walk-sequenced" and "non walk-sequenced" mail. On the basis of these cost
18 estimates, Postal Service Witness Daniel (USPS-T-29) calculates the unit mail
19 processing costs for ECR mail. Relying upon the unit costs computed by Witness
20 Daniel, Postal Service Witness Moeller (USPS-T-36) proposes increases in the presort
21 discounts for ECR high density and saturation letters and non-letters. Based upon my
22 review of these data and analyses, I conclude that the proposed increases in the
23 presort discounts are not justified and I recommend that the Commission maintain the
24 current discounts for these categories of mail.

1 The remainder of my testimony is divided into four sections:

- 2 • Section I presents the proposed discounts for the commercial ECR subclass.
- 3 • Section II summarizes the methodology used by Postal Service Witness
4 McGrane to separately calculate mail processing costs for the presort tiers
5 within ECR mail. As indicated in this summary, the Postal Service has never
6 before attempted to separately estimate these costs, nor has Witness
7 McGrane provided any statistical or other measures of uncertainty in his
8 analysis. As a result, the Postal Service has not demonstrated that these
9 cost estimates are reliable.
- 10 • Section III analyzes the effect of the recent reclassification changes on the
11 unit cost differences between walk-sequenced and non walk-sequenced
12 commercial ECR non-letters. Analysis of data provided by the Postal Service
13 indicates that the cost difference between walk-sequenced and non walk-
14 sequenced non-letters has declined by approximately 0.7 cents per piece
15 since reclassification.
- 16 • Section IV identifies a methodological problem underlying the proposed
17 discounts for letter mail: Delivery point-sequenced (DPS) mail processing
18 costs have been incorporated into the Postal Service analysis, yet the
19 savings in in-office carrier costs associated with DPS mail have not been
20 estimated or recognized in the Postal Service's cost analyses. Therefore, the
21 Postal Service cost estimates overstate the actual cost difference between
22 basic and high-density/saturation letter mail.

1 I. PROPOSED COMMERCIAL ECR RATE INCREASES

2 As shown in Table 1, the Postal Service's proposed rates for the commercial
 3 ECR subclass result in larger percentage increases for basic letters and non-letters
 4 than for high-density and saturation letters and non-letters.

Table 1			
COMPARISON OF PROPOSED AND EXISTING COMMERCIAL ENHANCED CARRIER ROUTE RATES ¹			
	Proposed Rate (\$)	Existing Rate (\$)	Percentage Change
Letters			
Basic	0.164	0.150	+9.33%
High-Density	0.143	0.142	+0.70%
Saturation	0.134	0.133	+0.75%
Non-letters			
Basic	0.164	0.155	+5.81%
High Density	0.153	0.147	+4.08%
Saturation	0.141	0.137	+2.92%
¹ Sources: Proposed rates (Docket No. R97-1, USPS-T-36); Existing rates (United States Postal Service, <u>Domestic Mail Manual: Ratefold</u> , June 8, 1997). Rates provided in the table do not reflect dropshipping discounts and are for pieces below the breakpoint.			

5 As shown above, the rate increase is greatest for ECR basic letters. The proposed
 6 percentage rate increase for ECR basic letters is more than 12 times the proposed rate
 7 increase at the high-density and saturation tiers. Within the non-letter rate structure,
 8 the proposed percentage rate increase is also higher at the basic tier, although the
 9 disparity among tiers is smaller.

These differences in rate increases result from the proposed increases in the presort discounts for high density and saturation mailers shown in Table 2 below.

Table 2			
COMPARISON OF EXISTING AND PROPOSED DISCOUNTS FOR HIGH-DENSITY AND SATURATION COMMERCIAL ECR MAIL			
	Proposed Cumulative Discount from Basic (cents)	Existing Cumulative Discount from Basic (cents)	Percentage Change
Letters			
High-Density	2.1	0.8	+162.5%
Saturation	3.0	1.7	+76.5%
Non-letters			
High Density	1.1	0.8	+37.5%
Saturation	2.3	1.8	+27.8%

The greatest percentage increase in the discounts is for commercial ECR high-density letters (162.5 percent) and saturation letters (76.5 percent). Increases in the discounts for commercial ECR high-density and saturation non-letters are 37.5 percent and 27.8 percent, respectively.

Postal Service Witness Moeller based these discounts upon differences in the mail processing and delivery costs provided by Postal Service Witness Daniel (Exhibit USPS-29C). Table 3 compares the proposed discounts with the estimated cost savings for the commercial ECR presort tiers.

As can be seen from the table, Postal Service Witness Moeller passes through virtually all of the presort cost savings for ECR letter mail. The passthroughs for commercial ECR non-letters are 39.8 percent at the high density tier and 52.0 percent at the saturation tier.

Table 3			
COMPARISON OF PROPOSED DISCOUNTS AND ESTIMATED COST SAVINGS FOR HIGH-DENSITY AND SATURATION COMMERCIAL ECR MAIL			
	Proposed Cumulative Discount from Basic Tier (cents)	Estimated Cost Savings (cents)	Percentage Passthrough
Letters			
High-Density	2.1	2.1996	95.5%
Saturation	3.0	3.1066	96.6%
Non-letters			
High Density	1.1	2.7616	39.8%
Saturation	2.3	4.4226	52.0%

1 The above cost saving estimates are based upon differences in the mail
2 processing and delivery costs at the different tiers. Prior to this proceeding, mail
3 processing costs were assumed to be the same for the basic, high-density and
4 saturation presort tiers; that is, the mail processing differential was assumed to be zero
5 between all three tiers. (See the testimony of Postal Service Witness Moeller, USPS-T-
6 36, page 29 and Witness Takis, Docket No. MC95-1, USPS-T-12.) Thus, historically
7 the high density and saturation discounts have been based upon estimated differences
8 in delivery costs only. In this proceeding, the Postal Service has estimated differences
9 in the mail processing costs between the different tiers.

10 As shown in Table 4 below, the Postal Service estimates that mail processing
11 unit costs for the basic presort tier are more than four times the mail processing unit
12 costs for the high-density and saturation presort tiers.

Table 4		
COMPARISON OF ESTIMATED MAIL PROCESSING AND DELIVERY UNIT COSTS FOR THE COMMERCIAL ENHANCED CARRIER ROUTE SUBCLASS IN R97-1 AND MC95-1 ¹		
	Mail Processing Costs (cents)	
	R97-1	MC95-1
Letters		
Basic	2.0693	1.2050
High-Density	0.4777	1.2050
Saturation	0.4777	1.2050
Non-letters		
Basic	2.7552	1.4153
High Density	0.6856	1.4153
Saturation	0.6856	1.4153
Sources: Docket No. R97-1, USPS-29C, page 2, revised 10/1/97; Docket No. MC95-1, USPS-12C, page 2, revised 6/7/95.		

1 Thus, for the first time, the Postal Service has separately estimated the mail processing
2 costs for the presort tiers within ECR mail. These unit costs are derived by dividing the
3 total mail processing costs calculated in USPS-44A by the mail volumes from Library
4 Reference H-145.

5 II. SUMMARY OF POSTAL SERVICE COST ESTIMATION METHODOLOGY

6 In Exhibit USPS-44A, Postal Service Witness McGrane separates mail
7 processing costs for Standard ECR mail into costs for "walk-sequenced" mail, which
8 include the high density/saturation presort tiers, and costs for "non walk-sequenced"
9 mail, which include the basic presort tier. He makes this separation on the basis of the
10 endorsements recorded on the In-Office Costing System (IOCS) direct tallies for ECR
11 mail. Witness McGrane computes total mail processing costs for the different tiers of
12 ECR mail as follows:

- 1 1. Witness McGrane first groups the ECR mail processing IOCS direct tallies
2 according to mail processing cost pool, subclass/shape (i.e., Commercial and
3 Non-Profit ECR letters and non-letters) and walk-sequence status. For example,
4 in Table 1 of Exhibit USPS-44A, the mail processing costs associated with the
5 direct tallies for Standard (A) Regular ECR letters total \$4,854,000 for non walk-
6 sequenced letter mail and \$127,000 for walk-sequenced letter mail for barcode
7 sorters. (See Exhibit USPS-44A, Table 1, page 1, line 1.)
- 8 2. Witness McGrane then computes the percent of the direct costs associated with
9 non walk-sequenced versus walk-sequenced mail. For example, the direct
10 tallies for non walk-sequenced letter mail for barcode sorters represent 97.5
11 percent (\$4,854,000 divided by the sum of \$4,854,000 and \$127,000) of the total
12 letter direct tallies for this MODS pool. The remaining 2.5 percent (\$127,000
13 divided by the sum of \$4,854,000 and \$127,000) of the direct tallies in this cost
14 pool are associated with walk-sequenced mail.
- 15 3. In the next step of his analysis, Witness McGrane uses the percentages of direct
16 tallies (97.5 percent and 2.5 percent in the example provided above) to allocate
17 total volume variable mail processing costs for each cost pool to walk-sequenced
18 and non walk-sequenced mail.
- 19 4. The variable mail processing costs are then summed across the mail processing
20 cost pools to arrive at the total mail processing costs for walk-sequenced and
21 non walk-sequenced ECR letters and non-letter mail.
- 22 Witness Daniel then relies on these total mail processing cost estimates to derive the
23 unit mail processing costs for ECR basic and saturation/high density mail.

1 It is important to note that neither Postal Service Witness McGrane nor Witness
2 Daniel provides any statistical or other measure of uncertainty that indicates the
3 appropriate level of confidence to place on the results of the cost analyses.¹ In
4 addition, the Postal Service has never before developed mail processing cost estimates
5 by distributing IOCS tallies² to MODS cost pools for ECR walk-sequenced and non
6 walk-sequenced mail.³ Thus, no comfort can be taken based upon consistent patterns
7 from historical data, since no such data exist. Overall, the Postal Service has failed to
8 provide any supporting evidence that the cost estimates produced in Witness
9 McGrane's and Witness Daniel's analyses are reliable.

10 III. RECLASSIFICATION IMPACTS

11 Witness McGrane relies upon Base Year 1996 data for his analysis. Yet, as the
12 Commission is well aware, reclassification changes went into effect on July 1, 1996. As
13 a result of reclassification, preparation and entry requirements for ECR letters and flats

¹ Witness McGrane states that he has "no opinion as to the standard errors of the unit cost estimate[s]" derived in Exhibit USPS-44B. (Response to Interrogatory NAA/USPS-ST44-19.) As the same data are relied upon to derive the unit cost estimates computed based upon data in Exhibit USPS-44A, the same problem exists for these unit cost estimates.

² Witness McGrane's analysis relies solely on IOCS data. Since ECR mail bypasses many mail processing steps, there are a limited number of mail processing direct tallies for this mail.

³ When questioned regarding the adequacy of the data in Exhibit 44A, Witness McGrane stated that he is not troubled by a "thinness of tallies problem because similar analysis over past years has produced fairly similar results." (Tr. Volume 15, p. 7770, lines 8-23.) This statement appears unfounded, for no such similar analysis has been performed prior to this proceeding.

1 were changed. According to Postal Service Witness McGrane, the major changes
2 included: changes in the required endorsements; letter shaped mail was required to be
3 presented in trays; pallet makeup was made optional at 250 pounds; and ECR basic
4 mail was required to be presented in line of travel order (Response to Interrogatory
5 NAA/USPS-ST44-3). As described below, available data indicate that reclassification
6 has affected ECR mail processing costs.

7 The Base Year 1996 data used in Witness McGrane's analysis consists primarily
8 of information collected prior to the implementation of the reclassification changes.
9 Postal Service Witness McGrane confirms that data for 10.5 Accounting Periods (APs)
10 were collected prior to reclassification, while data for the remaining 2.5 APs were
11 collected after reclassification. (Response to Interrogatory NAA/USPS-ST44-2.) As
12 presented in Cross-Examination Exhibit NAA-XE-1 (Tr. Volume 15, page 7765) and as
13 replicated here in Table 5 below, there is a substantial difference in the cost data
14 between the pre-reclassification and post-reclassification periods.

15 As shown in Table 5, the cost difference between walk-sequenced and non walk-
16 sequenced non-letters has declined by approximately 0.7 cents per piece since
17 reclassification. (Tr. Volume 15, page 7763, lines 2-7.) However, instead of
18 recognizing the cost changes resulting from reclassification, the Postal Service relies
19 upon the data from the entire period, which gives the greatest weight to pre-
20 reclassification data. (Tr. Volume 15, page 7763, lines 9-11.) Further, Witness
21 McGrane admits that postal workers could get more efficient as they gain experience
22 with the new requirements. (Tr. Volume 15, page 7763, lines 22-5 and page 7764,
23 lines 1-3.) This additional experience could lead to further declines in the unit cost
24 difference.

Table 5			
COST DIFFERENCES BETWEEN WALK SEQUENCED AND NON-WALK SEQUENCED STANDARD A COMMERCIAL ECR NON-LETTER MAIL			
	Total Cost	Volumes	Unit Cost (cents/pc)
<u>Pre-Reclassification (before July 1, 1996)</u>			
Non Walk-Sequenced Non-Letters	163,178	6,685,291	2.441
Walk-Sequenced Non-Letters	18,895	6,829,506	0.277
Unit Cost Difference			2.164
<u>Post-Reclassification (after July 1, 1996)</u>			
Non Walk-Sequenced Non-Letters	29,915	1,777,605	1.683
Walk Sequenced Non-Letters	3,706	1,699,084	0.218
Unit Cost Difference			1.465

Therefore, the data used by Witness McGrane to estimate mail processing costs by walk-sequence status are not representative of current operating conditions. Furthermore, since Witnesses Daniel and Moeller rely on these data, their estimates of mail processing unit costs and the proposed discounts do not properly account for the impact of new ECR preparation and entry requirements.

IV. INCONSISTENT TREATMENT OF DPS COSTS AND BENEFITS

Data issues are not the only significant problem with Postal Service's derivation of proposed discounts. As described below, the Postal Service methodology accounts for increases in mail processing costs related to delivery point sequencing (DPS) but fails to account for DPS-related delivery cost savings. As a result, ECR basic letter mailers are charged for additional DPS costs but do not receive credit for DPS cost savings.

1 Postal Service efforts to increase the amount of DPS mail have resulted in an
2 increase in ECR basic mail processing costs relative to the high density and saturation
3 tiers, as noted by Postal Service Witness Moden in his direct testimony (USPS-T-4,
4 page 8, lines 15-21):

5 *"Our delivery units have worked closely with the plants to increase*
6 *the amount of DPS mail. They have worked together to identify*
7 *and capture bundles of non-barcode Enhanced Carrier Route*
8 *(ECR) Basic letters in order to barcode them at the plant. By doing*
9 *so, they have been able to incorporate these pieces into the*
10 *carriers' DPS mail, thus eliminating the need for manual casing. As*
11 *barcoding non-barcode ECR basic letters has become a common*
12 *practice and as the number of DPS zones has increased, the value*
13 *of ECR Basic letters has diminished."*

14 Thus, the Postal Service has purposefully identified and captured ECR basic
15 letters in order to barcode them and incorporate them into carriers' DPS mail. This
16 processing results in additional mail processing costs for ECR basic letters, an
17 observation confirmed by Postal Service Witness McGrane in response to Interrogatory
18 NAA/USPS-ST44-10(b). (See also Tr. Volume 15, page 7771, lines 16-25 and page
19 7772, lines 1-3.) The Postal Service willingly incurs this additional cost to achieve
20 subsequent in-office carrier cost savings, as the need for manual casing of this mail is
21 eliminated. (Tr. Volume 15, page 7772, lines 4-6.)

22 Yet, while Witness McGrane recognizes the additional mail processing costs
23 incurred for ECR basic letters, neither he nor any other Postal Service witness adjusts
24 the delivery costs to account for the associated savings in carrier in-office costs. Postal
25 Service Witness Hume addresses carrier in-office costs savings due to the DPS
26 program, but assumes the percentage of DPS mail is zero for all ECR letters and non-
27 letters in his analysis (USPS-18B, page 6). Postal Service Witness McGrane
28 recognizes this omission in his response to Interrogatories NAA/USPS-ST44-10(c) and
29 (e), stating that "I am not aware of any Postal Service witness whose testimony

1 addresses city carrier in-office cost savings due to delivery point sequencing of ECR
2 basic mail." (See, also, Tr. Volume 15, page 7772, lines 16-21.)

3 By ignoring offsetting delivery cost savings for DPS letters, the Postal Service
4 cost estimates overstate the actual cost difference between basic and high-
5 density/saturation letter mail. As a result, the discounts proposed by Postal Service
6 Witness Moeller are based on incorrect cost information to the detriment of ECR basic
7 letter mailers.

8 CONCLUSION

9 In this proceeding, the Postal Service has for the first time calculated mail
10 processing costs for the presort tiers within ECR mail. Historically, the Postal Service
11 assumed no difference in mail processing costs among the ECR presort tiers. The new
12 analyses result in processing unit costs for the commercial ECR basic presort tier that
13 are more than four times the unit costs for the high-density and saturation presort tiers.
14 As a result, the Postal Service has proposed increases in the discounts for high-density
15 and saturation mail.

16 Based upon my review of the supporting data and analyses, I conclude that the
17 proposed increases in the discounts are not justified. The Postal Service has not
18 demonstrated that its analysis reliably measures cost differences among ECR presort
19 tiers. In addition, the available data do not represent current operating conditions.
20 Finally, the analytical approach used by the Postal Service accounts for DPS-related
21 mail processing costs but ignores offsetting delivery cost savings. For all of these
22 reasons, I recommend that the Commission maintain the current discounts.

1 CHAIRMAN GLEIMAN: Mr. Donlan, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 MR. BAKER: Mr. Chairman, he examined the
5 documents that were on the Postal Service counsel's table.
6 Are those the set that you are referring to?

7 CHAIRMAN GLEIMAN: I believe that they have the
8 same set that I have. We can go through a list of the
9 designations, if you would like, but I believe we have the
10 same package.

11 MR. BAKER: Very well.

12 CHAIRMAN GLEIMAN: If these questions were asked
13 of you today, would your answers be the same as those you
14 previously provided in writing?

15 THE WITNESS: Yes, they would.

16 CHAIRMAN GLEIMAN: That being the case, I am going
17 to provide two copies of the designated written
18 cross-examination of the witness to the reporter and direct
19 that it be accepted into evidence and transcribed into the
20 record at this point.

21 [Designation of Written
22 Cross-Examination of Michael
23 Donlan, NAA-T-2, was received into
24 evidence and transcribed into the
25 record.]

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
(NAA-T2)

Party

Advo, Inc.

Interrogatories

ADVO/NAA-T2-1
USPS/NAA-T2-1-6

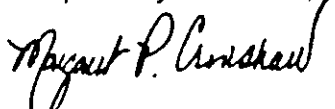
Office of the Consumer Advocate

ADVO/NAA-T2-1
USPS/NAA-T2-1-6

United States Postal Service

ADVO/NAA-T2-1
USPS/NAA-T2-1-2, 5-6

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN (T2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

ADVO/NAA-T2-1
USPS/NAA-T2-1
USPS/NAA-T2-2
USPS/NAA-T2-3
USPS/NAA-T2-4
USPS/NAA-T2-5
USPS/NAA-T2-6

Designating Parties:

ADVO, OCA, USPS
ADVO, OCA, USPS
ADVO, OCA, USPS
ADVO, OCA
ADVO, OCA
ADVO, OCA, USPS
ADVO, OCA, USPS

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
ANSWER TO INTERROGATORY OF
ADVO, INC. (ADVO/NAA-T2-1)

ADVO/NAA-T2-1. Please refer to your Table 5, comparing pre-reclassification and post-reclassification unit costs for ECR non-letters. Please confirm that the 0.7 cent reduction in the unit cost difference you calculate is due primarily to the post-reclassification reduction in the unit costs of ECR non-walk sequenced non-letters.

Answer:

Confirmed, for the particular data sample used to develop Table 5.

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

USPS/NAA-T2-1. Please refer to Table 5 on page 10 of your testimony.

- a. Please confirm that Table 5 is intended to report pre- and post-reclassification *mail processing* cost differences between walk sequenced and non-walk sequenced Standard A commercial ECR nonletter mail. If not confirmed, please explain.
- b. Please confirm that mail processing cost difference between walk-sequence and non-walk sequenced Standard A commercial ECR nonletter mail that is reported on page 1 of Exhibit USPS-29D is 2.0193 cents (2.2830 cents - 0.2637 cent). If not confirmed, please explain and give corrected figures.
- c. Confirm that you report a "post-reclassification" unit mail processing cost difference between non-walk sequenced nonletters and walk sequenced nonletters of 1.465 cents. If not confirmed, please explain and give the correct figure.
 - (i) Confirm that the 1.465 cent figure measures the unit cost only between July 1, 1996 through the end of FY 96. If not confirmed, please explain.
 - (ii) What is the total number of days over which the 1.465 cent figure is measured?
 - (iii) Confirm that the 1.465 cent figure in subpart (c) is 0.5543 cent less than the figure to which you are referred in subpart (b). If not confirmed, please give the correct figure.
 - (iv) Do you believe that the implementation of classification reform contributed, at least in part, to the 0.5543 cent differential between the figures reported in subparts (b) and (c)(iii)? Please explain your response.
 - (v) If your answer to subpart (c)(iv) is affirmative, which of the new requirements of classification reform, as you discuss at page 9 of your testimony, do you believe contribute to a reduction in the mail processing cost difference between non-walk-sequenced and walk-sequenced ECR mail? Please discuss letter and nonletter shaped mail separately.
 - (vi) Are there any other factors of which you are aware or that you believe would explain or contribute to the 0.5543 cent differential to which you are

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

referred in subpart (c)(iii)? If so, please identify all such factors and explain how they would contribute to the 0.5543 cent cost differential.

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed. As noted in my testimony, this figure was reproduced from Cross-Examination Exhibit NAA-XE-1 (Tr. Volume 15, page 7765).
Postal Service Witness McGrane verifies the accuracy of the unit cost difference at Tr. Volume 15, pp. 7762-3.
 - (i) Confirmed.
 - (ii) According to Postal Service Witness McGrane, the post-reclassification period contained approximately 2 1/2 accounting periods or approximately 70 days.
 - (iii) Confirmed.
 - (iv) My testimony does not attempt to explain the causes of the unit cost differences between the pre-reclassification and post-reclassification periods. Based upon the limited data available, there exists a difference in the unit costs between the two periods. This cost difference suggests that reclassification may have affected mail processing costs.
 - (v) I have not analyzed the underlying causes of the reduction in the mail processing unit costs.

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

- (vi) I have not analyzed the underlying causes of the reduction in the mail processing unit costs.

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

USPS/NAA-T2-2. Please refer to the post-reclassification unit mail processing cost difference between non-walk sequenced nonletters and walk sequenced nonletters of 1.465 cents that is reported in Table 5 of your testimony.

- a. Prior to the filing of your testimony on December 30, 1997, did you consider that there may be seasonal mailing patterns that affect the mail processing unit cost of ECR mail?
- b. If your answer to subpart (a) is affirmative, please provide citations to any information that you considered in this regard.
- c. If your answer to subpart (a) is affirmative, what conclusions did you draw from the information that you considered?

Response:

- (a) As indicated in my response to Interrogatory USPS/NAA-T-2-1c(iv), I did not attempt to explain the causes of the unit cost differences reported in Table 5 of my testimony.
- (b) Not applicable.
- (c) Not applicable.

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN.
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

USPS/NAA-T2-3. Please refer to page 8 footnote 3 of your testimony. In commenting upon witness McGrane's statement regarding the thinness of tallies, you state, "[witness McGrane's] statement appears unfounded, for no such similar analysis has been performed prior to this proceeding."

- a. In drawing the conclusion that you make in footnote 3, did you consider any other information other than Transcript volume 15 p. 7770? If so, what did you consider? Please provide citations to all information that you considered.
- b. Is your statement intended to convey that no similar analyses have been *performed* by any person prior to this proceeding, or does your statement simply intend to convey that you have not *seen* any similar analyses? Please explain your response.
- c. Doesn't witness McGrane's statement that you quote in footnote 3 state that previous analyses have been performed? Please explain any negative response.

Response:

- (a) My statement in footnote 3 at page 8 is based upon the testimony of Postal Service Witness Moeller and discussions with my colleague, NAA witness Sharon Chown.

Witness Moeller states in his direct testimony (USPS-T-36) at page 29, lines 7-14 that:

"An updated study used by witness Daniel (USPS-T-29) uses In-Office Cost System data to help ascertain the relevant mail processing cost differences. In previous proceedings, the differential was based solely on delivery cost differences. This *new methodology* allows for a more comprehensive analysis of the cost differentials. The study groups

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

High-Density and Saturation together for cost measurement purposes, so the reported mail processing difference between High-Density and Saturation is zero. However, this is an improvement over *previous studies which assumed that the mail processing cost differential was zero between all three tiers.*" (emphasis added)

I am not aware of any previous analyses of the mail processing cost differences between walk-sequenced and non-walk-sequenced mail.

Also, Ms. Chown informed me that, to the best of her knowledge, no such studies have been performed prior to this proceeding.

- (b) My statement is intended to convey that, to the best of my knowledge, no similar analyses have been performed by the Postal Service prior to this proceeding.
- (c) Witness McGrane's statement implies that similar analyses have been performed previously. However, it is possible that Witness McGrane misspoke. It is my understanding that the Postal Service previously has filed analyses of mail processing costs by weight increment, similar to the analysis included in Exhibit 44B. It is possible that Witness McGrane was inadvertently referring to those studies when he made the statement at Tr. Volume 15, page 7770. To the best of my knowledge, the Postal Service has not filed any previous studies similar to the study in Exhibit 44A.

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

USPS/NAA-T2-4. At page 8 lines 1-3 of your testimony, you state that "neither Postal Service Witness McGrane nor Witness Daniel provides any statistical or other measure of uncertainty that indicates the appropriate level of confidence to place on the results of the cost analyses."

- a. Prior to the date of filing of your testimony, did you review any estimates of the statistical reliability of mail processing costs?
- b. Please confirm that coefficients of variation for mail processing costs by subclass were presented in Table 6 of USPS-T-12, and these included coefficients of variation for Standard (A) ECR mail.
- c. With regard to Table 6 of USPS-T-12, does it appear that in general, the coefficient of variation is inversely proportional to the estimated mail processing cost of the subclass? If your answer is negative, please explain.
- d. Would it be reasonable to assume that the coefficient of variation for the cost estimates presented in Exhibit USPS-44A would be similar to the coefficient of variation presented in Table 6 of USPS-T-12 for categories that have a similar magnitude of cost? If your answer is negative, please explain.
- e. Please confirm that the coefficient of variation of the cost estimate for the period of time in the base year after reclassification would be much higher than the coefficient of variation of the cost estimate for the entire fiscal year.

Response:

Before answering the question, it should be noted that my statement at page 8 of my direct testimony refers to the lack of standard errors of the *unit* cost estimates, while

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

this question deals with the standard errors (or coefficients of variation) associated with total mail processing costs.

- (a) Prior to the filing of my testimony, I had read the direct testimony of Postal Service Witness Degen (USPS-T-12), which provides information on the statistical reliability of mail processing costs.
- (b) Confirmed.
- (c) In general, yes.
- (d) No. Although it is possible that the coefficients of variation are similar, it is also possible that they are not. By collecting additional post-reclassification data, this question could be answered definitively without the need for this assumption.
- (e) Not confirmed. While the post-reclassification cost estimate is based upon less data than the cost estimate for the entire fiscal year, the post-reclassification coefficient of variation could be lower, equal to or higher than the coefficient for the entire year.

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

USPS/NAA-T2-5. Please refer to your testimony at page 1, lines 22-24. You state that you, "conclude that the proposed increases in the presort discounts are not justified and [you] recommend that the Commission maintain current discounts for these categories of mail."

- a. Please refer to Attachment 1 to this interrogatory. Please confirm that Attachment 1 embodies your recommended discounts, i.e., the maintenance of the current discounts for ECR. If not confirmed, please explain.
- b. Please confirm the accuracy of Attachment 1. If not confirmed, please explain your response.
- c. Please attach a copy of Attachment 1 to your response or, if you do not confirm subpart (b), please attach a corrected copy of Attachment 1.
- d. Please refer to Attachment 2 to this interrogatory. Please confirm that Attachment 2 shows the effective proposed rates using your recommendation that the Commission maintain the current discounts for ECR. If not confirmed, please explain.
- e. Please attach a copy of Attachment 2 to your response or, if you do not confirm subpart (d), please attach a corrected copy of Attachment 2.

Response:

- (a) Confirmed.
- (b) I confirm that the discounts shown in Column (4), lines 2, 3, 7 and 8 of Attachment 1 are the current discounts that I recommend maintaining.
- (c) Attachment 1 has been attached to this response.
- (d) Not confirmed. My testimony addresses the appropriateness of the proposed increases in the discounts for ECR high density and saturation

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

mail. My testimony concludes that those increases are not justified and recommends maintaining the current discounts. I do not recommended a particular rate structure for Standard A ECR mail in my testimony. The ECR rate structure is likely to be affected by many other issues outside the scope of my testimony.

- (e) Attachment 2 has been attached to this response.

Moeller WP1, page 18. Presort discounts held at current value.

**ENHANCED CARRIER ROUTE SUBCLASS
DEVELOPMENT OF PRESORT AND AUTOMATION DISCOUNTS**

Item	MP + Del Unit Cost (Cents) (1)	Differential (Cents) (2)	Discount (4)	Cumulative Discount (Cents) (5)	Pieces (Millions) (6)	Value (Millions) (7)
Nonletters:						
1 Basic	10.3844	—	—	—	10706.608	—
2 High Density	7.5692	2.8152	0.8	0.8	1150.761	9.206
3 Saturation	5.9082	1.6610	1.0	1.8	8172.668	147.108
4 Subtotal	—	—	—	—	20030.037	156.314
Letters:						
5 Basic	6.8745	3.5099	0.0	0.0	6781.043	0.000
6 Automated	6.2687	0.6058	0.7	0.7	2123.223	14.863
7 High Density	4.7640	2.1105	0.8	0.8	394.077	3.153
8 Saturation	3.8560	0.9080	0.9	1.7	3095.861	52.630
9 Letter Discount				0.0	3489.938	0.000
10 Subtotal					12394.204	70.645
11 Total					32424.241	226.959

(1) Page 10

(2) Difference between relevant cost figures in Col (1)

(5) Cumulative discount for that category.

(6) Page 4

(7) Col (5) * Col (6)

Moeller WP1, page 31. Effective rates if ECR presort discounts held constant.

Standard Mail (A) - Enhanced Carrier Route

Proposed Rates (\$)

Minimum per piece rates				
Density tier	Shape	current	proposed	%chg
Basic	Letter	0.150	0.162	8.0%
	Automation	0.146	0.155	6.2%
	Nonletter	0.155	0.162	4.5%
High-Density	Letter	0.142	0.154	8.5%
	Nonletter	0.147	0.154	4.8%
Saturation	Letter	0.133	0.145	9.0%
	Nonletter	0.137	0.144	5.1%

Pound-rated pieces			
Density Tier		current	proposed
Basic	per piece	0.018	0.053
	per pound	0.663	0.530
High Density	per piece	0.010	0.045
	per pound	0.663	0.530
Saturation	per piece	0.000	0.035
	per pound	0.663	0.530

Destination Entry Discounts			
Piece-rated pieces	DBMC	current	proposed
		per piece	per piece
		0.013	0.015
	DSCF	0.018	0.018
	DDU	0.023	0.023
	DBMC	current	proposed
		per pound	per pound
		0.064	0.072
Pound-rated pieces	DSCF	0.085	0.088
		0.111	0.110
		0.111	0.110

NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)

USPS/NAA-T2-6. Please refer to page 12 lines 20-21 of your testimony. You state, "the analytical approach used by the Postal Service accounts for DPS-related mail processing costs but ignores offsetting delivery cost savings."

- a. Please confirm that your statement applies only to letter shaped mail. If not confirmed, please explain.
- b. Please confirm that your statement applies only to letter shaped mail that is "automation compatible," i.e., capable of being processed on automation equipment. If not confirmed, please explain.
- c. Please confirm that in order for the Postal Service to receive any savings in delivery for ECR Basic letters that are processed on automation, such pieces must be successfully barcoded, if they are not already correctly customer barcoded. If you do not confirm, please explain.
- d. Please confirm that in order for the Postal Service to receive any savings in delivery for ECR Basic letters that are processed on automation, such pieces must be successfully sequenced on delivery barcode sorters. If you do not confirm, please explain.
- e. Please confirm that ECR Basic letters that are successfully sequenced on automation to delivery sequence consist of only a subset of ECR Basic letters. If not confirmed, please explain.

Response:

- (a) Confirmed. It is clear from the discussion at pages 10-12 of my testimony that DPS-related costs and savings apply to letter shaped mail only.
- (b) Confirmed.
- (c) Confirmed.
- (d) Confirmed.

**NEWSPAPER ASSOCIATION OF AMERICA
WITNESS MICHAEL DONLAN
RESPONSE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE (USPS/NAA-T2-1-6)**

- (e) Confirmed. Based upon Postal Service Witness Moden's testimony, I expect that the subset of ECR basic letters that are successfully delivery point sequenced is significant. Witness Moden states that:

"As barcoding non-barcoded ECR basic letters has become a common practice and as the number of DPS zones has increased, the value of ECR Basic letters has diminished." (USPS-T-4, page 8, lines 19-21)

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross-examination. One participant, Advo, requested oral
6 cross-examination of Witness Donlan. Does any other party
7 wish to cross-examine the witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: Mr. McLaughlin.

10 MR. McLAUGHLIN: In the spirit of the morning, we
11 have no further questions.

12 [Laughter.]

13 CHAIRMAN GLEIMAN: I have a suspicion I might be
14 right after the duffers in the group.

15 Questions from the bench?

16 [No response.]

17 CHAIRMAN GLEIMAN: No questions from the bench.
18 If that is the case then, Mr. Donlan, I want to thank you.
19 We appreciate your appearance here today and your
20 contributions to the record. And if there is nothing
21 further, you are excused.

22 [Witness excused.]

23 CHAIRMAN GLEIMAN: Our next scheduled witness,
24 Michael Hehir, has filed testimony on behalf of McGraw-Hill
25 and Companies, Inc. The Commission received no request for

1 oral cross-examination of this witness and, as in previous
2 instances when no requests were filed, and the parties have
3 indicated their willingness, we have moved ahead based on
4 statements of authenticity to enter testimony into the
5 record.

6 Mr. Bergin, are you prepared to move Mr. Hehir's
7 testimony into evidence at this point?

8 MR. BERGIN: Yes, Mr. Chairman. We do have a
9 declaration from Mr. Hehir, and the declaration does attest
10 that the testimony filed in this case entitled "Direct
11 Testimony of Michael K. Hehir on Behalf of the McGraw-Hill
12 Companies," designated MH-T-1, was prepared by Mr. Hehir or
13 under his direction and supervision.

14 He adopts it as his own with one minor change.
15 That is on page 8, line 9, simply changing the word "volume"
16 to "capacity" which does not affect the substance of the
17 testimony. And Mr. Hehir also confirms in his declaration
18 that he has reviewed the Interrogatories posed to him in
19 this proceeding, six Interrogatories by the Postal Service,
20 and if he were answering those questions today, his answers
21 would be the same.

22 I, therefore, move that the testimony of Mr. Hehir
23 and attached exhibits be admitted into evidence.

24 CHAIRMAN GLEIMAN: Mr. Bergin, do you have
25 corrected copies of the testimony with you today?

1 MR. BERGIN: Yes, I have two copies.

2 CHAIRMAN GLEIMAN: If you could provide your
3 copies of the corrected testimony to the reporter, and I
4 will provide my two copies of the designated written
5 cross-examination, and also the certificates of
6 authenticity, then we will enter the material into the
7 record.

8 MR. BERGIN: Thank you, Mr. Chairman.

9 CHAIRMAN GLEIMAN: I will direct that the written
10 cross-examination of Witness Hehir and the designated
11 written cross-examination of the witness be admitted into
12 evidence and transcribed into the record at this point.

13 [Direct Testimony and Exhibits of
14 Michael K. Hehir, MT-T-1, and
15 Designation of Written
16 Cross-Examination of Michael K.
17 Hehir, MT-T-1, were received into
18 evidence and was transcribed into
19 the record.]

20
21
22
23
24
25

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

POSTAL RATE AND FEE CHANGES, 1997

)
)
)
Docket No. R97-1

**DECLARATION OF THE MCGRAW-HILL COMPANIES' WITNESS
MICHAEL K. HEHIR (MH-T-1) IN LIEU OF ORAL TESTIMONY**

1. I am President of the Information Services Group of The McGraw-Hill Companies, Inc. ("McGraw-Hill").

2. The accompanying written direct testimony filed in my name on behalf of McGraw-Hill in this case, designated MH-T-1 and entitled "Direct Testimony of Michael K. Hehir on behalf of The McGraw-Hill Companies, Inc.", was prepared under my direction and supervision, and I adopt it as my direct testimony in this proceeding (although I would prefer to change the word "volume" to "capacity" on page 8, line 9 of my testimony).

3. Upon review of my written responses to interrogatories directed to me in this case (USPS/MH-T1-1-6), I confirm that if those questions were asked of me orally under oath on February 26, 1998 in this case, my answers would be the same as those previously filed in written form.

4. I declare under penalty of law that the foregoing, and my referenced direct testimony and interrogatory answers in this case, are true and correct to the best of my knowledge, information, and belief.

Dated: 2-24-98


Michael K. Hehir

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

MH-T-1

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

DIRECT TESTIMONY
OF
MICHAEL K. HEHIR
ON BEHALF OF
THE MCGRAW-HILL COMPANIES, INC.

Communications with respect to
this document may be sent to:

Timothy W. Bergin
Squire, Sanders & Dempsey L.L.P.
1201 Pennsylvania Avenue, N.W.
P.O. Box 407
Washington, D.C. 20044
(202) 626-6600

December 30, 1997

Counsel for The McGraw-Hill Companies, Inc.

TABLE OF CONTENTS

	PAGE
I. Autobiographical Sketch	1
II. Purpose Of Testimony	3
III. McGraw-Hill's Interest In This Proceeding	4
IV. The Rates Proposed For Periodicals Regular Mail Are The Maximum Appropriate Rates Under The Circumstances.	5
A. The Costs Attributed To Periodicals Regular Mail Appear To Be Seriously Overstated.	5
1. Mail Processing Labor Costs	5
2. Purchased Highway Transportation Costs	8
B. Deficiencies In The Service Provided For Periodicals Mail -- Which Are A Contributing Factor In The Growth Of Electronic Delivery -- Should Further Constrain Postal Rates For Periodicals.	9
1. Service Has Recently Deteriorated To Unacceptable Levels.	9
2. The Unacceptable Level Of Mail Service For Periodicals Is A Factor Contributing To The Growth Of Electronic Delivery Of Periodicals.	11
C. The Proposed Rate Increases For Periodicals Mail Will Have A Significant Impact -- Particularly Upon High-Editorial Publications.	13
V. CONCLUSION	14

MH-T-1

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

POSTAL RATE AND FEE CHANGES, 1997

)
)
)
Docket No. R97-1

**DIRECT TESTIMONY OF MICHAEL K. HEHIR
ON BEHALF OF THE MCGRAW-HILL COMPANIES, INC.**

I. Autobiographical Sketch

My name is Michael K. Hehir. I am President of the Information Services Group of The McGraw-Hill Companies, Inc. ("McGraw-Hill"). In that position, which I have held since February 1995, I presently manage the following business units of McGraw-Hill:

- Business Week Group, which publishes *Business Week*, our largest circulation magazine, as well as *Business Week International* and *Business Week Online*;
- Publications Services Group, which publishes a number of magazines in the fields of healthcare (e.g., *Postgraduate Medicine*, *Hospital Practice*, *The Physician and Sportsmedicine*), aviation (e.g., *Aviation Week & Space Technology*, *Business and Commercial Aviation*), and other science and technology fields (e.g., *Chemical Engineering*, *Modern Plastics*, *Power*, *Electrical World*);
- Information Technology and Communications Group, which publishes *BYTE*, *Data Communications*, *LAN Times*, and *tele.com*; and
- Tower Group International, which provides logistics services and information (including transportation, customs brokerage, etc.) to support global distribution strategies.

1 I am responsible for more than twenty publications that are mailed at Periodicals Regular rates.
2 These publications are quite diverse in terms of their mailing characteristics (*i.e.*, circulation,
3 frequency, weight, zone distribution, presort levels, advertising percentage, etc.). They
4 comprise most of the core publications among the more than 170 diverse periodicals that
5 McGraw-Hill mails at Periodicals Regular rates.

6 While I am not an expert on postal matters, I am well aware that our business can be
7 significantly impacted by increases in Periodicals rates -- and by late and inconsistent delivery
8 of Periodicals mail. I previously testified before this Commission in the MC95-1 reclassification
9 case. I presently serve on the Postal Reform Task Force of the Magazine Publishers of America
10 ("MPA"). McGraw-Hill is also a member of the American Business Press ("ABP"), and has
11 representatives on the boards and key committees of both trade associations.

12 I joined McGraw-Hill in 1975 as director of new product development for publications.
13 I thereafter assumed increasing responsibility in various financial posts. In 1986, I was
14 appointed Vice President for McGraw-Hill's Energy Sciences Group, and in 1988, I became the
15 Executive Vice President, Trading Services, for McGraw-Hill's Financial Services unit. In
16 1990, I was appointed Executive Vice President, Operations, for McGraw-Hill's Standard &
17 Poor's Financial Information Group. From 1993 to 1994, I served as Executive Vice President
18 for the New Ventures unit of McGraw-Hill. Prior to joining McGraw-Hill, I held various
19 management posts at Equitable Life Assurance Society and marketing positions at Burroughs
20 Corporation and Tymshare, Inc. I hold an M.B.A. in corporate finance from New York
21 University and a bachelor's degree in mathematics from St. John's University.

II. Purpose Of Testimony

The primary purpose of my testimony is to urge that the rates proposed for Periodicals Regular mail in this proceeding are the maximum appropriate rates under the circumstances presented. In this regard, McGraw-Hill -- an active independent participant in postal ratemaking proceedings for nearly two decades -- is part of a broad coalition of Periodicals mailers and their principal trade associations (both MPA and ABP). McGraw-Hill embraces this industry-wide position for reasons that extend beyond the unique educational, cultural, scientific and informational ("ESCI") value of Periodicals mail, and include:

- Serious questions as to whether more than \$90 million in mail processing costs (and also significant transportation costs) have been misallocated to Periodicals mail -- reflecting supposed cost increases that are highly anomalous in view of the increasing worksharing by Periodicals mailers;
- The level of service accorded to Periodicals mail, which in our experience continued to deteriorate in the past two years to levels well below the longstanding delivery commitments made by the Postal Service to all Periodicals mailers -- and which is a contributing factor in McGraw-Hill's accelerating use of electronic alternatives to the Postal Service for the delivery of certain publications, including *Business Week*; and
- The significant impact of further increases in Periodicals rates -- particularly for high-editorial publications -- in view of:
 - the substantial rate increases imposed on most periodicals in 1996 as a result of the MC95-1 reclassification case, which came on top of the 13.9 percent increase imposed on Periodicals Regular mail in 1995 as a result of the R94-1 rate case; and
 - a 7.5 percent increase in the price of paper in 1997, and a further 10 percent cumulative increase in paper prices projected for 1998.

In past ratemaking and reclassification proceedings, McGraw-Hill has consistently provided strong support for appropriate recognition of ECSI values in postal rates, rate design, and classifications. While McGraw-Hill does not seek to alter the Periodicals Regular rate

1 design proposed in this case, we do express our concern that the proposed disproportionate
2 increase in the editorial pound charge should not become a precedent for the future that would
3 undermine the historical commitment (embodied in the Postal Reorganization Act) to promote
4 the widespread dissemination of editorial content through the mail.

5
6 **III. McGraw-Hill's Interest In This Proceeding**

7 McGraw-Hill is a volume user of all classes of mail service for the distribution of
8 magazines, newsletters, newspapers, books, and other materials. In 1996, McGraw-Hill
9 incurred nearly \$70 million in postage for domestic and international mail service rendered by
10 the Postal Service. Of that total, approximately \$21 million went for domestic Periodicals
11 Regular mail, approximately \$23 million for domestic First-Class mail, approximately \$14
12 million for domestic Standard B mail, and approximately \$10 million for domestic Standard A
13 mail. While McGraw-Hill has a vital interest in postal rates and classifications generally, our
14 focus in this case is upon Periodicals Regular mail.

15 The more than 170 diverse publications that McGraw-Hill mails at Periodicals Regular
16 rates are in many respects representative of Periodicals Regular mail as a whole. Our
17 publications cover a wide range of subjects in the fields of business, finance, science,
18 technology, healthcare, and construction. The diverse mailing characteristics of our titles reflect
19 the diversity of their readerships in terms of interests, circulation, and geographic dispersion.
20 Domestic mailed circulation per issue presently ranges from a high of about 875,000 copies for
21 *Business Week* to a few hundred subscribers for certain financial reports published by McGraw-
22 Hill's Standard & Poor's Financial Services unit. Average editorial percentage ranges from 100

1 percent for our 16 Standard & Poor's publications to about 38 percent for *LAN Times*. Our
2 publications span the gamut from dailies to quarterlies in terms of frequency of publication.¹

3 McGraw-Hill is also a leading provider of electronic information services. These include
4 electronic publishing through more than 70 Web sites and other on-line services, accessed via
5 the Internet and services such as America Online that provide telecommunications links between
6 computers, as well as CD-ROM titles. As I discuss later in my testimony, electronic delivery
7 of publications is growing both as a supplement and to some extent as an alternative to hard-
8 copy delivery by the Postal Service.

9 **IV. The Rates Proposed For Periodicals Regular Mail Are The Maximum Appropriate**
10 **Rates Under The Circumstances.**

11
12 **A. The Costs Attributed To Periodicals Regular Mail Appear To Be Seriously**
13 **Overstated.**

14
15 **1. Mail Processing Labor Costs**
16

17 The Postal Service itself has recognized that one of the reasons why increases in
18 Periodicals rates should be constrained is the persisting issue as to the cause and validity of
19 anomalous allocations of mail processing labor costs to Periodicals mail.² I am gratified to
20 learn that the Postal Service is finally undertaking to investigate these questions,³ as Periodicals
21 mailers have urged since 1990 and as this Commission itself urged in 1992. My hope and

22 ¹For profiles of McGraw-Hill publications as of September 1995, see MHC-LR-1 filed in Docket No. MC95-1.
23 McGraw-Hill has since sold *Datapro* and *Shephard's* publications and has ceased publication of *Open Computing*,
24 while launching or acquiring several new publications (e.g., *Electrical Power International*, *Healthcare Informatics*,
25 *Hospital Practice*, *Infocare*, *Information Technologies for Utilities*, *Overhaul and Maintenance*, and *tele.com*).

26 ²See direct testimony of Postal Service witness O'Hara (USPS-T-30), page 30 lines 11-22, page 31 line 22
27 through page 32 line 4. See also direct testimony of Postal Service witness Moden (USPS-T-4), page 11 line 21
28 through page 12 line 2.

29 ³See Tr. 19-B/8820, 8823-24 (response of the Postal Service to interrogatories MPA/USPS-1, 3).

1 expectation is that the investigation will be thorough and objective -- and will result in a
2 significantly lower allocation of mail processing costs to Periodicals mail, fully reflecting mailer
3 worksharing efforts. Commendably, the Postal Service appears to have recognized that
4 possibility by appropriately constraining the rate increases proposed for Periodicals mail in this
5 case.

6 I am certainly no expert on mail cost issues -- regarding which Periodicals mailers are
7 presenting the testimony of witnesses Cohen and Stralberg, among other coalition witnesses.
8 As a business executive, however, I am struck by several basic facts that apparently are not
9 disputed:

- 11 • According to the Postal Service's cost measurement systems (which are
12 challenged by witnesses Cohen and Stralberg), since 1986, mail processing labor
13 costs per mail piece have supposedly risen much faster for Periodicals mail than
14 for any other class of mail;⁴
- 15 • According to those measurement systems, since 1986, labor costs per piece for
16 processing Periodicals mail have supposedly risen much faster than Postal Service
17 wage rates;⁵
- 18 • Operational realities indicate that less -- rather than more -- labor has been
19 required to process Periodicals mail efficiently during this period:
 - 23 •• Periodicals mailers have significantly increased their worksharing efforts,
24 e.g., presortation, barcoding, palletization, and drop-shipping, in order to
25 reduce the cost to the Postal Service of processing Periodicals mail;⁶ and
 - 26 •• The processing of Periodicals mail has become increasingly mechanized
27 -- although for some unexplained reason the productivity of both
28

29 ⁴See testimony of witness Little (MPA-T-1), pp. 2-4.

30 ⁵See *id.* at 4-5.

31 ⁶See *id.* at 5.

1 mechanized and manual processing of Periodicals mail (pieces handled per
2 manhour) has steadily declined.⁷

3 During my tenure as President of McGraw-Hill's Information Services Group, the publications
4 that I manage have steadily increased the percentage of their mailed circulation that is presorted
5 (to 3/5 digit or finer), barcoded, palletized, and drop-shipped. Like most Periodicals mailers,
6 we continually strive to do everything we can to reduce our postage costs, and facilitate timely
7 delivery of our publications, through worksharing that reduces the Postal Service's costs and the
8 time needed to process and transport our Periodicals mail.

9 In this light, it seems evident that something is very wrong with the Postal Service's
10 allocation of mail processing costs to Periodicals mail, and with the methodology underlying that
11 allocation. It is for this reason that Periodicals mailers have put aside their rate design
12 differences and forged an unprecedented united front in this case. McGraw-Hill urges the
13 Commission to consider very carefully the testimony of witnesses Cohen and Stralberg that more
14 than \$90 million in mail processing costs has been misallocated to Periodicals mail. Further,
15 Periodicals mailers should not bear the brunt of any inability on the part of the Postal Service
16 to tailor its workforce to the new era of increasingly automated mail processing, which has
17 primarily benefitted First-Class mail. If institutional considerations have led the Postal Service
18 to retain personnel -- so-called "automation refugees" -- who would otherwise be displaced by
19 automation, the resultant cost burden should be assigned to institutional costs rather than imposed
20 disproportionately upon Periodicals mailers.

21 ⁷See Tr. 11/5565-66; testimony of witness Stralberg (TW-T-1) at 30.

2. Purchased Highway Transportation Costs

I understand that while about \$137.7 million in purchased highway transportation costs was attributed to Periodicals Regular mail in 1995, the Postal Service now attributes some \$180 million of such transportation costs to Periodicals Regular mail for the year 1998.⁸ The Postal Service has acknowledged that the extent of the increase in this cost allocation is unusual, but has been unable to provide any satisfactory explanation, other than to suggest that it may reflect an anomalous "variation in the statistical estimates."⁹

This question may in turn relate to a broader cost allocation issue -- most of the cubic capacity in the purchased highway transportation system is chronically unutilized, and the costs of the unutilized capacity are allocated to mail that does not necessarily cause that cost.¹⁰ We believe that this is arbitrary and unfair. As I testified in MC95-1,¹¹ the costs of unutilized capacity fall disproportionately on those mailers that have only limited alternatives to transportation by the Postal Service. The Commission should review the issue of whether those costs should be treated as "institutional" rather than attributable, either because they are caused by unique statutory obligations of the Postal Service (*e.g.*, to provide universal service) or because they are, at least to a considerable degree, not volume-variable (a question that the Postal Service has not apparently studied).¹²

⁸Tr. 13/7189 (response to MH/USPS-T2-1 (redirected to witness Patelunas)).

⁹Tr. 19-B/8744 (response to MH/USPS-1(b)).

¹⁰See Tr. 7/3520-22.

¹¹Tr. 14/5994-95.

¹²See Tr. 7/3832-33.

1 Even if these issues cannot be fully resolved in this proceeding, the questionable
2 allocation of transportation costs to Periodicals Regular mail in this case is an additional reason
3 for limiting rate increases for such mail in this case to those proposed by the Postal Service.

4
5 **B. Deficiencies In The Service Provided For Periodicals Mail -- Which Are A**
6 **Contributing Factor In The Growth Of Electronic Delivery -- Should Further**
7 **Constrain Postal Rates For Periodicals.**
8

9 **1. Service Has Recently Deteriorated To Unacceptable Levels.**

10 McGraw-Hill participated in the now-defunct Price Waterhouse EX2C Mail Monitoring
11 Program, which was established by the Postal Service in 1993 in order to measure systematically
12 the extent to which it did or did not meet its delivery commitments to Periodicals mailers. The
13 Postal Service had discontinued reporting any EX2C data by the time I assumed responsibility
14 for McGraw-Hill's core publications early in 1995. However, McGraw-Hill contracted with
15 Price Waterhouse to obtain EX2C data for the five McGraw-Hill publications that participated
16 in the program -- *Business Week*, *Aviation Week*, *Engineering News Record* (another weekly),
17 *BYTE* and *Chemical Engineering* (both monthlies). We were very disappointed and disturbed
18 by the data.

19 For example, the EX2C data for January through August 1996 indicated that on average,
20 our weeklies were delivered late more than 50 percent of the time, and our monthlies were
21 delivered late almost 75 percent of the time. Attached as Exhibit 1 hereto is an October 11,
22 1996 letter from Marilyn Sacrestano, Director of The McGraw-Hill Companies' Corporate
23 Distribution operations, to our national account representative at the Postal Service, attaching
24 that EX2C data and stressing that "this delivery pattern is unacceptable." Despite those
25 disturbing delivery performance results, the Postal Service canceled the EX2C program less than

1 one month later, purportedly because it did not generate "data that could be used effectively by
2 Postal Service field and headquarters management to improve delivery performance."¹³
3 Needless to say, McGraw-Hill finds this very troubling. We are likewise disheartened by the
4 fact that the Postal Service apparently has not retained EX2C data, or any other data relating to
5 the extent to which Periodicals (second-class) service standards have or have not been met since
6 January 1994.¹⁴

7 The deficiencies in the service accorded to Periodicals mailers have not abated. Attached
8 hereto as Exhibit 2 is the May 2, 1997 letter from Thomas Tully, General Manager of The
9 McGraw-Hill Companies' Postal Affairs and Compliance and National Chairman of the industry-
10 wide Periodicals Focus Group, to the Postal Service's Senior Vice-President for Marketing. Mr.
11 Tully emphasized that he and the other members of Periodicals Focus Group "are literally being
12 besieged with delivery complaints," that Periodicals mailers "are frantically complaining about
13 extremely poor delivery and service failures," that it has become "almost impossible for
14 [Periodicals mailers] to consistently meet the customer's needs for reasonable delivery," and that
15 the Postal Service had nevertheless not been responsive to the problem. Like other Periodicals
16 mailers, McGraw-Hill has sought to work collaboratively with the Postal Service in this regard.

17 In response to industry prodding, the Postal Service appears to have recognized the
18 magnitude of the problem. Last summer, it formed (as part of the Mailers Technical Advisory

19 ¹³Tr. 19-B/8758 (response to MH-USPS-T30-2 (b) (redirected to the Postal Service)).

20 ¹⁴See *id.* (response to MH-USPS-T30-2(c) and (d) (redirected to the Postal Service)). According to the Postal
21 Service, the only exception is an EX2C summary report for the third postal quarter of 1994. *Id.* Among other
22 things, that report indicates that the service deficiency is greatest for Periodicals mailers that make the most use of
23 Postal Service transportation -- cross-country service averaged 13 days, despite the Postal Service's seven-day
24 commitment for cross-country service. *Id.* at 8759.

Committee) a joint Industry/Postal Service Periodicals Service Improvement work group, with McGraw-Hill's Mr. Tully leading the industry's participation.¹⁵ The mission of this joint task force is to "correct the serious delivery problems plaguing Periodicals."¹⁶ A consensus has been reached among task force members that a satisfactory solution can only be reached through comprehensive and long-term efforts on the part of all concerned, that support at the top levels of the Postal Service is essential, and that despite the demise of the EX2C program, a way must be found to measure Postal Service performance in the delivery of Periodicals mail, and to redress shortcomings.¹⁷

McGraw-Hill, along with other Periodicals mailers, will continue to do everything it can to help the Postal Service overcome those serious service shortcomings, which can detract significantly from the value of our publications to our customers. In the meantime, however, the unacceptable level of service that has plagued Periodicals mail in recent years is further reason for constraining increases in Periodicals postal rates.

2. The Unacceptable Level Of Mail Service For Periodicals Is A Factor Contributing To The Growth Of Electronic Delivery Of Periodicals.

McGraw-Hill plans to offer subscriptions to *Business Week Online* (accessible via America Online and the Internet) beginning in January 1998. *Business Week Online* will combine all of the editorial content from both *Business Week* and *Business Week International*, as well as additional coverage. An advantage of electronic delivery is that it provides assurance

¹⁵See Tr. 19-B/8910-15 (response to NNA/USPS-T30-4 (redirected to the Postal Service)).

¹⁶*Id.* at 8912.

¹⁷See *id.* at 8911-15.

1 that *Business Week's* market-moving stories will be distributed quickly and evenly, with the
2 result that fewer of our subscribers will be dissatisfied due to untimely delivery.

3 The extent to which subscriptions to *Business Week Online* may displace subscriptions
4 to *Business Week* -- thus displacing delivery of *Business Week* by the Postal Service -- remains
5 to be seen. However, an increasing number of subscribers to *Business Week* (as well as an
6 increasing number of subscribers to other periodicals) will have an attractive electronic
7 alternative, to the extent they are dissatisfied with tardy and inconsistent delivery by the Postal
8 Service.

9 Moreover, the economics of electronic publishing appear very promising. Electronic
10 publishing avoids printing and paper costs, as well as postage. Further, to the extent that
11 electronic publishing is amenable to electronic marketing, postage savings may include the
12 considerable costs of direct mail marketing. While I cannot predict precisely how -- or how fast
13 -- the future of electronic publishing will unfold, it is clear that the Postal Service will face
14 increasing competition for the delivery of periodicals.¹⁸

15 Indeed, McGraw-Hill already has experience with electronic delivery replacing mail
16 delivery of publications. This is rapidly occurring in the case of McGraw-Hill's F.W. Dodge
17 publications, which provide current information about construction projects. The recently
18 launched electronic version of the daily *Dodge Reports* has experienced exponential growth in
19 subscribers, and is already displacing an estimated two million annual pieces of First-Class mail.
20 As a result, some Dodge products will become available solely through electronic distribution,

21 ¹⁸The potential for such competition, which is now materializing and growing, had been pointed out by other
22 witnesses in recent proceedings before the Commission. In Docket No. MC95-1, see Tr. 26/12361-62 (ABP witness
23 Kenealy). In Docket No. R94-1, see USPS-T-2, pp. 130-31 (witness Tolley).

1 displacing an annual one million pieces of Periodicals mail. The conversion has clearly been
2 accelerated by chronic complaints about poor mail service for these time-sensitive publications.
3 Unconstrained postal rate increases for Periodicals would further reduce the competitiveness of
4 Postal Service delivery of Periodicals mail.

5 **C. The Proposed Rate Increases For Periodicals Mail Will Have A Significant Impact --**
6 **Particularly Upon High-Editorial Publications.**

7 Like most Periodicals mailers, McGraw-Hill has already incurred substantial postal rate
8 increases in 1996 as a result of the MC95-1 reclassification case -- on top of the average 13.9
9 percent postal rate increase for Periodicals Regular mail in 1995. McGraw-Hill publications are
10 generally highly sensitive to postal rate increases. Many of our publications cannot readily pass
11 along postal rate increases to subscribers or advertisers in today's competitive markets. As a
12 result, those publications may reduce their trim size and paper weight, as *Business Week* has
13 done four times in the last seven years. Postal rate increases in 1998 will be particularly
14 difficult to absorb in view of the 7.5 percent increase in the price of paper in July 1997, the
15 projected 5 percent increase in paper prices in January 1998, and a further 5 percent increase
16 in paper prices projected for July 1998.

17 High-editorial publications tend to be particularly vulnerable to postal rate increases as
18 they have fewer options for recoupment. We note with concern that the proposed 8 percent
19 increase in the editorial pound charge far exceeds the average 3.5 percent increase for Regular
20 Periodicals mail. While we do not seek to alter the proposed rates in this case, we nevertheless
21 strongly believe that the proposed decoupling of the editorial pound charge from the zoned
22 advertising pound charges in the unique circumstances of this case should not serve as a
23 precedent for the future that would undermine the historical commitment -- grounded in the

1 Postal Reorganization Act -- to encourage the widespread dissemination of editorial content
2 through the mail. In view of the Postal Service's past efforts to dilute the importance of ECSI
3 values in designing Periodicals rates, the Commission should reaffirm in this case the vital role
4 of ECSI values in postal ratemaking.

5 **V. CONCLUSION**

6 For all of the foregoing reasons, we urge that the rates proposed by the Postal Service
7 for Periodicals Regular mail in this case are the maximum appropriate rates under the
8 circumstances presented.

9

Exhibit 1

New York, NY 10020-1098
Tel 212 512 2205
Fax 212 512 6558

Mauro J. Sacristano
Director Distribution
Operations
Corporate Distribution

October 11, 1996

The McGraw-Hill Companies

✓ Mr. Vito Fortuna
United States Postal Service
142-02 20th Avenue
Flushing, NY 11351

Dear Vito:

As you know, the USPS is discontinuing the Price Waterhouse EX2C Mail Monitoring Program in November 1996. We are aware of the new "Advance" tracking program in which we hope to participate. The USPS also informed us that no reports would be issued on the EX2C program, as was originally planned.

In an effort to work with the USPS to improve delivery to the projected delivery standards for the Periodicals mail class (formerly Second Class), we have contracted with Price Waterhouse to obtain the results of EX2C monitoring for our participating publications. The disappointing results are summarized below with details on the attached sheets:

Business Week	46% - 72% on time
Aviation Week	15% - 58% on time
Engineering News Record (Weekly)	24% - 74% on time
Byte (Monthly)	15% - 44% on time
Chemical Engineering (Monthly)	11% - 27% on time

Vito, this delivery pattern is unacceptable and we must meet to develop an action plan to improve delivery. Copies of these summary results will be disseminated to the regional and national 2C Focus Groups so that we can work with the USPS and the other industry participants to develop strategies and priorities for improvement.

If you have suggestions for other ways that we can work together to achieve improvements, I look forward to discussing them when we meet. Please call me to schedule a meeting.

Sincerely,

Mauro J. Sacristano

cc: ✓ E. Bradley, M. Persiani, T. Tully, Dist. Staff
✓ Circulation Managers and 2C Focus Groups per attached list

✓ K. Paulock 10-16-96

Circulation Managers

Aviation Week - Paul Duggan
 Business Week - Steve Aster
 Byte - Lynn Lagasse
 Chemical Engineering - Walter Nohstadt
 Engineering News Record - Eileen Kruimer

Regional 2C Focus Groups**Allegheny/Atlantic 2C Focus Group**

Mr. Felix Smith
 Manager Customer Service Support
 USPS
 5315 Campbells Run Road
 Pittsburgh, PA 15205-7020

Ms. Judy Walker
 Manager Customer Service Support
 USPS
 2800 Shirlington Road
 Arlington, VA 22206-7000

Pacific/Western 2C Focus Group

Mr. Darrel Dietz
 Manager Customer Service Support
 USPS
 850 Cherry Avenue
 San Mateo, CA 94099-4100

Ruth Brooks
 Manager Customer Service Support
 USPS
 1745 Stout St. STE 301
 Denver, CO 80299-7000

NY Metro/North East 2C Focus Group

Charles Mancuso
 Manager Customer Service Support
 USPS
 142-02 20th Avenue
 Flushing, NY 11351-0200

Mr. John Basile
 Manager Customer Service Support-USPS
 6 Griffin Road N.
 Windsor, CT 06006-7020

National 2C Focus Group

Mr. Robert L. Kooker
 National Accounts
 USPS
 P.O. Box 11466
 New Brunswick, NJ 08906-1466

Regional 2C Focus Groups**Great Lakes/Midwest 2C Focus Group**

Mr. Wayne Gardner
 Manager Customer Service Support
 USPS
 10750 W. Grand Avenue
 Franklin Park, IL 60131-2217

Ms. Karen Loggins - Great Lakes/Midwest
 Manager Customer Service Support
 P.O. Box 66602
 St. Louis, MO 63166-6602

South East /South West 2C Focus Group

Mr. George Hall
 Manager Customer Service Support
 USPS
 225 N. Humphries Blvd
 Memphis, TN 38166-0870

Ms. Betty Rowe
 Manager Customer Service Support
 USPS
 P.O. Box 225459
 Dallas, TX 75222-5459

AVIATION WEEK

<u>ISSUE DATE</u>	<u>TOTAL % ON-TIME</u>	<u>TOTAL % LATE</u>
01/01/96	36.0	64.0
01/08/96	15.0	85.0
01/15/96	44.6	55.4
01/22/96	37.7	62.3
01/29/96	33.1	66.9
02/05/96	19.0	81.0
02/12/96	24.3	75.7
02/19/96	49.7	50.3
02/26/96	33.6	66.4
03/04/96	30.6	69.4
03/11/96	35.8	64.2
03/18/96	39.2	60.8
03/25/96	43.6	56.4
04/01/96	34.0	66.0
04/08/96	33.5	66.5
04/15/96	45.6	54.4
04/22/96	23.4	76.6
04/29/96	51.5	48.5
05/06/96	37.4	62.6
05/13/96	37.1	62.9
05/20/96	50.8	49.2
05/27/96	57.9	42.1
06/03/96	41.5	58.5
06/10/96	34.7	65.3
06/17/96	43.5	56.5
06/24/96	50.1	49.9
07/01/96	35.7	64.3
07/08/96	47.7	52.3
07/15/96	50.2	49.8
07/22/96	43.1	56.9
07/29/96	56.0	44.0
08/05/96	50.7	49.3
08/12/96	30.4	69.6
08/19/96	37.4	62.6
08/26/96	45.3	54.7

BUSINESS WEEK

<u>ISSUE DATE</u>	<u>TOTAL % ON-TIME</u>	<u>TOTAL % LATE</u>
01/08/96	46.6	53.4
01/15/96	55.8	44.2
01/22/96	53.9	46.1
01/29/96	50.2	49.8
02/05/96	58.7	41.3
02/12/96	54.4	45.6
02/19/96	52.3	47.7
02/26/96	58.9	41.1
03/04/96	58.0	42.0
03/11/96	71.8	28.2
03/18/96	53.1	46.9
03/25/96	50.2	49.8
04/01/96	60.4	39.6
04/08/96	61.5	38.5
04/15/96	55.2	44.8
04/22/96	61.8	38.2
04/29/96	58.8	41.2
05/06/96	61.1	38.9
05/13/96	57.6	42.4
05/20/96	60.1	39.9
05/27/96	64.1	35.9
06/03/96	66.9	33.1
06/10/96	59.1	40.9
06/17/96	63.8	36.2
06/24/96	54.4	45.6
07/01/96	66.3	33.7
07/15/96	72.4	27.6
07/29/96	63.3	36.7

BYTE

<u>ISSUE DATE</u>	<u>TOTAL % ON - TIME</u>	<u>TOTAL % LATE</u>
01/01/96	20.7	79.3
02/01/96	38.0	62.0
03/01/96	30.4	69.6
04/01/96	33.0	67.0
05/01/96	44.5	55.5
06/01/96	14.9	85.1
07/01/96	20.5	79.5
08/01/96	44.2	55.8

CHEMICAL ENGINEERING


<u>ISSUE DATE</u>	<u>TOTAL % ON - TIME</u>	<u>TOTAL % LATE</u>
01/01/96	20.6	79.4
02/01/96	26.7	73.3
03/01/96	11.4	88.6
04/01/96	15.1	84.9
05/01/96	24.4	75.6
06/01/96	24.5	75.5
07/01/96	13.6	86.4

ENGINEERING NEWS RECORD

<u>ISSUE DATE</u>	<u>TOTAL % ON-TIME</u>	<u>TOTAL % LATE</u>
01/01/96	66.4	33.6
01/15/96	32.8	67.2
01/22/96	24.6	75.4
01/29/96	50.8	49.2
02/05/96	74.2	25.8
02/12/96	38.3	61.7
02/19/96	50.0	50.0
02/26/96	64.8	35.2
03/04/96	51.3	48.7
03/11/96	44.9	55.1
03/18/96	19.2	80.8
03/25/96	51.4	48.6
04/01/96	48.2	51.8
04/08/96	55.3	44.7
04/15/96	53.2	46.8
04/22/96	43.8	56.2
04/29/96	36.0	64.0
05/06/96	54.0	46.0
05/13/96	59.9	40.1
05/20/96	43.2	56.8
05/27/96	58.8	41.2
06/03/96	59.7	40.3
06/10/96	41.3	58.7
06/17/96	47.6	52.4
06/24/96	43.8	56.2
08/05/96	52.3	47.7
08/12/96	58.2	41.8
08/19/96	48.8	51.2
08/26/96	43.2	56.8

1221 Avenue of the Americas
New York, NY 10020-1095
Tel 212 512 2188
Fax 212 512 2160

Thomas W. Tully
General Manager
Post Affairs and Compliance
Corporate Manufacturing


The McGraw-Hill Companies

May 2, 1997

Mr. Allen Kane
Senior Vice President
Chief Marketing Office
THE UNITED STATES POSTAL SERVICE
475 L'Enfant Plaza
Washington, D.C. 20260

Dear Allen:

The Periodicals Focus Group, serving the Postal Services ten (10) areas, along with myself are literally being besieged with delivery complaints.

In an effort to address these problems, the attached fax, which contains the agenda for the Periodicals Focus Group Business Session (Monday, May 19th at 11:45am) at the New Orleans Postal Forum, was sent to the five (5) Industry and the ten (10) Postal Co-Chairs of the Periodicals Focus Group, of which I serve as the National Industry Chair.

This is the only session at the Forum expressly for Periodicals. Our Program will primarily center on Delivery issues. In an attempt to assist the Periodical mailers who are frantically complaining about extremely poor delivery and service failures, we have established a service panel that will consist solely of United States Postal Service personnel, to try to address the needs of the Group.

It would certainly help if you, Nick Barranka and John Wargo could be in attendance. I fully understand that there are considerable demands on your time. However, many mailers feel, and perhaps rightfully so, that cutbacks occur in processing, transportation, staffing and plant operating plans each time we near a Rate Case Filing. This is compounded by the lack of meaningful information received from the Postal Service. We get responses not answers. It has become almost impossible for us to consistently meet the customer's needs for reasonable delivery. Mailers believe the United States Postal Service performance is hurting the business.

We believe the Business Session will be a new attempt to establish a process for improving Delivery, and resolving complaints. With the demise of Press, and the ineffectiveness of the Consumer Complaint Form, we need a mechanism to address these issues, openly and forthrightfully.

We will work with you, as a group or individually. We believe at least Nick and John should be involved. Poor Delivery was almost a key issue at the last March MTAC meeting, we were asked to hold off. Delivery has not improved.

Please help us help ourselves.


Thomas W. Tully
NATIONAL INDUSTRY CHAIR
PERIODICALS FOCUS GROUP 

TWT/trb

cc: Nick Barranka, Vice President/Operations Support (U.S.P.S.)
John Wargo, Vice President /Marketing Customer Service (U.S.P.S.)
Robert L. Kookan (U.S.P.S.)
Periodicals Focus Group
Rita Cohen, Magazine Publishers Association
Steve Feldman, American Business Press

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.

Washington, D.C.
December 30, 1997

Timothy W. Bergin
Timothy W. Bergin

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF MCGRAW-HILL COMPANIES, INC., THE
WITNESS MICHAEL K. HEHIR
(MH-T1)

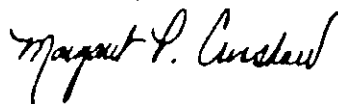
Party

United States Postal Service

Interrogatories

USPS/MH-T1-1-6

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw".

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
MCGRAW-HILL COMPANIES, INC., THE
WITNESS MICHAEL K. HEHIR (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/MH-T1-1

USPS/MH-T1-2

USPS/MH-T1-3

USPS/MH-T1-4

USPS/MH-T1-5

USPS/MH-T1-6

Designating Parties:

USPS

USPS

USPS

USPS

USPS

USPS

-2-

USPS/MH-T1-1. Please refer to your testimony on page 8, line 9.

(a) Please provide your understanding of the term "chronically underutilized".

(b) Please provide all analyses you have conducted of the Postal transportation network.

(c) Is it your understanding that the customers of the Postal Service would be better served (i.e. served at lower cost) if the cube utilization of purchased highway transportation were higher. Please explain.

Response:

(a) My testimony expressly refers (in footnote 10) to Tr. 7/3520-22, where Postal Service witness Nieto testified that in terms of percentage of truck floor space utilized, average utilization of the Postal Service's purchased highway transportation capacity over the period 1990 through 1996 has been roughly 50 percent, and that in terms of cubic capacity, average utilization has been considerably less than 50 percent.

(b) I have conducted no such analyses beyond review of the materials cited in my testimony.

(c) The concern raised in my testimony is focused not on whether underutilization of purchased highway transportation capacity has the effect of unnecessarily increasing overall costs that are passed on to Postal Service customers, but rather with the fact that the costs of the unutilized capacity are allocated to mail that may not necessarily cause those costs. However, it appears reasonable to conclude that higher utilization would lower the unit cost (i.e., cost per mail piece carried) of purchased highway transportation.

-3-

USPS/MH-T1-2. Please provide all documents you reviewed in preparation of your testimony.

Response:

The Postal Service is already in possession of the documents cited in my testimony, which include the attachments thereto as well as testimony of record in this proceeding and prior proceedings before the Commission. I have not reviewed other documents in preparation of my testimony.

-4-

USPS/MH-T1-3. In your testimony (page 8, lines 11-17) you state that the Postal Service "has not studied" whether the costs of unutilized capacity is volume variable. And you cite witness Bradley's testimony in support of this statement.

(a) Do you regard the testimony of postal operations experts on this very issue as being irrelevant?

(b) Are you familiar with the term latent capacity? If so, please explain the source(s) of your familiarity.

Response:

(a) I am not familiar with the testimony to which you refer and I have no opinion as to its relevance.

(b) I do not purport to be an expert on postal transportation, or to be familiar with terms of art in that regard.

-5-

USPS/MH-T1-4. Please refer to your testimony at page 3, lines 25 to 28, and at page 13, lines 7 to 9.

(a) Please provide any quantitative support for your claim that "most" publications experienced significant rate increases as a result of "the MC95-1 reclassification case".

(b) Please confirm that the 1995 increase you mention was the first increase in Postal Service rates for Second-Class/Periodicals Regular Rate for nearly 4 years. If you do not confirm, please explain why not.

Response:

(a) The statement was based upon common knowledge, consistent with the experience of The McGraw-Hill Companies. See, e.g., ABP-T-1, p. 6, lines 16-17 (testimony of witness Crain). The recommendations in MC95-1 resulted in an increase in the piece rates for non-carrier-route mail, and my understanding is that most Periodicals mail is non-carrier-route.

(b) Confirmed.

-6-

USPS/MH-T1-5. Please refer to your testimony at page 13, lines 18 to 20.

(a) Please confirm that, according to Postal Service witness Taufique, the 8 percent increase in the editorial pound rate is set at 90 percent of costs in order to mitigate the impact of the rate change on high editorial content mail. See USPS-T-34 at 14. If you do not confirm, please explain why not.

(b) Do you believe that the editorial pound rate should eventually cover 100 percent of editorial pound costs? If not, please explain why not.

Response:

(a) Confirmed.

(b) The goal of 100 percent cost coverage for editorial matter should be balanced against other pertinent factors in the particular circumstances presented, including the educational, cultural, scientific, and informational ("ECSI") value of editorial matter, the impact of proposed rate increases on high-editorial publications, and other statutory ratemaking factors.

SENT BY:SS&D L.L.P. WASH DC ; 2-23-98 ; 15:59 ; SS&D L.L.P. WASH DC-

202 2686187:# 3/ 5

**RESPONSE OF MCGRAW-HILL WITNESS MICHAEL K. HEHIR
TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

USPS/MH-TI-6. Please refer to your response to USPS/MH-TI-2.

- a. Does your response mean that in preparation for this case, you reviewed only those materials specifically cited in your testimony?
- b. If your response to subpart (a) above is affirmative:
 - (1) Please indicate whether you reviewed only the cited pages of each reference or whether you reviewed a larger portion of each reference. (For example, on page 12, n. 18, you reference Docket No. R94-1, USPS-T-2, but only pp. 130-31.)
 - (2) Please specifically identify each portion of each reference you reviewed, if you reviewed more than the cited pages.
- c. If your response to subpart (a) above is negative, please list all materials you reviewed in preparation for your testimony in this case.

RESPONSE:

- (a) No.
- (b) Not applicable.
- (c) In preparing for my testimony in this case, I reviewed and relied upon information provided to me by our outside counsel in this case, by our Washington office, and by our Corporate Distribution and Manufacturing department. That information, including testimony in this case by Periodicals witnesses Little, Stralberg, Cohen, and Crain, is cited and otherwise reflected in my written direct testimony. Further, I keep abreast of postal issues affecting Periodicals mailers through review of the trade press and financial reports relating to the Postal Service.

1 CHAIRMAN GLEIMAN: Ms. Boone, NNA, would you
2 identify your witness so that I can swear him in?

3 MS. RUSH: Mr. Chairman, ^{Jonda}~~Tonda~~ Rush appearing for
4 the National Newspaper Association; also Ms. Boone. We
5 would like to call Witness Max Heath.
6 Whereupon,

7 MAX HEATH,
8 a witness, was called for examination by counsel for the
9 National Newspaper Association and, having been first duly
10 sworn, was examined and testified as follows:

11 CHAIRMAN GLEIMAN: It's good to see you again.
12 Counsel, if you could proceed when you're ready.

13 DIRECT EXAMINATION

14 BY MS. RUSH:

15 Q Would you state your name, please?

16 A Max Heath.

17 Q Mr. Heath, I am presenting to you a document
18 entitled Direct Testimony of Max Heath on Behalf of the
19 National Newspaper Association, as well as another document
20 entitled Notice of Filing of Erratum to Testimony of NNA
21 Witness Max Heath dated February 5th, 1998, and I ask you
22 whether these documents were prepared by you or under your
23 direction.

24 A They were.

25 Q Are there any corrections to these documents?

1 A We do have one correction necessary on the
2 erratum, a typographical error indicating page 11, that
3 should be page 13.

4 MS. RUSH: Mr. Chairman, we have discovered a typo
5 in actually an erratum to the erratum, if you will, and we
6 will present a copy of this to Postal Service counsel so
7 they can see what change we have made. We have entered it
8 on the document here.

9 CHAIRMAN GLEIMAN: Certainly.

10 BY MS. RUSH:

11 Q Mr. Heath, with those changes, if you were to
12 testify today, would your testimony be the same?

13 A It would.

14 MS. RUSH: Mr. Chairman, I move that this
15 testimony, direct testimony of Max Heath, along with the
16 aforementioned errata be transcribed into the record and
17 received into evidence.

18 CHAIRMAN GLEIMAN: Are there any objections?

19 [No response.]

20 CHAIRMAN GLEIMAN: Hearing none, Mr. Heath's
21 testimony and exhibits are received into evidence, and I
22 direct that they be transcribed into the record at this
23 point.

24 [Direct Testimony and Exhibits of
25 Max Heath, NNA-T-1, was received in

evidence and transcribed in the
record.]

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

RECEIVED
NNA T-1
DEC 3 4 30 PM '97

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R-97

DIRECT TESTIMONY OF
MAX HEATH (NNA T-1)
ON BEHALF OF
THE NATIONAL NEWSPAPER ASSOCIATION

DOCKET No. R97-1
TESTIMONY OF MAX HEATH
(NNA T-1)

TABLE OF CONTENTS

INTRODUCTION.....	1
I. NEWSPAPERS HAVE A LONG HISTORY OF WORKING WITH THE POSTAL SERVICE AND ITS PREDECESSOR THE UNITED STATES POST OFFICE.....	2
II. DELIVERY OF NEWSPAPERS DETERIORATED WHEN RECLASSIFICATION CHANGED SORTATION REQUIREMENTS.....	5
III. THE MEANS FOR MEASURING NEWSPAPERS' USAGE OF WITHIN COUNTY MAIL APPEARS LONG OVERDUE FOR AN OVERHAUL.....	8
IV. PERIODICALS MAILERS SHOULD RECEIVE NEW WORK-SHARING DISCOUNTS FOR DROPSHIPPING AND WALK SEQUENCING	
A. Recognition of drop-shipping discounts within authorized exceptional dispatch is long overdue.....	16
B. The Postal Service's arbitrary threshold of 125 pieces for high density walk sequencing discounts discriminates against rural Periodicals mailers.....	20
V. NNA JOINS ITS COLLEAGUES IN THE LARGER PERIODICALS INDUSTRIES IN EXPRESSING CONCERN ABOUT MAIL PROCESSING COSTS AND AUTOMATION REFUGEES.....	24
CONCLUSION.....	25

**DIRECT TESTIMONY OF
MAX HEATH (NNA T-1)**

INTRODUCTION

1 My name is Max Heath. I am vice president/executive editor for Landmark
2 Community Newspapers, Inc. (LCNI), Shelbyville, KY, a division of Landmark
3 Communications, Norfolk, VA. I am responsible for editorial and circulation
4 development, postal and environmental issues and am involved in recruitment, public
5 relations and press association activities. LCNI has 40 weekly and daily newspapers
6 in 12 states with a total of over 250,000 paid circulation, 455,000 free newspaper and
7 shopper circulation and 172,000 free special publication circulation. I also serve as
8 a regional director for the National Newspaper Association and, in that capacity, am
9 a member of the NNA governing board. In addition, I have been chairman of the
10 NNA Postal Committee for eight years and its representative on the Mailers
11 Technical Advisory Committee since 1989.

12 I am the community newspaper industry's principal trainer on the use of postal
13 services, compliance with regulations and understanding of sorting and work-sharing
14 requirements. I conduct approximately 15 seminars and workshops within the
15 industry each year and receive about six calls a week from newspapers with postal
16 problems. My service in this area is a volunteer contribution, backed by the good will
17 of Landmark Community Newspapers, Inc., for the benefit of the industry.

18 The purpose of my testimony is as follows: to provide a background for the
19 Commission of the ways in which community newspapers use the Postal Service
20 today; to highlight major service problems; to focus upon the reliability of various

1 USPS data systems for measuring community newspapers' use; and to describe two
2 areas in which newspaper publishers are engaging in a significant amount of work-
3 sharing without appropriate compensation under the rate schedules.

4

5 **I. NEWSPAPERS HAVE A LONG HISTORY OF WORKING WITH THE POSTAL**
6 **SERVICE AND ITS PREDECESSOR THE UNITED STATES POST OFFICE.**

7 The National Newspaper Association was founded in 1885 by a group of
8 weekly newspaper publishers who had been active in their state press associations.
9 They came together for the reasons that bring most business executives to trade
10 societies: to share ideas and to solve common problems. The early records of those
11 meetings have largely been lost, but the history of the industry indicates that troubles
12 with the Post Office Department were among the fledgling association's priority
13 concerns. See, *Quill to Computer, The National Newspaper Foundation, 1985. NNA*
14 *Library Reference 1*. In a sense, the industry has grown up around postal
15 regulations, creating such pillars of its development as paid circulation and required
16 editorial content.

17 Today, the NNA considers itself the voice of community newspapers. It
18 represents not only weekly newspapers but dailies as well. Its membership of nearly
19 4,000 titles includes both free circulation and paid circulation newspapers. A variety
20 of publication cycles are represented: weekly, twice-weekly, thrice-weekly, five day
21 and daily. Approximately 550 of its members are daily newspapers with publication
22 cycles of five days per week or more.

1 The membership varies widely in its publication characteristics--from *The New*
2 *York Times* to many newspapers with fewer than 1,000 subscribers. The typical NNA
3 member newspaper, however, is a weekly with 3,000 to 5,000 circulation and, even
4 in this day of mass media mergers, is a family-owned publication.

5 There is no legal definition of a community newspaper as far as I know. Its
6 general attributes fall into an "I know it when I see it" category, but as a longtime
7 community newspaper executive, I would say a community newspaper is one whose
8 local market is its primary editorial focus. That provides a broad range of
9 possibilities, from small-town papers to urban, neighborhood papers.

10 Contrary to the perceptions of many who believe newspapers are losing
11 momentum, the community newspaper industry is growing. A recognition of this
12 trend drives NNA's concerns about the future of the partnership between the Postal
13 Service and our industry.

14 Technology today has made the creation of the community newspaper an
15 achievable dream in ways that our 19th Century forebears would never have
16 dreamed. Today anyone with \$5,000 and an idea can purchase a laptop computer, a
17 desktop publishing program and a printer and be in business with a "newspaper."
18 But publishers today have about the same options for print delivery as did NNA's
19 founders: through the mail, by home delivery carriers and by single copy sales.

20 By long tradition and service imperatives, most daily newspapers are delivered
21 by home delivery carriers within their primary markets. But there are notable
22 exceptions even to that rule, such as NNA members the *Cadillac (MI) Evening News*
23 and the Washington DC suburban-area *Journal Newspapers*--newspapers that

1 achieve same day postal delivery by placing walk-sequenced presorted newspapers
2 virtually into the delivery office carrier's hands at the dawn of each day. For the most
3 part, however, daily newspapers rely upon Periodicals class delivery to reach
4 subscribers in outer markets or in distant cities.

5 For weekly (including twice and thrice-weekly) newspapers, Periodicals mail is
6 the lifeblood of circulation. Creating a carrier force for a once-a-week distribution is a
7 more difficult matter than creating one for daily delivery. Both carrier recruitment and
8 the infrastructure costs are generally too high to be covered by the revenue from
9 delivery of only one copy per subscriber per week. Because of these barriers, weekly
10 newspapers remain heavy users of the mail for delivery.

11 To reach subscribers within their markets, newspapers rely upon within county
12 Periodicals mail. For reaching subscribers outside their counties, but within the retail
13 trading zone, newspapers use the SCF and Zone 1-2 categories within Periodicals
14 class. For reaching distant subscribers, newspapers use Periodicals delivery from
15 Zone 1 to Zone 8. This latter class of subscribers cannot be dismissed as an
16 insignificant element of the business for a community newspaper, as NNA Witness
17 Patsy Speights (NNA T-2) explains in her testimony. The industry perceives those
18 subscribers to be at risk because of chronic problems with delivery. Helping these
19 out-of-town subscribers stay in touch with our communities also serves an important
20 public purpose.

21 NNA's concerns in this case, therefore, are dually with the within-county
22 subclass and with the outside-the-county general Periodicals rates and service. My
23 testimony will address those concerns specifically.

1 **II. DELIVERY OF NEWSPAPERS DETERIORATED WHEN RECLASSIFICATION**
2 **CHANGED SORTATION REQUIREMENTS.**

3 With the adoption of the Commission's recommended decision in Docket No.
4 MC95-1, newspaper mail lost the ability to package and sack mail to the 456 mail
5 processing hubs known as Sectional Center Facilities. Instead, the requirement for
6 preparing mail to the 96 Area Distribution Centers took effect. NNA witness Patsy
7 Speights presents one newspaper's difficulties with this new requirement by
8 explaining how the diversion of her newspaper from a small town in Mississippi to an
9 ADC in New Orleans, only to return to another small town 18 miles from her entry
10 point, has affected her work life and her newspaper's relationship with its subscribers.
11 Testimony of Patsy Speights, NNA T-2, at 4-5.

12 As NNA's chief postal counselor, I became aware of an impending disaster
13 very early in the post-reclassification era. Almost immediately, I began to receive
14 complaints from newspapers forced into the ADC and mixed-ADC sorting scheme.
15 An additional requirement of six-pieces as the minimum level for direct sacking
16 worsened the situation. I wrote first about the disaster in my regular column in
17 Publishers' Auxiliary. See my Exhibit 1, page 1, appended to this testimony. I pointed
18 out that by putting long-distance subscribers at risk, the Postal Service not only
19 impacted the newspaper's circulation revenue, but risked its own high-end postage
20 compensation because the mail pieces in question were paying the highest piece
21 rate of 24 cents. Losing that newspaper subscriber because of poor delivery meant a
22 loss for the Postal Service as well as the newspaper.

1 A month later, USPS issued a new rule relaxing the six-piece minimum
2 sacking requirement and reinstalling the publisher's option for "skin sacks" when
3 required to restore delivery quality. Sorting to ADCs, however, continued to require
4 the six-piece minimum. The changes, while welcome, seemed to do little to improve
5 service, judging by the continual ringing of my telephone.

6 The problems continued to escalate. I wrote again in my column of Oct. 21 of
7 a report from Tennessee Press Association of deliveries taking as much as 17 days
8 within the state. NNA began to complain to the Postal Service. NNA T-1, Exhibit 1,
9 page 1. I reported on service problems again on Nov. 18, 1996. NNA T-1, Exhibit 1,
10 page 3. My own company's newspapers began to reflect the problems as well.
11 Delivery to the 3-digit area around our Louisville markets began to slip by one to two
12 days and sometimes more. We've had similar problems in Indianapolis and
13 Cincinnati, ADCs that also handle LCNI mail. This slippage may not seem like much
14 in a system that has experienced chronic problems elsewhere, but a two day delay in
15 a time-sensitive publication can convert a useful product into a useless product from
16 the viewpoint of subscribers. It is difficult to overstate the ire a publisher hears from
17 subscribers whose deliveries are late--they assume the fault is ours.

18 I continued to write about this problem for many months. NNA Exhibit 1
19 contains all of my columns on this subject since reclassification. I also raised these
20 problems at MTAC meetings. It has been only in recent weeks that we have begun
21 to feel that the Postal Service is paying attention to our complaints, but at the time of
22 this statement, we have yet to see concrete results.

1 It is a difficult matter for a small party like NNA to provide quantitative evidence
2 of these service problems. The Postal Service does not maintain ongoing delivery
3 measurements of Periodicals mail, as it does for first-class mail. To produce a parade
4 of publishers before this Commission who have received cancellations and
5 complaints from subscribers would exhaust the resources of the association. To
6 further examine the precise detours our mail is taking and explain to the Commission
7 the points of diversion and delay would similarly require information outside our
8 reach--and likely would be fruitless given the inescapable fact that the Postal Service
9 controls the data and chooses not to develop systemic measurements for the class.
10 Various parties have conducted as much inquiry into the service problems through
11 this case as we believe possible within these constraints. Tr. 2/111, 114, 175, 176,
12 177 and 178. If the Postal Service cannot adequately describe the scope of this
13 problem, one mailer certainly cannot. However, as an expert within the industry, I
14 personally attest that newspapers have lost subscribers as a direct result of
15 reclassification--a so-called reform of the system that benefited us little and cost us a
16 great deal.

17 The cost coverage proposed in this case is modest. The resulting proposed
18 rates are also modest. I recognize the commitment by both the Postal Service and
19 the Commission to the "educational, cultural, scientific and informational" (ECSI)
20 value of newspapers and their compliance with subsection 8 of 39 U.S.C Section
21 3622, which mitigates the contribution to institutional costs from newspaper mail.
22 However, despite the modest markups proposed in this case, I believe that the
23 Commission should recognize the effects of deteriorating service. If our mail is as

1 valuable under ECSI in 1997 as it was in 1994, but service has declined, it would
 2 appear that even this modest cost coverage is too high. I further recommend to the
 3 Commission that it attempt to provide some relief for small newspapers who are
 4 trucking their own copies to Postal delivery offices as NNA witness Speights is doing,
 5 a subject I will address further in my testimony.

6 The Postal Rate Commission has no regulatory or operational authority to
 7 address service problems. However, it does control the forces that contributed to this
 8 recent dramatic decline in service. The origin of our problem seems to have been
 9 with reclassification--and a concomitant requirement for newspapers to make major
 10 investments in new software and reporting systems--and a resulting retooling of the
 11 transportation and sorting patterns for Periodicals mail. While we do not object to the
 12 Postal Service's desires to centralize sorting if it improves efficiency, we do object to
 13 having the value of our service so severely diminished that the result is irreparable
 14 damage to newspapers' relationships with subscribers.

15

16 **III. THE MEANS FOR MEASURING NEWSPAPERS' USAGE OF WITHIN**
 17 **COUNTY MAIL APPEARS LONG OVERDUE FOR AN OVERHAUL.**

18 The second substantive portion of my testimony addresses NNA's concerns
 19 with the method presently used for measuring within-county mail volumes.

Exhibit 2*
Within County Per Piece Volumes
(in thousands)

FY 1986	1,737,958	FY 1990	1,382,914	FY 1994	1,006,421
FY 1987	1,479,531	FY 1991	1,179,504	FY 1995	907,187
FY 1988	1,488,271	FY 1992	1,192,671	FY 1996	877,829
FY 1989	1,382,914	FY 1993	1,058,671		

•Compiled from USPS Revenue, Piece, Weight studies

1 The Postal Service has documented a decline in within county mail since the
2 mid-1980s. Attempting to obtain reliable reliability of data on within county
3 newspapers has been a long and frustrating question before this Commission, going
4 back to 1984 when Edward McCaffrey testified on the subject. The Commission has
5 revisited this question periodically through this past decade, most recently in 1994
6 following an initial filing by the Postal Service of a proposed 34% rate increase for
7 this subclass.

8 We have endeavored to learn from the Postal Service the contents of the
9 within county mail stream. Tr. 10/4912. We learned only that the Postal Service does
10 not know. It appears to rely upon the Commission's own study of preferred rate mail,
11 prepared by Dr. Richard Kielbowicz of the University of Washington in 1986. In the
12 study, the Commission implicitly embraced our own industry's assumption that within
13 county mail--which I understand is also populated by business newspapers, city
14 magazines and newsletters to some extent--is dominated by the weekly newspaper,
15 for which the original subsidized postage class was created. (Report to the United
16 States Congress: Preferred Rate Study, U.S. Postal Rate Commission, June 18,
17 1986, pps. 20-46.)

18 NNA has been puzzled by the declining volumes for within county mail. For
19 this subclass to continue to shrink when it is apparent that weekly newspaper
20 circulation are growing is a subject for concern. Since the volume declines cannot be
21 attributed to shrinking newspapers, only two possibilities remain: either that weekly
22 newspaper publishers cannot risk their franchise on spotty delivery, or that the mail
23 volume data are simply wrong.

1 NNA frankly does not know the answer to this question, but I am offering to the
 2 Commission in this case data, summarized in my Exhibit 3 to demonstrate that the
 3 eligible potential users of this subclass are not shrinking, but on the contrary are
 4 growing. I believe it is time to question the volume measurement systems and to
 5 insist upon improvements.

Exhibit 3

Weekly Newspaper Statistics*

Year	Total Titles	Total Circulation
1960	8,174	20,974,338
1965	8,061	25,036,031
1970	7,612	27,857,332
1975	7,612	35,892,409
1980	7,954	42,347,512
1985	7,704	48,988,801
1990	7,550	55,181,047
1992	7,417	54,746,332
1993	7,437	56,734,526
1994	7,716	78,763,120
1995	8,453	79,668,266
1996	7,915	81,582,795

*From Facts About Newspapers 1984-1997, Published by American Newspaper Publishers Association/Newspaper Association of America from data compiled by NNA.

1 Also in support of my view, I offer as NNA Exhibit 4, appended to the end of
2 this testimony, a copy of a mail user's survey that was informally undertaken by NNA
3 in 1995. This study was never publicly circulated nor even printed in a polished
4 format because it was intended primarily as a policy advisory for the NNA Board of
5 Directors. It was conducted as a voluntary contribution of Landmark Community
6 Newspapers, Inc.

7 This study was conducted by mailing survey forms to every NNA member
8 newspaper. Results were received at NNA headquarters and at my own offices in
9 Shelbyville, KY. By July, 1995, we had received 868 survey responses, of which 639
10 were from weeklies; 90 from semi-weeklies and 17 from thrice-weeklies. This
11 response would represent approximately 21 percent of NNA's weekly newspaper
12 members at the time. Responses came from every state except for Rhode Island.

13 Circulations represented by these respondents totaled about 7.2 million
14 copies. Of this total, approximately 37.5 percent was within the second-class
15 mailstream and 22 percent of the total was within county circulation. Because our
16 data were derived from a partial census and not by sampling, we did not attempt to
17 calculate a confidence level for these data, but from my own experience with our
18 member newspapers, I felt reasonably confident that our respondents were typical of
19 our total membership. There was no attempt made to skew numbers either to the
20 high end or low end by soliciting particular newspapers to answer. If there was a
21 skew, it was probably toward newspapers concerned about the future of postal rates

1 or delivery--but since the motivation for joining NNA may largely stem from the same
2 concerns, I did not feel that this self-selection would alter our results.

3 I used these data to assume that nearly a quarter of our newspapers'
4 circulation was at risk if within county mail were jeopardized. I logically infer that
5 these circulation copies are intended for a newspaper's primary market. (It is
6 important to point out as an ancillary remark that a newspaper's retail zone may well
7 embrace a significant outside-the-county pattern since political boundaries and
8 markets do not always coincide.)

9 When I examine and compare our survey data to the trends in weekly
10 newspaper circulation, I find serious questions about the usage of within county mail.

11 In examining the growth of weekly newspaper circulation, it is important to
12 understand the background of the numbers. NNA has long been the principal source
13 of weekly newspaper circulation data for the newspaper industry. Our data have been
14 supplied annually to the Newspaper Association of America (formerly American
15 Newspaper Publishers Association) for its Facts About Newspapers publication,
16 which is the source of the data in Exhibit 3.

17 It appears the total circulation data were compiled by NNA in earlier years by
18 collecting members' circulation numbers--upon which annual dues were assessed
19 and for which annual updates were thereby required--and by periodically adding
20 circulations of non-members' newspapers. It is unknown to me how the latter
21 number was derived in earlier years of reporting, but I assume that in a desire to
22 attract new members, NNA periodically updated its non-member database.

1 In 1993, shortly after a change in administration at NNA headquarters, a
2 vigorous update of this non-member database was undertaken. The additional
3 circulations found in this update were striking enough that the association was
4 compelled to footnote its data from that date forward. This footnote first appears in
5 the Facts About Newspapers booklet in 1993.

6 When I examined this circulation data against the within county volume
7 numbers supplied by the Postal Service revenue, piece and weight reports (RPW), I
8 found that the Postal Service results would indicate fewer than 10 percent of all
9 weekly newspapers' total circulation is found in the within county mailstream. The
10 percentage is yet lower if adjustments were made for the usage of that preferred rate
11 class by any substantial numbers of city business publications, newsletters, city
12 magazines and so forth. The trend for the past decade, if USPS data are accepted,
13 has been for circulation to grow by about 67 percent, while the within county volumes
14 are less than half of their 1986 levels.

15 It is difficult for me to understand why the usage of this subclass would be so
16 low, particularly in light of the difficulties of setting up private delivery for a small
17 weekly. It raises the inference that the mailing data may be inaccurate. Capturing
18 accurate reports of mail volumes for copies scattered among many thousands of
19 small, rural post offices may be beyond the abilities of the Postal Service's RPW
20 systems.

21 Most weekly newspapers are users of smaller post offices. Within Landmark's
22 own community newspaper universe, for example, 39 out of 40 are entered in post
23 offices that are outside major urban postal facilities.

1 NNA has learned in this case that mail volumes are captured both through the
2 PERMIT system, which totals mailers' statements to summarize volume totals, and
3 through a complex and almost inexplicable sampling of post offices themselves, from
4 which mailers' statements are then compiled in a census fashion. Tr.9/4351, 4355,
5 4359, 4360. We further learn that 44 percent of the mail volume comprising total
6 within county mail are counted through this latter system.Tr. 15/7599. We have
7 attempted to learn how USPS determines which post offices will be counted through
8 PERMIT and which through the sampling system, but the Postal Service appears
9 unable to tell us. We have inquired about whether our assumption that the smaller
10 post offices are less automated, and whether the rural post offices' tending to be the
11 smaller offices means the rural mail volumes are more likely to be captured through
12 sampling than through the automated PERMIT data, but we have been similarly
13 unable to get the Postal Service to validate that assumption. Tr.9/4382.

14 We have learned, however, that the sampling system by which these 44% of
15 all within county pieces are captured was designed in 1985 and that the system
16 design has not been updated. Tr. 15/7609-7610. Many changes have occurred
17 within the subclass since then, including major changes in eligibility criteria, that
18 would unquestionably affect volumes. In addition, some offices that may have been
19 part of the sample have been automated. Tr.9/4351. It is not clear how or when or
20 even whether those offices are removed from the sample, nor how new offices may
21 be added.

22 I then proceed to add the following elements together: Weekly newspaper
23 circulations are rising dramatically. According to the Postal Service, the within county

1 mail usage is falling. NNA finds that a substantial portion of its newspaper circulations
2 are within county mail products and that the Postal Service's data would indicate a
3 much smaller portion of the universe is in within county. Clearly, there is a serious
4 gap between what we believe we know and can reasonably infer about weekly
5 newspaper mailing practices and the Postal Service's results from collating and
6 sampling newspaper volumes.

7 Is the discrepancy because weekly newspapers are simply abandoning the
8 Postal Service--for a variety of possible reasons? Or is it because the Postal
9 Service's measurement systems are inaccurate?

10 NNA is unable to answer this question. Besides the fact that the data are
11 outside our reach, our previous attempts to match what we know about our members
12 against the USPS data on a post office by post office basis have been stymied by the
13 Postal Service's determination not to release data it considers identifiable by mailers.
14 Simply stated, the Postal Service refuses to tell us what volumes it handles in each
15 post office for this subclass handcuffing us from conducting what limited range of
16 analysis we could feasibly undertake.

17 However, the answer to this question should be of material interest to the
18 Commission as well as to NNA's newspapers. If mail pieces are under counted, each
19 within county newspaper is paying a too-high proportion of shared costs and a price
20 reduction is in order. If the system is accurate, the Postal Service is missing a
21 substantial amount of volume that it might be carrying, in which case some demand
22 sensitivity might be a material inquiry.

1 Because neither NNA nor the Postal Service is able at this point to offer
2 volume numbers with a high degree of reliability, I cannot propose a specific
3 adjustment in the rates proposed for this subclass. It is within the Postal Rate
4 Commission's discretion to make an adjustment, if it so chooses. However, it is
5 unquestionably within the Commission's power to insist upon better data than we
6 now have before granting yet another rate increase.

7 At one extreme the Commission could freeze rates at current levels until such
8 time as more offices can be added to the PERMIT system or an updated Domestic
9 Probability Subsystem can be devised. In the alternative, the Commission could
10 order the Postal Service to update its methodology before the next omnibus case. I
11 would point out, however, that the Commission made such a demand in 1994 and we
12 are no further along in our confidence levels than we were at that time. There is no
13 reason to believe a similar request would be taken more seriously unless a revenue
14 consequence is created by the Commission.

15

16 **IV. PERIODICALS MAILERS SHOULD RECEIVE NEW WORK-SHARING**
17 **DISCOUNTS FOR DROP SHIPPING AND WALK SEQUENCING**

18 **A. Recognition of drop-shipping discounts within authorized**
19 **exceptional dispatch is long overdue.**

20 Periodicals mailers are permitted to bypass their entry post offices in some
21 limited circumstances with drop-shipped volumes taken to the furthest possible
22 downstream point--the delivery office. The Domestic Mail Manual authorizes such
23 downstream drops for service purposes. Domestic Mail Manual 210.3.1 This method
is used by many small newspapers to get timely delivery in parts of their counties not

1 served by direct transportation from the entry post office, and in parts of adjoining
2 counties that are a part of the circulation territory where the mail must first travel to an
3 SCF before returning to the area.

4 NNA Witness Speights details a typical circumstance under which a
5 Periodicals mailer would take advantage of such an opportunity. See, NNA T-2 pages
6 7-8. These are short-haul drops that would ordinarily be unnecessary in a system in
7 which mail unfailingly traveled the shortest possible distance between Point A and
8 Point B, but in the modern postal system of sorting hubs and post-reclassification
9 transportation schemes, is an increasingly unlikely scenario.

10 At one time, it appeared newspaper mailers would be able to claim DU-entry
11 rates for this mail. But under current DMM rules, newspaper mailers must undergo
12 the complex procedures for Plant-Verified Drop Shipment and/or additional entry
13 applications and procedures in order to receive these rates. The Postal Service
14 confirmed in this case that the DDU discount is not available. Tr.10/4905.

15 *The need for such short haul drops is particularly acute in rural areas,*
16 *precisely because the SCF to which the entered mail must be directed may take a*
17 *newspaper bundle hundreds of miles out of its way. As in witness Speights' case, the*
18 *intended destination may be well within a newspaper's retail market--but a publisher*
19 *whose advertisers hope to attract the readers in that destination will be disappointed*
20 *if the bundle is delayed even an extra day in the SCF. A day's delay will be enough*
21 *to jeopardize the special promotion, the coupon response time, the auction sale*
22 *announcement or the school talent show's audience. For that reason, editors and*

1 publishers in witness Speights's position have no choice but to transport the bundles
2 directly to the small town offices within the market.

3 This diversion from the usual SCF path creates a savings for the Postal
4 Service that at least equates to avoided transportation costs. In addition, it avoids
5 additional sack sortation and possibly opening unit activity.

6 Were community newspapers larger operations, they might benefit from the
7 flexibilities offered by the additional entry system. Used by larger publications, the
8 additional entry basically captures the benefits of avoided transportation costs and
9 recognizes the publisher's contributions even if they are made primarily for improved
10 service. However, an additional entry requires filing of separate postage statements,
11 setting up and maintaining additional postage accounts and administering a more
12 complex system within the newspaper.

13 For a community newspaper, the additional headaches involved in keeping
14 postage deposits at several offices and in filing additional mailers' statements for
15 relatively small quantities of mail are sufficient deterrents to requesting additional
16 entries. Virtually all will forego the postage savings and will continue to do the drop
17 shipment hauling anyway. Looking at the 12-hour day witness Speights endures
18 each week while she transports her copies to New Hebron, I can appreciate that
19 adding another hour to deposit postage and fill out a PS-3541 form would be adding
20 insult to injury.

21 The burdens upon the Postal Service for granting a discount in these narrow
22 instances would be negligible. Under present circumstances, the drop shipped mail
23 is accepted at a nearby office and the postage account in the newspaper's office of

1 entry is debited for the copies. Granting a new discount would not change that
2 practice. Periodic audits of the newspaper's mail would capture any persistent errors
3 in the calculations as they are designed to do now with the variety of discounts
4 available within Periodicals class. Finally, because exceptional dispatch is
5 authorized only for short-haul drops, larger publications would have little incentive to
6 develop a private hauler system beyond the additional entry offices that they use now
7 unless they had significant volumes that would outweigh the costs of developing a
8 contractor network to serve multiple destinations--or unless they had a chronic
9 service problem that could be addressed through exceptional dispatch. In my view,
10 the circumstances under which exceptional dispatch is used are unique to time-
11 sensitive local publications. A discount for avoided transportation costs, at a
12 minimum, would compensate newspapers like *The Prentiss Headlight* that have been
13 unintended victims of changes in mail processing systems design.

14 I propose that the Commission extend the delivery unit rate in both within
15 county and regular rate periodicals schedules, to recognize drop shipping by
16 Periodicals on short hauls within the exceptional dispatch scenario--that is, in
17 circumstances where the original entry and the exceptional dispatch destination are
18 within a short distance of one another. Since Periodicals mail is verified only
19 annually, there should be no need verify each issue requiring by additional entry,
20 especially when quantities are virtually the same in every mailing.

1 **B. The Postal Service's arbitrary threshold of 125 pieces for high density walk**
2 **sequencing discounts discriminates against rural Periodicals mailers.**

3 NNA in Docket No. MC95-1 presented a request to the Commission for
4 reconsideration of the 125 piece threshold requirement for high density discounts in
5 Periodicals class. NNA presented its concern in the context of the administration of
6 box sections. The problems with high density discounts appear also in rural routes,
7 where total household counts create unrealistically high subscriber penetration
8 requirements for a newspaper to achieve if it wishes to be credited with its walk
9 sequencing work.

10 In my experience, I believe community newspapers have been among the
11 leaders in presorting. Because of the essential need for timeliness in delivery,
12 newspaper publishers have for many years taken extra measures to present their
13 mail in the most easily-delivered packaging and sequencing, and to prepare our
14 pieces in the most efficient way possible in light of newspapers' inherent
15 characteristics.

16 To some extent, the nature of a newspaper limits further steps in that direction.
17 For example, products printed on newsprint are of a different stiffness and shape
18 than, for example, the letter-sized pieces that have driven automation. The nature of
19 the advertising marketing has meant that newspapers must adapt to demands of
20 advertisers for pre-printed pieces, which in turn has led to a protracted examination of
21 supplement rules within the Postal Service.

22 The nature of newspaper circulation is the limitation upon us when we address
23 the requirements for high density mailings. To wit: a newspaper must have an

1 extraordinarily high penetration in its markets to receive compensation for the walk
2 sequencing that must be done for consistent and timely delivery.

3 For some community newspapers, these high penetrations are not a problem.
4 As I move around the industry, I am struck by the reader loyalty attached to many of
5 our small-town newspapers. For some of them, a readership penetration in the 70th
6 or 80th percentile is not unusual. However, for others--particularly those publishing in
7 suburbs or exurban settings where a plethora of media are vying for readers'
8 attention—the penetrations are lower.

9 Against the 125 piece walk sequencing requirements, however, both types of
10 newspapers are at a disadvantage.

11 In the rural settings, a 125 piece requirement laid upon a 150 address route
12 requires an 83 percent market penetration, an extraordinarily high figure for a
13 newspaper. In an exurb outlying an urban area, a motor route may have 300 stops,
14 of which the small newspaper may have 120 pieces or a very respectable 40%
15 penetration--and still not receive the discount, despite the preparation done by the
16 mailer.

17 The arbitrariness of the 125 piece requirement has been a matter begging the
18 Commission's attention for the beginning. The origin of the high density mailing
19 requirement is well set out in the Commission's decision in Docket MC95-1, but that
20 explication overlooks the fact that this requirement was backloaded into the DMCS
21 requirements for Periodicals after NNA requested equal treatment for periodicals and
22 advertising mail. Because no record was developed on the "fit" between the nature

1 of Periodicals mail and the high density requirement, the Commission has never
2 squarely addressed the question of the optimal cut-off for high density.

3 NNA believes that walk sequenced mail, regardless of its so-called penetration
4 within a route, saves the Postal Service time at the carrier case. If a 125 piece
5 mailing presented in walk sequencing order for a 425 address route represents a
6 cost savings, a 120 piece mailing presented on a 200 address route must represent
7 at least as great a savings, if not more.

8 To offer some examples from within LCNI, I underline the arbitrariness of this
9 rule. Each of these newspapers is on file as NNA Library Reference 2. Our *LaRue*
10 *County Herald News* in Hodgenville KY, serves 25% of the subscribers (or 101
11 pieces) on City Route 1, which has 407 addresses. It would be difficult to add 24
12 more subscribers in that market, but the Postal Service can benefit from our walk
13 sequencing anyway.

14 Our *Red Oak (IA) Express* has a 55% penetration on its rural route 3, but still
15 only 122 copies for 213 addresses. Another rural route in that same county has 217
16 patrons on the route and 119 subscribers. Close, but still no cigar. And yet in every
17 instance, the Postal Service can save casing costs because of the work we do for
18 service.

19 As the Commission correctly pointed out in its decision in MC95-1, the data
20 required for a rational threshold are in the possession of USPS or at least in its
21 potential possession. I am unaware of any costing studies that have been conducted
22 that test other piece-per-route relationships other than the 125 piece rule, which I

1 believe has been set only because that is the cutoff which the Postal Service chose
2 to examine.

3 A rational change in the high density requirements would tie the minimum
4 number of pieces to the number of stops on a route. NNA proposed the following
5 change in the DMCS in MC95-1:

6 "Second-class pieces presented in mailings which are walk sequenced and
7 contain a minimum of 125 pieces or 25 percent of the addresses (whichever is fewer)
8 per carrier route and which meet the preparation requirements prescribed by the
9 Postal Service are eligible for the applicable discount set forth in Rate Schedules
10 200, 201, 202 and 203."

11 Adopting such language in this docket would require re-regulating the high
12 density requirements, in a sense, because the Postal Service presently has the
13 discretion to set the density requirement through the Domestic Mail Manual. It has
14 declined to formally address this problem since NNA raised it in Docket MC95-1. The
15 Postal Service appears determined to maintain the arbitrary 125 piece threshold.

16 All postal eligibility rules create a discriminatory effect in a sense, by creating a
17 field of haves and have nots. It is in the nature of classification to create such effects.
18 However, it is the responsibility of the Commission to ensure that the discriminatory
19 effects created are rational and justified under the criteria of 39 U.S.C Section 3622.
20 The high density requirement is a prime example of a discrimination that is not
21 justifiable, but is rather an outgrowth of the way the various discounts have been
22 developed over the years. I see no rationale that would justify a higher rate for our
23 small newspapers with a high density per route than for our larger members with a

1 lower density per route--simply because one route happens to be smaller than the
2 other. Saving the carrier a significant amount of casing time is worth recognizing.

3 I urge the Commission, therefore, to adopt the language proposed by NNA in
4 Docket MC95-1.

5

6 **V. NNA JOINS ITS COLLEAGUES IN THE LARGER PERIODICALS INDUSTRIES**
7 **IN EXPRESSING CONCERN ABOUT MAIL PROCESSING COSTS AND**
8 **AUTOMATION REFUGEES**

9 NNA is a partner of a larger effort in this case to demonstrate to the
10 Commission the need for attention to the Periodicals class in general.

11 I associate myself with the testimony of Chris Little, appearing on behalf of
12 Magazine Publishers of America and other periodicals parties, and Keith Crain,
13 testifying on behalf of American Business Press and other periodicals parties. I
14 would also like to state my personal belief that the testimony of Time Warner witness
15 Halstein Stralberg demands the Commission's urgent attention. Newspapers, like
16 other periodicals, are suffering from the unintended consequences of the Postal
17 Service's automation plans and schedules and its inflexible workforce.

18 In addition to the problems raised by Little, Stralberg and others in the
19 Periodicals class, NNA has long expressed concerns about the IOCS tallies of within
20 county newspapers. These problems may be masked by the proposed new mail
21 processing costing methodology. I do not propose a change in the methodology at
22 this time, other than the one proposed by witness Stralberg, but I wish to remind the
23 Commission that our issue may require attention in future cases once the larger
concern with the application of MODS to Cost Segment 3 is resolved.

CONCLUSION

The post office and the community newspaper are historic partners. But like many familiar old relationships, this one suffers at times from neglect as the Postal Service pursues fashionable new partners. The current problem in the high density walk sequencing requirements, developed for the Postal Service's advertising mail customers, and only reluctantly extended to newspapers provides an excellent illustration of a chronic problem.

The Postal Service has neglected newspapers in service. It has overlooked the need to update its data collection systems. It has inadvertently required us to develop new drop shipping patterns to solve service problems created by the new ADC sorting requirements. And it has denied the value of our walk sequencing contributions by setting an arbitrary eligibility threshold.

I urge the Commission to attend to these concerns in this docket and to require the Postal Service to reexamine its costing methodology, rates and service to community newspapers. This historic partnership cannot be permitted to dwindle away while the Postal Service inches ever more towards a corporate identity.

DECLARATION

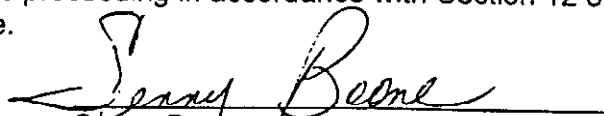
I, Max Heath, declare under penalty of perjury that the foregoing testimony is true and correct, to the best of my knowledge, information, and belief.

Max M. Heath

Dated: 12-24-97

CERTIFICATE OF SERVICE

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


Senny Boone

National Newspaper Association
Suite 550
1525 Wilson Boulevard
Arlington, VA 22209

Dated: 12-30-97

R-97-1

NNA T-1

Exhibit 1

**Max Heath's Publishers' Auxiliary
Columns Regarding Delivery Concerns
Pages 1- 6**

Publishers' Auxiliary, October 21, 1996

Mail volume may cause delivery slowdowns rest of year

Some recent horror stories from my group's newspapers and printing customers about extremely slow delivery in the Louisville and Baltimore areas (including up to eight days for First Class renewal notices and return payments) caused me to ask a Customer Service Support manager, "What gives?"

The answer: a flood of mail volume as businesses go all out for customers in the final quarter of the year leading up to Christmas. The economy is doing well, and postal reclassification is settling down so that mailers have figured out how to adjust mailing practices. Some may have delayed mailings as they calibrated their operations.

While people on the docks tell our plant employees they aren't getting enough help, managers report they are adding overtime to try to keep up. Still, mail is taking more than a day to get worked.

Also adding to the difficulties are problems with automated equipment that cause some mail to "loop" or go through the machines repeatedly without sorting to its destination. The machines also mangle a good bit. The much-vaunted automation revolution isn't always saving hours; it cost more in some locations to operate than is saved. Management ineptness combined with union intransigence will probably equal little or no savings from automation. And mailers must jump through all the hoops just the same! At least the automation discounts pass along imaginary savings.

What should you do if finely-sorted mail experiences delivery problems?

1. Call the manager of Customer Service Support at your district office. He or she can inquire on your behalf with operations.

That's what Don Campbell, outgoing manager of the Tennessee Press Association, did recently. He tracked the delivery of papers into his office during September, and found delivery taking as much as 17 days in-state. One issue of that paper arrived as quickly as four days, but others took as many as 11 (twice), 12, and 16. Two issues were never received.

2. Complain at one of the quarterly regional Periodicals Focus Groups held just for the purpose of dealing with delivery problems. Newspapers are badly under-represented at Focus Groups. Remaining in 1996 are Kansas City, Nov. 6; Phoenix, Nov. 12; and Nashville, Nov. 13.

If you can't attend, share your complaints with one of these area industry representatives:

Allegheny/Atlantic: Lou Bradfield, (212) 463-6465.

Pacific: Western: Mike McShane, (415) 312-0534.

NY Metro/Northeast: Ted Freedman, (212) 512-5588.

Great Lakes/Midwest: Joyce McGarvey, (313) 446-1650.

Southeast/Southwest: Richard Strelay, (407) 857-3373.

National: Tom Tully, (212) 512-2160.

3. Contact National Newspaper Association representatives on the Mailer's Technical Advisory Committee: Max Heath at (502) 633-4334, ext. 218 (address

at the bottom of this column), or Bill Sims, (410) 398-3311. They will advise or see your complaint gets attention.

Hard-copy CRIS notice in postal bulletin

Those of you trying to educate local post offices about the October 1 rules change allowing hard-copy CRIS (Carrier Route Information System) files' coding to qualify for carrier route rates may want to cite:

Postal Bulletin 21929, September 28, 1996, pages 16-17 contains the DMM Notice revising DMM E230.2.1 and E630.2.4 for Periodicals and Standard A Mail, respectively, to provide the option. It clearly states that computerized address matching with CASS-certified software is not required with this optional method. It also specifies that manual walk-sequencing is still an option under DMM A920.

Last month's column (Pub Aux 9-23) explained the details on the change, fought for since June by NNA.

POSTAL TIPS

By Max Heath



Loren Smith Leaves USPS marketing job

Loren Smith, the chief marketing officer of the Postal Service, resigned his position Oct. 11 after overspending his \$140 million ad budget by \$100 million. Smith pursued such wild ideas as Neighborhood Mail, which offended not only newspapers but also the Postal Service's best business partners, small letter shops who produce and sell ad mail.

Smith had no sympathy for the public-service mission of the Postal Service, for Periodicals, or small mailers. He ignored the fact that the Postal Service is actually part of the government.

Thankfully the Postal Service is replacing Smith with Allen Kane, veteran vice president, Operations Support for more than two years. He is well-grounded with leadership roles in product management, transportation, delivery, distribution and mail processing. Kane, around since 1971 when the Postal Service was reorganized, is customer-friendly and an excellent selection to work with mailers on new programs as true partners.

Facsimile 3541-R approval

Questions arise from time to time about whether a computer-generated facsimile Postage Statement, Form 3541-R, etc., can be approved at the local level. Some postmasters feel they cannot accept or approve a facsimile.

DMM PO12.4.0 clearly states: "The mailer may submit a computer-generated facsimile of the USPS form if it is in the same format as, and includes all information required by, the USPS form. A facsimile ... may be approved by the entry office postmaster. Data fields may be omitted if they concern rates not being claimed for the mailing."

This should help if you are confronted with an acceptance problem.

Max Heath is chairman of the NNA Postal Committee, and one of two NNA representatives on the Joint USPS-Industry Mailers Technical Advisory Committee. He is a vice president of Landmark Community Newspapers, Inc., Box 549, Shelbyville, KY 40066.

Reclassification rules create Periodicals delivery disaster

remember an old joke where someone said "Cheer up, things could be worse." The response: "So I cheered up, and sure enough, things got worse."

Many Periodicals Mailers are feeling this way after several weeks of new sorting rules under postal reclassification.

While the National Newspaper Association won this battle against a proposed Publications Service that would have excluded newspapers and raised regular rates 17 percent, the Postal Rate Commission allowed the Postal Service to implement many changes July 1 that were supposed to improve mail delivery.

Encouraged by the decision, many newspapers responded cheerfully, making good-faith efforts to meet computerized list hygiene and coding requirements, and adjusting mail sortations to comply with the simpler, but more limited options. Newspapers can now only sort to Area Distribution Center (ADC), 3-digit, and 5-digit, with elimination of the much-used Sectional Center Facility (SCF) sort, which keeps mail within the 456 processing hubs from going way upstream before handling.

The problem would not be so great were it not for the new mandatory minimum sacking requirement (DMM M820.3.1-2) of six pieces to ADC, 3- and 5-digit.

Fewer options for sortation and higher minimums add up to a delivery disaster for subscribers of publications with small numbers of copies outside their market area, or exceptional dispatch copies close in.

Two examples of reported problems

Tom Henry, assistant publisher of the Green Valley (AZ) News & Sun, is fighting to restore high levels of delivery quality which had deteriorated badly with barcoding for automated sortation to Mixed ADCs. Mailing 1,550 copies to snowbird subscribers in 49 states is better without barcoding, which has been dropped, and a switch to all-ADC sortation regardless of quantity, allowed by the Tucson office.

In addition, papers were being destroyed in processing, resulting in partial or non-delivery.

The Oskaloosa (IA) Herald, on the other hand, is suffering from the intransigence of the Hawkeye District. Forty-five subscribers in 40 ZIPs in Iowa and 47 more elsewhere are receiving that daily seven to 10 days later, out of sequence, and missing altogether. Keith Camp, subscriber

services manager, reports complaints and threats of cancellation.

Des Moines' insistence on enforcing the wrong-headed six-piece minimum brought the intervention of Sen. Tom Harkin, D-IA. Postal legislation to be passed in September asks for the 6-piece minimum revocation, as does a letter to Postmaster General Marvin Runyon.

CASS processing worsens local lists

And the requirements for ZIP+4 carrier route coding for regular-rate Periodicals and ECRS Standard mail, although not yet required for in-county mail, have also proven one big headache for newspapers, who keep their lists updated almost weekly at the local level as route changes occur.

Most of us have found it difficult to split the out-of-county list from the in-county portion for CASS-certified ZIP+4 processing, but will certainly try in the future if allowed by the Postal Service. Why?

Because carrier route code changes for route reorganizations, a frequent event throughout the postal system these days, and address changes for 911 and E911, are made within days. Local offices provide the changes quickly to local entry publications.

But the National Customer Support Center database in Memphis, which produces the ZIP+4 list for vendors, is always 3-6 months behind. The result: a perfectly good list, locally obtained, is suddenly scrambled into wrong routes

and/or addresses, as they were prior to the changes.

What is NNA doing about all this on your behalf?

As reported in the last issue, NNA has formally requested the Postal Service revoke the new six-piece sacking minimum, or allow exceptions to fix service problems. Many far-sighted managers of postal operations and business mail entry at 85 district offices have made their own customer-friendly exemptions to serve Periodicals.

I suggest each state association, or affected newspapers, request just such a district-wide exemption for Periodicals from the district office(s) within their states.

We believe the request is valid because:

1. So-called "skin" sacks with small quantities travel further through the system without having to be sorted and resorted.
2. Newspapers are gaining nodiscounts as a result of the finer sort, paying the highest piece rate of 24 cents on all copies in question, while doing additional preparation work to serve the subscriber.
3. Many postal processing plants and facilities don't object, and in fact, will not enforce this new rule regardless of how obstinate head-

Turn to POSTAL TIPS, Page 23

POSTAL TIPS

From page 3

quarters may be. The rule is NOT enforceable.

4. The current policy is "Lose-Lose." Periodicals denied the right to serve their customers lose the subscription revenue, and the Postal Service loses its highest Periodicals piece rate (plus pound rate) postage.

NNA is also talking to officials at multiple levels through its contacts on the Mailer's Technical Advisory Committee about the in-county requirement for CASS certification, possible Oct. 6, but in dispute both from legal and policy standpoints. (CASS

stands for Coding Accuracy Support System, and the certification applies to the process which matches the addresses on your list to the national database.)

Please write me or Larry Graves at NNA with any reports of service problems because of new sorting/sacking rules problems caused by in-county list CASS processing.

Max Heath is chairman of the NNA Postal Committee, and one of two NNA representatives on the joint USPS-industry Mailer's Technical Advisory Committee. He is a vice president of Landmark Community Newspapers Inc., Box 549, Shelbyville, KY 40066.

POSTAL TIPS

By Max Heath



Publishers' Auxiliary, November 18, 1996

DMM language on 6-piece minimum exemption out

Some postmasters have told National Newspaper Association members they know nothing about the recent regulation change to exempt periodicals from the six-piece sacking minimums for service reasons.

The exact language, to appear in the next issue of the Domestic Mail Manual, was released in the October Mailroom Companion, pages 55-56. It adds a new section under Periodicals (Nonautomation), M200.1.4, that states clearly "... Periodicals may be prepared in packages containing fewer than six pieces, and in sacks containing as few as one such package, when the publisher determines that such preparation improves service." Exemption language is also included in M200.2.2, 2.4, and 3.1.

Refer uninformed postmasters and business mail acceptance personnel to this information. NNA led the fight to fix the problem.

Use of the six-piece exemption is a powerful tool to improve delivery problems.

More delivery problems reported

Reports of poor Periodicals delivery continue from around the country. Some of the worst come from Illinois, both around Chicago and downstate around St. Louis.

Amber Schade, Illinois Press Association member services, reported copies of the Bloomington Pantagraph sat for 12 days in Carol Stream, IL. Mail handlers reported "they couldn't get to them."

Jeff Farren, publisher of the Record Newspapers in Yorkville, reported to NNA he mails 105 papers to Minooka, in the corner of his county, each Wednesday. After routing through Fox Valley and South Suburban, they arrive the next Monday rather than the next day. Investigation by his postmaster revealed mail sorters were opening the 5-digit bag which should have moved non-stop through the plants.

Schade was told of Periodicals sitting on docks in St. Louis, where workers told a newspaper publisher that an influx of political and ad mail resulted in it being worked first (a violation of standard operating procedures).

Bedford Park, IL, was so backed up, First Class mail was sent miles away to Bloomington to sort, the Pantagraph learned.

A postal supervisor in a Texas office told me "the new system is slowing mail down considerably."

Weeklies in the Louisville area sorted to 3-digit which used to arrive on Thursday now arrive on Friday or Saturday. The circulation manager is switching to 5-digit sorts below the six-piece minimum to try to restore service. A Business Mail

Acceptance specialist told her any mail requiring hand processing adds at least one day to delivery time (it did not before reclassification).

There is talk of restoring the SCF (Sectional Center Facility) sortation for Periodicals. Its discontinuance July 1 is part of the problem. Pieces

under six to a 3-digit, fall back to an ADC (Area Distribution Center) sortation, often further "upstream" in the processing flow.

What should you do about delays? In addition to sorting finer, complain! Call the district manager of Customer Service Support or plant manager. Ask your post office to call for you, or give you the number.

NNA seeks further horror stories of poor delivery to share with appropriate postal management.

Address endorsements to be simplified

After months of study, the Postal Service has proposed to simplify what are called "ancillary service endorsements" used to indicate certain handling requests for all classes of mail. They are especially useful on Standard A mail (old third class).

Newspapers mailing renewal notices by Standard A have been advised by NNA in the past that the endorsement "Forwarding and Address Correction Requested" should be added just below the return address to ensure delivery if someone has moved. (Standard mail does not get automatic forwarding as First Class does.)

"Address Service Requested" will replace the longer endorsement if comments submitted to USPS by November 12 are favorable. Newspapers using Standard mail renewal notices will want to change to the new endorsement lines at their next printing. The effective date is expected to be Feb. 1, 1997, with a grace period to Sept. 1, 1997.

Larry Graves missed

Along with others at NNA and within the postal community in Washington, I mourn the loss of my friend Larry Graves, who died of cancer October 21. NNA's public policy director was gentle, smart, and savvy about the operations of both the Postal Rate Commission and the Congress, where he had worked. Senny Boone is handling inquiries at NNA now that he's gone.

Max Heath is chairman of the NNA Postal Committee, and one of two NNA representatives on the Joint USPS-Industry Mailers Technical Advisory Committee. He is a vice president of Landmark Community Newspapers, Inc., Box 549, Shelbyville, KY 40066.



POSTAL TIPS
By Max Heath

Poor USPS Periodicals delivery

It's driving off newspaper subscribers, could cut volume and increase rates prematurely

The Postal Service is often its own worst enemy. While racking up record profits yet pushing for a premature rate case, and seeking postal reform that frees it from regulation, the Postal Service is failing in its primary mission: Deliver the mail on a timely basis.

Top management has poured on the pressure to achieve higher scores for the externally-measured First Class letter mail, with 91 percent of overnight mail on time. But scores for two- and three-day delivery have skidded to 72 and 70 percent on-time, respectively.

Some members of the Board of Governors are applying heat about poor delivery. Chairman Turso del Junco pointed out what mailers already know: there are "serious problems" with delivery, and the percentage of mail being delayed is "humongous."

National Newspaper Association members have reported a worsening of out-of-county mail delivery, especially in the Midwest. Many subscribers are canceling their subscriptions, costing the newspaper revenue and reader loyalty (the lifetime value of that subscriber). The Postal Service loses 21.30 cents or more per copy. Falling volume also shifts the cost of handling Periodicals mail onto a declining base, thereby forcing even higher future postage rates than otherwise would be required.

In a fair world, postal cost studies would not show higher costs for handling Periodicals mail, since the Postal Service is not applying the manpower to keep it moving. If mailers paid for service received, rather than costs in the system,

rates would drop rather than increase!

It is clear that either by default or on purpose, the Postal Service no longer cares whether unbound Periodicals are delivered on a timely basis across this country. For newspaper mailers, the word "Service" is a cruel joke.

Service declined last July when elimination of the SCF (Sectional Center Facility) sortation caused considerable mail to revert to ADCs (Area Distribution Centers). While some newspapers use the NNA-gained exemption to six-piece sacking minimums to try to keep sacks moving through the system to 3- or 5-digit offices before sorting, the slowdowns reported recently include even 5-digit mail that is delayed unreasonably, and non-delivery.

Examples:

■ Byron McNutt of Vilas County News-Review in Eagle River, WI, has Milwaukee subscribers who don't get the paper for five to seven days, Chicago subscribers, seven to 10 days, and Florida subscribers up to two to three weeks. McNutt wrote, "Milwaukee is a disaster area. If the newspapers make it through Milwaukee, they come to a dead stop in Bedford Park, IL. Both readily admit they have serious/major problems, but can't do anything about it until Washington authorizes the changes ... In February all 1,100 copies mailed to Milwaukee never showed up ... never ... We would be embarrassed to ask our subscribers (out-of-state) for a rate increase. We have lost numerous subscribers over the years because of the one to three week delays."

POSTAL TIPS

By Max Heath



It is clear that either by default or on purpose, the Postal Service no longer cares whether unbound Periodicals are delivered on a timely basis across this country. For newspaper mailers, the word 'Service' is a cruel joke.

■ Donna Carman of Casey County News in Liberty, KY, reports that Indiana subscribers who used to get the Wednesday weekly on Saturday or Monday, began to experience delivery at eight to nine days after publication this spring.

■ Frank Heuring of the Petersburg (IN) Press-Dispatch reported similar problems. The delays coincided with a cut in air transportation into Indianapolis that forced heavy truck volumes into the processing plant there. But officials in Washington and Indianapolis deny any connection.

Carman received angry letters from Cincinnati subscribers whose mail is sorted to the carrier route, requiring no handling anywhere en-route, threatening to not renew over late delivery. Entered on Wednesday, the papers aren't delivered three days later within zones 1-2, about 150 miles away.

■ Patsy Speights of The Prentiss (MS) Headlight reports a long-time subscriber in Kettering, OH, with seven to 10 day delivery suddenly not receiving any March issues as of April 7.

Other complaints have come about processing hubs in Tulsa, Royal Oak, MI, and North Carolina.

Some postal personnel say there are no delivery standards for Periodicals

mail. Not so, though they are debatable. Virginia Ramos, director, Marketing and Communications, Tampa, FAXED Mark McDonald of the Boone (IA) News-Republican that the standards were one day up to 150 miles; two days up to 300; three days up to 600; four days 1,000; five days 1,400; six days 1,800; and seven days more than 1,800 miles.

Ramos' form letter to McDonald also said: "In order to ensure that your customers, who now reside in Florida either permanently, or as seasonal residents, receive the level of service they expect on their home town publications, I would like to suggest that you consider using First Class mail when mailing to these particular customers."

NNA will be demanding to know whether this outrageous idea is endorsed by postal management at the June 11 meeting of the Mailers' Technical Advisory Committee.

NNA has a meeting set with a staff member of Customer Service that day. Brian Harris of the Postal Operations Customer Service Center has attempted to get attention to some of the above complaints, with some initial signs of success in Milwaukee. Illinois Press Association has met with Operations specialists about service in that state. And the Great Lakes area has formed a Periodicals service review team to work on problems in ZIPs 613 and 604. Call (630) 539-5885 for information.

NNA wants to hear further delivery complaints from members, as we work to resolve problems. Send to Senny Boone at NNA, or to me.

Max Heath is chairman of the NNA Postal Committee. See page 2 for more information.

NNA Postal Committee works on Periodicals delivery woes

In this column last month about Periodicals delivery going from bad to worse, I told you of a planned June 11 meeting at Postal Service headquarters on behalf of you, the National Newspaper Association membership victimized by slower delivery. Your NNA Postal Committee was represented by Bill Sims, circulation director of Chesapeake Publishing in Elkton, MD; Senny Boone, NNA's director of government relations; and myself.

We were joined by Charles Pace, a consultant with a distinguished career working for the Wall Street Journal, Newsweek, and the Postal Service. He headed the Periodicals Subcommittee of the Postmaster General's Mailers' Technical Advisory Council (MTAC) (where Sims and I represent your interests four times a year) for 12 years, and represents the Agricultural Publishers' Association on MTAC. He has been most helpful as an NNA ally on behalf of unbound Periodicals.

We met with the Postal Service's Jay Freitas, manager, Business Partners Customer Relations, and Ron Porter, In-Plant Operations, who also has a background in distribution networks. We spent 1-1/2 hours laying out member concerns, giving them reports from members mentioned in last month's column and getting feedback from them.

Freitas said they need to look at regional problems and system changes rather than just firefighting, which makes sense. He expressed a Postal Service desire to "test some fixes, and replicate successes elsewhere." NNA will be provided with an updated list of network coordinators for Periodicals service. He admitted the Postal Service was used to handling large bulk quantities and sometimes failed to handle smaller volumes as well.

Porter feels he may be able to help, but wanted to analyze data from Wisconsin and Kentucky publications I provided as typical of NNA member problems. He indicated that each of the 10 area offices is now more directly responsible for their operation, and promised NNA would get advice on where to take problems within each area.

While nothing has been resolved, we think NNA has the ear of officials who will try to get some improvements in the delivery of unbound Periodicals. Letters I've received in support of last month's column indicate that problems continue to be severe.

Sims and I signed on to a newly-created

work group of the Periodicals Subcommittee of MTAC to further engage the Postal Service on delivery problems. We got reports on two hot spots. South Suburban, IL, area code (604), at Forest Park was said to have staffing problems (no kidding!) and apparently needs to add staff to deal with its volume. Royal Oak, MI, has seven processing plants (some are annexes) serving a fast-growing area, and can't handle the volume. The Postal Service Board of Governors will be asked to approve a new plant.

Discussions and research continue on restoration of the SCF (Sectional Center Facility) sortation for Periodicals, the loss of which has hurt service since July 1996.

Newspaper automation rates expected in March 1998

One piece of good news, which could improve delivery times while lowering the piece rates paid by newspapers, was announced at MTAC. Automation rates, unavailable to most newspapers other than quarter-folded, single-section ones, are promised effective March 1998.

The reason is that the first 102 or more of the new FSM-1000 flat-sorting machines still being deployed in processing plants will be fitted with wide-area barcode readers. Fifty-five such machines are already installed, and a request is in for 240 more, bringing the eventual total to 342. The new machines, which pull papers along with a series of belts, allow processing of more flexible pieces, even with loose parts. That was impossible on the existing FSM-881 machines, which will still be used for processing envelope "flats" and magazines.

It is estimated that 95 percent of all flat mail will then be machineable. And moving most newspapers from manual sortation to machine should speed the time spent inside a processing plant.

If you look at your 3541-R Postage Statement, you will see the prospective rates at out-of-county lines 18 and 21, Automation Flats. You will see that the rates are 12 percent lower at the Basic rate, from 24.0 to 20.9 cents, a 3.1 cent savings; and 13 percent less at the 3/5 rate, from 20.2 to 17.5 cents, down by 2.7 cents. (The discount is only available to non-carrier-route sorted mail, which gets lower rates

POSTAL, from page 16

because it is presorted, usually in delivery order, for the carrier.)

The new discounts, if effective in March as announced, will mitigate the increase expected from a regular rate case which could be effective as early as next summer.

NNA will inform members of steps to be taken to qualify for these rates as the date approaches. An accurate barcode must be printed on the label of each piece. But the biggest hurdle in the past has been machineability. There is now light at the end of that tunnel!

Max Heath is chairman of the NNA Postal Committee. See page 2 for more information.

POSTAL TIPS By Max Heath



Turn to POSTAL, Page 19

No end in sight to postal delivery problems

Based on reports to the National Newspaper Association's Postal Committee the last few months, overall Periodicals' delivery has not made any appreciable improvement. Since we last reported to you, I have personally spent more time on delivery problems than at any time in my "postal life" of nearly 15 years.

Hoosier State Press Association had a meeting Nov. 17 with Indianapolis USPS officials who said, "We know we have problems," and welcomed HSPA assistance in improvements. An HSPA survey had shown average delivery time of nine days for out-of-county newspapers, with 57 percent receiving complaints of "no delivery."

Illinois Press Association (IPA) scheduled a meeting Dec. 12 with Tony Dobush of the Postal Service Great Lakes Area Operations. Beth Bennett of IPA said members faced continuing frustrations with late delivery, especially in northern Illinois.

Beth spoke for many community publishers when she expressed their frustrations with the expense of complying with CASS and PAVE-certification requirements during the past 18 months, only to be rewarded with worse delivery rather than improved service as promised.

North Carolina Press Association (NCPA) contacted NNA, which helped set up a meeting later this year with Greensboro ADC Mail Processing Manager Nick Rinaldi and his Raleigh plant manager. Some of the reports gathered by Teri Saylor, NCPA manager, with my comments added in italics:

Jason Schneider, associate editor of The Denton Orator, said "we have been told that newspapers are tossed to the side and are last on the list of priorities, even though labeled as time-dated material. Many of our subscribers have told us their papers arrive several days (even weeks) late, and they often received several issues at one time, sometimes dating back more than a month." *That last sentence certainly confirms the first, Jason!*

Kathy Hooper, circulation manager of The Transylvania Times, reported "papers miraculously arrive on time while the Publication Watch is on, then go back to the hit-and-miss delivery of before." *Sure makes us wonder why postal plants can't just process the mail timely all the time, not just when "watched."*

Why is all this happening?

1. Total mail volume in the Postal Service is at record highs, along with profits. Many processing plants simply cannot handle the volume. New, larger plants need to be built in many cities. For instance, Indianapolis, currently one of the slowest ADCs in the nation, sorts mail in four annexes in addition to its downtown plant. Denise Hawkins, quality improvement specialist, has assured NNA they are trying to consolidate all Periodicals in the main building. Cincinnati, a long-time under-performer, is worse than ever.

2. Cost controls by upper management at the Postal Service prevent proper staffing to handle the workload. While

casuals are added at Christmas and during the UPS strike, the fact remains that some plants are understaffed relative to mail volume.

Postal managers can get in lots of trouble with autocratic upper management for violating work hour plans set in the 10 area offices or postal headquarters, often with little or no input from the people affected. (November Congressional testimony confirms this.)

3. The change to Area Distribution Center processing in July 1996, and the end of Sectional Center Facility processing. The 96 ADC facilities are inundated with mail, while SCFs, closer to the action, must send Periodicals upstream into the ADC mess, when they could work it faster.

4. Lack of management commitment to timely processing of Periodicals. When you boil everything else down, it all comes back to this. From PMG Marvin Runyon down, newspapers get a lot more lip service than they do real improvement. Manager service bonuses are based ONLY on First Class overnight scores. What message does that send?

What is NNA doing?

Your representatives on the Postal Service Mailers Technical Advisory Committee, Bill Sims and I, participate on a Periodicals Delivery Working Group of MTAC. It is a long-range process. If management commitment does not result, all our tweaking will be for naught. But we won't give

up. We also discuss delivery issues at each of the four regular MTAC meetings.

Senny Boone at NNA, Sims and I can advise members and associations of people to contact and steps to take to help solve specific problems.

What else can be done?

Contact ADC processing personnel directly with your complaints. I have had some success talking to "quality improvement specialists" at ADCs in Louisville, Indianapolis and Nashville. Contact your local post office for its ADC number.

Max Heath is chairman of the NNA Postal Committee. For contact information, see page 27.

POSTAL TIPS

By Max Heath



R-97-1

NNA T-1

Exhibit 4

1995 Mail User's Survey
Pages 1- 6

NNA SURVEY by STATE

AK	1
AL	10
AR	15
AZ	3
CA	24
CO	20
CT	8
DE	2
FL	8
GA	18
GUAM	1
HI	1
IA	35
ID	9
IL	26
IN	23
KS	25
KY	22
LA	6
MA	70
MD	17
ME	7
MI	17
MN	48
MO	30
MS	8
MT	5
NC	20
ND	14
NE	27
NH	3
NJ	29
NM	6
NV	3
NY	31
OH	21
OK	19
OR	17
PA	27
SC	8
SD	18
TN	17
TX	38
UT	5
VA	23
VT	3
WA	18
WI	46
WV	11
WY	5

all but Rhode Island
represented

72
check total

NNA SURVEY by FREQUENCY

Weekly	639
Semiweekly	90
Triweekly	17
Daily	122

868

NMA ALLIANCE DISTRIBUTION SURVEY - 1995

No. No.	2.	3.	4.			5.			Rsd/ Rks
	State	Freq	Total Circ	Paid Circ	Free Circ	2C Mail	3C Mail	Carrier	
totaltotal			7165804	5902445	1234324	2558346	52688	2749291	1586672
			868 surveys						
average			8256	6832	2282	3057	2291	9448	1991
#			868	864	541	837	23	291	797
totaltotal				7136769 82.7%	17.3%	6946998 36.8%	0.8%	39.6%	22.8%

Note: Numbers do not always add up due to inaccuracies in reporting
I called many, many, but could not call all -

No.	6.			7.			8.	
	2nd Class In-Co	OC	Req	In-County	DU	Other	DU Entry PVDS	Addl
total	1568841	767334	190855	1086921	549110	85518	40343	

average	1968	948	6157	1582	820	1900	897	
#	797	809	31	687	670	45	45	
total	2527030	30.4%	7.6%	1636031	66.4%	33.6%	125861	67.9%
%	62.1%						32.1%	

9.	In-County	125 W/S	17526	273983	1206894	total
	CAR-RT					
10.	Avg. Lb.	IC piece			270.0182	
11.	Avg. Lb.	OC piece			235.7948	

No.	3rd Class		CAR-RT	Wgt	Avg. lb.
	Sat W/S	125 W/S			
17.					
18.					
Total		1599713	296596	398800	73.7076

No.	3rd Class		CAR-RT	Wgt	Avg. lb.
	Sat W/S	125 W/S			
17.					
18.					
Total		1599713	296596	398800	73.7076

112 below 2062 (3.3%) = 402
 168 above 2062 (3.3%) = 628

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

RECEIVED

FEB 5 4 13 PM '93

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

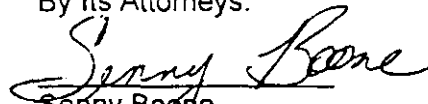
NOTICE OF FILING OF ERRATUM TO TESTIMONY OF NNA WITNESS
MAX HEATH

It has come to the attention of NNA that through clerical error, a mistake appears on lines 8-9 of page ³ IV of the testimony of Max Heath, NNA T-1. The sentence should read: "I found that the Postal Service results would indicate that only about 20 percent of all weekly newspapers total circulation is found in the within county mailstream."

Respectfully Submitted,

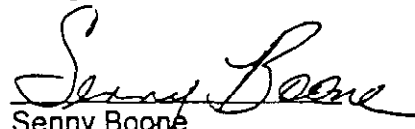
NATIONAL NEWSPAPER ASSOCIATION

By Its Attorneys:


Senny Boone
Tonda Rush

CERTIFICATE OF SERVICE

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


Senny Boone

1 CHAIRMAN GLEIMAN: Mr. Heath, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have, Mr. Chairman.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, I'm going
10 to provide two copies of the designated written
11 cross-examination of Witness Heath to the reporter and
12 direct that it be accepted into evidence and transcribed
13 into the record at this point.

14 [Designation of Written
15 Cross-Examination of Max Heath,
16 NNA-T-1, was received in evidence
17 and transcribed into the record.]
18
19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL NEWSPAPER ASSOCIATION
WITNESS MAX HEATH
(NNA-T1)


Party

United States Postal Service

Interrogatories

USPS/NNA-T1-1-56

Respectfully submitted,



Margaret P. Crenshaw
Secretary

Designating Parties:

[illegible]

Designating Parties:

[illegible]

USPS/NNA-T1-1. What is your background in the field of statistics? Please specify any training or courses you have completed in this area.

RESPONSE.

I am not a statistician. My background is in circulation and editorial management of newspapers.

USPS/NNA-T1-2. At page 2, lines 18-19 of your testimony, you state that NNA has a "membership o nearly 4,000 titles." What is NNA's membership in terms of number of publishers?

RESPONSE.

One thousand, nine hundred and twenty-five (1,925) as of Feb. 3, 1998.

USPS/NNA-T1-3. How do you define a "typical NNA member newspaper," as you use the phrase on page 3, lines 2-3, of your testimony, given the wide variety in your membership's publication characteristics?

- a. How many of your member publications fit within your definition of the "typical NNA member newspaper?"
- b. Please provide all calculations and assumptions used in producing the number you provided in subpart a.

RESPONSE: A typical NNA member newspaper is a weekly newspaper with a circulation between 1,000 and 5,000. A list of numbers of titles within NNA membership, ranked by circulation size, is attached as Attachment 1.

- a. Approximately 1,847.
- b. The list attached will explain how I arrived at this number. To derive the list, I asked the NNA database administrator to sort the newspapers by circulation size.

USPS/NNA-T1-4. At page 4, lines 3-4, of your testimony, you state that daily newspapers rely upon the Postal Service's Periodicals delivery for "subscribers in outer markets or in distant cities."

- a. Please define the terms "outer markets" and "distant cities" as you use them in this portion of your testimony.
- b. For the base year in this proceeding, please provide an estimate of the daily newspaper volume sent to "outer markets" and "distant cities," as you define these areas in part a.
- c. or the base year in this proceeding, please provide an estimate of the daily newspaper volume sent to "outer markets" and "distant cities" that is sent as Periodicals class.
- d. For the base year in this proceeding, please explain how you derive the estimated volumes you provide in subparts a. and b., and provide associated formulas.
- e. For the base year in this proceeding, please provide a plus/minus 1 estimated standard error of the estimated proportion of the volume figure you provide in subpart c. to the volume figure you provide in subpart b.
- f. If you cannot provide a response to any of the above subparts, please explain why you cannot.

RESPONSE.

- a. I consider "outer markets" to be the retail trade zone or the area from which a local business might derive customers. For postal purposes, this would be roughly equivalent to an SCF zone. For "distant cities" I mean the cities outside this retail trade zone.
- b. I do not have information on this amount of this volume, but in my experience, this volume would equate to less than 10 percent of circulation for most daily newspapers.
- c. See my response to b. I cannot quantify the mail within this class of newspaper subscriber, but in my experience, most if not all of those copies would be sent through Periodicals class mail.
- d. See my response to b.
- e. See my response to b.
- f. My information derives from NNA member records. The association does not track member mail usage on a per-member basis.

USPS/NNA-T1-5. At page 4, lines 9-10 of your testimony, you state that "weekly newspapers remain heavy users of mail delivery." For the base year:

- a. Please provide estimates of total weekly newspaper volume and of the total weekly newspaper volume traveling through the mail (i.e., delivered by the USPS), that you feel support this statement.
- b. Explain how the estimated volumes in part a. were derived, and provide all associated formulas.
- c. Please provide a plus/minus 1 estimated standard error of the estimated proportion that would result from dividing the weekly volume of newspapers traveling through the mail (calculated in part a., above by the total weekly newspaper volume (also provided in part a., above).)
- d. If you cannot provide a response to any of the subparts in this question, please explain why not.

RESPONSE.

- a. NNA does not track member mail usage on a per-member basis. However, I am providing as an attachment to my response a spreadsheet from a survey of NNA members taken in 1995. See Attachment 2. That survey, which was produced from 836 responses out of NNA's membership at the time of approximately 3,800 newspapers, indicates that these respondents use second-class mail for about 36% of their distribution. However, in

my personal experience, I have found that the smaller the newspaper, the more likely it is to be even more heavily reliant upon the mail. We were unable to determine from this survey whether our 836 respondents were typical of our membership. The survey was designed for policy guidance, rather than to quantify mail usage. I provide it in response to these questions because it represents the only attempt at quantification conducted by the association during my service on the postal committee.

- b. We have no estimates of total mail volumes. The estimates provided from the survey described in part a. are from a simple census of 836 respondents.
- c. We did not calculate the total volumes, therefore, we cannot provide a standard error calculation.
- d. Please see my response to part a.

USPS/NNA-T1-6. Please refer to the mail user's survey that you discuss in your testimony beginning at page 11.

- a. Please provide a copy of the survey forms sent to each NNA member. If more than one form was used, please provide a copy of each type of form.
- b. Please provide copies of any survey instructions given to the respondents, or a summary of any instructions given orally.
- c. Your testimony states, at page 11, line 8, that survey responses were sent to NNA's headquarters and your office. Were certain respondents instructed to respond to each location, or were they given the choice of where to respond? Please explain your response.
- d. What studies were conducted to support your statement that the non-respondent group to the 1995 study were representative of the respondent group with respect to the percentage of copies that were within county circulation? Please provide the results of any such studies and all supporting documentation.
- e. Please fully describe and provide the surveys similar to the one you discuss beginning at page 11 of your testimony, that NNA has conducted or relied upon in the past. If you cannot provide such information, please explain fully why you cannot.

RESPONSE.

- a. One copy is attached as Attachment 3.
- b. A copy of the cover letter for the survey form is attached as Attachment 4. These were the only instructions except for those on the survey form itself.
- c. Respondents were directed to send responses directly to me. Some sent their responses to NNA headquarters and those were forwarded to me.
- d. NNA did not attempt to determine whether non-respondents were representative of any larger population, either of NNA members or of total newspapers. My personal experience indicates to me, for example, that the 22 percent usage of within county mail is probably low. Small newspapers use within county mail more heavily, I believe, and larger weeklies may not have responded to the survey at all, since a number of them are not members of NNA. The purpose of the survey was to provide policy guidance to NNA's Postal Committee, and not to describe industry mailing practices. However, as stated in question a., these data are being provided because they represent the only quantifiable data available to me as I prepared my testimony. Most of my testimony is based upon my own experience as a consultant to my own and others' newspapers, however, and not upon data in this survey.

- e. To my knowledge, the survey data provided in response to this interrogatory represents the only postal survey NNA had conducted of its members during my 10-year service on the postal committee prior to the filing of this case.

USPS/NNA-T1-7. You state, at page 11, line 13 of your testimony, that the "[c]irculations represented by these respondents totaled about 7.2 million copies." Does this 7.2 million figure represent an average calculated at some point in 1995, the total number of copies for the 1995 calendar year, or some other number? Please explain fully. If this figure represents a circulation number at a particular point in time, please specify the time period.

RESPONSE.

The calculations are taken as of the date of the responses, which were roughly from January, 1995, to April, 1995.

USPS/NNA-T1-8. Your testimony, at page 11, line 15, states that "22 percent of the total was within county circulation."

- a. Of these 22 percent, how many of these publications' copies were actually delivered by the Postal Service?
- b. Please provide similar statistics for the past five years, or explain fully why you cannot.

RESPONSE.

- a. I assume all copies entered as within county mail were delivered by the Postal Service at some point, or were returned as undeliverable.
- b. I am not sure I understand the intent of this question. I have no information to provide.

USPS/NNA-T1-9. Throughout your testimony, you refer to the numbers of copies of publications. Do you use the term "copies" as synonymous with the term "pieces?" If your response is other than an unqualified yes, please explain fully.

RESPONSE.

Yes.

USPS/NNA-T1-10. At page 12, lines 17-20 of your testimony, you describe the derivation of total circulation data of NNA members.

- a. Please specify the time period indicated by term, "the early years," at page 12, line 17.
- b. How often are the circulation figures for non-members' newspapers added, as described at lines 19-20?
- c. How often are your members' circulation figures updated?
- d. Please describe fully what you mean by "footnoting" your data, as you use the term at page 13, line 4 of your testimony.

RESPONSE.

- a. My information about NNA's circulation data begins with 1992, when an update of the NNA member/non-member database was undertaken.
- b. At the point of the 1992-1993 updates, a mass of records were updated within one relatively short period. This update appears to have followed a period of inattention to the non-member records, but I have no personal knowledge of the period involved before 1992. Since that one-time update, NNA has maintained a practice of updating its non-member records at least annually.
- c. At least annually, as annual dues statements are based upon circulation.

- d. Please see attached a photocopy of the excerpt from Facts About Newspapers booklet mentioned in my testimony as Attachment 5. A footnote to explain the break in data continuity resulting from the 1992-93 update is included in this version as footnote 2.

USPS/NNA-T1-11. Please describe fully the adjustments that you make to your data for the usage of within county mail "by any substantial numbers of city business publications, newsletters, city magazines and so forth," as you discuss at page 13, lines 10-12 of your testimony.

RESPONSE.

I am unable to quantify the within county mail use by these publications. To my knowledge, neither USPS nor NNA know these numbers, but my experience in the industry tells me these publications do exist and they do use within county mail. Certainly, a magazine or newsletter with sufficient within county circulation to be eligible for preferred rates would use those rates as opposed to regular periodical rates.

USPS/NNA-T1-12. At page 15, line 13 of your testimony, you describe "the Postal Service's determination not to release data it considers identifiable by mailers."

- a. Please indicate where, on the record of this proceeding, NNA has sought such information.
- b. Please indicate where, on the record of this proceeding, the Postal Service has denied to NNA volume information for within county mail.

RESPONSE.

- a. NNA has not sought this information in Docket R97-1, but we engaged in a costly motion practice in R94-1 when we sought volume information broken down by post office so that we could check those numbers against random selections of our members. We learned during that time that USPS considered the post office data, as well as mailer statement data, to be proprietary. We also have learned from past communications with the Postal Service that mailers' statements are considered proprietary outside the context of rate cases. I provide as an attachment a copy of a letter from the Postal Service Ethics and Information Law department which so states. See Attachment 6. Given the adamancy of the USPS position, it makes no sense for a small party like NNA to

devote its scarce resources to request information that we believe would be denied.

- b. Please see my response to question a above. NNA uses RPW reports from this proceeding for total within county volume. This data has obviously been made public, but we are unable to check those against our members' data because of the proprietary nature asserted by the USPS of specific post office volume data.

USPS/NNA-T1-13. Please refer to Exhibit 3 of your testimony.

- a. Please fully describe the sources and calculation of each of the figures in this Exhibit.
- b. The exhibit states that the information on this Exhibit comes from "data compiled by NNA." Please explain fully how this data is obtained and compiled.
- c. Do the figures in the column entitled "Total Circulation" represent the number of copies, pieces, or some other measure?
- d. Please confirm that in 1995, the "Total Titles" figure increased by 737 over the "Total Titles" figure from 1994.
- e. Please confirm that in 1996, the "Total Titles" figure decreased by 538 from the "Total Titles" figure from 1995.
- f. Please fully explain any and all reasons for the increase and decrease described in subparts d. and e., above.
- g. Please fully explain why the "Total Circulation" figures over the three-year period 1994-1996 remain relatively constant, while the "Total Titles" figures fluctuate considerably.
- h. Please provide the number of titles and the total circulation between 1960 and 1996, for those titles which exist over the entire time period. If this information cannot be provided, please furnish it for the time period between 1986-1996.
- i. Please provide the number of members by year (1990-1996) that constitute your "Total Circulation."

j. Please subdivide the figures you provide in response to subpart i., above into the following categories:

- i. ANPA/NAA members exclusively;
- ii. NNA members exclusively; and
- iii. Both ANPA/NAA and NNA members.

If you cannot partition the figures in this manner please fully explain why not.

RESPONSE.

- a. My sources is the Facts About Newspapers Book. I believe the original source for each year to be the NNA database, but the original data is no longer available from NNA so we rely upon this secondary source.
- b. Member records are compiled from information provided by newspapers with their dues statements. Nonmember records come from a variety of sources: state press association directories, information from other national associations such as the American Court and Commercial Newspapers and private commercial directories, such as the one published by the Editor and Publisher company in New York.
- c. We use copies and pieces interchangeably in this context.
- d. Confirmed.
- e. Confirmed.
- f. I cannot justify either figure from personal knowledge. But I can offer several explanations for the figures. Some new newspapers came into the market. Others were closed or merged with other titles. In addition, NNA continued to update its database as it would find new sources of data, improving upon the accuracy program begun in 1992-1993.
- g. Again, I have no first hand knowledge of these figures, but I will note that because of the very small nature of many weekly

newspapers, it is possible to add and delete a number of titles without having a dramatic effect upon total weekly circulations. On the other hand, the entry into the market of a very large suburban weekly would cause the figures to increase considerably.

- h. I am unable to provide the data. The NNA database in years prior to 1996 overwrote prior year data with each new year's updates. this is why I rely upon the secondary source in Facts About Newspapers.
- i. Unknown. See my response to h.
- j. I cannot. Although NNA and NAA cooperate occasionally for projects like the Facts About Newspapers, NNA is a distinct, autonomous and independent organization from the NAA/ANPA, and has been from the founding of the two associations. It may be noted that NAA is a participant in this proceeding and may be queried directly about its members.

USPS/NNA-T1-14. Please show how you calculate the "10 percent of all weekly newspapers' total circulation . . . found in the within county mailstream," as you indicate at page 13, line 8 of your testimony. Please include all assumptions you make in determining this percentage.

RESPONSE.

In responding to this interrogatory, I note that the line to which you refer contains a typographical error. The line should have read 20 percent of weekly newspapers' total circulation. An erratum will be filed.

The basis of my statement is my assumption that at least 22 percent of newspapers' total circulation is within county mail. I believe this number, which comes from the NNA survey, is low. In examining the USPS RPW figures for within county mail against what we believe we know about within county mail, I calculated 20 percent of 81,582,795 (the weekly circulation for 1996) times 52 (for weeks in the year) which equals 848,461,068 and allows for only the most minimal use of within county mail by newsletters, city magazines, daily newspapers and other within county users. I note that there are numerous bi-weekly and tri-weekly publications. I believe the total within county mail volumes for the base year were 877 million.

USPS/NNA-T1-15. For each year fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide a list of publications published by Landmark Community Newspapers, Inc. and mailed at second-class regular or periodical regular rates.

RESPONSE.

That list is provided for the years available as Attachment 7. I cannot break down the usage of second-class regular rates for these titles over this time period.

USPS/NNA-T1-16. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please for each publication listed in response to interrogatory number 1 the following information:

- a. The number of issues mailed.
- b. The average number of editions (versions) per issue.
- c. An indication of the kind or type of each version.

RESPONSE.

- a. By agreement with the Postal Service, I am providing copies of an internal postal audit of LCNI newspapers, which we conduct each fall as NNA Library Reference 5. I am unable to provide similar data over the time period requested in this interrogatory within the time frame permitted by this docket.
- b. To my knowledge, each issue has only one edition.
- c. Please see my response to b.

USPS/NNA-T1-17. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the total volumes mailed at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 16a. Copies designated "Adj. County" would be regular rate mail.

USPS/NNA-T1-18. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular required presort rates for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to quantify these volumes by presort level.

USPS/NNA-T1-19. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular 3-digit city/5-digit presort rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 18.

USPS/NNA-T1-20. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular carrier route presort rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 18.

USPS/NNA-T1-21. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular destination delivery office discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 18.

USPS/NNA-T1-22. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular destination SCF discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 18

USPS/NNA-T1-23. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular high density discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 18.

USPS/NNA-T1-24. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular saturation discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 18.

USPS/NNA-T1-25. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the required presort volumes mailed at second-class regular or periodical regular prebarcoded letter size discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Our newspapers do not use letter size mail.

USPS/NNA-T1-26. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular prebarcoded flat size discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

To my knowledge, our newspapers have not yet begun to use barcoding and will not begin until the FSM 1000's are deployed with barcode readers in their areas.

USPS/NNA-T1-27. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the 3-digit city/5-digit volumes mailed at second-class regular or periodical regular prebarcoded 3-digit letter size discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 25.

USPS/NNA-T1-28. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the 3-digit city/5-digit volumes mailed at second-class regular or periodical regular prebarcoded 5-digit letter size discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 25.

USPS/NNA-T1-29. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the 3-digit city/5-digit volumes mailed at second-class regular or periodical regular prebarcoded flat size discount rates for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 26.

USPS/NNA-T1-30. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for zones 1 & 2 for each publication listed in response to interrogatory number 1.

RESPONSE.

Please see my response to 16a. Most of the volumes in Adj. County are in Zones 1 and 2, but I am unable to break down volumes by Zone.

USPS/NNA-T1-31. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for Zone 3 for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to provide this information.

USPS/NNA-T1-32. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for Zone 4 for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to provide this information.

USPS/NNA-T1-33. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for Zone 5 for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to provide this information.

USPS/NNA-T1-34. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for Zone 6 for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to provide this information.

USPS/NNA-T1-35. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for Zone 7 for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to provide this information.

USPS/NNA-T1-36. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volume, total weight and advertising weight mailed at second-class regular or periodical regular rates for Zone 8 for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to provide this information.

USPS/NNA-T1-37. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the average percentage of nonadvertising content mailed at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to provide this information.

USPS/NNA-T1-38. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed on pallets at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1 by the following pallet presort levels:

- a. 5-digit pallets
- b. 3-digit pallets
- c. SCF pallets
- d. ADC/SDC pallets
- e. BMC pallets
- f. Mixed-BMC pallets

RESPONSE.

LCNI newspapers do not use pallets.

USPS/NNA-T1-39. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed on pallets at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per pallet by the following pallet presort levels:

- a. 5-digit pallets
- b. 3-digit pallets
- c. SCF pallets
- d. ADC/SDC pallets
- e. BMC pallets
- f. Mixed-BMC pallets.

RESPONSE.

Please see my response to 38.

USPS/NNA-T1-40. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed on pallets at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average pallet weight by the following pallet presort levels:

- a. 5-digit pallets
- b. 3-digit pallets
- c. SCF pallets
- d. ADC/SDC pallets
- e. BMC pallets
- f. Mixed-BMC pallets.

RESPONSE.

Please see my response to 38.

USPS/NNA-T1-41. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed in sacks at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1 by the following sack presort levels:

- a. Carrier route(s) sacks
- b. Firm sacks
- c. 5-digit sacks
- d. 3-digit unique city sacks
- e. 3-digit sacks
- f. SCF sacks
- g. ADC/SDC sacks
- h. Mixed sacks.

RESPONSE.

I am unable to break down volume by sacks.

USPS/NNA-T1-42. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed in sacks at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per sack by the following sack presort levels:

- (a) Carrier route(s) sacks
- (b) Firm sacks
- (c) 5-digit sacks
- (d) 3-digit unique city sacks
- (e) 3-digit sacks
- (f) SCF sacks
- (g) ADC/SDC sacks
- (h) Mixed sacks.

RESPONSE.

I am unable to break down volume by sacks.

USPS/NNA-T1-43. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed in trays at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1 by the following tray presort levels:

- (a) Carrier route(s) trays
- (b) Firm trays
- (c) 5-digit trays
- (d) 3-digit unique city trays
- (e) 3-digit trays
- (f) SCF trays
- (g) ADC/SDC trays
- (h) Mixed trays.

RESPONSE.

LCNI newspapers do not use trays for their flat size mail.

USPS/NNA-T1-44. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed in trays at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per tray by the following tray presort levels:

- (a) Carrier routes(s) trays
- (b) Firm trays
- (c) 5-digit trays
- (d) 3-digit unique city trays
- (e) 3-digit trays
- (f) SCF trays
- (g) ADC/SDC trays
- (h) Mixed trays.

RESPONSE.

LCNI newspapers do not use trays for flat sized mail.

USPS/NNA-T1-45. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed in bundles at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1.

RESPONSE.

I am unable to break down volumes by bundles.

USPS/NNA-T1-46. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, for those volumes mailed in bundles at second-class regular or periodical regular rates for each publication listed in response to interrogatory number 1, please provide the average number of pieces per bundle.

RESPONSE.

I am unable to break down volumes by bundles.

USPS/NNA-T1-47. For each fiscal year (or calendar year if fiscal year is unavailable) from 1986 to present, please provide the volumes mailed at second-class regular or periodical regular rates that were plant loaded in USPS provided transportation for each publication listed in response to interrogatory number 1.

RESPONSE.

LCNI newspapers do not use plant loading options.

USPS/NNA-T1-48. Please also provide all data furnished in response to interrogatories 15 through 47 above in electronic format.

RESPONSE.

Answers to interrogatories 15 through 16 are provided on diskette filed as NNA Library Reference 5.

USPS/NNA-T1-49. Please fully define the term "partial census," as you use it at page 11, line 16 of your testimony.

RESPONSE.

We attempted to receive a response from every NNA member newspaper. Only 836 responded. We did not attempt to measure responses through any sort of sampling methodology.

NNA T-1
ATTACHMENTS 1-7

ATTACHMENT 1

National Newspaper Association
Member Newspapers by Paid Circulation Range
January 29, 1998

From	To	# Daily Papers	# Nondaily Papers	Total Papers	Daily Paper Circulation	Nondaily Paper Circulation
1	999	12	271	283	7,731	176,566
1,000	1,999	16	576	592	22,094	859,265
2,000	2,999	29	535	564	73,345	1,314,446
3,000	3,999	38	431	469	130,465	1,484,553
4,000	4,999	45	305	350	202,401	1,353,628
5,000	7,999	93	462	555	585,594	2,833,326
8,000	10,999	73	166	239	685,009	1,516,414
11,000	15,999	63	101	164	808,369	1,306,921
16,000	25,999	62	64	126	1,234,069	1,243,731
26,000	39,999	39	20	59	1,289,392	612,242
40,000	49,999	15	11	26	648,904	498,855
50,000	59,999	8	6	14	439,497	325,078
60,000	up	24	10	34	6,149,663	914,951
Total:		517	2,958	3,475	12,276,533	14,439,976

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000	1001	1002	1003	1004	1005	1006	1007	1008	1009	1010	1011	1012	1013	1014	1015	1016	1017	1018	1019	1020	1021	1022	1023	1024	1025	1026	1027	1028	1029	1030	1031	1032	1033	1034	1035	1036	1037	1038	1039	1040	1041	1042	1043	1044	1045	1046	1047	1048	1049	1050	1051	1052	1053	1054	1055	1056	1057	1058	1059	1060	1061	1062	1063	1064	1065	1066	1067	1068	1069	1070	1071	1072	1073	1074	1075	1076	1077	1078	1079	1080	1081	1082	1083	1084	1085	1086	1087	1088	1089	1090	1091	1092	1093	1094	1095	1096	1097	1098	1099	1100	1101	1102	1103	1104	1105	1106	1107	1108	1109	1110	1111	1112	1113	1114	1115	1116	1117	1118	1119	1120	1121	1122	1123	1124	1125	1126	1127	1128	1129	1130	1131	1132	1133	1134	1135	1136	1137	1138	1139	1140	1141	1142	1143	1144	1145	1146	1147	1148	1149	1150	1151	1152	1153	1154	1155	1156	1157	1158	1159	1160	1161	1162	1163	1164	1165	1166	1167	1168	1169	1170	1171	1172	1173	1174	1175	1176	1177	1178	1179	1180	1181	1182	1183	1184	1185	1186	1187	1188	1189	1190	1191	1192	1193	1194	1195	1196	1197	1198	1199	1200	1201	1202	1203	1204	1205	1206	1207	1208	1209	1210	1211	1212	1213	1214	1215	1216	1217	1218	1219	1220	1221	1222	1223	1224	1225	1226	1227	1228	1229	1230	1231	1232	1233	1234	1235	1236	1237	1238	1239	1240	1241	1242	1243	1244	1245	1246	1247	1248	1249	1250	1251	1252	1253	1254	1255	1256	1257	1258	1259	1260	1261	1262	1263	1264	1265	1266	1267	1268	1269	1270	1271	1272	1273	1274	1275	1276	1277	1278	1279	1280	1281	1282	1283	1284	1285	1286	1287	1288	1289	1290	1291	1292	1293	1294	1295	1296	1297	1298	1299	1300	1301	1302	1303	1304	1305	1306	1307	1308	1309	1310	1311	1312	1313	1314	1315	1316	1317	1318	1319	1320	1321	1322	1323	1324	1325	1326	1327	1328	1329	1330	1331	1332	1333	1334	1335	1336	1337	1338	1339	1340	1341	1342	1343	1344	1345	1346	1347	1348	1349	1350	1351	1352	1353	1354	1355	1356	1357	1358	1359	1360	1361	1362	1363	1364	1365	1366	1367	1368	1369	1370	1371	1372	1373	1374	1375	1376	1377	1378	1379	1380	1381	1382	1383	1384	1385	1386	1387	1388	1389	1390	1391	1392	1393	1394	1395	1396	1397	1398	1399	1400	1401	1402	1403	1404	1405	1406	1407	1408	1409	1410	1411	1412	1413	1414	1415	1416	1417	1418	1419	1420	1421	1422	1423	1424	1425	1426	1427	1428	1429	1430	1431	1432	1433	1434	1435	1436	1437	1438	1439	1440	1441	1442	1443	1444	1445	1446	1447	1448	1449	1450	1451	1452	1453	1454	1455	1456	1457	1458	1459	1460	1461	1462	1463	1464	1465	1466	1467	1468	1469	1470	1471	1472	1473	1474	1475	1476	1477	1478	1479	1480	1481	1482	1483	1484	1485	1486	14
---	---	---	---	---	---	---	---	---	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	------	----

NOV 26 '97 13:48 PM LAMARCA COMM. NEWS
NNA ALLIANCE DISTRIBUTION SURVEY

Return to NNA Survey, Box 549, Shelbyville KY 40086

1. Name of Newspaper [REDACTED]
 Name of Group, if any [REDACTED]
2. Address [REDACTED] Phone No. [REDACTED]
 City [REDACTED] FAX No. [REDACTED]
 State [REDACTED] Zip [REDACTED] Congressional District [REDACTED]
3. Frequency: M T (W) TH F (SA) SU (circle all that apply)
4. Total Circ. 3216 (100%) Paid Circ. 3216 (%) Free Circ. 3216 (%)
5. Number distributed per issue by
 Second Class Mail 500 716
 Third Class Mail
 Carrier Delivery 900
 Newsstands/Racks 1600
6. Of Second Class mail how much is In-County? 326 (Line 51, 3541-R)
 Out-of-County? 390 (Line 28, 3541-R)
 Requester? [REDACTED] (regular rate)
7. Of In-County Mail how much is DU Entry? 326 (Line 36, 3541-R)
 All other Entry? [REDACTED] (Line 37, 3541-R)
8. Of your DU Entry, how much is by PVDS Entry? NONE Additional Entry? NONE
 (PVDS means Plant-Verified Drop Shipment)
9. Of In-County Mail, how much is CAR-RT Sort? NONE (Line 48, 3541-R)
 125 W/S? [REDACTED] (Line 49, 3541-R)
 Saturation? [REDACTED] (Line 50, 3541-R)
10. Annual average lb. weight of an In-County piece? 125
11. Annual average lb. weight of Out-of-County piece? 11875 (if separate zoned 3541-R)
-
12. Does your paper offer a separate non-subscriber product (shopper, etc.)? Yes X No [REDACTED]
13. Total Non-Subscriber Product Circulation 8300
14. Frequency: M T (W) TH F SA SU (circle all that apply)
15. Number distributed through
 Third Class Mail 50
 Carrier Delivery 4000
 Racks/Store Pickup 4250
16. Of Third Class Mail, how much is DDU Entry? NONE
 SCF Entry? NONE
 None Entry? NONE
17. Of Third Class Mail, how much is Saturation W/S? NONE
 125-pc. W/S? NONE
 Carrier Route? NONE
18. Annual average lb weight of a piece? [REDACTED]

JAN 27 '95 13:45:01 LANDMARK COMM. NEWS

P.C.

**LANDMARK**

COMMUNITY NEWSPAPERS, INC. P.O. BOX 549 SHELBYVILLE, KY. 40066-0549. AREA CODE 502-633-4334

ATTACHMENT 4

January, 1995

Dear NNA member publisher,

Please join us in a New Year's resolution to gain better understanding of the mailing and distribution practices of community newspapers.

On the reverse is a simple, one-page survey that could help determine the fate of complex proposals by the U.S. Postal Service to "reclassify" the mail structure under which publications have operated for years. A rate case to do this will be filed soon. While it won't raise overall postal revenues, it will create winners and losers by changing the rules for mail acceptance.

The proposals, to be acted upon by the independent Postal Rate Commission, include changes in both first, second, and third class mail. The current drafts of proposals for second class would benefit mostly large publications, more finely sorted and perhaps automatable.

NNA's Postal Committee and staff, led by President & CEO Tonda Rush, needs to know how our members distribute and mail. We need to know which work-sharing discounts are most used, both in second and third class, to represent our members better in this and future rate cases.

Please take the time, right now, to complete the questionnaire fully. Or ask appropriate staff to complete and mail it to my office, c/o:

NNA Survey, Box 549, Shelbyville, KY 40066.

My company is donating the survey work, utilizing our research director and administrative staff, as an in kind donation to the Newspaper Alliance for Fair Postal Rates.

If you have questions about how to complete any part of the survey, call me at 502-633-4334, or Larry Graves at 703-907-7916.

And please don't forget to renew your 1995 NNA membership. While you're at it, please make an extra check to the Alliance.

Thank you.

Max Heath, Chairman
NNA Postal Committee

U.S. Weekly Newspapers

Total Number and Circulation 1960-1996

Year	Total Weekly Newspapers ¹	Average Circulation	Total Weekly Circulation
1960	8,174	2,566	20,974,338
1965	8,061	3,106	25,036,031
1970	7,612	3,660	27,857,332
1975	7,612	4,715	35,892,409
1980	7,954	5,324	42,347,512
1985	7,704	6,359	48,988,801
1986	7,711	6,497	50,098,000
1987	7,600	6,262	47,593,000
1988	7,498	6,894	51,691,451
1989	7,606	6,958	52,919,846
1990	7,550	7,309	55,181,047
1991	7,476	7,323	54,746,332
1992	7,417	7,358	54,577,034
1993	7,437	7,629	56,734,526
1994 ²	7,176	10,975	78,763,120
1995 ²	8,453	9,425	79,668,266
1996 ²	7,915	10,307	81,582,295

¹Includes paid- and free-circulation newspapers.

²1994-1996 not comparable to prior years due to change in information collection procedures by NNA.

Source: National Newspaper Association

MAY 27 1993 05:11 PM LAMARCA COMM. NEWS

93003 P.S.



United States Postal Service
475 L'Enfant Plaza, S.W.
Washington, D.C. 20004

April 26, 1993

3541 —

Denied
Policy Change —

Edward J. Klaris, Esq.
Lankenau Kovner & Kurtz
Attorneys at Law
1740 Broadway
New York, New York 10019-4380

Dear Mr. Klaris:

This responds to the letter dated December 29, 1992 in which a member of your firm, Laura R. Handman, Esq., appealed, on behalf of your firm's client, Mr. Gopal Raju, the denial of Mr. Raju's request for information pursuant to the Freedom of Information Act, 5 U.S.C. § 552. In a letter dated November 20, 1992 Mr. Raju requested copies of second-class mailing statements, Postal Service Form 3541, submitted for mailings of News India in New York, New York on October 2, 1992 and during the time period of fifty-one weeks preceding that date. Yvonne Guess, Consumer Affairs Representative, denied Mr. Raju's request in a decision dated November 30, 1992. For the reasons stated below, we are upholding Ms. Guess's decision.

The Freedom of Information Act (FOIA) generally requires Government agencies to disclose records within their possession. The Act contains several exemptions, however, that permit agencies to withhold certain records. 5 U.S.C. § 552(b)(1)-(9). In this case, the requested records are exempt from disclosure pursuant to FOIA exemptions 3 and 4 and 39 U.S.C. § 410(c)(2).

Under 39 U.S.C. § 410(b)(1), the Postal Service is generally subject to the requirements imposed by the FOIA. Subsection (c)(2) of section 410 provides, however, that subsection (b)(1) does not require the disclosure of "information of a commercial nature, including trade secrets, whether or not obtained from a person outside the Postal Service, which under good business practice would not be publicly disclosed." This section was passed as part of the Postal Reorganization Act, 39 U.S.C. §§ 101, et seq., (1970), which established the Postal Service on a corporate model and generally directed it to conduct its operations in accordance with sound business principles.

2

FOIA exemption 3 provides that agencies may withhold records that are exempted from disclosure by another statute that "(A) requires that the matters be withheld from the public in such a manner as to leave no discretion on the issue, or (B) establishes particular criteria for withholding or refers to particular types of matters to be withheld." 5 U.S.C. § 552(b)(3). We consider that 39 U.S.C. § 410(c)(2) operates both independently and as an exempting statute within the scope of exemption 3(B).

The information contained on a mailing statement submitted for a publication consists primarily of the number of copies mailed, the weight of the mail pieces, and the applicable postage. Many publishers object to the release of their mailing statements because they do not want their competitors to have access to the information contained on the statements. In recent years, the Postal Service has been faced with increasing competition from so-called "alternate delivery" firms: private firms that deliver mailable matter, including second-class publications. Because the FOIA does not apply to private businesses, alternate delivery firms are not required to respond to requests from members of the public for information pertaining to their customers. Therefore, if the Postal Service releases mailing statements pursuant to the FOIA, it will be releasing information that would not be likely to be disclosed by an alternate delivery firm.) ?

✓
Exempt
upon
request

It is reasonable to expect that a business would suffer competitive harm if it were to disclose information submitted by its customer, against the customer's wishes, when similar information would not be disclosed by firms in competition with the business. Accordingly, we consider that the disclosure of mailing statements submitted for a publication is clearly contrary to good business practice (when the publisher who submitted the statements objects to disclosure.) In this case, the publisher of News India has objected to the release of their mailing statements. Therefore, the requested records in this case are exempt from disclosure pursuant to FOIA exemption 3 and 39 U.S.C. § 410(c)(2).

We also consider the requested records to be exempt from disclosure pursuant to FOIA exemption 4, which permits agencies to withhold "trade secrets and commercial or financial information obtained from a person and privileged or confidential" 5 U.S.C. § 552(b)(4). In accordance with Postal Service regulations, 39 C.F.R. § 265.8, we have notified the publisher of News India of your request, and we afforded them the opportunity to state their reasons for objecting to the release of their mailing statements. (After considering their response, we have concluded that the mailing statements qualify for protection under exemption 4.)

141 27 '98 05:56 PM LHM:KAT: CONFL. NEWS

P.5

3

Until recently, the generally accepted standard for determining whether information is "confidential" within the meaning of exemption 4 was the test enunciated by the District of Columbia Circuit in National Parks and Conservation Association v. Morton, 498 F.2d 765, 770 (D.C. Cir. 1974): whether disclosure of the information would be likely to cause substantial harm to the competitive position of the person who submitted the information. In a recent decision, however, the District of Columbia Circuit narrowed the scope of the National Parks test. In Critical Mass Energy Project v. Nuclear Regulatory Commission, 975 F.2d 871 (D.C. Cir. 1992) (en banc), cert. denied, ___ U.S. ___ (1993) the court held that the National Parks test continues to apply to information submitted to the Government "under compulsion," but, when information is submitted "on a voluntary basis," the information need not satisfy the test. Id. at 878-80. When information is submitted voluntarily, the court held, it qualifies as "confidential" for the purpose of exemption 4 "if it is of a kind that would customarily not be released to the public by the person from whom it was obtained." Id. at 879.

Voluntary
because
mail us
Volunt

Publishers generally are not required to use the Postal Service to distribute their publications; in most cases, they may employ an alternate delivery firm. Under these circumstances, we consider that mailing statements submitted for publications are submitted "on a voluntary basis" for the purpose of exemption 4 as interpreted in Critical Mass. In objecting to the release of the mailing statements in this case, the publisher of News India stated that they do not customarily disclose the information contained on the statements to the public. Accordingly, the requested records in this case are exempt from disclosure pursuant to FOIA exemption 4.

what
about
3526

You suggest that the Postal Service should disclose mailing statements submitted by second-class publishers, including the publisher of News India, to enable the public to verify circulation claims made by publishers. (For the following reasons, we do not consider that this constitutes grounds for requiring disclosure of mailing statements pursuant to the FOIA.)

(Mailing statements are not intended to show the total circulation of second-class publications) Rather, mailing statements are used to compute postage, see Domestic Mail Manual (DMM) § 463.11, and they show only the number of copies that are mailed at particular post offices on particular dates. Therefore, because many publishers distribute copies of their publications outside the mails, or mail copies on different dates or at different post offices, mailing statements may not be reliable indicators of a publication's total circulation. In this respect, [We note that Ms. Handman states in her letter that "mailing statements must contain the total number of copies mailed and the number of copies sent to dealers and carriers."]

(Mailing statements do not, however, show the number of copies distributed by dealers and carriers other than the Postal Service.)

Postal regulations require that second-class publications annually submit certain circulation information on Postal Service Form 3526, "Statement of Ownership, Management, and Circulation," and the regulations also require that publications annually publish a statement of ownership which includes the information submitted on Form 3526. See DMM § 425.7. Form 3526, which is publicly available, contains more complete information concerning circulation than the information contained on mailing statements. Ms. Handman states in her letter that mailing statements should be released because the information contained on Form 3526 is "derived from" mailing statements. Mailing statements, however, contain information that is more specific than that contained on Form 3526 because they show the number of copies mailed on particular dates from particular post offices, and, as stated above, they do not contain complete circulation information because they do not show the number of copies distributed outside the mails. (For these reasons, we do not consider that the public availability of information contained on Form 3526 prevents the Postal Service from withholding mailing statements pursuant to applicable FOIA exemptions and 39 U.S.C. § 410(c)(2).)

[The core purpose of the FOIA is to provide the public with information about the conduct of Government agencies, and requests seeking information about private entities do not further that purpose.] See Department of Justice v. Reporter's Committee for Freedom of the Press, 489 U.S. 749, 772-73 (1989). See also Hopkins v. HUD, 929 F.2d 81, 88 (2d Cir. 1991) ("whatever public interest there may be in knowing whether private parties are violating the law is not the sort of public interest advanced by the FOIA . . ."). Thus, learning about the distribution of a particular publication, or verifying a publisher's circulation claims, are not purposes that favor disclosure under the FOIA. The public interest in knowing certain information concerning second-class publications is best served by disclosure of the information contained on Form 3526, the disclosure of which is required by statute. See 39 U.S.C. § 3685. A typical mailing statement does not contain meaningful information concerning the conduct of the Postal Service or its employees.¹⁴ Therefore, having concluded that the mailing

¹⁴ The Postal Service periodically verifies publishers' records to determine whether publications continue to qualify for second-class privileges. See DMM § 425.4. Such verifications involve the examination of records other than mailing statements, including records maintained by publishers, and mailing statements themselves are not adequate to verify a publisher's (continued...)

JAN 27 '86 05:57PM LANIER: COMM. NEWS

5

statements in this case qualify for protection under FOIA exemptions 3 and 4 and 39 U.S.C. § 410(c)(2), we do not consider that your interest in verifying the publisher's circulation claims warrants disclosure of the statements.

This is the final decision of the Postal Service on your right of access pursuant to the Freedom of Information Act to these records. You may seek judicial review of this decision by bringing suit for that purpose in the United States District Court for the district in which you reside or have your principal place of business, the district in which the records are located, or in the District of Columbia.

For the General Counsel,

Margaret O'Connell

Margaret O'Connell
Attorney
Ethics and Information Law

²² (...continued)
qualification for second-class privileges. See DMM §§ 425.2, 425.3, 425.5.

PUBLICATIONS OF LANDMARK COMMUNITY NEWSPAPERS, INC.

Name of Publication	City of Publication	September, 1997 Circulation
SHOPPERS		
Carroll County Times Express	Westminster, Maryland	
Bedford Bullet	Bedford, Virginia	22,172
Marketplace	LaGrange, Kentucky	20,189
Chronicle Express (Wednesday)	Crystal River, Florida	17,760
Shopper Plus	Shelbyville, Kentucky	16,452
Roane County News-Record	Kingston, Tennessee	16,025
Pioneer News Extra	Shepherdsville, Kentucky	16,000
Harrison Shopper	Cynthiana, Kentucky	15,410
Shoppers Advertising Packet	Elizabethtown, Kentucky	15,300
Gazette Guide	New Albany, Mississippi	14,471
Kentucky Standard Extra	Bardstown, Kentucky	12,491
Rocky Top Trader	Wartburg, Tennessee	12,152
Twin County ADvantage	Marion/Washington Counties, KY	12,000
Anderson Advertiser	Lawrenceburg, Kentucky	11,738
Fayette County Shopper	Vandalia, Illinois	9,721
Lincoln's Country	Rockport, Indiana	9,260
River City Trading Post	Carrollton, Kentucky	9,031
CKNJ Buyers Guide	Campbellsville, Kentucky	8,875
LincolnLand	Tell City, Indiana	8,400
Henry County Shopper	New Castle, Kentucky	7,900
Lancaster AD-Vantage & Sunday Extra	Lancaster, South Carolina	7,492
Town & Country Shopper	Glenwood, Iowa	7,412
Express Extender	Red Oak, Iowa	6,735
Gazette Plus	Galax, Virginia	6,555
Democrat-Plus	Mount Vernon, Indiana	6,125
Riverland Shopper	Dunnellon, Florida	6,027
	Shopper Circulation	3,600
		299,293
FREE WEEKLY		
Inside the Turret	Elizabethtown, Kentucky	19,334
Community Times	Reisterstown, Maryland	11,030
Beverly Hills Visitor	Beverly Hills, Florida	10,750
Grant County Express	Williamstown, Kentucky	10,550
South Marion Citizen	Ocala, Florida	10,200
	Free Weekly Circulation	61,864
FREE SPECIAL PUBLICATIONS		
Guide to New Homes	7 Counties, MD (5 times year)	17,890
Baltimore/Harford/Cecil Homes	Baltimore, Maryland (bi-weekly)	15,810
Frederick/Washington County Homes	Frederick, Maryland (bi-weekly)	14,565
Eastern Panhandle Real Estate Guide	Eastern Panhandle, WV (monthly)	14,000
Real Estate News Hernando/Pasco	Crystal River, Florida	11,500
Central Maryland Homes	Westminster, Maryland (bi-weekly)	11,316
Real Estate News Citrus	Crystal River, Florida	11,000
Homes of York/Adams Counties	York/Gettysburg, PA (monthly)	10,450
Let's Tour America	17 states (each twice yearly)	10,000
Central KY Homes Real Estate	Elizabethtown, Kentucky	9,720
Doctor's Office Magazine	Beverly Hills, Florida	5,000
Eastern Panhandle Homes	Eastern Panhandle, WV	4,000
	Free Special Pubs Circulation	135,251
GRAND TOTAL CIRCULATION		764,312

ATTACHMENT 7 (2 Total pages)

PUBLICATIONS OF LANDMARK COMMUNITY NEWSPAPERS, INC.

<u>Name of Publication</u>	<u>City of Publication</u>	<u>September, 1997 Circulation</u>
DAILY		
Citrus County Chronicle	Crystal River, Florida	22,899
Carroll County Times	Westminster, Maryland	22,825
News-Enterprise	Elizabethtown, Kentucky	16,346
Los Alamos Monitor	Los Alamos, New Mexico	5,049
TRIWEEKLY		
Lancaster News	Lancaster, South Carolina	13,231
Roane County News	Kingston, Tennessee	8,647
Kentucky Standard	Bardstown, Kentucky	8,356
Gazette	Galax, Virginia	8,286
SEMIWEEKLY		
Sentinel-News	Shelbyville, Kentucky	8,015
Perry County News	Tell City, Indiana	7,231
Central Kentucky News Journal	Campbellsville, Kentucky	6,989
Pioneer News	Shepherdsville, Kentucky	6,545
New Albany Gazette	New Albany, Mississippi	6,301
Chester News & Reporter	Chester, South Carolina	6,285
Leader-Union	Vandalia, Illinois	5,162
WEEKLY		
Bedford Bulletin	Bedford, Virginia	8,200
Oldham Era	LaGrange, Kentucky	7,131
Casey County News	Liberty, Kentucky	6,756
Lebanon Enterprise	Lebanon, Kentucky	6,025
Cynthiana Democrat	Cynthiana, Kentucky	5,881
Anderson News	Lawrenceburg, Kentucky	5,823
Journal-Democrat	Rockport, Indiana	5,541
Grant County News	Williamstown, Kentucky	5,473
Red Oak Express	Red Oak, Iowa	4,612
Morgan County News	Wartburg, Tennessee	4,366
Springfield Sun	Springfield, Kentucky	4,221
Henry County Local	New Castle, Kentucky	4,047
LaRue County Herald News	Hodgenville, Kentucky	4,009
Opinion-Tribune	Glenwood, Iowa	3,734
Sumter County Times	Bushnell, Florida	3,635
News-Democrat	Carrollton, Kentucky	3,373
News-Herald	Owenton, Kentucky	3,348
Mount Vernon Democrat	Mount Vernon, Indiana	3,304
Spencer Magnet	Taylorsville, Kentucky	2,594
Riverland News	Dunnellon, Florida	2,252
Trimble Banner Democrat	Bedford, Kentucky	1,689
Rockwood Times	Rockwood, Tennessee	507
Harriman Record	Harriman, Tennessee	416
TOTAL		249,104
PAID SPECIAL PUBLICATIONS		
The Cats' Pause	Lexington, Kentucky	18,800

TOTAL PAID CIRCULATION	267,904
-------------------------------	----------------

USPS/NNA-T1-50. At page 17, lines 11-13, you discuss mailer's difficulty in using Plant-Verified Drop Shipment.

- a. Please specify the "complex procedures" that you feel hinder mailers' use of Plant-Verified Drop Shipment.
- b. What do you understand to be the purpose(s) behind each of these procedures, and why do you consider each to be not appropriate?

RESPONSE.

I describe the procedures as complex for the following reasons:

1. The language in DMM P750 consists of seven pages of dense instruction, designed for use by sophisticated mailers at printing plants with separate mail units who make a full-time occupation of dealing with mailing rules.
2. Although Business Mail Acceptance believes PVDS is usable by local entry mailers, small newspapers find that local postmasters do not suggest it (see NNA Witness Speights response to USPS/NNA T2-10(b)). I am aware of circumstances where PVDS has been denied to local entry mailers. Postmasters do not seem to understand the rules, themselves, and are in a poor position to explain them to small mailers (who are, after all, in the publishing business, not the mailing business.)
3. Local-entry periodicals are required to verify each issue: transport to a post office, unload, verify and reload, all of which is difficult on a local publication's deadlines.

4. The need to have an additional entry at each office where mail is dropped, even when offices may receive only very small quantities of that newspaper, the attachment of Drop Shipment Clearance Documents (Form 8125); the requirement to produce separate postage statements for each office and the need to maintain separate deposit accounts are all additional bureaucratic steps that newspapers must take, all to receive the same service and to perform the same work presently done under exceptional dispatch. The only difference is that under exceptional dispatch, the newspaper provides work without compensation and under PVDS/additional entry, the newspaper receives a fair discount.

USPS/NNA-T1-51. Please fully set forth your understanding of how exceptional dispatch mail is entered and verified.

RESPONSE.

In general, formal verification of periodicals mail is an annual process. Informal verification is done, when the postmaster requires it, at the entry office. However, this verification may not occur on a week-by-week basis because postmasters realize that the mailing patterns change little from week to week and that spot checking is sufficient to determine that the proper postage is paid once the newspaper has established a regular pattern in that office. Also, PAVE-certified documentation is an indicator of payment authenticity. Similarly, verification of copies entered through exceptional dispatch, with postage paid at the entry office, is done when the postmaster requires it. Nothing in NNA's proposal would change that, except that once the pattern of mailing was established, the mailer would receive a proper discount for work-sharing.

NNA Notes that the Mailers Companion of June, 1997, pp. 20-22, explains a new "dynamic entry" practice to permit flexible entries, without the need for formal additional entry at all deposit offices. This new practice would seem to indicate that the many bureaucratic steps previously required for additional entry are not essential and that work-sharing with flexible entry for better service is being encouraged by USPS.

21

USPS/NNA-T1-52. At page 18, lines 13-16, you discuss "additional headaches involved in keeping postage deposits at several offices and in filing additional mailers' statements for relatively small quantities of mail." Please explain your understanding of why a mailer would choose to undergo these steps and why the Postal Service chooses to make them available.

RESPONSE.

Mailers use exceptional dispatch because the Postal Service does not achieve on-time delivery. As Witness Speights notes, in the post-reclassification era of Area Distribution Center mail processing, delivery quality has declined and exceptional dispatch has become more essential. My understanding of why the Postal Service chooses to permit exceptional dispatch is that it recognizes its own short-comings and desires to keep the mail volumes intact. It shifts a part of its workload to the mailer, thereby, and keeps the transportation and processing savings for itself.

USPS/NNA-T1-53. For each of LCNI's publications for which such information is available, please estimate the percentage that is carrier-route presorted.

RESPONSE.

I do not have a full list of LCNI mailing practices, but I conducted a spot check of 10 weekly newspapers and 1 semi-weekly. I found that 75% of the periodicals mail is carrier- route presorted.

--

USPS/NNA-T1-54. Please identify and explain all bases underlying your statement at page 18, lines 3-4 of your testimony, that the "diversion from the usual SCF path creates a savings for the Postal Service that at least equates to avoided transportation costs." Please document fully any such quantified bases.

RESPONSE.

In all cases where exceptional dispatch is used with which I am aware, the mailer saves USPS two legs of transportation: one from the post office of original entry to the SCF processing hub and a second from that plant to the delivery office. In addition, it saves USPS some handling of sacks or carrier-route and/or 5-digit mail. In some cases, it could save manual processing of some 3-digit pieces where quantities would not allow 5 digit rates, such as post office box sections with few copies, while rural route or city route sortations had carrier route sorts.

USPS/NNA-T1-55. At page 19, lines 18-19 of your testimony, you state that "Periodicals mail is verified only annually." Please provide all bases for this statement.

RESPONSE.

USPS Handbook DM-203, September, 1995, "Second-Class Eligibility Review" states on page 7, line 1: "Every October, review each form 3526, Statement of Ownership."

USPS Handbook, DM-202, September, 1995, "Second-Class Postage Payment Review," states on page 5, section 1-2.1: "The Postmaster or designee schedules postage payment reviews, which are to be conducted once each calendar year."

I am unaware of any updates of these manuals that might have changed these directions to postmasters. In my experience, the annual verification is in practice.

8

USPS/NNA-T1-56. Please refer to your Exhibit 3, on page 10 of your testimony.

Are the figures in the "Total Circulation" column weekly or annual figures?

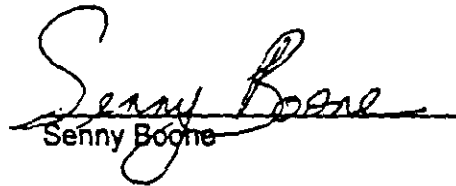
RESPONSE.

Weekly.

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.

February 11, 1998


Senny Boone

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 MS. REYNOLDS: Yes, Mr. Chairman.

4 CHAIRMAN GLEIMAN: Ms. Reynolds.

5 MS. REYNOLDS: The Postal Service would like to
6 additionally designate Mr. Heath's response to
7 USPS-NNA-T1-57. I have two copies for the witness to
8 review.

9 CHAIRMAN GLEIMAN: Please approach the witness.
10 Mr. Heath, if this question were asked of you
11 today, would your answer be the same as you previously
12 provided in writing?

13 THE WITNESS: I do believe so, yes, sir.

14 CHAIRMAN GLEIMAN: That being the case, Ms.
15 Reynolds, if I could ask you to please provide two copies to
16 the court reporter, I'll direct that the additional
17 designated written cross-examination of the witness be
18 accepted into evidence and transcribed into the record at
19 this point.

20 [Additional Designation of Written
21 Cross-Examination of Max Heath,
22 NNA-T-1, was received in evidence
23 and transcribed into the record.]
24
25

USPS/NNA-T1-57. In response to USPS/NNA-T1-15, you provided a list of Landmark Community Newspapers, Inc., with circulation figures, for September, 1997.

- a. Does Landmark Community Newspapers, Inc. know generally how its mailings are prepared and how that preparation has changed for each of the last ten years? If so, please explain fully.
- b. Does Landmark Community Newspapers, Inc. have any general information about its mailings which would indicate, by year, the changes in make-up such as changes in average bundle size, changes in containerization, and the average number of bundles and pieces per container? If so, please explain fully.
- c. Does Landmark Community Newspapers, Inc. have any information about its mailings which would indicate in percentage terms, what savings, if any, it has experienced in its mail preparation costs (excluding postage) due to changes in the make-up of its mailings? If so, please explain fully.
- d. Even if a percentage cannot be calculated for such savings, as requested in subpart (c) above, please indicate whether or not Landmark Community Newspapers, Inc. has experienced savings.

RESPONSES:

- a. LCNI newspapers are generally prepared to the finest possible sort, bundled and entered at the local entry office. In some cases, exceptional dispatch is used for better service. Preparation has changed over the years to prepare mail more finely, to improve address hygiene, to attempt to claim every available discount and to comply with the documentation and sortation changes required by the Postal Service, including changes implemented as a result of Docket MC95-1.
- b. I have no specific information in response to this question, but I can note that I believe bundle size may have declined slightly, but not significantly, in recent years as presorting has increased. Containerization has not changed, in that most LCNI mail is prepared in bundles and sacks. No trays or pallets have been used over this period. As to the average number

of pieces and bundles per container, I also have no hard data, but I can attest that LCNI newspapers have taken advantage of the ability to prepare sacks with fewer than required minimum pieces in those circumstances where service has been poor and the newspaper circulation manager believes smaller sacks will improve delivery to subscribers.

c. I am not sure I understand the question. If the intent is to inquire about whether mail preparation has become less costly to mailers over the past 10 years, my response would have to be that preparation has been more costly. LCNI newspapers have been required to adjust to the need for exceptional dispatch to improve delivery, to invest in PAVE certified documentation programs and to keep pace with shifting USPS requirements for CASS/CRIS preparations. As LCNI newspapers absorb more work in order to achieve best-available service levels and in order to comply with periodicals mail requirements in the Domestic Mail Manual, costs have increased. We have not attempted to measure how much of an increase would be involved, but if we were to do so, we would need to factor in significant training time in the use of new software, additional personnel time in adjusting the newspapers' systems to USPS requirements and time devoted to additional paperwork as systems have changed to adjust to such things as exceptional dispatch.

d. See response to c.

1 CHAIRMAN GLEIMAN: One participant, the United
2 States Postal Service, has requested oral cross-examination
3 of the witness. Unfortunately, Postal Service counsel don't
4 play golf, so I think they're going to cross-examine.

5 Ms. Reynolds, whenever you're ready.

6 Is there anyone in addition to the Postal Service
7 who would like to cross the witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: No. Ms. Reynolds, fire away.

10 MS. REYNOLDS: Sorry to disrupt the flow of the
11 morning.

12 CROSS-EXAMINATION

13 BY MS. REYNOLDS:

14 Q Mr. Heath, I'm Ann Reynolds representing the
15 Postal Service. Just a few questions for you.

16 If I could refer you first to your response to
17 Interrogatory Number 7 from the Postal Service.

18 A Number 7. T-1-7. Well, I seem to have 6 and 8,
19 but I don't know why I don't have 7 to look at.

20 MS. RUSH: Mr. Chairman, I'll offer the witness my
21 copy, if you don't mind.

22 CHAIRMAN GLEIMAN: Please.

23 THE WITNESS: I think somebody didn't copy this
24 right, because I don't have it.

25 Okay.

1 BY MS. REYNOLDS:

2 Q This question referred to a circulation figure of
3 7.2 million copies. I was wondering if that's an annual
4 figure.

5 A Not necessarily. The frequencies of some of the
6 papers in this study varied based on some twice weekly, some
7 tri-weekly, and some daily, and we did not try to adjust the
8 number for that, I don't believe.

9 Q If I could refer you back to that point in your
10 testimony -- that's page 11, lines 13 and 14.

11 A Right.

12 Q I'm just trying to get a sense of whether or not
13 this would be an annual figure versus a weekly figure.

14 A We took a snapshot based on the responses that we
15 got to this survey over a period of this roughly four months
16 in January 1995, and these were actually copies that might
17 be going out. In some cases, for a weekly, it would be a
18 weekly figure that would be added up, but in the case of
19 dailies or multiple weeklies, I don't think we grossed it up
20 for that.

21 Q So essentially, I wouldn't be able to take the 7.2
22 million and multiply it by 52 and come up with an annual
23 figure?

24 A I think that's correct, I don't believe you would,
25 no.

1 Q Okay. At the same page in your testimony, at line
2 15, you indicate that 22 percent of the total circulation of
3 the respondents to your survey was within county
4 circulation. By within county circulation, do you mean the
5 copies that were actually entered into the Postal Service
6 for delivery or would it also include those that would
7 quantify for in-county rates but were delivered by some
8 other means?

9 A No. These would be pieces that would -- the way
10 we styled the survey, these would be pieces that were
11 actually listed on the 3541R postage statement on either
12 lines 35 or 36 as being in-county mail pieces. That's what
13 we directed the people to fill out the survey from, actual
14 mailed copies.

15 Q Now, from your survey, this is the snapshot, so
16 this represents this point in 1995 when you were taking the
17 survey; is that correct?

18 A Yes, it does.

19 Q Interrogatory 8, specifically subsection 8(b) from
20 the Postal Service, that question was trying to get an idea
21 of the number of copies entered into the Postal Service
22 versus those done by other means for the past five years,
23 and you don't -- do you have any such information?

24 A No, we really don't. The only research, as we've
25 said in our testimony, that had been done was this one

1 research project that my company did as a voluntary effort
2 for the National Newspaper Association, and of the total
3 circulation of paid fee, whatever, that came in on this
4 survey, that particular percent was within county. Now, of
5 a particular paper, you know, the percent was much higher,
6 but of all the methods of circulation listed in that survey,
7 22 percent of it at that particular point in time were shown
8 as being in-county numbers.

9 Q Still on that page of your testimony, at the very
10 bottom of the page, you talk about a particular skew in your
11 survey, and you say that it would be towards papers
12 concerned about the future of postal rates.

13 Am I correct in interpreting that as being that
14 NNA members who are concerned about their postal rates would
15 have been more likely to have responded to the survey?

16 A I think that's probably correct. What we did, we
17 mailed this survey I believe twice to the universe of NNA
18 members on our database, and we can only take a bit of a
19 guess there that perhaps those who are most actively
20 interested in this issue might respond.

21 However, I would note that we had some daily
22 papers that would not have much dependence on mail that did
23 respond and we had, you know, some free newspapers and
24 things like that that would be carrier delivered.

25 So it was a distribution survey in that sense, but

1 if we were to guess because we were asked to, I believe we
2 would think that it might be skewed by people who -- a
3 little bit by people who mailed more, but no way to know for
4 sure.

5 Q So it makes sense that the newspapers who were
6 delivered more through the mail would be those that would be
7 more concerned with mail rates?

8 A That just makes some logical conclusion, but I
9 don't think we have any basis for proving it one way or the
10 other.

11 Q If I could refer you to your response to
12 interrogatory number 13 from the Postal Service.

13 THE WITNESS: ^{Jonda}~~Tandra~~, do you mind giving me again
14 13? For some reason, I've got partial in this book here
15 --page 22 is missing for some reason.

16 Thank you.

17 Okay. Now, which part?

18 BY MS. REYNOLDS:

19 Q Specifically subpart (c).

20 A Okay. To the best of our knowledge, we would be
21 thinking copies and pieces interchangeably. We asked for
22 copies. We did not try to make any distinction between
23 copies and pieces in the survey, so we assume that it's
24 copies but it could be, as we said, interchangeable,
25 either/or.

1 Q All right. Could I refer you to your response to
2 Interrogatory 6, specifically 6(d) as in David from the
3 Postal Service?

4 A Okay.

5 THE WITNESS: Again, ^{Jonda}~~Tendra~~, I need page 10 for
6 some reason on there. The copying was done on one side
7 rather than the front, and I have the question but not the
8 answer.

9 Okay. Thank you. 6(d).

10 BY MS. REYNOLDS:

11 Q Did you do any follow up of the non-respondents in
12 your survey?

13 A No. The only follow up we did was if we had
14 surveys that were incomplete and some numbers were missing,
15 we tried to contact those people and ask them for completed
16 numbers. But we did not in any way press people to come in
17 and participate if they hadn't already participated. It was
18 just two mailings, I believe, and we took what we got; only
19 followed up on those who needed some completion of data.

20 Q In Exhibit 3 of your testimony -- that appears at
21 page 10.

22 A Three, page 10. Okay. What is that exhibit
23 exactly? Tell me what that is to make sure I'm --

24 Q Weekly newspaper statistics.

25 A Weekly newspaper statistics? Okay. I'm with you

1 now. Yes.

2 Q For 1996, you cite a figure of 81,521,795 copies
3 as the weekly circulation of newspapers; am I correct?

4 A As I understood you to say 521, I'm looking at
5 582.

6 Q Oh. That's my --

7 A Eighty-one five-eighty-two.

8 Q That's my mistake.

9 A Seven-ninety-five.

10 Q Is this the weekly circulation of NNA members
11 alone or NNA members and non-members?

12 A It is members and non-members.

13 Q Do you have an estimate or a percentage of that
14 figure that is actually NNA circulation?

15 A I don't believe we do in our testimony. I don't
16 believe we provide that, no.

17 Q Could I please refer you to your response to
18 interrogatory number 50 from the Postal Service. Now in
19 item 3 of your response you state that local entry
20 periodicals are required to verify each issue, transport to
21 a post office, unload, verify and reload, all of which is
22 difficult on a local publication's deadlines.

23 When you refer to local entry periodicals, are
24 these periodicals that currently do qualify for the
25 Destination Delivery Unit rate provided that they're carrier

1 route presorted?

2 A Well, what I'm referring to here are complex
3 procedures surrounding plant verified drop shipments, so I'm
4 only talking about those who have applied for and been
5 granted approval for plant verified drop shipment on what we
6 call a local entry basis rather than dropping in from all
7 over the country but being verified at a local post office.
8 They would be -- your question I believe spoke to whether
9 they were carrier route presorted rates or not, and my
10 general belief would be that that mail would be primarily
11 carrier route presorted mail.

12 Q When you refer to local publications at the end of
13 item 3, are these publications that use exceptional
14 dispatch?

15 A When you're saying item 3, are you speaking of the
16 testimony or the interrogatory?

17 Q I beg your pardon. Item 3, interrogatory number
18 50, difficult on a local publication's deadlines.

19 A And you ask was I speaking of?

20 Q Are these publications that would use exceptional
21 dispatch?

22 A Many of them. Many of them. But again I was
23 referring here to the complexities of trying to deal with
24 the option of plant verified drop shipment, which we found
25 for our members to be rather difficult to deal with and not

1 very well understood by local postmasters.

2 Q Could you give us a little bit more detail on why
3 it's difficult for these local publications to have each
4 issue verified?

5 A Well, as we sit here, I think in our testimony --
6 many of the local newspapers operate kind of on a -- and
7 especially if they're multiweeklies or dailies -- a little
8 more tighter deadline situation than one might expect for
9 something other than a daily paper, in that many of them,
10 you know, are working all day during normal business hours,
11 printing at night, so forth and so on, and in order to get
12 the advertising and news in as timely as possible, get it
13 all through what we call our production departments,
14 printed, and our post press, mail rooms and what not, in
15 order to be able to get that paper where we need it to go in
16 time.

17 It's just more difficult to have each issue of a
18 periodical verified by hauling it down in our case to the
19 local post office. We aren't big enough to have detached
20 mail units, postal employees in our back shops, so the only
21 option we have for plant verification is to load this mail
22 in a truck, haul it to a postal facility, have it verified,
23 then haul it out on our transportation to other postal
24 facilities in our immediate trade area. That to us is a
25 more difficult process than we think we can always afford to

1 go to.

2 Q You were speaking of timing. Is part of the
3 difficulty that the publications -- because of your timing
4 you need to bring them to the post office in the middle of
5 the night when postal employees aren't available to do the
6 verification?

7 A That's part of it, but the fact is that many of
8 them are still trying to do that sometime late in the
9 afternoon when postal facilities are still open, and, you
10 know, it's just a difficult situation to be able to find the
11 time to wait on, many times, postal people to find some
12 clerk that can verify and weigh your mail before it goes out
13 to other facilities where it's day or night.

14 Q Is that mail generally delivered the same day or
15 the next day?

16 A Well, the intention is for it to be entered into
17 the postal system generally in time to be delivered the very
18 next business day. There may be some cases where attempts
19 have been made to have mail verified very early in the
20 morning to get same-day delivery. That wouldn't be probably
21 the most common scenario, but it is possible.

22 Q If I may refer you to your response to
23 interrogatory 51 from the Postal Service.

24 A Okay.

25 Q You state in that response that verification of

1 copies entered through exceptional dispatch with postage
2 paid at the entry office is done when the postmaster
3 requires it; is that correct?

4 A That would be my general thinking, yes.

5 Q Now, are you referring to the postmaster at the
6 entry office where the postage is paid or the postmaster
7 where the publication is actually deposited?

8 A I'm talking about the regional entry office where
9 postage is paid.

10 Q If I could ask you to maybe stick your finger on
11 51 and refer at the same time to your response to
12 interrogatory 55 from the Postal Service.

13 A Okay.

14 Q At interrogatory 55, you discuss the basis for
15 annual verification of periodicals mail. Now, is the
16 verification you're referring to in your response to
17 interrogatory 51 similar to this annual verification?

18 A No. What I'm attempting to assert here for you in
19 55 is that it is my belief and my understanding that has
20 been applied to our newspapers and newspapers that I
21 referred to is that periodicals mail is basically verified
22 once a year unless something is detected to be out of order
23 by local acceptance people as the mail goes through. We
24 don't find that periodicals mail is verified every issue.
25 That's why I said as the postmaster requires it. What I was

1 trying to refer to there is that if the postmaster felt for
2 some reason it would be necessary to verify that mail, fine,
3 but other than then weight per copy and the advertising
4 percentage, we don't believe that periodicals mail is
5 verified, every issue that's entered.

6 Q Mr. Heath, in your experience, is it common for a
7 postmaster to ask for verifications of exceptional dispatch
8 mailings in addition to the annual verification?

9 A Not particularly, no.

10 MS. REYNOLDS: We have nothing further. Thank
11 you.

12 CHAIRMAN GLEIMAN: Is there any follow up?
13 Questions from the bench? Commissioner LeBlanc.

14 COMMISSIONER LeBLANC: Good morning, Mr. Heath.

15 THE WITNESS: Good morning.

16 COMMISSIONER LeBLANC: Just a I guess maybe
17 further explanation for me, but after I read the first part
18 of the testimony, then the errata, I got a little bit lost
19 in what you were trying to do, I think, so maybe you can
20 help me.

21 THE WITNESS: All right.

22 COMMISSIONER LeBLANC: You talk a lot about the
23 in-county rates and how bad the situation is with the Postal
24 Service. They don't seem to be cooperating with you. Is
25 that still your testimony?

1 THE WITNESS: Are you speaking of service issues
2 here or are you speaking -- exactly what issue are you
3 speaking of the cooperation on?

4 COMMISSIONER LeBLANC: The service issues.

5 THE WITNESS: Well, I want to clarify that the
6 service issues are primarily not within county, okay? They
7 are primarily outside the county service issues.

8 COMMISSIONER LeBLANC: Okay.

9 THE WITNESS: For delivery purposes. Now, we have
10 this question of the exceptional dispatch that we have
11 raised and whether or not we should be granted, you know, a
12 new rate for drop shipping because we're doing the work for
13 the Postal Service and saving them transportation and
14 handling costs. But I want to make sure that you understand
15 that the periodical service questions they're raising are
16 primarily outside our county. The in-county mail that we
17 enter at delivery offices is delivered pretty well 99.9
18 percent of the time.

19 COMMISSIONER LeBLANC: Now, to change gears on you
20 a minute, let's go to the volume issue. You talked a lot
21 about how the volumes were wrong, and you even talked about
22 -- I think you gave two examples, as I recall, about either
23 the Postal Service is wrong on their volume -- whatever the
24 situation is, freeze the rates, and went into a number of
25 things.

1 By freezing the rates, what would you hope for us
2 to try to do for you? Is there any way of -- I mean, what
3 good would freezing the rates do if the Postal Service
4 doesn't seem to be cooperative on one hand, is what you say,
5 and you want us to freeze the rates, and I'm just trying to
6 understand the ~~connect~~^{connection} between the two, if you will.

7 THE WITNESS: Well, we have seen enough growth in
8 our own industry, we have seen -- you know, I know in my
9 company many of our in-county publications are growing. We
10 have seen new publications start up. I know in my rural
11 area, I've seen a lot of new in-county publications in the
12 last decade. So we do believe that the numbers could be
13 misleading, that would obviously harm our institutional cost
14 assignment, but we do feel we have been treated very fairly
15 by this Commission in the past and we just wanted to raise
16 the question of how much we believe that the counting system
17 or cost-gathering system of the Postal Service may very
18 likely be flawed, and when it comes to trying to reflect
19 incoming volumes, it's somewhat understandable perhaps in
20 the sense that many of our members enter at very small
21 offices when many of them -- most of them argue are not on
22 the permit system, I believe --

23 COMMISSIONER LeBLANC: What percentage would not
24 be?

25 THE WITNESS: Well, I don't think we know that,

1 quite frankly, but we do know that -- as I talked to people
2 around the country and in some newspapers and other NNA
3 members, it's interesting that we can -- we ask somebody
4 whether they get back a 3541R mailing statement, postage
5 statement that's been computed by the Postal Service, we
6 find many offices where there has been no computation by
7 computer at the local level indicating that they're
8 apparently not on the computerized BRAVIS or whatever that
9 permit system is.

10 So all we know is that offices and towns typically
11 under probably 3,00 or 4,000 people, and there are a lot of
12 them out there in the markets where we live and operate,
13 don't seem to be on any kind of computerized system.

14 But to try to speak to your question a little more
15 directly, we just feel like we want to be careful not to
16 have a flawed accounting system of volume affect our rates,
17 and maybe -- you know, they have been reasonably fairly
18 constructed in the past.

19 COMMISSIONER LeBLANC: Now, in your conclusion to
20 your second part, or your errata, if you will, on line 6,
21 page 25, you talk about in a sentence there -- it says, the
22 current problem -- I'm shifting gears on you obviously
23 again, so I apologize -- the current problem in the high
24 density walk sequencing requirements developed for the
25 Postal Service's advertising mail customers and only

1 reluctantly extended to newspaper provides an excellent
2 illustration of the chronic problem.

3 What do you mean in that case by reluctantly?

4 THE WITNESS: Well, as I recall, when R90 rates
5 were unveiled, there was both a 90 percent saturation walk
6 sequence rate granted to ad mail customers and I believe a
7 high density rate at the same time to ad mail customers.
8 When we looked at the proposed rates for periodicals, we saw
9 only a 90 percent saturation rate extended to periodicals.
10 We realized that no newspaper in America has 90 percent
11 saturation by mail delivery, so it would have been a rate
12 that would have been useless except maybe in a case where a
13 newspaper was sample copying an entire route. So it may be
14 once or twice a year would that rate ever be useful.

15 Knowing that, I think some of our postal
16 investigators and lawyers looked at the Postal Service's own
17 testimony and research documents and the study, as I recall,
18 showed that there was a comparable savings at the 125 piece
19 level, and this Commission did grant that, but it was not
20 offered, as I recall, to us initially.

21 COMMISSIONER LeBLANC: Thank you, Mr. Heath.

22 Thank you, Mr. Chairman.

23 CHAIRMAN GLEIMAN: Any follow up as a consequence
24 of questions from the bench?

25 [No response.]

1 CHAIRMAN GLEIMAN: If not, that brings us to
2 redirect. Ms. Rush, would you like some time with your
3 witness?

4 MS. RUSH: Yes, I would, Mr. Chairman. Just a
5 moment.

6 Mr. Chairman, we're ready to resume.

7 CHAIRMAN GLEIMAN: Please proceed.

8 REDIRECT EXAMINATION

9 BY MS. RUSH:

10 Q Mr. Heath, could I direct you back to the page
11 that Postal Service counsel was asking you to discuss, your
12 Exhibit 3 on page 10, and again the reference on line 13,
13 page 11, to circulations.

14 I would like to just have you clarify, if you
15 would, please, how a newspaper would typically count
16 circulation. If you asked a daily newspaper what its
17 circulation was, pick a typical number and explain to me how
18 a daily newspaper might arrive at that number.

19 A Well, a typical newspaper, whether they're
20 reporting to the Bureau of Circulations or the Postal
21 Service in its annual statement of ownership, Form 3526,
22 would give basically an average circulation for a day, and
23 so there would not be any reporting of a gross-up for
24 frequency.

25 Q Would that be a per-issue circulation?

1 A That would be a per-issue circulation.

2 Q If you had a newspaper that had, for example,
3 5,000 circulation reported, would that mean 5,000
4 circulation per day?

5 A That would be correct.

6 Q Would that same logic hold true for a weekly
7 newspaper? If it said it was 5,000 circulation, would that
8 be 5,000 circulation per week or per year?

9 A Per week.

10 Q Per week. If you asked a newspaper publisher who
11 had a circulation that was produced twice a week or three
12 times a week, and the base circulation per issue was 5,000,
13 would it report 5,000 to you, 10,000 or 15,000?

14 A It would be 5,000.

15 Q Would it be true, then, if you looked at your
16 number on line 13 that Postal Service counsel asked you to
17 reference, the 7.2 million, would that be per issue
18 circulation for a weekly newspaper?

19 A That's correct.

20 Q If within that mix, you had, for example, 10
21 percent of newspapers that had more than one issue in a week
22 -- for example, it was a twice weekly -- would that number
23 likely still be reported as 7.2 million?

24 A Yes, I believe it would.

25 Q So would it be true that if you had within your

1 survey some newspapers of more than weekly distribution,
2 more than weekly frequency, that this number would be more
3 likely to be understated than overstated?

4 A That's correct.

5 MS. RUSH: No further questions, Mr. Chairman.

6 CHAIRMAN GLEIMAN: Did redirect generate any
7 recross?

8 MS. REYNOLDS: No. Thank you.

9 CHAIRMAN GLEIMAN: If that is the case, then, Mr.
10 Heath, I want to thank you. We appreciate your appearance
11 here today and your contributions to our record, and if
12 there is nothing further, you are excused.

13 [Witness excused.]

14 CHAIRMAN GLEIMAN: Ms. Rush, if you would call
15 your next witness.

16 MS. RUSH: Yes, Mr. Chairman. ^{NNA}~~NAA~~ would like to
17 call Patsy Speights.

18 CHAIRMAN GLEIMAN: First, let me apologize for
19 mispronouncing your name a bunch of times.
20 Whereupon,

21 PATSY SPEIGHTS,
22 a witness, was called for examination by counsel for the
23 National Newspaper Association and, having been first duly
24 sworn, was examined and testified as follows:

25 DIRECT EXAMINATION

1 BY MS. RUSH:

2 Q Would you state your name, please.

3 A Patsy Speights.

4 Q Patsy, I'm about to present to you two copies of a
5 document entitled Direct Testimony of Patsy Speights on
6 behalf of the National Newspaper Association.

7 Was this testimony prepared by you or under your
8 direction?

9 A It was.

10 Q And if you were to prepare it today, would your
11 testimony be the same?

12 A It would be.

13 MS. RUSH: Mr. Chairman, I'd like to present these
14 two copies of a document Direct Testimony of Patsy Speights
15 on behalf of National Newspaper Association to the reporter
16 and request that it be entered into evidence.

17 CHAIRMAN GLEIMAN: Are there any objections?

18 Hearing none, the testimony and exhibits of
19 Witness Speights are received into evidence, and I direct
20 that they be transcribed into the record at this point.

21 [Direct Testimony and Exhibits of
22 Patsy Speights, NNA-T-2, was
23 received into evidence and
24 transcribed into the record.]

25

NNA T-2

Dec 30 4 30 PM '97

OFFICE OF THE

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R-97

DIRECT TESTIMONY OF
PATSY SPEIGHTS (NNA T-2)
ON BEHALF OF
THE NATIONAL NEWSPAPER ASSOCIATION

**DIRECT TESTIMONY OF
PATSY SPEIGHTS (NNA T-2)**

1 My name is Patsy Speights. I am appearing on behalf of the National
2 Newspaper Association, of which my newspaper is a member.

3 I am editor and general manager of the Prentiss Headlight, a weekly
4 newspaper located in Prentiss, Mississippi. The purpose of my testimony is to
5 demonstrate to the Postal Rate Commission the hardships placed upon a small
6 newspaper when mail delivery fails. I will cite two illustrative examples and will also
7 provide some information about subscribers' complaints.

8 Prentiss is in south central Mississippi, approximately 120 miles north of the
9 Gulf of Mexico and 60 miles south of Jackson, the Mississippi state capital.

10 The Headlight is published on Wednesdays. The newspaper is the primary
11 source of local information for readers in a 30 square mile area. Most of my readers
12 are engaged in manufacturing and industrial jobs.

13 The Headlight is owned by Prentiss Publishers, Inc., a subsidiary of the Daily
14 Leader in Brookhaven, MS. The Jacobs family, who own and operate the Leader and
15 the Headlight, are active community leaders and vigorous defenders of the
16 importance of community journalism. I have placed a copy of a recent issue of the
17 newspaper on file as NNA Library Reference #3.

18 Besides me, the Headlight staff consists of one full-time person and six part-
19 time persons. My responsibilities cover the full gamut of activities needed to produce
20 a weekly newspaper for a small community. I write the news stories, sell and
21 compose the ads, take pictures, paginate and pasteup copy, haul the pages to the

1 printer, sort the mailed copies, bundle them, prepare mailbags and deliver the mail to
2 the post office. In addition, I manage our corporate finances, represent the Headlight
3 in our small town, supervise our small staff and provide an attentive ear to residents
4 who drop by to visit about local concerns.

5 Our total paid circulation as of Nov. 5, 1997, was 2,665, of which 1,102 are
6 entered at the Prentiss delivery office, ZIP Code 39474. Of that total, 312 pieces are
7 entered at the DDU level, 294 pieces at the all-others level and the rest are mailed
8 out of the trade area. The balance of our paid circulation is delivered by our own
9 carriers.

10 Our newspaper performs a number of worksharing functions to comply with
11 regulations, save money and improve our delivery. We have a software package
12 that breaks out the ADC, 3/5 digit, basic, DDU and in-county levels and prints our
13 mailing statements (3541R).

14 The weekly report from our software yields information in a format to
15 correspond to bag labels--which themselves create a new difficulty for us because it
16 often takes 4-6 weeks to receive new labels from USPS. In that case, I hand address
17 the label. This has been a problem at times when the postmaster was unsure of the
18 proper sorting for the most direct destination.

19 We have chronic and persistent problems in achieving consistent mail service
20 for our readers, particularly in mail destined for addresses outside our county. My
21 appearance before the Rate Commission is to demonstrate the lengths to which we
22 must go to see that our mail reaches our readers.

1 In a normal week, we deliver the newspaper mail to Prentiss by 2 p.m. on
2 Wednesdays. We load the bundles ourselves onto flat carts, with the DDU copies on
3 one cart, the copies for Carson (MS) office 39427 on another cart and Bassfield (MS)
4 39421 on a third and the rest of the mail on yet another flat cart. We drop the mail on
5 a dock and push it ourselves into the appropriate rooms in the post office. A contract
6 driver picks up the carts destined for other offices and delivers them to those offices.

7 Last year, at the height of the Christmas shopping season, we had a lesson in
8 how fallible the system is.

9 We dropped our papers on the dock as usual. The contract driver picked them
10 up.

11 But he failed to drop them off at Bassfield or Carson.

12 The people in the Bassfield and Carson post offices know that my papers
13 should be in their offices by Thursday morning. But during this week, on December
14 19, 1996, a Bassfield Post Office employee phoned to say my papers did not arrive.
15 Shortly after that I got a similar call from Carson. I began to worry about my
16 Christmas edition. I knew the carts had been picked up from Prentiss, but where
17 were they?

18 Finally, the mystery was solved. The Bassfield employee called to say she had
19 seen the driver's truck parked in back of her office and it appeared the driver had
20 simply neglected to unload them. My papers were still on the truck.

21 In order to get my papers delivered, I had to locate that truck myself. I got
22 permission to take the Bassfield postmaster to open the door of the contract carrier's
23 truck, which was parked outside the Bassfield office, so I could retrieve my own mail.

1 I found it all on the carrier's truck and wound up dropping it all off myself at the
2 necessary stops along the usual routes. No one offered a rebate on my postage. And
3 my rural readers missed their paper for an additional day--at a very bad time of the
4 year. Needless to say, my advertisers were not very happy with me.

5 This unusual drop shipping exercise was a one-time occurrence, but service
6 problems in general are far from unusual.

7 One of our most important towns is New Hebron, Mississippi, 39140. I have 41
8 subscribers there. Most of them live within our county. They expect next-day delivery,
9 same as our other area subscribers do. But New Hebron post office is in the next
10 county, so these subscriber copies are technically regular rate mail.

11 I used to drop my mail for New Hebron at Prentiss just as I do the mail for
12 Bassfield and Carson. But after reclassification, delivery complaints began to soar.
13 The postmaster suggested we change from brown bags to green ones and we did,
14 but delivery did not improve. Then he suggested orange bags and we switched, but
15 delivery did not improve. Finally we were told to put our papers in a box with a green
16 lid. The postmaster hand-taped a message to the lid: Expedite. Do Not Open. Deliver
17 Direct to New Hebron, Mississippi 39140. That didn't work either. It is clear to me that
18 the mail doesn't care what color it travels in: the problem is where it has to go to get
19 to New Hebron.

20 Before reclassification, the New Hebron mail left Prentiss and went to
21 Hattiesburg about 40 miles away. After reclassification, the route changed from
22 Prentiss to Hattiesburg to Gulfport, down to New Orleans and then back again after it
23 is sorted in the New Orleans ADC. Those newspapers travel further in a week than I

1 do in some years. And the ironic thing is that New Hebron is only 18 miles from
2 Prentiss. In fact, I have subscribers less than five miles from my door who are served
3 by Rt. 1 New Hebron. They just happen to be served by a post office in another
4 county, so their newspapers have to go around Carter's barn to get to them.

5 Eventually, the situation became intolerable. Now, every Wednesday I drive 18
6 miles to New Hebron and back again and I enter those copies through exceptional
7 dispatch directly at New Hebron. Because of the rural roads, it takes about 45
8 minutes to get the mail delivered to the New Hebron post office and make it back to
9 my home 19 miles away. This is at the end of a long 12 hour day. But the Postal
10 Service offers no discount for this extra effort or cost under the present rules. My only
11 satisfaction is that my New Hebron readers now receive their paper on time.

12 My specific problem with the Bassfield mail may have been an unusual one,
13 although delayed delivery is certainly not atypical. But the New Hebron situation is
14 one that I believe many small town publishers face. With the new rules for sacking
15 and packaging for Periodicals, our newspapers have traveled widely--but our service
16 has declined.

17 The final concern I would like to raise with the Commission is about my
18 various readers scattered around the country.

19 It may seem to some business people that these out-of-town readers are not
20 very important. They don't shop in our stores. They don't attend civic events listed in
21 the paper. They may not visit my office with news very often. But they are important
22 to our mandate as a local newspaper. Sometimes they are senior citizens with
23 seasonal homes, or college students whom we certainly do wish to encourage as

1 future readers. Sometimes they are former residents, or people on temporary posts
2 who will return to Prentiss. In every case, they are people who provide some small
3 revenue stream for our little paper by paying for an annual subscription at \$28 a year.
4 When we lose them, we lose more than money. We lose loyalty and a part of our
5 franchise. And our out-of-town readers lose a service that helps them stay connected
6 to a place and to people who are important to them.

7 Delivery to these people has long been a problem for some reason. But the
8 complaints I've received in recent years clearly are on the increase. To test the depth
9 of the problem, I put a flyer into every mailed newspaper in June 4, 1997. I asked
10 subscribers to tell me when they received that edition. I am attaching their responses
11 to my testimony as my Exhibit 1.

12 Among the things I learned from my readers was that it actually took 14 days
13 for the Headlight to reach Kettering, Ohio, and nine days to get to Richmond, CA. I
14 learned I had 67 people who were owed an apology for poor service. I consider those
15 readers to be readers at risk. I am frustrated that I can do so little to satisfy these
16 people.

17 My newspaper spends approximately \$56,000 a year with USPS for delivery of
18 our newspaper and our weekly shopper. To the Postal Service's \$52 billion
19 enterprise, that isn't much. But to our newspaper it is a lot. But it is wasted money if
20 the newspaper is not delivered on time. With our small market, every reader is an
21 important part of the business.

22 The amount of home delivery that we handle with our own carriers came about
23 as a direct result of rising postal rates. At one time, virtually all of our 2,665 copies

1 would have been mail-delivered. But carrier delivery isn't possible for us for copies
2 that are delivered just outside the in-town area. We must rely upon the Postal Service
3 as our circulation manager. And we certainly cannot hand-carry a copy to Kettering,
4 Ohio, although I sometimes wonder if we couldn't get it there faster if we did.

5 The Postal Service has been an important business partner to us. Our
6 relationship with our local postmaster is excellent and I feel the Postal Service as an
7 institution is a vital part of our American democracy. It does feel to me as if the Postal
8 Service has gotten too grand for us in recent years--so busy with its major accounts
9 and its new machines that it has forgotten our little newspapers. But our forebears
10 were the publishers who helped this system of universal delivery come into being and
11 I believe that universal delivery should remain the Postal Service's primary concern.

12 I am willing to do my part to sort the mail and prepare it according to all of the
13 rules, even as the rules have become increasingly complex. But when I am doing the
14 work for the post office, I believe I should be compensated for that work. I am paying
15 the Postal Service the same rate for my newspapers delivered to New Hebron as I
16 am for newspapers delivered to Hattiesburg, but to reach New Hebron I am buying
17 gas, depreciating my car and spending my own time. Those contributions are
18 significant to me and to my business. They should be recognized by the Postal
19 Service.

20 Therefore, I request that the Postal Rate Commission consider recommending
21 a discount for these short-haul newspapers that are entered through exceptional
22 dispatch. Furthermore, I hope the Commission will take into account the difficulties
23 plaguing Periodicals mail delivery around the country when it determines our rates.

1 Even with the moderate increases proposed in this case, small newspaper publishers
2 are overpaying when they receive no value because angry subscribers drop the
3 paper. The value of this service has declined for us in recent years and I request that
4 the Commission acknowledge this problem in its recommendations to the USPS
5 Board of Governors. I request a moderation of our rates because of these problems.
6 I believe strong encouragement from the Commission will help the Postal Service
7 maintain its determination to address these problems and help us to satisfy our
8 readers.

DECLARATION

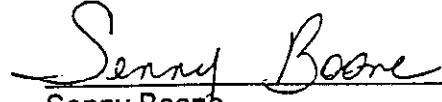
I, Patsy Speights, declare under penalty of perjury that the foregoing testimony is true and correct, to the best of my knowledge, information and belief.

Dated: Dec. 23, 1997

Patsy Speights

CERTIFICATE OF SERVICE

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


Senny Boone

National Newspaper Association
Suite 550
1525 Wilson Boulevard
Arlington, VA 22209

Dated: 12-30-97

R97-1

NNA T-2

EXHIBIT 1

Prentiss Headlight, Prentiss MS
Subscriber Complaints
Pages 1-24

er the results are...

14903

■ On what date did this edition (June 4) arrive? June 13

■ How many days usually pass between the publication date and the date you receive the edition? 8 to 11 days

Name: FRED HERRON

Address: 15317 BLAMORGAN Phone 1-713-466-8899

City: HOUSTON State TEXAS Zip 77040

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

*'S I'm filling this out on 6-19-97 Thank You!
and we have still not received 6-11 paper.*

When are you receiving your Prentiss Headlight?

*Mar
This is the
Ohio Customer
I mentioned
earlier*

File # 17628

**P.S. I want to thank you for this questionnaire.
Patsy, my records show I finally rec'd March 2
editions on April 12th along with my April 2nd
editions. However, to this date, I've not received
any of the March editions previous to the mentioned
date. I do keep the editions I receive for at least
a year or a calendar I mark dates received.
Though I do so applaud you on the wonderful
write-up about Mr. F.A. (Mr. F.A. is called her) and
how truly a remarkable lady! Loved by everyone
and as I love you. May God bless you and yours
with you & yours! No Spoil! Shungh*

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 14th (Previous edition dated May 28 arrived for today Sat. June 1st)

■ How many days usually pass between the publication date and the date you receive the edition? from 10 to 14 days (Only once have I rec'd My Headlight in 8 days after date publication, but this was after Shungh & I wrote Comp. (try requesting a paper for no. 2 mentioned in P.S. also)

Name: OPAL J. BARNETT

Address: 4208 FAR HILLS AVE. Apt #2 Phone (937) 293-1753 or (937) 433-68 (Long Distance)

City: Kettering State Ohio Zip 45429-2424

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

er the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 13 Jun 97

■ How many days usually pass between the publication date and the date you receive the edition? one to two weeks

Name: Alton Lane

Address: 7039 Cross Timber Ln. Phone 901-755-8715

City: Memphis State TN Zip 38125

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 13, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 7 or 8

Name: ELOIS FORTENBERRY

Address: 13015 So. Warramcy Pl Phone (310) 324-0445

City: MARLENA State CA Zip 90249

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 13/1996

■ How many days usually pass between the publication date and the date you receive the edition? at least 5-10 days or maybe later

Name: Bernice Woodward Hunt

Address: 2424 Virginia Ave Phone 510 32-1247

City: Richmond State CA Zip 94804

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

I enjoy your

paper very much, & enjoy reading the news from my hometown
place where I was born many years ago

Thank You!

God Bless you & yours

trying to find a solution to the problem so you get your money's worth
er the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 10/12/97
 ■ How many days usually pass between the publication date and the date you
 receive the edition? 8-10
 Name: LARRY N JONES
 Address: 230 Ashland WAY Phone 770 461 7872
 City: Fayetteville State GA Zip 30214
 Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are
 trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gath-
 er the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 17
 ■ How many days usually pass between the publication date and the date you
 receive the edition? 7-10
 Name: Carl Christian
 Address: 6067 Christian St Phone _____
 City: Madison State LA Zip 70448
 Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are
 trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gath-
 er the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? JUNE 12
AT THIS DATE, I HAVE NOT RECEIVED MAY 28 PAPER
 ■ How many days usually pass between the publication date and the date you
 receive the edition? 8 TO 10 DAYS
 Name: BILLY C. GELGER
 Address: 11057 GLEN WATTS RD Phone (504) 261-4220
 City: BATON ROUGE State LA Zip 70818
 Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? June 12, 1997
Sometime it may arrive 2 weeks late with some ones
 ■ How many days usually pass between the publication date and the date you receive the edition? 7-10 days *paper in South Jersey*

Name: ELLAWSE MCLENDON
 Address: 355 WHITE ST
ROSELLE, NJ 07203-2160 Phone 908-241-8847
 City: _____ State _____ Zip _____

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? June 12, 1997
 ■ How many days usually pass between the publication date and the date you receive the edition? from one to 2 weeks *Patsy, I surely hope something can be done,*
 Name: Goyce W. Clark
 Address: 1641 Canal St Phone 334-9464
 City: Quemerville State MI Zip 38701

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? 06/12/97
 ■ How many days usually pass between the publication date and the date you receive the edition? 10-12
 Name: GROVER REESE JR.
 Address: 5720 WEATHERFORD LANE Phone (915) 821-3790
 City: EL PASO, State TEXAS Zip 79924

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-11-97

■ How many days usually pass between the publication date and the date you receive the edition? 7

Name: J JACKSON

Address: 1660 BALTIMORE DR. APT #4 Phone 615-647-7840

City: CLARKSVILLE State TN. Zip 37043

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-11-97

■ How many days usually pass between the publication date and the date you receive the edition? 7 DAYS

Name: HERMAN NEWSON

Address: 13143 RINGGON ROAD Phone 760-240-2470

City: APPLE VALLEY State CA. Zip 92307

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 11th

■ How many days usually pass between the publication date and the date you receive the edition? 7 to 8 DAYS

Name: Jim Davis

Address: 416 MARSEILLE DR. Phone 817-577-3765

City: HURST State TX Zip 76054

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-10-97

■ How many days usually pass between the publication date and the date you receive the edition? 6 to 7 days

Name: Robert Gardner

Address: 1924 W. Clarke St Phone 414-372-3605

City: Milwaukee State WIS. Zip 53206

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 10, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 6 days

Name: Hazel Bass

Address: 2135 N. 24th Pl Phone 414-933-3260

City: Milwaukee State WI Zip 53205

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 11

■ How many days usually pass between the publication date and the date you receive the edition? may 29th issue rec'd June 7 - editors have begun to take 10 days before receiving items; or sometimes even longer.

Name: Lillie H. Crawford

Address: 2867 N. Chalco Dr. Phone 343-1903

City: Mobile State al Zip 36608

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-10-97

■ How many days usually pass between the publication date and the date you receive the edition? NINE (9)

Name: FLOYD BUCKLEY (414)
Address: 3121 Wheelock DR, APT. 5 Phone 598-8898
City: RACINE State WI Zip 53405-4552

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-10-97

■ How many days usually pass between the publication date and the date you receive the edition? 5 to 10 days

Name: Central L. Walker
Address: 7111 ORCON Phone 314 3859574
City: NORTHWOODS State MD Zip 21121

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-10-97

■ How many days usually pass between the publication date and the date you receive the edition? most time a week

Name: DEN WILLIAMS
Address: 9909 So. PEORIA ST Phone 773 239 1258
City: CHICAGO State IL Zip 60643

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 10, 1997

■ How many days usually pass between the publication date and the date you receive the edition? A WEEK

Name: No/A REID

Address: P.O. Box 537 Phone 520.744-9576

City: CORTARO State AZ Zip 85652

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? On June 10 - 97

■ How many days usually pass between the publication date and the date you receive the edition? 5-7 days

Name: Maria Lee Hubbard

Address: 2003 W. Wesley Avenue Phone 914.359-2133

City: Duarte State CA Zip 91010-3145

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 10, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 6 days

Name: Owena J. Barnes

Address: 2113 Maffett Street Phone (616) 728-1103

City: Muskegon Hts State Michigan Zip 49444

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 10 - 1995

■ How many days usually pass between the publication date and the date you receive the edition? Seven (7)

Name: Elaine Barnes Hughes
Address: 208 East Cherry Ave Phone 626-359-2063
City: Monrovia State CA Zip 91016

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 10, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 6 or 7

Name: Virginia Beets
Address: 117 Oak Ridge Circle Phone 512/869-0922
City: Georgetown State Texas Zip 78628

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-10-97

■ How many days usually pass between the publication date and the date you receive the edition? 6 - 10 - 8 - DAYS

Name: Wille J. Armstrong
Address: 2921 W Jackson Blvd. Phone 773-826-4764
City: Chicago, IL State IL Zip 60612

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 9

■ How many days usually pass between the publication date and the date you receive the edition? Sometimes it takes 1-2 weeks, sometimes we don't get one at all. Sometimes a few days.

Name: Rulus Hamilton

Address: 2826 Willow Wood Circle Phone 912-244-0804

City: Valdosta State Ga. Zip 31602

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (501) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-9-97

■ How many days usually pass between the publication date and the date you receive the edition? 10 or more

Name: Will A DAVIS

Address: 1250 S. Arden Ave. Phone _____

City: Chicago State Ill Zip 60623

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (501) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-9-97

■ How many days usually pass between the publication date and the date you receive the edition? 5 days

Name: C. G. CRAIG

Address: P.O. Box 18 Phone 601-829-2841

City: Sandhill State MS Zip 39161

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (501) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery, trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6/7/97

■ How many days usually pass between the publication date and the date you receive the edition? 5-20

Name: Erachne Brown

Address: 267 Parkers Rd SW Phone 412 452 7960

City: Milledgeville State GA Zip 31061

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

your Prentiss Headlight?

Sometimes the following
Monday, Wednesday or Friday
at times I will receive (2)
two on the same day

June 20, I have not
rec'd June 11 issue. May
get 6-18 issue this week

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service. *maybe
file on
Sat*

■ On what date did this edition (June 4) arrive? June 9, 1997

■ How many days usually pass between the publication date and the date you receive the edition? mostly about 9

Name: Mallie L. Jones

Address: 10542 So. Emerald Ave Phone 773 568 6792

City: Chicago State Ill. Zip 60628-2304

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

14914

■ On what date did this edition (June 4) arrive? Saturday 6-7

■ How many days usually pass between the publication date and the date you receive the edition? 2

Name: Edwin G. Boleware

Address: 311 Fairways Dr Phone 638-5070

City: Vicksburg State MS Zip 39180

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? JUNE 9

■ How many days usually pass between the publication date and the date you receive the edition? ONE WEEK

Name: M.C. SULLIVAN

Address: 9819 FOREST AVE SW. Phone (206) 584-7728

City: TACOMA State WA Zip 98498

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-9-97

■ How many days usually pass between the publication date and the date you receive the edition? 7

Name: LYNN Chapman

Address: 2212 Evans Ave #1 Phone 307-634-8196

City: Cheyenne State WY Zip 82001

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

When are you receiving your Prentiss Headlight?

Dear Mr. [unclear]
I am glad you have
checked in the time the
paper is received.

Recently I received 2
issues at one time, one
almost a month late.

I appreciate receiving it
on Sat. after being published
on Wed. I enjoy the paper
especially your article even
though I now know few
people in that area.

Sincerely,
Kathlyn Goforth

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? Sat. June 7th

■ How many days usually pass between the publication date and the date you receive the edition? Sometimes Sat, but often much later.

Name: Kathlyn Goforth

Address: P.O. Box 726 Phone 368-248-2352

City: Baskin State La. Zip 71269

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

or the results and discuss them with

14916

■ On what date did this edition (June 4) arrive? June 7

■ How many days usually pass between the publication date and the date you receive the edition? 3

Name: GERALD POLK

Address: 316 LONG COVE DRIVE Phone 601-856-9195

City: MADISON State MS Zip 39110

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-7-97

■ How many days usually pass between the publication date and the date you receive the edition? 3

Name: Clyde Cole

Address: Rt. 1 Box 208 Phone 792-4771

City: Newhebron State MS Zip 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 7, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 3 days (sometimes 4)

Name: James Nolan Fortenberry

Address: 1284 Highway 472 Phone 847-2410

City: Pinola State MS Zip 39149-3011

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

trying to find a solution to the problem so you get your newspaper on time. We will gather the results and discuss them with the Postal Service.

14917

■ On what date did this edition (June 4) arrive? June 6

■ How many days usually pass between the publication date and the date you receive the edition? 3 to 5

Name: Roy McJannet

Address: Rt 3 Box 134 Phone _____

City: W. Okla. State MS Zip 39119

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 06-06-97

■ How many days usually pass between the publication date and the date you receive the edition? 1 since you have been carrying it to New Hebron, otherwise it is usually 3 to 4 days

Name: Nell Lee

Address: 141 Bp 143 Phone 792-4612

City: New Hebron State MS Zip 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6th - Friday

■ How many days usually pass between the publication date and the date you receive the edition? 5 days, usually

Name: Lillian Hughes

Address: Rt 1 Box 103 Phone 792-8025

City: New Hebron State MS Zip 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You! for trying to correct this problem.
Lillian Hughes

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

14918

■ On what date did this edition (June 4) arrive? This one did on time, June 6th.

■ How many days usually pass between the publication date and the date you receive the edition? Usually 4 to 6 days - Most of the time on Monday of the next week. Two weeks in the past his brother, the paper did not come. Thank you.

Name: Lynell Lane

Address: 222 East Main St., Apt. G 27 Phone 845-2258

City: Florence State Mississippi Zip 39073

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-6-97

■ How many days usually pass between the publication date and the date you receive the edition? Sometimes its Monday the following week & sometimes we don't get it at all

Name: John McCombs

Address: 5273 Lyman Dr. Phone 371-1087

City: Jackson State MS Zip 39212

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6.

■ How many days usually pass between the publication date and the date you receive the edition? Most of the time Friday Saturday - Some times Monday Tue

Name: Hilda Berry

Address: 851 Briarfield Road Phone 601-956-4373

City: Jackson State Ms. Zip 39211

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 2 days

Name: ALLTEL

Address: P.O. Box 7 Phone 845-7512

City: Florence State MS Zip 39073

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-6-97

■ How many days usually pass between the publication date and the date you receive the edition? from 2 to 5 - last month mostly 2

Name: Horace Livingston

Address: 233 Central Ave Phone 845-7371

City: Florence State MS Zip 39073

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

(over)

*Paper
I enjoy your paper more than any I have ever read. It is informative, accurate and very interesting. You and your crew are doing a mighty good job.*

Horace Livingston

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

14920

■ On what date did this edition (June 4) arrive? 6-6

■ How many days usually pass between the publication date and the date you receive the edition? 2 or 3

Name: Mrs John E. Magee

Address: 121 Sweet Home Rd Phone

City: Brandon State MS Zip 39042

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6

■ How many days usually pass between the publication date and the date you receive the edition? 2

Name: Ned L. Tyrone

Address: 108 Woodglen Phone 601-992-4842

City: Brandon State MS Zip 39042

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-6-97

■ How many days usually pass between the publication date and the date you receive the edition? About 3 days

Name: IRa H. BAKER 601.

Address: 633 Freemont St. Phone 372-1689

City: JACKSON State MS Zip 39212

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 2

Name: Deposit Guaranty National Bank
Address: P.O. Box 29 Phone: 694-2141
City: New Hebron State: MS Zip: 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-6-97

■ How many days usually pass between the publication date and the date you receive the edition? Sometime 3 to 4 days

Name: George Brown
Address: P.O. Box 219 Phone: 792-5195
City: New Hebron State: Miss Zip: 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? JUNE 6, 1997

■ How many days usually pass between the publication date and the date you receive the edition? at least 2 or 3 days. We have gotten it once or twice on Monday.

Name: Mrs. Ben Slater
Address: Rt. 1 Box 117 Phone: 792-4495
City: New Hebron State: MS Zip: 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? Friday June 6
- How many days usually pass between the publication date and the date you receive the edition? 2 or 3

Name: Jessie Camstang
 Address: Box 31-A Phone 694-2170
 City: New Hebron State Miss. Zip 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? June 6
- How many days usually pass between the publication date and the date you receive the edition? Should have gotten 3

Name: Jana Buckley
 Address: Rt 2 Box 52 Phone 694-2369
 City: New Hebron State Ms. Zip 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? Friday June 6
- How many days usually pass between the publication date and the date you receive the edition? 2 sometimes 3

Name: Joseph L. Jones
 Address: Rt 1 Box 107 Phone 792-8971
 City: New Hebron State MS Zip 39140

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
 P.O. Box 1257 • Prentiss, MS 39474
 OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6

■ How many days usually pass between the publication date and the date you receive the edition? 2 or 3

Name: James Booth
Address: Rt. 3 Box 146 Phone 797-3507
City: Mt. Olive State MS Zip 39119

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 2-4

Name: Rafus Louis Hall
Address: Rt. 3 Box 155 Phone 601-797-4941
City: Mt. Olive State MS Zip 39119

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? June 6, 1997

■ How many days usually pass between the publication date and the date you receive the edition? 2

Name: Estelle Griffith
Address: Rt. 3 Box 158 Phone 797-4966
City: Mt. Olive State MS Zip 39119

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? Thursday June 5
- How many days usually pass between the publication date and the date you receive the edition? Received sometimes on Thursday, Friday, or Monday

Name: Mrs. John W. Miller, Jr

Address: 183 Tennyson Cove Phone _____

City: Picayune State Ms Zip 39466

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

... delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? June 5
- How many days usually pass between the publication date and the date you receive the edition? 1-2

Name: Mitzie Roberts

Address: 3905 50th St Phone 405-2441

City: Meridian State MS Zip 39305

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our main subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? June 5th Thurs
- How many days usually pass between the publication date and the date you receive the edition? 1 to 2 days

Name: Mrs. Evelyn D. Davis (Dore Ellen Sinclair Davis)

Address: 408 W. Jackson Circle Phone 403-4338

City: Meridian State Ms Zip 39305

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

14925

■ On what date did this edition (June 4) arrive? June 5, 1997

■ How many days usually pass between the publication date and the date you receive the edition? One

Name: Wesley R. Watson

Address: Rt 1 Box 332 Phone 943-8154

City: Basfield State MS Zip 39421

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? Thursday 5th

■ How many days usually pass between the publication date and the date you receive the edition? Each Thursday

Name: Thelma Holland

Address: P.O. Box 56 Phone 943-5946

City: Basfield State MS Zip 39421

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

*about two months ago
I did not get a paper*

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

■ On what date did this edition (June 4) arrive? 6-5-97

■ How many days usually pass between the publication date and the date you receive the edition? sometimes on Friday - most Thursday

Name: WILMA L. CLIBURN

Address: ROUTE 2 BOX 444 Phone 986-7939

City: SILVER CREEK State MISS. Zip 39663

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474

OR Fax to (601) 792-4222

Thank You!

er the results and discuss them

14926

- On what date did this edition (June 4) arrive? June 5
- How many days usually pass between the publication date and the date you receive the edition? 1 or 2 days

Name: Mrs. Mary Dykes

Address: Route 1 - Box 65-A Phone _____

City: Oakdale State Miss Zip 39656

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? 5 June 97
- How many days usually pass between the publication date and the date you receive the edition? 1-2 days

Name: RALPH M. FORTENAKOV, M.D.

Address: Rt 1 Box 58A Phone 792-4430

City: OAKDALE State MS Zip 39656

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

Our mail subscribers sometimes tell us of poor or erratic delivery of their newspaper. We are trying to find a solution to the problem so you get your Prentiss Headlight on time. We will gather the results and discuss them with the Postal Service.

- On what date did this edition (June 4) arrive? 6-5-97
- How many days usually pass between the publication date and the date you receive the edition? Almost Always just one day

Name: Mrs. Ray Branton

Address: Rt 1 Box 45-A Phone 792-5462

City: Oakdale State MS Zip 39656

Please return this poll to: The Prentiss Headlight / Attn: Patsy Speights
P.O. Box 1257 • Prentiss, MS 39474
OR Fax to (601) 792-4222

Thank You!

1 CHAIRMAN GLEIMAN: Ms. Speights, have you had an
2 opportunity to review the packet of designated written
3 cross-examination, the responses you previously provided in
4 writing earlier today?

5 THE WITNESS: I have.

6 CHAIRMAN GLEIMAN: And if the questions were asked
7 of you today, would your answers be the same as those you
8 previously provided in writing?

9 THE WITNESS: They would be.

10 CHAIRMAN GLEIMAN: That being the case, I'm going
11 to provide two copies to the reporter and direct that it be
12 accepted into evidence and transcribed into the record at
13 this point.

14 [Designation of Written
15 Cross-Examination of Patsy
16 Speights, NNA-T-2, was received
17 into evidence and transcribed into
18 the record.]
19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL NEWSPAPER ASSOCIATION
WITNESS PATSY SPEIGHTS
(NNA-T2)

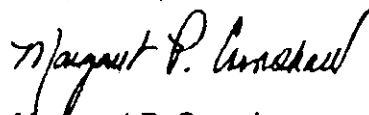
Party

United States Postal Service

Interrogatories

USPS/NNA-T2-1-11

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with the first name "Margaret" being more prominent.

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
NATIONAL NEWSPAPER ASSOCIATION
WITNESS PATSY SPEIGHTS (T2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/NNA-T2-1
USPS/NNA-T2-2
USPS/NNA-T2-3
USPS/NNA-T2-4
USPS/NNA-T2-5
USPS/NNA-T2-6
USPS/NNA-T2-7
USPS/NNA-T2-8
USPS/NNA-T2-9
USPS/NNA-T2-10
USPS/NNA-T2-11

Designating Parties:

USPS
USPS
USPS
USPS
USPS
USPS
USPS
USPS
USPS
USPS

USPS/NNA-T2-1. Please explain how you came to testify on behalf of National Newspaper Association. Did you volunteer? Were you selected from a group of volunteers? Please explain fully.

RESPONSE.

I provided an impromptu briefing about my service problems to the NNA Newspaper Leadership Council at the NNA Convention in Fort Worth, TX, last September, where Deputy Postmaster General Michael Coughlin addressed newspaper publishers. The NNA Postal Committee felt my testimony would be useful to the Commission and I was approached by NNA to appear.

USPS/NNA-T2-2. Please provide details about Prentiss.

- a. Is it incorporated? Who provides local government and services?
- b. What is the population in town? Nearby?
- c. What types of manufacturing and industrial jobs are available in the area?
- d. To what extent is it typical or atypical of the rest of Mississippi? Please identify all bases on which you rely in formulating your opinion.
- e. To what extent is it typical or atypical of the rest of the United States? Please identify all bases on which you rely in formulating your opinion.

RESPONSE.

- a. *Prentiss is incorporated. It is the county seat of Jefferson Davis County. Government is provided by a mayor and five aldermen elected at large. Citizens are protected by a full time police department and full time fire department. The fire department works in conjunction with department in Bassfield, Clem and Oakvale to provide coverage for the entire county with the assistance of trained volunteers who are cross trained First Responder Medical personnel. The town provides water and sewer to all residents inside the City Limits and some adjacent areas. Solid waste, rubbish and cardboard collections are also provided by the city.*
- b. *Population of Prentiss is 1,487. Population of the county is 14,051.*
- c. *The school system is one of the larger employers with teaching positions and many non-certified service jobs, such as clerical, maintenance, food service and transportation. We have four wire harness plants located in and around*

Prentiss with approximately 800 people employed. Prentiss is the home base of Polk's Meats, a pork processing plant that manufactures sausage, hams and sandwich meats distributed across the southeastern United States to retail and wholesale markets. Georgia Pacific has a world class paper/pulp mill located just across the county line near Monticello and employs many technical professional residents of the county. Horace Small, a cut and sew plant, located in Bassfield, employs approximately 300 people. It manufactures uniforms for law enforcement agencies nationwide. MD Dyess and Sons, also in Bassfield, is a home-owned company that refurbishes heavy equipment for the international market.

The expansion of the poultry market in the South has afforded many farmers an opportunity to convert their cotton, soybean and corn operations to poultry farms providing products for numerous plants in the state. These employment opportunities are in addition to various retail business ventures in the county.

d. Prentiss is a fairly typical small town, in my experience. My husband and I have lived in several small communities, including Kileen, Texas and Augsburg, Germany. Our schools have won state championships in basketball and football several times in the past decade. Our churches are the hub of many activities. The golf course and country club offer almost year round recreation and our lake has some of the best fishing spots around. We have a local airport to permit easy travel. I grew up in Prentiss and was delighted 11 years ago to have the opportunity to come to my hometown to work.

e. Please see my answer to d. above. I have lived in other small towns and I consider community life in Prentiss to be quite similar to that elsewhere.

USPS/NNA-T2-3. Please provide some details about *The Prentiss Headlight*.

- a. How have circulation and the percentage of advertising varied during the last three years?
- b. With what other publications does it compete for circulation? For each publication identified, please provide its frequency of publication and approximate circulation, to the best of your knowledge.
- c. Are you aware of any other publications? If so, please identify them and your best understanding of their frequency of publication and approximate circulation.

RESPONSE.

- a. Our trade area circulation has decreased from 790 to 714 in that time. Our out-of-trade area, has dropped from 427-400 for a loss of 27 subscribers. The advertising percentage has fallen from 78% in 1995 to 70% in 1998.
- b. The Headlight is the only weekly newspaper serving our county. Our non-subscriber publication, the Southwest Shopping Bag, is the only standard mail piece entered on a weekly schedule in our area.

The two daily newspapers in the area are the Hattiesburg American and the Clarion Ledger in Jackson, both Gannett Company newspapers. They do not carry any local advertising from our area and rarely any local news, except when some big news happens like a school bus wreck.

According to my local sources, the American serves 82 people in the county and the Clarion Ledger serves 108. They are delivered by private carrier.

c. No. I assume there is some circulation from USA Today, the Wall Street Journal and other national publications, but I do not have their circulation figures in my area. Also, Jefferson Davis county residents subscribe to a number of magazines, but I do not consider them competitors and I do not know their frequency or circulations.

USPS/NNA-T2-4. Please confirm that with respect to the "one-time" experience described on pages 3-4 of your testimony that you received two telephone calls from the Postal Service bringing the matter to your attention.

RESPONSE.

Yes, from the Carson and Bassfield postmasters.

USPS/NNA-T2-5. On page 5, line 14, you state you believe the "New Hebron situation" is one faced by many small town publishers. Please state the basis for your belief. Did you conduct a study? Have you anecdotal evidence of other examples? Please explain fully.

RESPONSE.

The "New Hebron" situation is not unique to the Headlight. I think we small newspaper people get more involved because our subscribers are not just an address, they are friends and neighbors and we do what we can to make up for service that the Postal Service does not provide. Most of the subscribers who receive their mail at Rt. 1 New Hebron, live just inside Jeff Davis County--and their county-border situation is repeated all over Mississippi. Newspapers often have to go to extra trouble to reach these people whose sense of community is not defined by the Postal Service's operational lines. They expect their newspaper on time, just like those served by my local post office.

The subject of exceptional dispatch is often a topic of conversation at Mississippi Press Association meetings. I am aware of the following newspapers that have a similar exceptional dispatch problem.

1. John Carney, publisher of the Lawrence County Press (39654), drives 20 miles one way, twice a week, to drop his newspaper and Standard A publications. New Hebron is INSIDE his county, but served by the former 391 SCF in Jackson. He drops the Standard A piece on Tuesday for Wednesday

delivery and his newspaper on Wednesday for Thursday delivery so his In-County subscribers can get next day delivery. His former SCF is 396 located 40 miles away in McComb, which is southwest of Monticello.

2. Jamie Arrington of the News Commercial (39428), reports losing a lot of out of state subscribers due to delivery problems. To avoid damage to his paper from similar loss of his trade area subscribers, he drives his papers to Mount Olive (39119) and Seminary (39479). Both Post Offices are located inside his county.

3. Jeff Mosley, Wayne County News (39367) is on the Mississippi-Alabama line. Melvin, AL, is part of his trade area. He does not do exceptional dispatch and his readers complain that it takes four days for the paper to reach them. The paper goes from Waynesboro to Meridian (MS) to Mobile (AL) to Butler (AL) then to Melvin. They pass Melvin twice before they are taken off the postal trucks for delivery.

4. Mrs. John Turner, Greene County Herald (39451), has a similar problem. Leaksville, the home of the paper, is located near the Alabama line. The Herald serves Fruitdale, AL, only 15 miles away. The papers travel to Hattiesburg (MS) to Gulfport (MS) to New Orleans and back before reaching subscribers.

5. Sean O'Connor, circulation manager for the Laurel Leader Call (39440), has customers in Louin (39338) twenty miles away who complain of a 3-4 day delay. When the paper arrives, it often comes in clusters of two or three issues. It appears to me that all of these problems result from the creation of the ADC system. It is clear that newspaper readership is affected by the delays.

USPS/NNA-T2-6. On page 6, lines 17-18, you refer to your newspaper's annual postage bill by referring to postage incurred for both the newspaper and a "weekly shopper."

- a. Please provide a breakdown of the postal expenditures by pieces and postage as between the newspaper itself and the weekly shopper.
- b. In what subclass(es) and category(ies) of mail is the weekly shopper entered?

RESPONSE.

- a. My figures for 1997 show a total of \$9,137.84 with an average of 1115 pieces per week for the Headlight and \$46,247.09 with an average of 5558 pieces per week for my nonsubscriber product (shopper.)
- b. Standard A.

USPS/NNA-T2-7. Beginning on line 23 of page 6 and ending on the first line of page 7, you indicate that at one time virtually all copies of the newspaper "would have been mail-delivered."

- a. By this do you mean that the copies once were virtually all delivered by mail, or that they would have been if an appropriate combination of mail category and service had ever been offered?
- b. To what time period does the quoted statement apply?

RESPONSE.

- a. When the third-class rate was raised from \$.083 to \$.105, we converted to private carriers for both the Headlight and the nonsubscriber product within the city limits of Prentiss. At that time, we converted 154 subscribers and 288 shopper recipients to carrier delivery. We found that our advertisers were more satisfied, we saved money and we could guarantee day of delivery. We made some later adjustments in the proportion of mail versus carrier delivery, but have maintained the same general pattern.
- b. The conversion occurred in the early 1990's.

USPS/NNA-T2-8. Referring to page 7, line 1 of your testimony, why is carrier delivery not "possible" for copies delivered just out of town?

RESPONSE.

The word "just" may be misleading. I should have said "carrier delivery isn't possible for us for copies that need to be delivered outside of Prentiss."

The rural routes in the county are often more than 100 miles and we mail to 8 post offices. Due to the infrequency of work and the resources available to pay carriers or provide transportation, setting up a carrier force for these routes is out of the question. Because of the service problems, however, I am working on a plan to spread my private delivery routes another quarter mile around Prentiss as development in those areas creates more dense populations.

USPS/NNA-T2-9. Please estimate the percentage of the circulation of *The Prentiss Headlight* that is carrier route presorted.

RESPONSE.

Of the 1,115 pieces mailed, 657 or 58.9% are carrier route presort.

USPS/NNA-T2-10. Please explain why you cannot enter the *Prentiss Headlight* by:

- a. establishing additional entry at New Hebron; or
- b. by using plant verified drop shipment.

RESPONSE.

- a. I would have to rearrange my schedule to make it to New Hebron before their window closes at 4 p.m., a change that would require a mid-day trip and lengthen an already long day for me. As it is now, I arrive at New Hebron after my news day is complete, long after the Post Office is closed. Additional entry would be a problem for the New Hebron office as well, since none of the staff there are familiar with the 3541 forms or with the deposit accounts needed for Periodicals mail. My present mail drop does not create a problem for the Postal Service. My postage is paid at Prentiss, where the personnel are familiar with my mail. If I were extended a discount, the Prentiss personnel would be able to confirm the number of papers taken to New Hebron, but it is important to note that my mailing generally doesn't change from week to week. This verification is not needed very often to assure USPS that my proper postage is paid. If either post office--either Prentiss or New Hebron--needed to verify that my pieces equaled the number claimed on my 3541, one phone call to Prentiss would do the job.
- b. I don't have a commercial printing plant. I have no experience in plant verified drop shipping and am not familiar with the requirements. I am

unaware of any mailers in my area who use this practice. It has not been suggested by my postmaster. He suggested exceptional dispatch after trying every means he could think of to get my papers delivered on time.

USPS/NNA-T2-11. How is your mail verified at New Hebron?

RESPONSE.

My mail verifications, to the extent that any are done at all, are done at Prentiss where clerks key my statements into their computer. They are aware of my New Hebron exceptional dispatch, of course. We keep sufficient funds on hand at Prentiss and we provide a copy of the 3541. The Prentiss staff, however, do not touch any of my mail except for copies delivered out of Prentiss. I do all of the work.

I drop my Prentiss copies onto a flat cart and push them into the Prentiss office. I put the Carson and Bassfield mail into separate canvas buggies and push them into the equipment room. There they stay until a contract carrier picks them up for those other offices. All the rest of the mail is put into a buggy and pushed inside. My New Hebron mail is taken to New Hebron by me and pushed through a slot. Most of the time I never see an employee, either at Prentiss or at New Hebron.

My mail operation was overseen on a spot check by Esther Martin, who is Officer in Charge in Prentiss. Esther knew little about Periodicals or Standard A mail when she came to Prentiss and was interested in learning. She spent a day with me shortly after she arrived, watched me load the paper from the printing plant, compare my actual copies with the printer's computer reports, check my sack tags and unload. She became familiar with my operation in that manner.

This system was created because of the repeated failures of the system, after my postmaster made his best efforts to get the New Hebron mail delivered on time, as I said in my testimony. Mrs. Martin recently asked me to try the Postal Service for my New Hebron copies again as she thought the problem could be solved. But the effort failed. The copies were not delivered on time.

I believe my problem arises from a broken system, not from the failures of my local postal personnel. I am providing the solution by doing my own trucking to New Hebron. What I need is a recognition of my contribution through an appropriate discount, not another new burden from additional paperwork and bookkeeping.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, then we'll move on to
5 oral cross, and as I understand it, no party has requested
6 oral cross-examination of this witness.

7 Does any party wish to cross-examine?

8 [No response.]

9 CHAIRMAN GLEIMAN: There doesn't appear to be any
10 cross-examination from the parties.

11 Do Commissioners have questions?

12 Commissioner Omas has a question.

13 COMMISSIONER OMAS: Ms. Speights, I'd like to
14 welcome you here.

15 In your testimony you discussed exceptional
16 dispatch situation with the New Hebron post office.
17 Where -- I believe you said before you enter them you take
18 them to the Prentiss post office, which is 18 miles away
19 from the New Hebron post office, and then you take them back
20 to the New Hebron post office from Prentiss. Does your
21 postage reflect the work that you do by doing this
22 particular --

23 THE WITNESS: No, sir, I'm afraid it doesn't. We
24 pay full postage, and we pay these, you know, not at DDU
25 rate, and -- but we deliver them ourselves.

1 COMMISSIONER OMAS: All right.

2 How common is this among small-time, you know --
3 small newspapers?

4 THE WITNESS: I think it's a very common practice.
5 Where it's possible in my testimony you may have read where
6 I contacted several other weekly and daily newspapers in
7 Mississippi to simply ask do you have a problem with
8 delivery near your plant, and if so, how do you address it?
9 Some do their own delivery, as I noted. Some find it
10 impossible to do or don't do.

11 But we do it because the people who receive their
12 mail on Route 1, New Hebron, many of them live inside Jeff
13 Davis County -- in fact, four or five miles from my
14 newspaper office. And they might live on the left-hand side
15 of the road and receive their mail Route 1 New Hebron, where
16 their neighbor across the road just down the way is a Route
17 1 of Prentiss. Prentiss is my DDU, and those papers are
18 delivered and carried out the following day. And in order
19 for my New Hebron customers, who are in-county customers,
20 who shop in my stores, to receive that same service, it's
21 necessary for me to drive them to New Hebron and deposit
22 them in the letter slot with the approval of my postmaster.

23 We've tried every means that he could come up with
24 within the system, and that's using different-colored bags,
25 a box, a handwritten note from him, everything that he could

1 think of. And so his suggestion was that if I wanted them
2 there perhaps I would deliver them myself, and I do, weekly.

3 COMMISSIONER OMAS: Thank you.

4 THE WITNESS: Thank you.

5 CHAIRMAN GLEIMAN: Commissioner LeBlanc.

6 COMMISSIONER LeBLANC: Ms. Speights, even though
7 you're from Mississippi, you're one State over from a good
8 one there, Louisiana.

9 THE WITNESS: Ha, ha, ha, ha, ha.

10 [Laughter.]

11 COMMISSIONER LeBLANC: He and I go back and forth,
12 so that's all right.

13 But you talk about the personnel at the DDU are
14 not familiar with the forms. Do you still say that? I
15 mean, I just understood you in answer to my colleague here
16 kind of saying that they were kind of familiar, they were
17 trying to work with you, but it seems to be in your
18 testimony that you're saying they're not familiar with the
19 forms, they don't even know what's really going on. Is
20 that --

21 THE WITNESS: What I meant -- what I believe I
22 said was at Prentiss, that's my DDU, they do accept my mail
23 each week, and whether or not they understand the form, you
24 know, I couldn't say, because as far as I know, they don't
25 touch my mail. I present them with a form, I always have

1 funds in their account, but if we were to have to file
2 another form at New Hebron, I don't know that that would be
3 fair, because New Hebron has no newspaper, it has no --

4 COMMISSIONER LeBLANC: Okay. So that's what you
5 were talking about.

6 THE WITNESS: Yes. And the workers there, I don't
7 know whether they would understand a 3541 or not.

8 COMMISSIONER LeBLANC: Okay. Thank you very much.
9 Thank you, Mr. Chairman.

10 CHAIRMAN GLEIMAN: You know, during football
11 season, we have to put these fellows at opposite ends of the
12 bench --

13 THE WITNESS: When LSU and Ole Miss play?

14 CHAIRMAN GLEIMAN: To keep peace in the family.

15 Does any participant have followup as a result of
16 questions from the bench?

17 If not, would you like some time with your witness
18 for redirect?

19 MS. RUSH: No, Mr. Chairman, thank you.

20 CHAIRMAN GLEIMAN: That being the case, Ms.
21 Speights, I want to thank you. We appreciate your
22 appearance here today and your contributions to our record,
23 and if there's nothing further, you're excused.

24 THE WITNESS: Thank you.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: Mr. Hart, counsel for NAPM.

2 Mr. Hart, if you could identify your witness.

3 MR. HART: Thank you, Mr. Chairman. Again, I am
4 Henry Hart representing the National Association of Presort
5 Mailers. I have with me NAPM witness NAPM-T-1, Mr. Dennis
6 MacHarg.
7 Whereupon,

8 DENNIS MacHARG,
9 a witness, was called for examination by counsel for the
10 National Association of Presort Mailers and, having been
11 first duly sworn, was examined and testified as follows:

12 CHAIRMAN GLEIMAN: Please be seated.

13 DIRECT EXAMINATION

14 BY MR. HART:

15 Q Mr. MacHarg, I am showing you two copies of what
16 were filed by you as your testimony in this proceeding,
17 entitled "Direct Testimony of Dennis MacHarg on Behalf of
18 the National Association of Presort Mailers," NAPM-T-1. Is
19 that the testimony which you filed in this proceeding?

20 A It is.

21 Q If you were to file the same testimony, would you
22 make any changes?

23 A No, sir.

24 Q Do you adopt this testimony as your testimony in
25 this proceeding?

1 A I do.

2 MR. HART: With the permission of the Chairman, I
3 would give two copies to the recorder and ask him to
4 introduce it into the record in this case.

5 CHAIRMAN GLEIMAN: Are there any objections?

6 [No response.]

7 CHAIRMAN GLEIMAN: Hearing none, Mr. MacHarg's
8 testimony and exhibits are received into evidence, and I
9 direct that they be transcribed into the record at this
10 point.

11 [Direct Testimony and Exhibits of
12 Dennis MacHarg, NAPM-T-1, was
13 received into evidence and
14 transcribed into the record.]

15

16

17

18

19

20

21

22

23

24

25

I. Statement Of Experience And Qualifications.

I, Dennis MacHarg, am the President of the National Association of Presort Mailers ("NAPM") and have served as a Director of the Association since 1986. My experience in mail processing dates back to 1980 when I founded Advance Presort Services, a major presort bureau based in Chicago, Illinois with a daily volume of approximately 2 million pieces. I am and have been President of Advance Presort Services since its founding in 1980. I have been the NAPM representative on MTAC for the past eight years. I served on the MTAC Committee to rewrite the Domestic Mail Manual ("DMM") in 1993 as a representative of First-Class mailers. I also served on the USPS Competitive Services Task Force in 1992.

II. Purpose.

The purpose of this testimony is to provide the Commission with the benefit of the perspective of presort bureaus on several aspects of the USPS Proposal in R97-1. In particular, I discuss the failure of the USPS to credit worksharing FCLM with the substantial mail forwarding cost savings which result from the move update requirements applicable to worksharing FCLM; I identify additional cost savings provided by presort bureaus but not reflected in the worksharing FCLM incentives; I discuss the overall value of the worksharing program to the USPS; I stress the need for increasing the incentives for the more valuable automated 3 digit and 5 digit FCLM relative to the less valuable automated basic FCLM; and I stress the benefits to the USPS of preserving the heavyweight incentive for heavyweight presorted FCLM and of modifying rates and makeup characteristics to attract more barcoded FCLM flats.

III. The USPS Proposal Fails To Recognize Substantial Mail Forwarding Cost Savings Of Worksharing FCLM.

The USPS Proposal in R97-1 fails to include substantial reductions in the costs of forwarding of undeliverable-as-addressed mail due to compliance of worksharing FCLM with move update requirements. Mailers have incurred and are incurring substantial expenses in order to comply with the move update requirements which were made applicable to worksharing FCLM effective July 1, 1997. It is frustrating to see the USPS impose such a requirement on worksharing FCLM without making any effort to quantify the obvious benefit which the USPS derives from such requirement as a result of the reduction in USPS costs of forwarding UAA mail.

In my company, in order to comply with move update requirements, we have currently implemented Fast Forward on two of our five MLOCRs and expect to have implemented Fast Forward on three of our five MLOCRs by March 31, 1998 (halfway through the 1998 test year in R97-1). This Fast Forward methodology avoids most all mail forwarding costs to the USPS for that worksharing FCLM which goes through Fast Forward.

Based upon my conversations with other presort bureaus and equipment manufacturers, it is my conservative estimate that by March 31, 1998, at least 25% of worksharing FCLM volume delivered to the USPS will have been run through Fast Forward and will therefore avoid most all forwarding costs to the USPS. In addition to this 25% or more of total worksharing FCLM volume which I believe will be processed through Fast Forward on or after March 31, 1998, and therefore be free of most all forwarding costs to the USPS, the remaining percentage of

worksharing FCLM will have complied with other move update tools such as Address Correction Endorsement ("ACE"), ACS or NCOA. Although such move update procedures other than Fast Forward do not avoid the need of the USPS to forward an UAA the first time, such move update procedures should result in additional substantial reductions in the number of mail pieces which need to be forwarded by the USPS.

Therefore, based upon my calculation that at least 25% of worksharing FCLM volume will be covered by Fast Forward, I can make a very conservative estimate that the USPS mail forwarding costs will be eliminated by at least this same 25%, since in addition to the elimination of most all forwarding costs of mail covered by Fast Forward, that portion of worksharing FCLM which is not covered by Fast Forward will still be covered by ACE, ACS or NCOA which should result in additional savings to the USPS in the form of further reduced mail forwarding costs.

IV. Additional Unrecognized Cost Savings Of Worksharing FCLM.

Although I understand that the USPS methodology for measuring cost avoidance of worksharing FCLM does not consider such costs savings, I believe it important to again remind the Commission that presort bureaus and other worksharing FCLM mailers perform the following functions which significantly reduce USPS costs: facing, culling, cancelling, and banding and sleeving of trays.

In addition, I think that the Commission should continue to recognize that the worksharing FCLM rate should reflect the important role which worksharing mailers play in the USPS system. I estimate that the floor space utilized by NAPM members for their worksharing operations is in excess of 2.5 million square feet; and I estimate that members of NAPM have

invested in and devote approximately 300 MLOCs, in addition to other costly equipment such as BCRs and RVEs, to participate in the USPS worksharing FCLM program. Presumably, those worksharing FCLM mailers other than NAPM members devote a comparable amount of work space and automated equipment to performing their worksharing functions. It seems highly likely that NAPM members and other worksharing FCLM mailers have procured their plant space in a less costly manner than could have the USPS. Furthermore, the sheer size of the amount of physical plant and equipment devoted by mailers to the USPS worksharing program makes it appropriate for the Commission to consider the positive value of this contribution in determining whether to adopt a conservative or more expansive measure of cost avoidance of worksharing FCLM. In particular, as it has in the past, the Commission should consider the total inability of the USPS to handle worksharing FCLM if it were to revert from worksharing mailers to the USPS, as a reason to adopt a less conservative and more expansive measurement of worksharing FCLM cost avoidance, and to therefore establish larger incentives for worksharing FCLM.

V. Fast Forward License Fees.

I note that the USPS has not included in this case any benefit to the USPS in the form of Fast Forward license fees. USPS witness O'Hara in response to ABA, EEI & NAPM/USPS-T30-1 stated that Fast Forward license fees were not specifically included in test year revenues, and provided an informal estimate that such fees in Fiscal Year 1998 would be \$3,000,000. Initially, it does not seem fair to me that this \$3,000,000 fee is not included in the USPS proposal within that revenue derived by the USPS from worksharing FCLM. Also of concern to me is the fact

that the USPS has unilaterally established such license fee outside the context of a postal rate proceeding where parties would have the opportunity to comment on the fee and the Commission would play a valuable role in determining whether any fee at all should be charged for the Fast Forward service.

VI. Flats And The Heavyweight Presort Incentive.

The USPS has proposed to eliminate the "heavyweight" incentive of 4.6¢ per piece of worksharing first class mail weighing more than two ounces. The USPS provides no study to justify the elimination of this long-standing incentive. Rather, USPS witness Fronk summarily states that the heavyweight incentive should be eliminated because: 1) heavyweight mail has benefitted since 1990 from an increased gap between the first ounce rate and the additional ounce rate of first class mail, and 2) elimination of the incentive would "simplify the rate structure."

ABA, EEI & NAPM witness James Clifton has filed testimony in this proceeding unequivocally demonstrating that the incentives proposed by the USPS for worksharing FCLM are significantly understated. The elimination of the first class worksharing heavyweight incentive, when coupled with the significantly understated incentives proposed by the USPS for worksharing FCLM, results in unfair treatment of first class worksharing mailers and is damaging to the very worksharing program which is so vital to the well being of the USPS.

Furthermore, the elimination of the heavyweight incentive for first class worksharing mail is particularly damaging to the ability of the USPS to attract barcoded first class flats. The cost savings to the USPS from barcoded flats are substantial and are grossly in excess of the incentives offered by the USPS for barcoded flats. In particular, USPS witness Daniel at Exhibit

USPS-29C shows a difference in total mail processing and delivery costs of first class single piece flats and first class basic flats of over 9¢ and a difference in total mail processing and delivery costs of first class single piece flats and first class automated 3/5 digit flats of over 23¢. Notwithstanding this staggering level of cost avoidance, the USPS proposes only a 3¢ incentive for first class automated basic flats and a 5¢ incentive for first class automated 3/5 digit flats. In MC95-1, the USPS attempted to justify low incentives for first class automated flats by arguing that it did not utilize the barcodes on the flats. However, the USPS is now enhancing its automation equipment so that it can place barcoded flats on equipment which will read barcodes.

In light of the tremendous cost savings to be recognized by the USPS from receiving barcoded flats, as evidenced by testimony of USPS witness Daniel, I urge the Commission to recommend the following actions which would increase the volume of the barcoded first class flats received by the Postal Service, thereby enabling the Postal Service to benefit from substantial cost savings:

1. Retain the 4.6¢ heavyweight incentive which is so important to worksharing mailers delivering flats to the USPS;
2. Increase incentives for first class automated flats to a level which passes through a much more substantial portion of the cost savings enjoyed by the USPS from such automated flats; and
3. Drop the 5 digit requirement for the second tier of the first class automated flats rate category, so that such category is simply for an automated 3 digit flat.

VII. Automated FCLM Rate Category Rates Should Be Structured To Maximize The Volume Of Automated 3 Digit And 5 Digit FCLM Relative To Automated Basic FCLM.

In MC95-1 the USPS relied on its cost studies to propose a FCLM automated rate category structure which would have established the incentive for automated 3 digit FCLM at 2.0¢ above the incentive for automated basic FCLM (i.e., 7.0¢ - 5.0¢). Although the Commission ultimately recommended a higher incentive for automated basic FCLM than was recommended by the USPS, NAPM was disappointed that the Commission did so at the expense of automated 3 digit FCLM, thereby narrowing the difference between automated basic FCLM and automated 3 digit FCLM to 0.7¢ (i.e., 6.6¢ - 5.9¢).

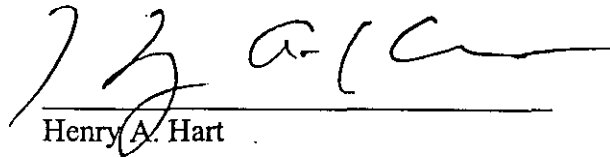
Although I believe that the worksharing FCLM incentives proposed by the USPS in this case are understated across the board, I was pleased to see the USPS proposal would at least increase the gap between automated basic FCLM and automated 3 digit FCLM to 1.0¢ (i.e., 6.5¢ - 5.5¢).

Automated basic FCLM is still a relatively immature and unproven rate category. The fact that the eligibility criteria for automated basic FCLM allow a sort to a mixed AADC means that the USPS does not bypass processing operations at the origin USPS site for such mail. USPS witness Fronk has stated in his testimony that the most important automated FCLM rate category to the USPS worksharing program is automated 3 digit FCLM. Accordingly, I urge the Commission to recommend incentives for automated FCLM rate categories which will encourage a high volume of automated 3 and 5 digit FCLM relative to automated basic FCLM.

In particular, any automated FCLM rate category structure should have at least a 1.0¢ increment
between automated basic FCLM and automated 3 digit FCLM.

CERTIFICATE OF SERVICE

I hereby certify that I have this 30th day of December, 1997, served the foregoing
document upon all participants of record in this proceeding in accordance with section 12 of the
Rules of Practice.



Henry A. Hart

210 King Street
Suite 200
Alexandria, Virginia 22314
(703) 838-5153

04437\011\TESTIMON.OTL

1 CHAIRMAN GLEIMAN: Mr. MacHarg, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available?

4 THE WITNESS: Yes, I have. Yes, I have.

5 CHAIRMAN GLEIMAN: And if questions were asked of
6 you today, would your answers be the same as those you
7 previously provided?

8 THE WITNESS: They would absolutely be the same,
9 sir.

10 CHAIRMAN GLEIMAN: Thank you.

11 That being the case, I am going to provide two
12 copies of the designated written cross-examination to the
13 reporter and direct that it be accepted into evidence and
14 transcribed into the record at this point.

15 [Designation of Written
16 Cross-Examination of Dennis
17 MacHarg, NAPM-T-1, was received
18 into evidence and transcribed into
19 the record.]

20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF NATIONAL ASSOCIATION OF PRESORT MAILERS
WITNESS DENNIS MACHARG
(NAPM-T1)

Party

Interrogatories

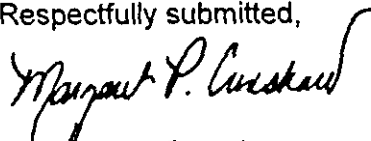
Office of the Consumer Advocate

USPS/NAPM-T1-1-9

United States Postal Service

USPS/NAPM-T1-1-9

Respectfully submitted,



Margaret P. Crenshaw
Secretary

Designating Parties:

[illegible]

**INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
TO NAPM WITNESS MACHARG**

USPS/NAPM-TI-1

On page 6, lines 1-3, of your testimony you present First-Class Mail cost differences between: (i) single-piece flats and basic automation flats, and (ii) single-piece flats and 3/5-digit flats.

- (a) Please confirm that the single-piece cost number you use in your calculations includes parcels as well as flats. If not confirmed, please explain.
- (b) Is it your contention that single-piece costs are the appropriate benchmark to use in measuring cost differentials for setting worksharing discounts? Please explain.
- (c) Please confirm that single-piece mail includes everything from "clean" mail (uniform pieces featuring typewritten or pre-printed addresses and often mailed in bulk) to "dirty" mail (pieces featuring handwritten and incorrect or incomplete addresses). If not confirmed, please explain.
- (d) In its Opinion and Recommended Decision in Docket No. MC95-1, paragraph 4210, it states, "The Commission concludes that cost differentials should reflect costs avoided by worksharing alone, since the primary purpose of the discount is to maximize productive efficiency within postal markets." Please reconcile your use of a single-piece benchmark with this Commission statement.

RESPONSE

- (a) Confirmed.
- (b) Yes, since the discount is calculated off the single piece.
- (c) Confirmed.
- (d) In MC95-1 the Commission rejected the USPS proposal to create a separate subclass for first class automated mail. The Commission based its rejection in large part upon the conclusion that there were not sufficient differences between the content and other characteristics across FCLM to justify separate subclass status for automated FCLM. See Opinion and Recommended Decision in MC95-1 at ¶ 5030. It seems most unfair to deny first class automated mail the benefits of subclass status on the basis that it is too homogeneous with single piece mail to be in a separate subclass, but to then reject single piece mail as a benchmark on the basis that it is not sufficiently homogeneous with automated mail.

USPS/NAPM-T1-2.

On page 2, lines 19-20, of your testimony, you recommend the following, "Drop the 5 digit requirement for the second tier of the first class automated flats rate category, so that such category is simply for an automated 3 digit flat."

- (a) Please confirm that if this recommendation were adopted, it would reduce the amount of worksharing performed by mailers, shifting it back to the Postal Service.
- (b) Is it your proposal that the 5-digit requirement be dropped, but that -- all other things remaining equal -- the discount for the rate category be left the same? Please explain.
- (c) If the costs avoided by the Postal Service are reduced (as a result of the 5-digit requirement being dropped, so that the category is simply for automated 3-digit flats) and all other things remain equal, does it not follow that the corresponding discount needs to be reduced as well? Please explain.

RESPONSE

- (a) Confirmed.
- (b) No. I have not recommended that the discounts for first class automated flats remain the same. I have recommended that the 4.6¢ heavyweight incentive be retained, that incentives for first class automated flats be increased to a level which passes through a much more substantial portion of the costs savings enjoyed by the USPS from such automated flats, and that the 5-digit requirement for the second tier of the first class automated flats rate category be eliminated (see p. 6 of my testimony). USPS witness Daniel at Exhibit USPS-29C estimates mail processing and delivery costs for flats and parcels single piece of 40.9560¢, for automation basic of 31.2758¢ and for 3/5-digit of 17.885¢. If the 5-digit requirement were dropped, the mail processing and delivery costs of the resulting 3-digit automation flats would certainly be no more than the 31.2758¢ for automation basic flats. This 31.2758¢ cost is more than 9¢ less than single piece flats, and therefore provides ample justification for an incentive well in excess of the 5.0¢ proposed by the USPS for first class automated 3/5-digit flats.
- (c) See my response to USPS/NAPM-T1-2.

04347\011\MACHARG.INT

**INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE
TO NAPM WITNESS MACHARG**

USPS/NAPM-TI-3

Did your company comply with the move update requirements as of July 1, 1997? Did all other presort bureaus comply as of July 1, 1997? Are there currently presort bureaus who have expressed an intention to use the Fast Forward option for compliance, but which are not now in compliance? Please indicate the number of presort bureaus you know to fit this description.

RESPONSE

My company did not comply with the move update requirements as of July 1, 1997. To my knowledge, other presort bureaus did not comply with the move update requirements as of July 1, 1997, since the manufacturers were given an extension ultimately until December 31, 1997. I have no knowledge of any presort bureaus that are not in compliance with move update requirements.

USPS/NAPM-TI-4.

Please confirm that before the move update requirements were mandatory, there was significant voluntary use of ACE, ACS and NCOA by First-Class presort mailers?

RESPONSE

I cannot confirm that there was significant voluntary use of ACE, ACS and NCOA by First Class presort mailers before move update requirements were mandatory.

USPS/NAPM-T1-5.

What is the basis for your claim that volumes processed through Fast Forward will "be free of most all forwarding costs to the USPS" as you indicate at page 2, lines 21 to 23?

RESPONSE

The whole purpose of Fast Forward is to pick up an incorrect address, match it to a corrected address, and correct the mail piece before it is entered into the USPS mail stream, thereby avoiding the need for any forwarding costs for such piece. While I understand that this system is not currently capable of making a perfect match for every piece which may not bear a correct address, USPS officials speaking at the December 5, 1997 Multi-Line Users Group Meeting at the Mailers' Council Meeting in Orlando, Florida were very enthusiastic about the effectiveness of the Fast Forward System.

USPS/NAPM-T1-6.

- (a) What percentage of presort bureaus currently use the Fast Forward option to comply with the move update requirement?
- (b) On what percentage of their MLOCRs do these presort bureaus currently use the Fast Forward option to comply with the move update requirement?

RESPONSE

(a) & (b) I do not know the precise percentage of presort bureaus currently using the Fast Forward option to comply with move update requirements, but USPS officials at the December 5, 1998 Mailers' Council Meeting in Orlando, Florida reported that of approximately 600 MLOCRs in current use, the USPS had granted Fast Forward licenses for 123 machines, and had applications pending for 114 more.

USPS/NAPM-T1-7.

What percentage of presort bureaus intend to use the Fast Forward option to comply with the move update requirement?

RESPONSE

I do not have information on what percentage of presort bureaus, as opposed to what percentage of all mailers of automated FCLM intend to use the Fast Forward option to comply with the move update requirement. However, as noted in my response to USPS/NAPM-T1-6, I understand that as of December 5, 1997, 237 of 600 existing MLOCRs were licensed for Fast Forward or were the subject of a pending application for a license of Fast Forward.

USPS/NAPM-T1-8.

- (a) Of commercial mailers which use MLOCRs to prepare their own presort First-Class Mail, what percentage currently use the Fast Forward option to comply with the move update requirement?
- (b) Of commercial mailers which use MLOCRs to prepare their own presort First-Class Mail, on what percentage of their MLOCRs do these mailers currently use the Fast Forward option to comply with the move update requirement?

RESPONSE

- (a)&(b) See response to USPS/NAPM-T1-6 and 7.

USPS/NAPM-T1-9

What percentage of commercial mailers which use MLOCRs to prepare their own presort First-Class Mail intend to use the Fast Forward option to comply with the move update requirement?

RESPONSE

See response to USPS/NAPM-T1-6 and 7.

04347\011\MACHARG1.INT

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, we will move on to oral
5 cross-examination. Only the Postal Service has requested
6 oral cross-examination. Does any other party wish to
7 cross-examine the witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, Mr. Tidwell, you can
10 begin when you are ready.

11 MR. TIDWELL: Good morning, Mr. Chairman.

12 CROSS-EXAMINATION

13 BY MR. TIDWELL:

14 Q Good morning, Mr. MacHarg. I am Michael Tidwell
15 on behalf of the United States Postal Service. I hope to be
16 brief.

17 If a mailer uses a national change of address
18 system within six months of a mailing or every six months,
19 and that mailer uses no other move update method to correct
20 addresses, do you know what percentage of forwarding will be
21 avoided as compared with that mailer not using NCOA?

22 A In reality, no. But if you use the math on it,
23 day one -- day one, you would eliminate all, and then it
24 would slide on a sliding scale toward the 180th day. With 7
25 percent of the population moving, the odds are some of those

1 would contain moves.

2 Q And if the same -- if a mailer used Fast Forward
3 and no other move update method, do you know what percentage
4 of forwarding would be avoided as compared to that mailer
5 not using Fast Forward?

6 A In a Fast Forward environment, if there was a
7 change in it, the change would be provided instantly and
8 there would be no cost to the Postal Service.

9 Q Let's take a look at your response to Postal
10 Service Interrogatory No. 4.

11 A Okay.

12 Q Here we ask you to confirm whether before the move
13 update requirements were mandatory, there was significant
14 voluntary First Class mail, presort mailer use of address
15 correction requested or ACR, or ACS, the address change
16 service, or NCOA, the National Change of Address Service.
17 And you responded by saying that you could not confirm
18 whether such use was significant, and you underlined the
19 word significant. And I am just trying to probe to make
20 sure I understand the intent of the underlying.

21 Would it be more appropriate to interpret your
22 answer as indicating that you are aware of presort of
23 mailers using ACR, ACS and NCOA before a move update became
24 mandatory, but that you don't know enough to be able to say
25 whether their use was significant? Or are you saying that

1 ACR, ACS, and NCOA were used by presort mailers before move
2 update became mandatory, but in your opinion, not to a
3 significant degree?

4 A I believe that is correct, that I don't believe
5 that it was significant. We have to split a hair here
6 between a presort mailer and a list mailer. We that run
7 machines don't control the mail. Those that create off of
8 lists do control the mail, and I -- you know, I don't have
9 the inside to the presorters that do it via list.

10 I can tell you that the presort bureaus that just,
11 you know, do the work, none of us did any of this.

12 Q Okay. Okay. Let's take a look at your response
13 to Postal Service Interrogatory No. 3. There you talk about
14 presort bureau compliance with the move update requirements,
15 and you indicate that yours and other presort bureaus were
16 not in compliance with the requirements which took effect on
17 July 1st of '97. And on page 2, around line 13 of your
18 testimony, you indicate that you have implemented Fast
19 Forward on two your five MLOCs, and you expect to have it
20 implemented on a third machine by the end of next month.

21 I am just curious, when was Fast Forward
22 implemented on the first two machines?

23 A I believe that the first machine came up middle of
24 October, and the second machine, somewhere November, early
25 December.

1 Q Okay. And I take it tat the Postal Service
2 granted your firm an exemption or a waiver from the
3 requirements to allow for that?

4 A Correct.

5 Q And what were the ground for the waiver?

6 A The grounds were that you had applied successfully
7 for a Fast Forward license and that you were waiting to be
8 installed by the manufacturer.

9 Q And I take it, there were a lot of presort bureaus
10 that were sort of in a similar situation, there were some
11 manufacturer delays in the delivery of Fast Forward
12 technology?

13 A Correct.

14 Q And is it your understanding that these waivers
15 were granted sort of on a rolling basis through the end of
16 1997, depending on which manufacturer a particular presort
17 bureau was doing business with? So, I mean, if, for
18 instance, you had a Pitney-Bowes machine and Pitney Bowes
19 wasn't coming online until October, then you had a waiver
20 until October, but if you had another manufacturer's
21 equipment and they weren't coming online till December, then
22 you got until December to come into compliance?

23 A That's pretty much correct.

24 Q So you have got two OCRs with move update -- with
25 Fast Forward now. Is it the case that, for the mail

1 prepared on your other three OCRs, that either you or your
2 customers are required to utilize another move update
3 method?

4 A Correct.

5 Q That would be either NCOA or address change
6 service, before the mail gets tendered to the Postal
7 Service?

8 A Correct.

9 Q Do you know whether any of the these mailer
10 compliance efforts are audited by the Postal Service
11 presently, or is everything operating right now on the honor
12 system?

13 A I believe that we are on the honor system,
14 although I did receive notification from Memphis about
15 pending audits and how the audits would be conducted.

16 Q From Memphis -- when you say Memphis, who, in
17 particular, in Memphis?

18 A Mike Murphy's office.

19 Q Okay. Let's take a look at your response to
20 Postal Service Interrogatory No. 6. You testify there that
21 you were told back in December by some postal officials
22 that, of the 600 mailer-owned OCRs, 123 had been granted
23 Fast Forward permits and 114 had permits pending. And so if
24 my primitive math skills are any good, of 600, we had 123 on
25 December 5th that were Fast Forward approved, which is about

1 20 percent and it meant that at least as of that date, we
2 had approximately 114, or another 18 or 19 percent, for
3 which permits were still pending.

4 Do you know where things stand presently with
5 respect to that remaining 114?

6 A Approximately two weeks ago, at the National
7 Association of Presort Mailers Winter Meeting, the Postal
8 Service reported that there were 211 Fast Forward systems in
9 existence, 166 on multi-line optical character readers and
10 45 in the computer version.

11 Q Clarify what the computer version is.

12 A It's just a different version. It's where your --
13 it's designed to be used on a list rather than a live mail
14 piece, used to correct an address before the address is even
15 printed.

16 Q Let's take a look at page 2 of your testimony
17 again.

18 CHAIRMAN GLEIMAN: Mr. Tidwell, before you move
19 on, you were asking questions in reference to the witness'
20 response to interrogatory number 6, and I just would like to
21 make a note for the record that looking at the response to
22 the interrogatory, it talks about a meeting that took place
23 between Postal Service officials and Mailers' Council in
24 Orlando, Florida, December 5th, and it reads, at least in
25 the copy that I have, 1998, and I believe it should be 1997.

1 I'm usually pretty far behind the power curve, but I don't
2 think I'm that far behind today, so I just wanted to make
3 clear for the record that we were dealing with a meeting
4 last year and not this coming year.

5 MR. HART: May I ask, do you agree with that?

6 THE WITNESS: I certainly do. It's a typo, Mr.
7 Chairman. I apologize.

8 CHAIRMAN GLEIMAN: It's not a big deal except if
9 somebody goes to cite it, since it's in the record now, you
10 know, they may try to discredit the response as a
11 consequence of a typo and we wouldn't want that to happen.
12 I would like the substance to stand on its own.

13 MR. HART: Thank you.

14 BY MR. TIDWELL:

15 Q At about line 19 on page 2, you estimate that 25
16 percent of work-shared first-class mail will have been run
17 through fast forward by March 31st of this year; is that
18 correct?

19 A Yes, sir.

20 Q And there, are you referring to all first class
21 work-shared mail or only that mail entered by presort
22 bureaus, such as --

23 A No. All first class mail.

24 Q Okay. And at line 18, you indicate that this 25
25 percent estimate is based upon your conversations with other

1 presort bureaus and equipment manufacturers. When did these
2 conversations take place?

3 A They've been ongoing.

4 Q Which equipment manufacturers are you referring
5 to?

6 A Postal Technology, Bell & Hall and Electrocom,
7 which is I guess technically now Siemens. Everybody seems
8 to be buying everybody.

9 Q What sort of information did the equipment
10 manufacturers provide which factored in the development of
11 your estimate?

12 A How many machines that they have presently in the
13 field and how many machines they have either installed
14 and/or licensed for fast forward.

15 Q Do you recall offhand how many presort bureaus you
16 talked to?

17 A No. No, I don't. In numbers, no.

18 Q Can you generally describe the sort of information
19 they provided that went into your estimate?

20 A Well, we were talking about the match rates is
21 what we were discussing and how well the equipment works and
22 where the problems were and where we all thought we would
23 be, and that's where the discussions all revolved around.

24 Q Can you tell us what you mean -- everyone here
25 what you mean by match rates?

1 A That's when you have a mail piece that has a
2 correctable address and we correct in relationship to the
3 total volume.

4 Q When you say correctable, are you using that term
5 to include let's say just address changes? I mean, the
6 address -- there can be pieces where the address on the
7 pieces is correct in the sense that it's a good address, but
8 that it just so happens that the recipient has moved to
9 another address.

10 A That's what I'm referring to.

11 Q Okay. And so this 25 percent estimate is sort of
12 derived from these conversations with mailers and equipment
13 manufacturers. I mean, you don't have any -- you didn't
14 develop any worksheets where you developed a lot of complex
15 calculations or anything?

16 A No, not really, but if you look at the number of
17 total universe multi-lines at 600 and the idea that our
18 membership has approximately half of that, and that our
19 membership has somewhere in the neighborhood of twelve
20 billion mail pieces and that somewhere around half of our
21 membership is going to end up with fast forward, either as
22 indicated already, that we're closing in on that number, and
23 if the rest of the universe, you know, the rest of the
24 multi-lines do as much mail as members of my association,
25 you've got 24, 25 billion pieces of mail out of 39 total or

1 37 total billion, that certainly would say that the numbers
2 should work out.

3 COMMISSIONER LeBLANC: Mr. MacHarg, that was 29
4 billion out of the -- did I hear you right?

5 THE WITNESS: No. Our association represents
6 somewhere around 12 to 13 billion, and that's half of the
7 multi-lines. So if you just assume that the other half will
8 see as much mail as we do, that would give you 24 to 25
9 billion pieces.

10 COMMISSIONER LeBLANC: That's what I was trying to
11 get to. Thank you.

12 BY MR. TIDWELL:

13 Q Let's take a look at your response to Postal
14 Service interrogatory number 5.

15 A Yes.

16 Q In response to our interrogatory number 5, you
17 gave us your impression that there were Postal Service
18 officials who spoke at this December 5th, 1997 meeting who
19 were very enthusiastic about the effectiveness of the fast
20 forwarding system. Who were the officials you're referring
21 to?

22 A Rocky Matthews and Audrey Connolly.

23 Q With respect to their enthusiasm about the system,
24 were they -- or when they were discussing things in the
25 manner that you've characterized as enthusiastic, can you

1 recall whether that discussion related to the potential
2 benefits of fast forward or its performance to date?

3 A I think it was both.

4 Q And would their remarks also have related to how
5 it worked technically or the degree of -- well, step back.

6 Did the remarks relate to how fast forward worked
7 technically?

8 A I would think so.

9 Q And did their remarks relate to the degree of
10 compliance by presort bureaus and other mailers?

11 A I don't think so.

12 Q During these discussions, was there talk about the
13 percentage of hits mailers were experiencing when they used
14 fast forward?

15 A There was.

16 Q Can you recall what was said?

17 A Just a little over one percent.

18 Q And is that consistent with your firm's
19 experience?

20 A Correct.

21 Q And is that consistent with what mailers were told
22 to expect with fast forward as the program was being
23 developed?

24 A No. We believed that it would have been higher.

25 Q And what do you think accounts for the difference

1 between actual performance and your earlier expectations?

2 A I have no explanation for it.

3 Q Do you know whether the volume of forwarded mail
4 has declined as a result of the move-up date requirements?

5 A I would sure hope so. I mean, I have no permanent
6 evidence of it, but since it has been in place, I have to
7 believe that it has gone down somewhat.

8 Q But you have not seen any Postal Service reports
9 indicating one way or the other?

10 A Well, I did see a report early on of how many
11 attempts had been made and a percentage of the attempts, the
12 one percent number, which would eliminate whatever the
13 number was that I saw.

14 Q Okay.

15 MR. TIDWELL: We have no further questions.

16 CHAIRMAN GLEIMAN: Is there any follow-up?

17 Questions from the bench?

18 Commissioner LeBlanc.

19 COMMISSIONER LeBLANC: Mr. MacHarg, good to see
20 you again.

21 THE WITNESS: Thank you.

22 COMMISSIONER LeBLANC: You state in I guess it's
23 the first -- I'll call it the first page of your testimony,
24 line 17, I stress a need for increasing the incentives for
25 the more valuable automated three-digit and five-digit first

1 retaining the 4.6 heavyweight incentive, which is so
2 important to work-sharing mailers delivering flats to the

1 class letter mail relative to the less valuable automated
2 basic.

3 Can you elaborate on that a little bit for me as
4 to how that would help your industry?

5 THE WITNESS: Well, it would help the Postal
6 Service, and basic mail, you get --

7 COMMISSIONER LeBLANC: That's what I meant, from
8 your industry to the Postal Service.

9 THE WITNESS: Well, if you had more three-digit
10 sorted mail, you would increase the productivity of the
11 Postal Service by having bulk bypass. Basic rate mail has
12 no bulk bypass whatsoever. It comes to that originating
13 post office and stops and is worked as regular mail, whereas
14 three-digit, you know, goes on by.

15 COMMISSIONER LeBLANC: Now, on page 6 of your
16 testimony, you talk about, which I find interesting, you go
17 back to MC95-1 and you talk about on the bottom the
18 heavyweight pieces and the automated flats and so forth, and
19 I would like to ask, if you will, because as I recall, I
20 believe the discount was almost cut in half in MC95, the
21 presort industry -- I would have to go back and check my
22 figures, but that was allowed.

23 So you talk about now coming up with some other
24 ways of helping the Postal Service, as you say, the Postal
25 Service to benefit from substantial cost savings, one, by

1 there?

2 THE WITNESS: Well, again, we're referring to the
3 Daniels chart where he calls a single piece at 40.956 versus
4 a 3.5 at 17.88, and what we're suggesting is something in
5 between there for a three-digit sorted flat, bar-coded flat.

6 COMMISSIONER LeBLANC: And then lastly, No. 3
7 there, you talk about drop the five-digit requirement for
8 the second tier. Why would that be much of a help in your
9 industry?

10 THE WITNESS: Because it's -- to process
11 flat-sized mail in an economical manner, getting to the
12 five-digit is almost impossible. It just takes forever to
13 get it there. The equipment doesn't have enough pockets,
14 doesn't have enough speed, okay? And in letter mail we have
15 a -- you know, you have basic automation, then you have a
16 three-digit rate, and then you have an optional five-digit
17 rate where we don't have that option in flat-sized mail.

18 COMMISSIONER LeBLANC: Thank you very much.
19 Thank you, Mr. Chairman.

20 CHAIRMAN GLEIMAN: Commissioner Haley?

21 COMMISSIONER HALEY: Good morning. How are you,
22 Mr. MacHarg?

23 I note on your statement of experiences and
24 qualifications that you've been a representative of the MTAC
25 Committee for eight years; is that --

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

1 THE WITNESS: Correct.

2 COMMISSIONER HALEY: Yes. Let me ask you, how
3 frequently does that committee meet?

4 THE WITNESS: Quarterly.

5 COMMISSIONER HALEY: Quarterly? And I take it
6 that you attend quarterly.

7 THE WITNESS: Try to do it every one.

8 COMMISSIONER HALEY: Yes. Have you found this
9 committee helpful to some of your concerns in really genuine
10 discussion about --

11 THE WITNESS: There have been many, many genuine
12 concerns that have been cleaned up, if you will, at the MTAC
13 meetings.

14 COMMISSIONER HALEY: Yes. I was listening of
15 course to the Commissioner here and others. I mean, some of
16 the things that you are talking about, you bring them up at
17 the meetings, and I can appreciate that all of them can't be
18 done, but at least they are seriously communicated about
19 there; is that right?

20 THE WITNESS: That's correct.

21 COMMISSIONER HALEY: Um-hum. Okay. I just -- I
22 think that that committee is very significant and important
23 from the standpoint of communications, and I just wondered
24 how you felt about it.

25 THE WITNESS: No, without any doubt, it is very

1 helpful, and it's a very good launching pad for many ideas
2 and ways of correcting inequities before they get to the --
3 to a real rule.

4 COMMISSIONER HALEY: All right. All right. Thank
5 you.

6 THE WITNESS: Thank you.

7 CHAIRMAN GLEIMAN: Since Commissioner Haley asked
8 you about MTAC, just so we understand what it is, can any
9 mailer participate in MTAC, or do you have to be approved by
10 the Postal Service to participate? Do you know?

11 THE WITNESS: Well, we've kind of changed the
12 rules a little bit here in the last six months. MTAC was
13 association representation only, and obviously the
14 association was invited by the Postal Service, but the new
15 MTAC is now trying to reach out to all mailers to allow
16 participation on any one of the broad subjects that may be
17 developing.

18 CHAIRMAN GLEIMAN: Probably be more useful in
19 solving problems if they reach out.

20 Is there any followup as a consequence of
21 questions from the bench?

22 If not, that brings us to redirect.

23 Mr. Hart, would you like some time with your
24 witness?

25 MR. HART: Could I just have a minute with Mr.

1 MacHarg?

2 CHAIRMAN GLEIMAN: Certainly.

3 MR. HART: I may not have redirect. I just want
4 to talk to him.

5 CHAIRMAN GLEIMAN: Fine.

6 [Discussion off the record.]

7 MR. HART: Thank you, Mr. Chairman. We have
8 nothing further.

9 CHAIRMAN GLEIMAN: If there's nothing further,
10 then Mr. MacHarg, I want to thank you. We appreciate your
11 appearance here today and your contributions to our record,
12 and if there's nothing further, you're excused.

13 [Witness excused.]

14 CHAIRMAN GLEIMAN: I think that this would be a
15 good point to take our midmorning break, and we'll come back
16 at five after the hour and pick up with our next MPA
17 witness.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Mr. Gold, if you would call
20 your next witness.

21 MR. GOLD: Yes, Stephen Gold, on behalf of
22 Magazine Publishers of America.
23 Whereupon,

24 SANDER A. GLICK,
25 a witness, was called for examination by counsel for

1 Magazine Publishers of America and, having been first duly
2 sworn, was examined and testified as follows:

3 DIRECT EXAMINATION

4 BY MR. GOLD:

5 Q Would you identify yourself for the record,
6 please?

7 A Sander Glick.

8 Q Mr. Glick, do you have before you what's been
9 identified as MPA-T-4, Direct Testimony of Sander Glick?

10 A Yes, I do.

11 Q Was this prepared by you or under your direction?

12 A Yes, it was.

13 Q Do you have any corrections today?

14 A No, I don't.

15 Q If you were giving this testimony orally today,
16 would your testimony be the same?

17 A Yes, it would.

18 MR. GOLD: Mr. Chairman, I'm handing two copies of
19 this testimony, MPA-T-4, to the reporter, and ask that it be
20 admitted into evidence.

21 CHAIRMAN GLEIMAN: Are there any objections?

22 Hearing none, Mr. Glick's testimony and exhibits
23 are received into evidence, and I direct that they be
24 transcribed into the record at this point.

25 [Direct Testimony and Exhibits of

1 Sander A. Glick, MPA-T-4, was
2 received into evidence and
3 transcribed into the record.]
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

ANN RILEY & ASSOCIATES, LTD.
Court Reporters
1250 I Street, N.W., Suite 300
Washington, D.C. 20005
(202) 842-0034

MPA-T-4

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

DIRECT TESTIMONY
OF
SANDER A. GLICK
ON BEHALF OF
MAGAZINE PUBLISHERS OF AMERICA

1 **I. Autobiographical Sketch**

2
3 My name is Sander A. Glick. I am a Senior Analyst at Project
4 Performance Corporation (PPC), a consulting firm based in Sterling, Virginia.
5 PPC provides management, information technology, and environmental
6 consulting services to private and public sector clients. The firm has grown
7 rapidly since our inception in 1991; last year we were number 272 on the *Inc.*
8 *500*, a compilation of the fastest growing private companies in America. Since
9 joining the firm, I have performed economic and cost analysis for both private
10 and governmental clients.

11
12 I attended the Maxwell School of Citizenship and Public Affairs at
13 Syracuse University, where I received a Master of Public Administration degree
14 in 1994, and Carleton College, where I received a BA, magna cum laude, in
15 Physics in 1993. While at Syracuse University, I was a graduate assistant in the
16 Center for Technology and Information Policy and assisted in developing and
17 administering a National Science Foundation-funded survey of more than 500
18 companies regarding the costs and benefits of working with Federally-funded
19 Research and Development laboratories.

20
21 Following my formal education, I joined PPC in 1994 as an Analyst. At
22 the end of 1996, I was promoted to Senior Analyst. Since joining PPC, I have
23 assisted the Department of Energy by developing methods for estimating the
24 life-cycle cost of cleaning up nuclear weapon production sites and then
25 collecting data to implement the analysis. I have also developed regulatory
26 compliance cost estimates and reviewed cost estimates prepared by other cost
27 estimators.

1 **II. Purpose of Testimony and Summary Conclusions**

2
3 United States Postal Service witness Schenk develops estimates of the
4 attributable costs of Advance Deposit BRMAS-qualified BRM (Advance Deposit
5 BRM) pieces, which is the basis for the six cent QBRM fee. In this testimony, I
6 review her methodology and her mail flows. I use the same process as witness
7 Schenk to develop a cost estimate for Advance Deposit BRM but make
8 alternative and more reasonable assumptions, consistent with her interrogatory
9 responses, regarding the Advance Deposit BRM mail flow. I also take into
10 account the fact that 75 percent of this mail does not require delivery, so
11 Advance Deposit BRM delivery costs are lower than for First-Class Mail as a
12 whole.

13
14 Based upon these improvements to her analysis, I derive a unit
15 attributable cost estimate for BRM pieces, above and beyond the costs already
16 attributed to First-Class Mail, of 1.28 cents. Reflecting this unit attributable cost
17 estimate, I propose a QBRM fee of two cents.

18

19 **III. Witness Schenk's Methodology**

20

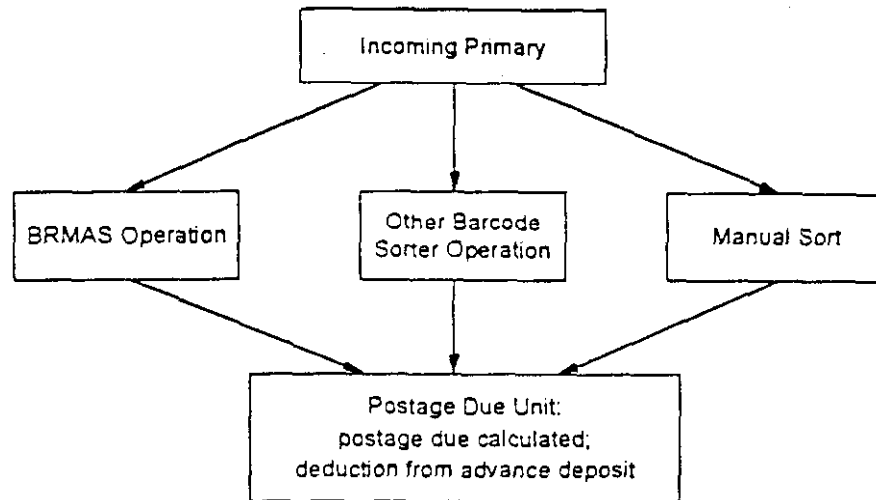
21 Witness Schenk estimated "the test year costs of counting, rating, and
22 billing for the Business Reply Mail (BRM) service, above and beyond the costs
23 already attributed to First-Class Mail." USPS-T-27 at 2. To do this, she first
24 assessed the mail flows for Advance Deposit BRM and other automation-
25 compatible First-Class Mail and then applied unit cost differentials for the
26 operations through which the mail flows.

27

28 Witness Schenk found that the major difference in mail flow is that, after
29 the incoming primary sort, most non-BRMAS automation compatible mail
30 receives its incoming secondary sort on a Delivery Barcode Sorter (DBCS) or
31 Multiple Position Barcode Sorter (MPBCS), while Advance Deposit BRM

receives its incoming secondary sort in one of three ways: (1) in the BRMAS operation, (2) on another barcode sorter, or (3) manually - and then processed in the Postage Due Unit. Figure 1 illustrates the mail flow for Advance Deposit BRM.

Figure 1. Advance Deposit BRM Mail Flow (Exhibit USPS-27A)



Witness Schenk calculated the unit attributable cost of BRM as the difference between the weighted average cost of the three methods for sorting Advance Deposit BRM (including Postage Due Unit costs) and the cost for an incoming secondary sort for an automation-compatible piece of First-Class Mail (See Equation 1 below)¹:

$$Cost_{unit} = \sum [(p_i * c_i)] - c_{AC} \quad (1)$$

where i = type of incoming secondary sort

p_i = percentage of BRMAS receiving sort type i

c_i = unit cost of type i sort

c_{AC} = unit cost of incoming secondary sort of automation compatible First-Class Mail.

¹ The attributable cost for an incoming secondary sort for an automation compatible piece of First-Class Presort Mail can be found by summing the weighted cost column for "Incoming Secondary" on Page 13 of Appendix I of USPS-T-25.

IV. Witness Schenk's Mail Flow Assumptions

Witness Schenk surveyed mail processing facilities to determine Base Year 1996 mail flows for Advance Deposit BRM. Her results, shown in Table 13 of LR-H-179, indicate that 14.2 percent of Advance Deposit BRM received its secondary sort in the BRMAS operation, 19.3 percent was on other barcode sorters, and 66.5 percent was sorted manually (See Table 1 below).²

Table 1. Generation of Final BRM Piece Counts

Source of Piece Counts	Percent of Volume
BRMAS Software Report	14.2
EOR Counts from Barcode Sorter	19.3
Manual Counts/Other	66.5

In calculating the Test Year unit attributable cost of Advance Deposit BRM, above and beyond that of First-Class Mail, witness Schenk made two inappropriate assumptions regarding how mail flows will change from Base Year 1996 to the Test Year. First, she assumed that the mail which would migrate from Advance Deposit BRM to PRM was entirely mail that, in the Base Year, was processed in the BRMAS operation. She makes this assumption despite her own statement to the contrary. When asked, "Please confirm that a higher percentage of BRM that is counted and rated in the BRMAS operation than of BRMAS-qualified mail that is not counted and rated in the BRMAS operation will migrate to PRM," she responded, "Not confirmed....Whether an organization is interested in QBRM or PRM will depend on a number of factors, including its willingness to prepay postage and whether it finds a monthly fee or a per-piece fee more advantageous financially" (MPA/USPS-T27-5c).

Second, she assumed that all Advance Deposit BRM not processed in the BRMAS operation was processed manually. She made this assumption because

² When source is "EOR counts from barcode sorter," the pieces were sorted on a barcode sorter. When source is "BRMAS Software Report", the pieces were sorted in the BRMAS operation.

1 she did not have an estimate of the cost of a barcode sort for Advance Deposit
 2 BRM. She did indicate, however, that if one were able to develop a unit cost for
 3 processing BRM on a barcode sorter, it should be used: "...it would be
 4 appropriate to include the cost of processing BRM in a barcode sorter operation,
 5 if costs could be developed" (Response to MPA/USPS-T27-2c).

6

7 **V. Calculation of Unit Cost for Automated Sort**

8

9 Even though the unit cost for a manual sort of First-Class Mail is 4.7 cents
 10 higher than the cost per sort for sorting First-Class Mail on a barcode sorter,³
 11 witness Schenk approximated the cost for sorting Advance Deposit BRM on a
 12 barcode sorter (including Postage Due Unit activities) as the cost for manually
 13 sorting Advance Deposit BRM (including Postage Due Unit activities).

14

15 In the absence of a bottom-up estimate of the cost for sorting Advance
 16 Deposit BRM on a barcode sorter and performing all associated Postage Due
 17 Unit activities, I develop a more reasonable upper bound estimate of the cost of
 18 an automated sort of Advance Deposit BRM (including Postage Due Unit
 19 activities) by subtracting 4.7 cents, the cost difference between a manual sort
 20 and a barcode sort of First-Class Mail, from the cost for manually sorting
 21 Advance Deposit BRM (See Equation 2 below).

22

$$23 \quad C_{Barcode, BRM} = C_{Manual, BRM} - (C_{Manual, FCM} - C_{Barcode, FCM}) \quad (2)$$

24

where c=unit cost per sort

25

Barcode indicates barcode sort

26

Manual indicates manual sort

27

BRM indicates sort of BRM mail

28

FCM indicates sort of First-Class mail

29

³ The unit cost for a manual sort from USPS-T-25, Appendix I, Page 13, Line "Manual/Auto Sites" is 5.4474 cents. The cost for an automated sort from USPS-T-25, Appendix I, Page 13, Line "DBCS First-Pass" is .7412 cents. The cost for a DBCS sort is an upper bound estimate because it has the highest unit cost of all BCSs shown on Page 13 of Appendix I of USPS-T-25.

Equation (2) yields a unit cost for a barcode sort (including costs for Postage Due Unit activities) of Advance Deposit BRM of 3.56 cents per sort. This is still an upper bound estimate of the cost for a barcode sort for two reasons:

- The depth of sort for a barcode sorter is deeper than the depth of sort of a manual sort.
- The estimate assumes that there is only one incoming secondary sort of BRM. If two incoming secondary sorts were required, the cost difference between manually sorting and automated sorting of Advance Deposit BRM would be twice as large.

VI. Calculation of Delivery Cost Avoidance

Witness Schenk's response to MPA/USPS-T27-7 indicated that only 25 percent of BRM, as opposed to 66 percent for First-Class Mail, requires rural or city delivery. For this reason, the BRM delivery cost per piece is smaller than that for First-Class Mail as a whole. Table 2 calculates a 2.74 cent unit delivery cost difference between BRM and First-Class Mail (For more detail, refer to Exhibit MPA 4-2).

Table 2. Calculation of Delivery Cost Avoidance (in cents)

Item	First-Class Mail	BRM	Difference
Delivery Unit Cost	6.68	6.68	0
Percent Delivered	66%	25%	41%
Total Cost/Total Pieces	4.41	1.67	2.74

1 **VII. Calculation of Attributable Cost for Advance Deposit BRM**

2
3 As described earlier in my testimony, witness Schenk makes
4 unreasonable assumptions to determine Test Year mail flows from Base Year
5 flows. In fact, her interrogatory responses contradict the assumptions she made.
6 For this reason, a more reasonable method for determining the attributable cost
7 for Advance Deposit BRM would be to simply assume that Test Year mail flows
8 will be exactly the same as Base Year mail flows. Using this assumption and the
9 delivery cost avoidance calculated in Section VI, the Test Year attributable cost
10 for Advance Deposit BRM is 1.28 cents (For more details, please refer to Exhibit
11 MPA 4-1).

12
13 **VIII. Determination of QBRM Fee**

14
15 Based upon an analysis of pricing criteria and their application to the
16 QBRM fee, witness Needham proposed a cost coverage of 108 percent. A two
17 cent fee based upon my attributable cost estimate yields a cost coverage of 156
18 percent, which is a significantly higher contribution than that proposed by
19 witness Needham. Thus, I believe that a two-cent fee for QBRM is reasonable.

Exhibit MPA 4-1. Alternate BRMAS Fee Development

BRMAS Coverage Factor	14.24% [1]
Manual Sortation Factor	66.46% [2]=1-[1]-[3]
Other Barcode Sorter Factor	19.30% [3]
Unit Cost	
BRMAS Processing	\$0.0064 [4]
BRMAS Postage Due Unit	\$0.0040 [5]
Manual Sort, Postage Due Unit	\$0.0827 [6]
Barcode Sort, Postage Due Unit	\$0.0356 [7]
Cost Avoidance (Inc. Sec. Sort for Automation Comp. Piece)	(\$0.0231) [8]
Cost Avoidance (Delivery)	(\$0.0274) [9]
Weighted Cost Per Piece	\$0.0633 [10]=[1]*([4]+[5])+[2]*[6]+[3]*[7]
Net Cost Per Piece	\$0.0128 [11]=[8]+[9]+[10]

- [1] Coverage Factor, USPS-T-27 at 12.
- [3] LR-H-179, Table 13
- [4] Exhibit USPS-27C
- [5] Exhibit USPS-27C
- [6] Exhibit USPS-27C
- [7]=[6]+[Inc. Sec. DBCS Unit Cost]-[Incoming Secondary Manual/Auto Sites Unit Cost] USPS-T-25, Appendix I, Page 16
- [8] Exhibit USPS-27C
- [9] Exhibit MPA 4-2

Exhibit MPA 4-2. Unit Delivery Cost Avoidance

Class/Subclass	FY 1998					
	Unit Cost (Cents)	Volume (000s)	Density	Delivered (000s)	Unit Cost per Piece Delivered (Cents)	
	[1]	[2]	[3]	[4]	[5]	
Single Piece Letters and Parcels	5.001	54,394,310	0.529	28,774,590	9.45	[a]
Single Piece Cards	4.357	2,546,540	0.735	1,871,707	5.93	[b]
Presort Letters	3.729	41,507,008	0.822	34,118,761	4.54	[c]
Presort Cards	2.837	2,551,684	0.726	1,852,523	3.91	[d]
Total First-Class Mail	4.408	100,999,542	0.660	66,617,580	6.68	[e]

	Percent Delivered		Unit Cost	
First-Class Mail	66%	[6]	4.41	[9]
BRM	25%	[7]	1.67	[10]
Difference	41%	[8]	2.74	[11]

[1] USPS-18A, Table A-6, Column (e)

[2] USPS-18A, Table A-6, Column (k)

[3] USPS-18A, Table A-5, Column (aa), Density=Pieces Delivered/Total Pieces

[4]=[2]*[3]

[5]=[1]/[3]

[6]=[3e]

[7] Response to MPA/USPS-T27-7

[8]=[6]-[7]

[9]=[6]*[5e]

[10]=[7]*[5e]

[11]=[10]-[9]

1 CHAIRMAN GLEIMAN: Mr. Glick, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would.

9 CHAIRMAN GLEIMAN: That being the case, I'm going
10 to provide two copies of the designated written
11 cross-examination of Witness Glick to the reporter, and ask
12 that it be accepted into evidence and transcribed into the
13 record at this point.

14 [Designation of Written
15 Cross-Examination of Sander A.
16 Glick, MPA-T-4, was received into
17 evidence and transcribed into the
18 record.]

19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF MAGAZINE PUBLISHERS OF AMERICA
WITNESS SANDER A. GLICK
(MPA-T4)

Party

Office of the Consumer Advocate

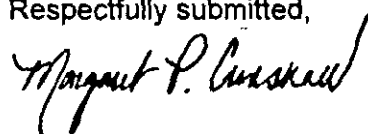
United States Postal Service

Interrogatories

USPS/MPA-T4-1-13

USPS/MPA-T4-1, 4, 6-13

Respectfully submitted,



Margaret P. Crenshaw
Secretary

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-1. Please refer to page 2 of your testimony, lines 21-23. Is your unit attributable cost estimate of 1.28 cents intended to show "the test year costs of counting, rating, and billing for the Business Reply Mail (BRM) service, above and beyond the costs already attributed to First-Class Mail?" If not, please explain.

Response:

Yes, with two clarifications. First, the 1.28 cent attributable cost estimate does not take into account the four cent prebarcoding cost savings that witness Miller developed for PRM because this savings was already taken into account in the PRM rate. (Taking the prebarcoding cost savings into account, the cost for QBRM is nearly three cents less expensive than that for First-Class Mail.) For this reason, my proposed fee of two cents should be added to the 30 cent PRM rate. Second, a more precise statement would be that 1.28 cents is the difference between test year unit costs for counting, rating, billing, and delivering BRMAS-Qualified Business Reply Mail (BRM) and test year unit costs for counting, rating, billing, and delivering First-Class Mail.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-2. Please refer to your testimony at page 6, lines 6-7. Does your statement that the depth of sort for a barcode sorter is deeper than the depth of sort for a manual sort apply to the manual sort in the BRM operation? Please explain your answer, taking account of the fact that the manual sort in the BRM operation must finalize the BRM for delivery (so the BRM can be accounted for).

Response:

Barcode sorters (BCSs) have more separations or stackers than manual cases. In other words, one sort on a barcode sorter can sort mail to more separations than one sort in a manual case. This is what I meant in my statement that the depth of sort of a BCS is deeper than the depth of sort for a manual sort. This is true for all mail whether finalized in the BRMAS operation or not.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-3. Do you agree with witness Schenk's statement that Prepaid Reply Mail (PRM) "service would be advantageous for some high-volume BRMAS-qualified BRM recipients." USPS-T-27 at 13, lines 6-7. If not, please explain why not.

Response:

I think that her statement is probably true. I do, however, think that the Postal Service overstated the degree to which the service would be advantageous for BRMAS-qualified BRM recipients and therefore the volume of mail that would migrate from QBRM to PRM. In developing his volume estimate for PRM, witness Fronk assumed that QBRM recipients will migrate to PRM if it will minimize their bill from the Postal Service. In his testimony, Fronk stated, "I develop this estimate [of how much BRM will migrate to PRM] by computing the break-even BRM volume needed to make the monthly fee of PRM less expensive than the per-piece fees of BRM." (USPS-T-32 at 42-43).

In doing this, he implicitly assumed that (1) administrative costs for the PRM recipient would be no higher than the administrative costs for QBRM, and (2) the prepayment requirement will not deter migration. These assumptions are clearly incorrect and yield an upwardly biased estimate of the volume of mail that will migrate from QBRM to PRM. First, for QBRM, the Postal Service counts and bills the recipient. In PRM, the recipient will have to count mail volume, prepare postage bills, and prepare for Postal Service audits. Second, PRM recipients must prepay their postage while there is no prepayment requirement for QBRM. This requirement also makes PRM less financially advantageous.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-4. Do you believe that low-volume BRMAS-qualified BRM recipients would be just as likely to switch to PRM as high-volume BRMAS-qualified BRM recipients? Please explain the basis for your answer.

Response:

Everything else being equal, I believe that the PRM rate would be more advantageous for high-volume BRM recipients than for low-volume BRM recipients. Other factors, such as the magnitude of administrative costs associated with PRM and the likelihood that the BRM recipient will continue to pay for their customer's business reply mail over the long term, would also play a part in determining the likelihood that a firm would switch to PRM. Because I have no basis for understanding how low-volume and high-volume BRM recipients differ in terms of these other factors, I am unable to answer your interrogatory conclusively.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-5. Do you believe that high-volume BRMAS-qualified BRM recipients are more likely to be processed using the BRMAS system than low-volume BRMAS-qualified BRM recipients? Please explain the basis for your answer.

Response:

Not necessarily. The Postal Service found that there are many reasons why postal facilities don't process BRMAS-qualified mail in the BRMAS operation. Table 12 of LR-H-179 shows reasons sites provided for not using BRMAS to sort BRM. It shows that "not enough volume to justify use" was the reason provided for not using BRMAS at sites representing only 25.6 percent of volume. Other reasons provided for not using BRMAS software were "reports take too long to print out," "no automation at facility where BRM is sorted to mailer," "no BRMAS software at site," and "time constraints." Facilities accounting for nearly 34 percent of volume reported an "other" reason for not using BRMAS software.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-6. Please refer to your testimony at page 4, lines 15-24.

- (a) Do you agree with witness Schenk's assertion that "[if there is migration of BRMAS-qualified volumes to PRM, the BRMAS coverage factor would change" USPS-T-27 at 13, lines 7-8. If not, please explain why not.
- (b) Did witness Schenk withdraw the assertion quoted in part (a) above after responding to interrogatory MPA/USPS-T27-5c?

Response:

- a. No. If 10 percent of BRMAS-qualified volume migrated to PRM, and the coverage factor for the migrated mail was 14.24 percent, then the BRMAS coverage factor would not change. I do agree with the statement that if there is migration of BRMAS-qualified volumes to PRM, the BRMAS coverage factor **could** change.
- b. No.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-7. Please refer to your testimony at page 7, lines 6 to 8.

- (a) Please confirm that your use of "Base Year mail flows" includes the use of the current BRMAS coverage factor of 14.24 percent? If you do not confirm, please explain why not.
- (b) If you do confirm part (a), please confirm that your application of the base year BRMAS coverage factor to the test year assumes that only 14.24 percent of the BRMAS-qualified BRM that switches to PRM would currently be processed using the BRMAS system. If you do not confirm, please explain why not.

Response:

- a. Confirmed.
- b. Not confirmed. From a mathematical perspective, my application of the base year BRMAS coverage factor to the test year assumes that one of two things occurs: (1) there is no migration from QBRM to PRM or (2) 14.24 percent of the BRMAS-qualified BRM that switches to PRM is currently processed in the BRMAS operation. From a common sense, analytical perspective, it is reasonable to believe that test year mail flows, in the absence of an unbiased estimate of the volume of QBRM that will migrate to PRM in the test year (See my response to USPS/MPA-T4-3), will be similar to base year mail flows.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-8. Please confirm that the First-Class Mail that avoids carrier delivery costs (such as mail addressed to a post office box or a caller service customer) is not limited to BRMAS-qualified BRM. If you do not confirm, please explain why not.

Response:

Confirmed. Exhibit MPA 4-2 shows that 34 percent of First-Class Mail avoids carrier delivery costs. Please note that my estimate of the delivery cost avoidance takes this point into account.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-9. Referring to your Exhibit MPA 4-1, please confirm that the 6.33 cent weighted cost per piece does not include any delivery costs. If you do not confirm, please explain why not.

Response:

Confirmed. With the exceptions noted in my testimony, the 6.33 cents was calculated in the same way that witness Schenk calculated the \$0.0785 weighted cost per piece figure (direct and indirect) in Exhibit USPS-27C.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-10. Please refer to your response to interrogatory USPS/MPA-T4-1. Assume that there were no proposals for lower rates for Prepaid Reply Mail and Qualified BRM, based on the prebarcoding cost savings developed by witness Miller, or assume, in the alternative, that these proposals are not recommended by the Commission. Should prebarcoding cost savings then be considered, like the delivery cost savings calculated in section VI of your testimony, in determining the costs that underlie the BRMAS fee? Please explain your answer.

Response:

Yes. As witness Fronk stated in his testimony, "Achieving fairness and equity is an important goal for the Postal Service in preparing rate proposals. The proposed new categories for Prepaid Reply Mail and Qualified Business Reply Mail promote fairness and equity by establishing rates that are more closely aligned with costs. Also, by recognizing some of the cost savings [from prebarcoding] associated with this mail, the Postal Service is able to permit a broader base of customers to more directly share in the benefits of automation." USPS-T-32 at 47-48. This explanation of why the Postal Service is proposing to reflect the prebarcoding cost savings in the rates for PRM and QBRM is applicable for BRMAS-qualified BRM whether the PRM or QBRM proposals are recommended by the Commission or not.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-11. Please refer to your response to interrogatory USPS/MPA-T4-3. Please confirm that the proposed monthly and annual fees for Prepaid Reply Mail (PRM) would be more likely to make PRM uneconomical for low-volume reply mail recipients than high-volume reply mail recipients. If you do not confirm, please explain why not.

Response:

I confirm that the proposed monthly fee per piece and proposed annual fee per piece for PRM decline as volume increases. Assuming that administrative costs for PRM and the opportunity cost of prepaying PRM rates is zero, I confirm that the proposed monthly and annual fees for Prepaid Reply Mail (PRM) would be more likely to make PRM uneconomical for low-volume reply mail recipients than high-volume reply mail recipients.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-12. At facilities currently using the BRMAS program to count and rate BRMAS-rated BRM, do you believe that high-volume BRMAS-rated BRM recipients are more likely to be processed using the BRMAS program than low volume BRMAS-qualified BRM recipients? If not, please explain the basis for your response, taking into account the need to assign a BCS stacker for each BRM recipient processed using the BRMAS program.

Response:

As witness Schenk's study indicates, the cost for processing BRMAS-qualified BRM in the BRMAS operation is more than seven cents cheaper than processing it manually. Stated differently, the cost of manually processing BRMAS is approximately eight times the cost of processing it in the automated BRMAS operation. Even if the Postal Service had to perform two passes on all mail in the automated BRMAS operation, the cost for sorting BRMAS-qualified BRM in the BRMAS operation would still be much less expensive than sorting it manually. Therefore, the Postal Service seems to be processing more BRMAS manually than makes sense economically. Because the Postal Service is sorting a large amount of BRMAS-qualified BRM manually for reasons other than economic ones, it is unclear whether mail for high-volume BRMAS-qualified BRM recipients is more likely to be processed in the BRMAS operation than mail for low-volume recipients.

For example, assume that Facility A processes BRMAS for several high-volume recipient and no low-volume recipients but decides, for reasons other than economic ones, to process only five percent of BRMAS-qualified BRM in the automated BRMAS operation. Further, assume that Facility B processes all BRMAS-qualified BRM, except rejects, in the automated BRMAS operation and that the facility sorts BRMAS-qualified BRM for both high-volume and low-volume recipients. For these two facilities combined, the Postal

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

Service sorts a higher percentage of low-volume recipient BRM in the automated BRMAS operation than of high-volume recipient BRM.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

USPS/MPA-T4-13. Please refer to your testimony at page 5, lines 17 to 28, and footnote 3.

- (a) in your equation 2, why did you use the unit cost for a manual sort at *automated* sites?
- (b) Do you agree with witness Hatfield that:

At automated facilities, a large portion of the mail that receives piece distribution in manual incoming secondary operations is reject mail from automation equipment. Because these pieces have been rejected from automation equipment they are often the more challenging pieces to process for reasons such as damage and address quality. On the other hand, the manual incoming secondary operation at non-automated facilities process all pieces of mail. Therefore, the mail processed in manual incoming secondary operations tends to be much cleaner at nonautomated facilities than at automated facilities. Manual processing of this cleaner mail stream leads to a higher productivity.

Response of witness Hatfield to ABA&EEI&NAPM/USPS-T-25-26(e), Tr. 4/ 1725-26. If not, please explain why not.

- (c) Please refer to Table 15 in Postal Service Library Reference H-179.
 - (i) Please confirm that 22 percent of BRMAS-rated pieces sorted in the manual BRM operation are done so because there is no automation at the facility where the BRM is sorted to the mailer. If you do not confirm, please explain why not.
 - (ii) Please confirm that the following reasons for sorting automatable pieces manually would appear to indicate BRMAS-rated mail that has not been run through automation equipment: "Insufficient volume", "Automation overburdened already", "Nonautomatable mail (flats, oversize letters)", "Time Constraint (mail arrives too late; service standard)". If you do not confirm, please explain why not.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

- (iii) Please confirm that only 40 percent of all BRMAS-rated pieces sorted in the manual BRM operation are sorted in this operation because automation sorted them into a reject bin. If you do not confirm, please explain why not.
- (iv) Please confirm that, given that some pieces that a BRMAS or barcode sorter operation sends to a reject bin are pieces that are out of scheme, rather than damaged or of poor address quality, the 40 percent figure discussed in part (ii) above represents an overestimate of "non-clean" (damaged or of poor address quality) BRM. If you do not confirm, please explain why not.
- (v) Since BRMAS-rated BRM must go through a mailpiece approval process, do you agree that BRMAS-qualified BRM would generally tend to be of better address quality than other nonpresort First-Class Mail? If not, please explain why not.
- (d) Is it reasonable to expect that a majority of the BRMAS-rated mail that is manually sorted, counted, and rated would more closely reflect the "cleaner mail stream" at non-automated facilities, rather than the "more challenging pieces" at automated facilities, as discussed by witness Hatfield in part (b), above? If not, please explain.
- (e) Please confirm that if you use the 3.0787 cents per piece figure for "Manual/ Non-Auto Sites", from USPS-T-25, Appendix 1, page 13, instead of the 5.4474 cents per piece figure for "Manual/Auto Sites", in your Equation 2, the unit cost of a barcode sort (item 7 in Exhibit MPA-1), using all your other inputs, changes from 3.56 cents to 5.93 cents. If you do not confirm, please explain why not.

Response:

- (a) I was performing an apples-to-apples comparison. I wanted to compare the cost of a barcode sort, which by definition takes place at an automated facility, with the cost of a manual sort at the same automated facilities.
- (b) Yes. Please note that witness Hatfield did not quantify the percentage of the automated facility manual incoming secondary sort mailstream that was reject mail.

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

Clearly, this number is less than 100 percent (Please also see my response to part (c)(ii)). Also, the referenced statement does not quantify the quality of mail at non-automated facilities. Specifically, the referenced quote does not quantify the percentage of mail at non-automated facilities that would have been rejected by automated equipment if it had been processed on automated equipment.

(c) (i) If the Column labeled "Percent of BRMAS Pieces (Postage Due Unit #8)" refers to all BRMAS pieces sorted in the manual BRM operation, then I confirm.

(ii) Confirmed subject to the same caveat as in USPS/MPA-T4-13(c)(i). Please also note that the reasons mentioned in your interrogatory also apply to non-BRMAS automatable pieces that are sorted manually at automated facilities.

(iii) Not confirmed. Some facilities provided the reason "other" for sorting automatable pieces manually and some facilities did not respond to the BRM Practices Survey at all. I agree with the statement that facilities representing 40 percent of BRMAS Pieces (Postage Due Unit #8) mail responded that the reason for sorting automatable pieces manually was "Automation sorted it into reject bin."

(iv) Confirmed that some pieces that a barcode sorter sends to a reject bin are pieces that are out of scheme. Please also see my response to subpart iii above.

(v) Yes.

(d) Not confirmed. I agree that the stream of BRMAS-qualified BRM that is processed manually is cleaner than the stream of "more challenging pieces" at automated facilities and dirtier than the mail stream at non-automated facilities. You have not provided enough

**Magazine Publishers of America Witness Sander Glick
Responses to Interrogatories of USPS**

information on the "more challenging" automated facility mailstream and the cleaner nonautomated facility manual mailstream for me to assess whether "a majority of the BRMAS-rated mail that is manually sorted, counted, and rated would more closely reflect the 'cleaner mail stream' at non-automated facilities." Please also see my response to part b of this interrogatory.

(e) Confirmed. Please note that if you average the cost of a manual sort at a non-automated facility with the cost of a manual sort at an automated facility, you would get a unit cost for a barcode sort of 4.75 cents. Using the 4.75 cent unit cost for a barcode sort yields a net cost per piece for BRMAS-qualified BRM of 1.5 cents. Based upon this net cost per piece, a two cent fee would result in a cost coverage of about 133 percent.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for this witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross. The Postal Service is the only party that requested
6 oral cross of this witness. Does any other party wish to
7 cross-examine the witness?

8 [No response.]

9 CHAIRMAN GLEIMAN: There doesn't appear to be
10 anyone else. Mr. Rubin?

11 CROSS-EXAMINATION

12 BY MR. RUBIN:

13 Q Thank you.

14 Good morning. I'm David Rubin for the U.S. Postal
15 Service.

16 Would you please refer to your response to Postal
17 Service Interrogatory 1?

18 A Yes, I have it.

19 Q And in the last sentence of your response you
20 state that you've calculated, and I quote, the difference
21 between the test-year unit costs for counting, rating, and
22 billing -- counting, rating, billing, and delivering
23 BRMAS-qualified business reply mail, BRM, and test-year unit
24 costs for counting, rating, billing, and delivering First
25 Class mail. Is that correct?

1 A Yes.

2 Q On page 6 of your testimony you directly
3 calculated a cost difference between delivery costs for
4 First Class mail and business reply mail.

5 A Yes.

6 Q Let's consider counting, rating, and billing.

7 A Okay.

8 Q You did not subtract counting, rating, and billing
9 costs for First Class mail from the counting, rating, and
10 billing costs for business reply mail, did you?

11 A No.

12 Q And are you implicitly assuming that counting,
13 rating, and billing costs for First Class mail other than
14 business reply mail are zero?

15 A I would say that the cost for counting, rating,
16 and billing single-piece mail, yes, would be zero.

17 Q And would you agree that this is a reasonable
18 assumption, since postage generally is prepaid for First
19 Class mail, single piece, so there is no need for counting,
20 rating, and billing operations by the Postal Service?

21 A Yes, I would agree with that.

22 Q Now your testimony concluded that the difference
23 between counting, rating, billing, and delivery costs for
24 qualified business reply mail and First Class mail is 1.28
25 cents; is that right?

1 A Yes.

2 Q And was the delivery cost avoidance that you
3 determined 2.74 cents?

4 A Yes, it was.

5 Q And if you add back the 2.74 cents of delivery
6 cost savings to your overall 1.28 cents result, do you agree
7 that the remaining cost difference would be 4.02 cents?

8 A Yes.

9 Q And do you agree that this 4.02 cents is the
10 portion of your BRMAS cost estimate related to the cost of
11 counting, rating, and billing?

12 A I would agree that if you didn't take into account
13 the delivery cost difference that that would be the
14 attributable cost of BRMAS above that of First Class mail.

15 Q And since you were trying to get the cost
16 difference for counting, rating, billing, and delivering,
17 what would be left would be counting, rating, and billing?

18 A Yes.

19 Q Please refer to your response to Interrogatory 10
20 from the Postal Service.

21 A I have that.

22 Q Do you agree with the Postal Service that
23 pre-bar-coding cost-savings for qualified business reply
24 mail should be used to justify a lower postage rate for
25 qualified business reply mail?

1 A Yes.

2 Q But on the other hand the delivery cost savings
3 you estimate in your testimony are used to determine the
4 costs that underlie the BRMAS qualified BRM fee; is that
5 right?

6 A Can you restate that?

7 Q Sure. I was just trying to confirm that the
8 delivery cost savings that you calculate in your testimony,
9 that is used to determine the costs that underlie the BRMAS
10 fee.

11 A I agree with that.

12 Q How should one decide which costs underlie the
13 postage rate for qualified business reply mail and which
14 costs underlie the fee for qualified business reply mail?

15 A I'm not sure if there is a -- I mean, I think
16 that's a semantic difference. What I'm really interested in
17 is the cost of BRMAS-qualified BRM. Whether it's included
18 in the 30-cent base for PRM or whether it's included in the
19 fee I don't think for the purpose of my testimony is
20 important.

21 Q Okay. In your response to Interrogatory 10 do you
22 state that the pre-bar-coding cost savings if they are not
23 reflected in the postage rate for qualified business reply
24 mail should be used to determine the costs that underlie the
25 BRMAS fee?

1 A Can I repeat back what I think you're asking?

2 If there was no pre-bar-coding cost avoidance for
3 prepaid reply mail, should there be a pre-bar-coding cost
4 avoidance for QBRM or BRMAS-qualified BRM? I would agree
5 that I think there should be a pre-bar-coding cost avoidance
6 for both PRM and QBRM, and it's -- they're independent of
7 each other.

8 Q And does it matter to you whether they're used to
9 determine the postage rate for the BRMAS mail or the fee for
10 the BRMAS mail?

11 A Again, I don't think that -- it doesn't bother me
12 if it would be considered in the base or whether it would be
13 considered in the fee.

14 Q Please turn to your response to Postal Service
15 Interrogatory 12.

16 A I've got it.

17 Q In the second paragraph of your response you
18 present an example of two facilities which make different
19 uses of the automated BRMAS operation --

20 A Yes.

21 Q Does the first facility use the automated system
22 for 5 percent of the BRMAS qualified volume for each mailer
23 that presents BRMAS qualified mail?

24 A That was a scenario that I was envisioning in that
25 response.

1 Q And the remaining 95 percent of the volume for
2 each mailer would be processed some other way, such as
3 manually?

4 A Yes, or it could be on another barcode sorter.

5 Q And would you agree that it would be unusual for
6 the Postal Service to divide the volume that way?

7 A I would agree with that.

8 Q The last sentence of the question asked you to
9 consider the need to assign a BCS stacker for each business
10 reply mail recipient process using the BRMAS system?

11 A Correct.

12 Q Let's consider two mailers, one for whom a BCS
13 stacker has been assigned and the other for whom a stacker
14 was not assigned.

15 A Okay.

16 Q Don't you think it would be more likely that the
17 Postal Service would try to process all the mail for the
18 mailer with the assigned stacker before it used BRMAS for
19 the other mailer?

20 A I would think that processing mail in the BRMAS
21 operation is significantly lower than processing mail
22 manually.

23 I think that they would, if the Postal Service was
24 to make the economic decision that was based on just
25 economics they would process both in the BRMAS operation.

1 If you have to sort some on a second sort I don't
2 see that as being a problem.

3 Q And that assumes that the Postal Service has
4 enough capacity on its barcode sorters to process all the
5 BRMAS mail, is that right?

6 A At a given facility or across all facilities or --

7 Q I guess at a given facility.

8 A At a given facility I would think that the closest
9 they come to being able to have full capacity to do that,
10 the closer they would come to sorting low volume, both low
11 volume and high volume in the BRMAS operation.

12 Q Well, if BCS stackers were not available for all
13 the mailers of BRMAS qualified mail, would you agree that it
14 would be most efficient to assign a BCS stacker for the
15 mailers with the greatest BRMAS volume?

16 A If the Postal Service is doing this efficiently I
17 would agree that that is the case.

18 It also could be the case that if a high volume
19 came in at one time they would process that whole volume no
20 matter what mailer would be going to on a barcode sorter but
21 at a different time during the day when they didn't have
22 much volume they wouldn't run it through the BRMAS
23 operation.

24 Q Are you saying that it would be inefficient to do
25 that, or this is all assuming --

1 A I'm saying, let's say that you have a large amount
2 of BRMAS volume that comes in at 5:00 o'clock. I would say
3 that it may be very likely that they would sort all of that
4 BRMAS on a bar code sorter. But then, at 10:00 o'clock,
5 they just have a little -- they have a small amount of BRMAS
6 and they decide they are not going to process that on the
7 BRMAS operation. And that would be based upon how much
8 volume there is in general, but not how much volume there is
9 for each individual mailer.

10 Q Okay. Please turn to your response to
11 Interrogatory 13.

12 A I've got it.

13 Q In Part E, you calculate a 1.5 cent cost per piece
14 for BRMAS qualified BRM, is that right?

15 A Based upon the assumptions that I spelled out,
16 that would be the cost per piece. That is not the cost per
17 piece that I am presenting.

18 Q And does this cost, like the other costs you
19 present, include the delivery cost avoidance of 2.74 cents?

20 A Yes, it does.

21 MR. RUBIN: I have no more questions.

22 CHAIRMAN GLEIMAN: Is there any follow-up?
23 Questions from the bench?

24 [No response.]

25 CHAIRMAN GLEIMAN: Mr. Gold, would you like some

1 time for redirect?

2 MR. GOLD: I just need one minute.

3 CHAIRMAN GLEIMAN: Certainly.

4 [Recess.]

5 MR. GOLD: Mr. Chairman, we have no redirect.

6 CHAIRMAN GLEIMAN: If there is no redirect, then,
7 Mr. Glick, I want to thank you. We appreciate your
8 appearance here today and your contributions to the record.
9 And if there is nothing further, you are excused.

10 [Witness excused.]

11 CHAIRMAN GLEIMAN: Our next witness is Dr. Haldi,
12 who is already under oath. He is appearing on behalf of
13 ValPak Directing Marketing Systems et al.

14 Mr. Olson, if you could introduce your witness and
15 enter his testimony.

16 MR. OLSON: Mr. Chairman, William Olson for
17 ValPak, Carol Wright, and we would call Dr. Haldi to the
18 stand.

19 Whereupon,

20 DR. JOHN HALDI,
21 a witness, was recalled for examination by counsel for
22 Val-Pak Direct Marketing Systems, Inc., Val-Pak Dealers'
23 Association, Inc., and Carol Wright Promotions, Inc. and,
24 having been previously duly sworn, was examined and
25 testified as follows:

1 MR. OLSON: May we proceed?

2 CHAIRMAN GLEIMAN: Proceed with his -- yes, he is
3 already under oath. You can proceed to introduce his
4 testimony.

5 DIRECT EXAMINATION

6 BY MR. OLSON:

7 Q Mr. Haldi, I would like to hand you two copies of
8 what is entitled "The Direct Testimony of Dr. John Haldi
9 Concerning Standard A Enhanced Carrier Route Mail on Behalf
10 of ValPak and Carol Wright", designated as VP/CW-T-1, and ask
11 you if you can identify this for us?

12 A Yes, this is my testimony.

13 Q Prepared by you or under your direction?

14 A Prepared by me, under my direction. And these
15 particular copies contain some errata.

16 MR. OLSON: Mr. Chairman, we have some errata that
17 we are filing -- have filed today and I have copies for the
18 bench that we have identified recently.

19 CHAIRMAN GLEIMAN: Please proceed.

20 MR. OLSON: I would note that we had faxed these
21 late last night to counsel for all parties who had indicated
22 an interest in the witness by way of oral cross-examination,
23 and also given them copies today.

24 BY MR. OLSON:

25 Q Dr. Haldi, would you briefly describe the errata

1 of today?

2 A Yes. Today's errata consists of five pages, and
3 the first page is page 25, replaces page ~~25~~, Table 3 of the
4 testimony as originally filed.

5 The next page, page C-3, replaces a page that was
6 previously ~~filled~~^{filed} as an erratum on 2/11/98.

7 Page C-5 contains itself an ~~errata~~^{erratum} that I need to
8 correct right here. The penultimate line of the text on
9 page C-5, the number that is shown there in redline, ~~four~~^{thousand}
10 ~~dollars~~, \$4,044,084, should change to ~~dollar sign~~
11 \$3,919,084. That is the same number should be in the text
12 as in the lower right hand corner of the box immediately
13 below it.

14 The next page C-3, Table C-3, sorry, page C-8,
15 replaces a page that was previously submitted as an erratum.

16 And then the final page here, the final two pages,
17 I'm sorry, page C-12 and C-17, Table C-7 and C-12,
18 respectively, are new errata.

19 In addition to the errata that you have before
20 you, there are some other changes I would note. Page 48
21 actually reverts to the original. There was an erratum
22 submitted previously for page 48 on 2/11/98 and that should
23 be withdrawn and the original testimony should stand with
24 the rates there.

25 Then on page 51, Table 7, all the numbers in that

1 table -- I am looking at the -- I'm sorry. There was an
2 erratum submitted on 2/11/98 for Table 7, and if you have
3 that table, all the margins in that table go down by 1/10th
4 of 1 cent. But if you have the original table, they would
5 change slightly.

6 Let me, if I may, just read those into the record
7 so that we have them correct. In the column marked "No
8 Destination Entry", Automation would be 9.2 cents; Basic
9 would be 9.3 cents; High Density, 8.9 cents; Saturation, 8.6
10 cents. That's uniformly 1/10th of 1 cent lower than the
11 Table 7 submitted on 2/11/98.

12 In the DBMC column, it would be 8.0 for
13 Automation; 8.1 for Basic; 7.8 for High Density; and 7.6 for
14 Saturation.

15 In the third column marked "DSCF", the Automation
16 would be 7.9; Basic would be 8.0; High Density would be 7.7;
17 and Saturation would be 7.3.

18 And in the final column marked "DDU", Automation
19 would be 7.6; Basic would be 7.7; High Density, 7.4; and
20 Saturation, 7.0.

21 Since the margins went down by a tenth of a cent,
22 the mark-ups, correspondingly, go down by slight amounts in
23 the Part B of that same page.

24 Just to get them --

25 Q I don't think there's any need to read those.

1 A No need to read those? Okay. They go down about
2 2 to 3 percent, and they're marked in the one which I've
3 submitted here.

4 The next change, minor, very minor change, on page
5 A8, footnote 1, there's a reference to an "Exhibit
6 USPS-29D." That should be changed to "Exhibit USPS-29C" and
7 that was indicated previously in a response to an
8 interrogatory.

9 Q And have those changes been made in the two copies
10 that have been prepared for the reporter?

11 A Yes, they have.

12 MR. OLSON: And with that, Mr. Chairman, we would
13 move the admission of this into evidence.

14 CHAIRMAN GLEIMAN: Are there any objections?

15 Hearing none, Dr. Haldi's testimony and exhibits
16 are received into evidence, and I direct that they be
17 transcribed into the record at this point.

18 [Direct Testimony and Exhibits of
19 Dr. John Haldi, VP/CW-T-1, was
20 received into evidence and
21 transcribed into the record.]

22
23
24
25

VP/CW-T-1

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

POSTAL RATES AND FEE CHANGES, 1997

Docket No. R97-1

Direct Testimony of

DR. JOHN HALDI

Concerning

STANDARD A ENHANCED CARRIER ROUTE MAIL

on Behalf of

VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC.

William J. Olson
John S. Miles
Alan Woll
John F. Callender, Jr.
WILLIAM J. OLSON, P.C.
8180 Greensboro Dr., Suite 1070
McLean, Virginia 22102-3823
(703) 356-5070

Counsel for Val-Pak Direct
Marketing Systems, Inc.,
Val-Pak Dealers' Association, Inc.,
and Carol Wright Promotions, Inc.

December 30, 1997

CONTENTS

	Page
AUTOBIOGRAPHICAL SKETCH	1
I. PURPOSE OF TESTIMONY	3
II. INTRODUCTION	4
III. TOP DOWN AND BOTTOM UP COSTS	10
IV. ANALYSIS OF THE POSTAL SERVICE'S PROPOSED RATES FOR STANDARD A ECR MAIL	21
V. RATE DESIGN IN THE CONTEXT OF BOTTOM UP COSTS ..	37
VI. PROPOSED RATES	47
VII. CONCLUSIONS AND RECOMMENDATIONS	54
APPENDICES	
A. DEVELOPMENT OF UNIT COSTS FOR STANDARD A ECR MAIL	
B. MARGINS AND MARK-UPS FOR POSTAL SERVICE PROPOSED STANDARD A ECR RATES	
C. DEVELOPMENT OF PROPOSED RATES	
D. WEIGHT-COST RELATIONSHIP	

1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is John Haldi. I am President of Haldi Associates, Inc., an
3 economic and management consulting firm with offices at 680 Fifth Avenue,
4 New York, New York 10019. My consulting experience has covered a wide
5 variety of areas for government, business and private organizations,
6 including testimony before Congress and state legislatures.

7 In 1952, I received a Bachelor of Arts degree from Emory University,
8 with a major in mathematics and a minor in economics. In 1957 and 1959,
9 respectively, I received an M.A. and a Ph.D. in economics from Stanford
10 University.

11 From 1958 to 1965, I was assistant professor at the Stanford
12 University Graduate School of Business. In 1966 and 1967, I was Chief of
13 the Program Evaluation Staff, U.S. Bureau of Budget. While there, I was
14 responsible for overseeing implementation of the Planning-Programing-
15 Budgeting (PPB) system in all non-defense agencies of the federal
16 government. During 1966 I also served as Acting Director, Office of
17 Planning, United States Post Office Department. I was responsible for
18 establishing the Office of Planning under Postmaster General Lawrence
19 O'Brien. I established an initial research program, and screened and hired
20 the initial staff.

1 I have written numerous articles, published consulting studies, and co-
2 authored one book. Included among those publications are an article, "The
3 Value of Output of the Post Office Department," which appeared in *The*
4 *Analysis of Public Output* (1970); a book, *Postal Monopoly: An Assessment of*
5 *the Private Express Statutes*, published by the American Enterprise Institute
6 for Public Policy Research (1974); an article, "Measuring Performance in Mail
7 Delivery," in *Regulation and the Nature of Postal Delivery Services* (1992);
8 and an article, "Cost and Returns from Delivery to Sparsely Settled Rural
9 Areas," in *Managing Change in the Postal and Delivery Industries* (1997;
10 with L. Merewitz).

11 I have testified as a witness before the Postal Rate Commission in
12 Docket Nos. MC96-3, MC95-1, R94-1, SS91-1, R90-1, SS86-1, R84-1, R80-1,
13 MC78-2 and R77-1. I also submitted comments in Docket No. RM91-1.

1

I. PURPOSE OF TESTIMONY

2

This testimony has the following principal purposes: (1) to develop bottom up costs for Standard A ECR mail; (2) to use those bottom up costs to examine the Postal Service's proposed rate design; and (3) to propose alternative rates for Standard A ECR Mail that are designed within the context and economic logic of bottom up costs. For the reasons stated herein, I do not support the extremely high coverage proposed by the Postal Service for Standard A ECR Mail. Nevertheless, to facilitate Commission analysis of the principles of rate design underlying my proposed rates, rates proposed here provide the same revenues and contribution to institutional cost as the rates proposed by the Postal Service.

10

11

1

II. INTRODUCTION

2

3

4

5

6

7

8

9

This testimony is presented on behalf of Val-Pak Direct Marketing Systems, Inc. (VPDMS) and Val-Pak Dealers' Association, Inc. (VPDA), hereinafter collectively referred to as "Val-Pak," and Carol Wright Promotions, Inc., d/b/a "Cox Direct," hereinafter referred to as "Carol Wright/Cox Direct." As described more fully below, Val-Pak's mail primarily consists of letter mail sent at the Standard A Mail ECR Saturation rate, and Carol Wright/Cox Direct's mail consists of both letter mail and nonletter mail primarily sent at the Standard A Mail ECR High-Density rate.

10

11

12

13

14

15

16

17

18

Val-Pak Direct Marketing Systems, Inc. is the nation's largest firm in the subset of the hard-copy, direct mail cooperative advertising industry which is sometimes referred to as "coupons in an envelope." Carol Wright/Cox Direct is one of the largest firms in this same market segment. Both companies' headquarters offices are located in Largo, Florida. Val-Pak Direct Marketing Systems, Inc., and Carol Wright Promotions, Inc. are wholly-owned subsidiaries of Cox Enterprises, Inc. of Atlanta, Georgia. Val-Pak and Carol Wright/Cox Direct jointly mail over 800 million pieces annually.

VPDMS Mailing Practices

VPDMS mailed 341 million pieces in the United States in 1996, and estimates it will mail 360 million pieces in 1997.

About 95 percent of VPDMS' mailings use letter-shaped number 10 envelopes, while about 5 percent use letter-shaped 6" x 9" envelopes. All envelopes are trayed by VPDMS for individual carrier routes and entered at the Standard A Mail ECR Saturation Rate.

In business for 30 years, VPDMS operates in all 50 states through approximately 210 U.S. franchisees which are members of the Val-Pak Dealers' Association, Inc. The work of these franchisees is supplemented by efforts of approximately 1,200 sales representatives.

VPDMS' mailings reach 47.7 million households and over 1 million businesses in the United States each year. Its mailings can be highly targeted to meet the marketing needs of even the smallest retail businesses. This is accomplished by Val-Pak's geographic advertising plan, which divides the country into thousands of "Neighborhood Trading Areas" (NTAs), most consisting of approximately 10,000 residences. These NTAs are built around neighborhood purchasing patterns, taking into account factors such as traffic zones and natural barriers such as rivers. Through this NTA construct, businesses can target precisely for advertising purposes those geographic market segments that are most economically attractive. Advertisers may

1 purchase coverage for the entire nation, or any number of NTAs, from several
2 thousand down to only one.

3 Many franchisees mail at least eight times per year, with the larger
4 offices mailing on a monthly schedule. The average Val-Pak advertiser mails
5 seven times annually.

6 Each year, over 130,000 individual advertisers have purchased
7 Saturation advertising with VPDMS. Some of these advertisers are national
8 or regional businesses, but the vast majority are small, local businesses.

9 Once an advertiser places an order with a VPDMS franchisee for
10 distribution of a particular coupon to a particular geographic area with a
11 particular frequency, the order is directed to Val-Pak's corporate
12 headquarters in Largo, Florida. There, the graphics for the coupon are
13 created. VPDMS fashions as many as a quarter of a million advertising
14 layouts each year.

15 After review and approval by the advertiser, the coupons are printed
16 and mailed either in Largo, Florida or Las Vegas, Nevada (for 11 western
17 states). Printing may be simple, involving only one color, or may involve
18 sophisticated four-color printing.

19 VPDMS has been encouraged by the Postal Service to put delivery
20 point barcodes on all of its mail. At present, 100 percent of VPDMS' mail is
21 delivery point barcoded. VPDMS incurs additional computer charges as a
22 result of adding the delivery point barcode to mailing lists that have only ZIP

1 + 4 information. VPDMS works closely with firms supplying mailing lists to
2 ensure that it uses the cleanest and most up-to-date lists available anywhere.
3 For example, when the Postal Service makes changes in boundary lines,
4 these lists are updated by list companies supplying VPDMS with the next
5 bimonthly update from the Postal Service.

6 For 9 years VPDMS also participated voluntarily in Postal Service
7 tests, such as those involving traying letter-shaped carrier route mail and
8 palletizing trays, despite the fact that these procedures caused VPDMS to
9 incur additional costs. VPDMS was a national test site for such tests. Since
10 such traying became mandatory, VPDMS has been in full compliance.

11 Virtually all of VPDMS' mail is transported by truck at VPDMS'
12 expense, and 98 percent is entered at the destinating SCF. The remaining 2
13 percent is entered at BMCs (with a fraction of a percent of the mail being
14 entered locally in the St. Petersburg, Florida area).

15 VPDMS advertisers require that the Val-Pak mail be delivered in a
16 timely fashion. For example, if a pizza carry-out firm issues \$1-off coupons to
17 be delivered during a particular week, it must anticipate the additional
18 business generated by purchasing additional ingredients and hiring
19 additional staff. If the mail is not delivered in a timely fashion, the extra
20 ingredients can be wasted and the staff can stand idle. VPDMS therefore
21 strives to achieve consistent performance. In VPDMS' 30-year history, it has
22 never missed a mail date for a customer.

1 Several other national or regional firms around the country are known
2 to operate in a manner similar to that of Val-Pak. Money Mailer of
3 Manhattan Beach, California, is believed to be the second largest such firm,
4 followed by many others, such as Super-Coups in Boston, Massachusetts,
5 United Coupon in Springfield, Virginia, and Tri-Mark in Wilmington,
6 Delaware. Many other competitors operate only in limited geographic
7 markets.

8 **Carol Wright/Cox Direct's Mailing Practices**

9 Carol Wright/Cox Direct mailed 300 million pieces in 1996, and is
10 estimated to mail 300 million pieces again in 1997.¹

11 The Carol Wright/Cox Direct cooperative mailings generally use 6" x 9"
12 envelopes. All mail is delivery point barcoded.

13 Carol Wright/Cox Direct operates two plants, located in Elm City,
14 North Carolina and in Washington, North Carolina, which together mail
15 approximately 30 million cooperative advertisements 10 times per year to
16 households throughout the United States. These mailings consist of shared

¹ In addition to mailing 300 million cooperative advertisements per year, the two Carol Wright/Cox Direct plants in North Carolina operate as letter shops which provide contract mailing services only for the national account customers of Carol Wright/Cox Direct. This contract mailing business of the two plants represents an additional 170 million pieces per year, for a total of 470 million pieces per year.

1 mail advertisements and coupons only for national account customers of
2 Carol Wright/Cox Direct.

3 The Carol Wright/Cox Direct Cooperative Mailing Program offers
4 customers highly targeted geographic and demographic distribution of their
5 marketing message by means of distribution segments based on a market
6 structure which is also divided into retail trade zones. Further targeting can
7 be achieved through household level selections based on household
8 demographics. This capability is accomplished in a cooperative mass mailing
9 environment through the use of selective inserting technology unparalleled
10 in this type of product.

11 Timeliness of delivery is a major concern for Carol Wright/Cox Direct
12 and its customers. All Carol Wright/Cox Direct cooperative mailings have a
13 one-week delivery target window. Carol Wright/Cox Direct customers
14 depend on and demand that this standard be met. In many cases, customers
15 have other promotional efforts scheduled to occur in conjunction with the
16 distribution of Carol Wright/Cox Direct cooperative mailings, such as radio,
17 TV, and in-store promotions. Retailers also depend on timely delivery, so
18 that they will be prepared with sufficient shelf stock and store staffing, and
19 can utilize those special preparations.

III. TOP DOWN AND BOTTOM UP COSTS

In prior testimony before the Postal Rate Commission, I have discussed development of cost estimates and rates from the top down and from the bottom up.² Most of that discussion will not be repeated here, but a few salient points are worth summarizing.

When developing costs from the **top down**, the Postal Service determines a base cost for a rate subclass, and then computes costs **avoided**, or costs saved, and **deducts** avoided costs from the base cost to arrive at the estimated net cost for individual rate categories or rate cells.³ Thus defined, "top down" describes the procedure that has been used to develop cost estimates for all rate categories within the different subclasses of Standard A bulk mail.

When estimating costs from the **bottom up**, the Postal Service computes the amount of volume-variable costs **incurred**, and **adds** costs incurred for different functions and activities, such as sorting and transportation, to arrive at the estimated cost for individual rate categories or rate cells. The volume-variable unit cost for any rate category is the total volume-variable cost of the category divided by the volume.

² Docket No. R94-1, ANM-T-1, pp. 19-29.

³ The base cost for a subclass is the average cost for the particular rate category, or rate cell, to which none of the cost avoidances or cost savings apply.

1 The term "bottom up" is a reasonable description of the procedure used
2 by the Postal Service for some products, e.g., to estimate costs for the
3 different weight-zone rate cells of Priority Mail.⁴ Bottom up estimates of
4 product costs are common throughout the printing industry (the source of
5 mail in the Periodicals and Standard A subclasses) and in manufacturing
6 generally. Bottom up costs are typically the starting point for determining
7 product prices in these businesses.

8 It has not been customary for the Postal Service to present the average
9 volume-variable unit costs for individual rate cells, regardless of whether
10 volume-variable unit costs have been developed by a top down or a bottom up
11 approach. The failure to present explicit unit cost estimates for individual
12 products does not mean, of course, that such average unit costs are not
13 known. In point of fact, implicit in every rate cell is a unique, average unit
14 cost for mail in that cell, regardless of whether the Postal Service makes the
15 effort to compute or present it. Moreover, since the average unit cost within
16 a rate cell is unique, theoretically it should be possible to estimate that
17 average unit cost either from the top down or from the bottom up.⁵

⁴ Development of Priority Mail costs for individual rate cells does not involve any estimate of costs avoided.

⁵ An analogy would be computing the highway distance between New York and Miami by (1) taking the Miami-Boston distance and deducting the avoided leg from Boston to New York (top down), or (2) by adding the New York-Washington and Washington-Miami legs (bottom up). Of course, the result should be the same either way. *See also* Docket No. R94-1, ANM-T-1, p. 25.

1 In Docket No. MC95-1, the Postal Service presented a series of cost
2 models for Standard A mail which were more detailed and comprehensive
3 than any previously presented. In the present docket, the cost models for
4 Standard A mail have been further refined through, for example, explicit
5 attention to certain costs which were not modeled previously in Docket No.
6 MC95-1. As a result of the more detailed cost information provided by the
7 Postal Service in Docket No. MC95-1 and this docket, it is now possible for
8 the first time to develop bottom up estimates of volume-variable unit costs for
9 each rate cell within the Standard A ECR subclass. Having an explicit unit
10 cost estimate available for each rate cell provides a useful basis for the
11 formulation of cost-based rates, and rate design generally. Bottom up costs
12 for Standard A Mail have therefore been developed separately for letters and
13 nonletters.

14 **Development of Bottom up Costs for ECR Letters**

15 In terms of weight, Standard A ECR Letter Mail is relatively
16 homogeneous in comparison to nonletter mail. By definition, all Standard A
17 letters weigh less than 3.3 ounces. Any piece of Standard A ECR Mail that
18 weighs more is defined as a nonletter. Consequently, in this testimony the

1 effect of weight on cost has not been treated as an important consideration
2 with respect to determining the unit cost of letters.⁶

3 The current rate schedule for Standard A ECR letters consists of 16
4 different rate cells.⁷ The rate cells are distinguished by (i) presort condition,
5 and (ii) point of entry into the postal network. Each rate cell is thought of,
6 appropriately, as a separate product. My estimated Test Year volume-
7 variable unit costs for Standard A ECR letters, including contingency, are
8 shown in Table 1. The unit costs range from 3.57 cents for a Saturation
9 letter entered at the delivery unit, to 7.38 cents for a Basic presort letter
10 entered upstream of the Destinating BMC.

11 **Shipping costs.** Differences in the unit costs, as shown in Table 1,
12 reflect the Postal Service's costs incurred by mail not entered at delivery
13 units.⁸ Thus, when developing costs from the bottom up, those volume-
14 variable costs that are incurred for mail which is not dropshipped, and must
15 instead be handled and transported by the Postal Service, are presumed here

⁶ Even within the letters category, weight may cause costs to vary. Since weight is not part of the rate design for letters, however, its effect is subsumed within the average per-piece cost. The effect of weight must be, and is, taken into account in the development of bottom up costs for nonletters.

⁷ USPS-T-36, p. 31.

⁸ Cost incurrence for postal transportation and dock handling expense is computed on a per-pound basis, consistent with the cost avoidance developed in LR-H-111, and is based on estimated actual weight of the mail in each rate cell; i.e., cost incurrence is not estimated at the breakpoint weight of 3.3 ounces. See Appendix A for more details.

1 to be equal to the costs **avoided** by mail that is dropshipped to destinating
2 facilities. Stated succinctly, cost incurrence and cost avoidance are treated as
3 the two sides of the same coin.

4 **Sortation costs.** Differences in the unit costs in Table 1 also reflect
5 the Postal Service's presort cost differentials. In my bottom up approach,
6 costs avoided by presortation likewise have been presumed to equal the
7 volume-variable costs which the Postal Service must incur to achieve an
8 equivalent level of sortation. Here too, cost incurrence and cost avoidance
9 are treated as two sides of the same coin.

10 **Conformity with CRA costs.** Unit costs derived by this bottom up
11 process, when multiplied by the volume in each respective category, are
12 slightly (5.7 percent) less than the estimate of total CRA volume-variable
13 costs for ECR letters.⁹ Accordingly, unit costs are adjusted upward by a
14 uniform amount (0.3193 cents per piece) to conform with the CRA total. A
15 detailed explanation regarding development of the volume-variable unit costs
16 in Table 1 is contained in Appendix A.

⁹ See Appendix A for the details concerning development of CRA costs for ECR letters and nonletters.

Table 1

Volume-Variable Unit Cost for
Standard A ECR Letters, With Contingency
(test year, cents per piece)

	No Destination	- Entry at Destinating -		
	Entry	BMC	SCF	DDU
Basic	7.38	7.13	6.90	6.74
Automation	6.77	6.52	6.29	6.13
High-Density	5.33	4.95	4.74	4.48
Saturation	4.29	3.84	3.76	3.57

Source: Appendix A, Table A-13

Development of Bottom up Costs for ECR Nonletters

Nonletters below the breakpoint. Standard A ECR nonletters can weigh up to 16 ounces. With respect to weight they are less homogeneous than letters. Rates for ECR nonletters vary with weight of the mailpiece. Nonletters that weigh less than the breakpoint (3.3 ounces) now pay a flat per-piece rate, the same as letters.¹⁰ All costs for each rate cell below the

¹⁰ The proposed parcel surcharge is not part of the current rate structure.

1 breakpoint have been computed on an average per-piece basis, including any
2 costs that are (or may be) pound-related, as is true of ECR letter rate cells.¹¹

3 **Nonletters above the breakpoint.** Nonletters that weigh more than
4 the breakpoint now pay a rate that consists of (i) a per-piece amount, plus
5 (ii) a per-pound rate (multiplied with the weight). For pieces that weigh
6 more than the breakpoint, pound-related costs need to be isolated and
7 identified (*i.e.*, as certain amount per pound); they are not to be transformed
8 into per-piece averages.

9 If weight-related costs are known, development of bottom up costs
10 becomes a fairly straightforward exercise. In this docket, however,
11 development of bottom up costs for Standard A ECR nonletters is complicated
12 by the fact that the Postal Service has again failed to present any reliable
13 evidence concerning which costs should be treated as pound-related and
14 which costs should be treated as piece-related (*i.e.*, on how weight affects
15 cost).¹² In order to develop bottom up costs for nonletters, it is therefore
16 necessary to make an assumption concerning the effect of weight on certain
17 costs.

¹¹ That is, pound-related costs such as shipping are computed for each cell on the basis of weight, after which they are divided by volumes, which translates the per-pound cost into an average per-piece cost. The underlying costs (*e.g.*, shipping) are still a function of weight, not the number of pieces.

¹² USPS-LR-H-182 purports to study the weight-cost relationship for Standard A Mail. See Appendix D for further discussion.

1 To illustrate the methodology used here to develop bottom up volume-
2 variable unit costs for Standard A ECR nonletters, two different cases are
3 presented below. In Case I, moderately high weight-related costs are
4 assumed, and in Case II, moderately low weight-related costs are assumed.¹³
5 As explained below, in the absence of solid evidence concerning the weight-
6 cost relationship, both assumptions are arbitrary. The two cases are
7 included to deal with the reality of the Postal Service's failure to advance
8 either a credible theory or reliable empirical evidence on the relationship
9 between weight and cost.

10 **Conformity with CRA costs.** In both cases, the unit cost for all ECR
11 nonletters has been adjusted to equal estimated CRA costs for nonletters.
12 This serves as a control to prevent shifting of costs from letters to nonletters,
13 and vice versa.¹⁴

14 **Case I: High weight-related costs.** In Case I, mail processing and
15 delivery costs equal to 2.33 cents per piece are assumed to be weight-related.
16 The effect of this assumption is to shift costs from lighter-weight nonletters
17 below the 3.3 ounce breakpoint to heavier-weight nonletters above the

¹³ Some city carrier street time costs may be weight-related; see NAA/USPS-T36-17, redirected to the Postal Service (Tr. 15/7708).

¹⁴ The small, final adjustment to conform to total CRA costs for nonletters is treated as weight-related.

1 breakpoint. For Cases I and II, bottom up volume-variable costs, with
2 contingency, are shown in Table 2.

3 Although the decision in Case I to treat 2.33 cents per piece as weight-
4 related cost is arbitrary, the rationale by which it was derived is as follows.
5 Witness Moeller's proposed piece rate for pound-rated Saturation nonletters
6 is 3.2 cents.¹⁵ For nonletters, the implicit coverage on volume-variable cost is
7 approximately 220 percent. Using witness Daniel's per-piece data for mail
8 processing, delivery, transportation, and other costs, the unit cost for a
9 Saturation letter would be 3.8527 cents per piece.¹⁶ Shifting 2.33 cents of
10 this amount to weight-related cost leaves a piece-related cost of 1.5227 cents
11 which, when multiplied by a slightly-reduced coverage of 210 percent, results
12 in 3.2 cents, which is the same as witness Moeller's proposed rate.¹⁷

13 The decision to shift 2.33 cents from per-piece costs to pound-related
14 costs increases weight-related cost by 11.91 cents per pound. Treating
15 "other" costs as pound-related further increases the weight-related cost for
16 mail entered at DDUs by another 0.54 cents per pound, to 12.45 cents per
17 pound. The final adjustment for contingency increases the pound cost for

¹⁵ USPS-T-36, p. 31.

¹⁶ Appendix A, Table A-1.

¹⁷ The next section of this testimony analyzes margins and mark-ups (over cost) implicit in the Postal Service's proposed rates. Treating 2.33 cents of piece-related costs as weight-related results in piece-rated and pound-rated nonletters having generally similar markups.

1 DDU entry to 12.57 cents, while the cost for mail with no destination entry is
2 26.50 cents per pound; these are the pound rates for Case I shown in Table
3 2.¹⁸

4 **Case II: Low weight-related costs.** In Case II, mail processing and
5 delivery costs equaling to 0.5825 cents are assumed to be weight-related.
6 This assumption shifts costs from heavier-weight nonletters above the 3.3
7 ounce breakpoint to lighter-weight nonletters below the breakpoint. The
8 assumption that 0.5825 cents per piece of the mail processing and delivery
9 cost is weight-related is as arbitrary as the assumption of Case I. It is simply
10 one-fourth of 2.33 cents, which is the assumption used to develop Case I. In
11 Case II, the per-pound cost for nonletters entered at DDUs is 3.51 cents,
12 while the per-pound cost for non-destination entry nonletters is 17.44 cents.¹⁹
13 These are the pound rates for Case II, which are also shown in Table 2.

¹⁸ Appendix A, Table A-18. Witness Moeller proposes a rate of 53 cents per pound for ECR mail with no destination entry. USPS-T-36, p. 31. His rate thus has an implicit coverage of 202 percent over the weight-related cost assumed in Case I.

¹⁹ Appendix A, Table A-24. In this scenario, witness Moeller's rate of 53 cents per pound represents a coverage of 304 percent over assumed cost.

Table 2

Standard A ECR Nonletters
TYAR Final Adjusted Unit Costs
(including contingency, cents)

Case I: 2.33 Cents per Piece Treated as Weight-Related Cost

	No Destination	- Entry at Destinating -		
	<u>Entry</u>	<u>BMC</u>	<u>SCF</u>	<u>DDU</u>
Piece-Rated, per piece				
Basic	8.99	8.19	7.90	7.54
High-Density	6.16	5.25	5.07	4.71
Saturation	4.21	3.38	3.35	3.04
Pound-Rated, per piece				
Basic	5.96	5.96	5.96	5.96
High-Density	3.13	3.13	3.13	3.13
Saturation	1.46	1.46	1.46	1.46
Pound-Rated, per pound				
Basic	26.50	17.37	15.34	12.57
High-Density	26.50	17.37	15.34	12.57
Saturation	26.50	17.37	15.34	12.57

Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost

	No Destination	- Entry at Destinating -		
	<u>Entry</u>	<u>BMC</u>	<u>SCF</u>	<u>DDU</u>
Piece-Rated, per piece				
Basic	9.62	8.81	8.53	8.17
High-Density	6.79	5.88	5.69	5.34
Saturation	4.84	4.01	3.98	3.66
Pound-Rated, per piece				
Basic	7.73	7.73	7.73	7.73
High-Density	4.90	4.90	4.90	4.90
Saturation	3.22	3.22	3.22	3.22
Pound-Rated, per pound				
Basic	17.44	8.31	6.28	3.52
High-Density	17.44	8.31	6.28	3.52
Saturation	17.44	8.31	6.28	3.52

Source: Appendix A, Tables A-18 and A-24.

1 **IV. ANALYSIS OF THE POSTAL SERVICE'S**
2 **PROPOSED RATES FOR STANDARD A ECR MAIL**

3 **Introduction**

4 The postal rate-setting process apportions non-volume-variable costs
5 in two steps. The first step establishes a target contribution for each class
6 and subclass of mail, using the criteria specified in 39 U.S.C. Section
7 3622(b).²⁰ Collectively, these target contributions assure that the Postal
8 Service will cover all of its costs and meet its revenue requirement.

9 Step two determines how much to charge each subgroup of products
10 (e.g., ECR letters), and each rate category within a subclass. This step
11 defines the amount in excess of volume-variable cost that each rate cell
12 contributes to other costs. Mailers who enter mail in only one or two rate
13 cells are more concerned with the coverage assigned to the rates which they
14 use, than with the average coverage for the subclass as a whole.

15 **Rate Design**

16 This is the second step mentioned above. Determination of specific
17 rates for each individual category, or rate cell, within a subclass is typically
18 referred to as rate design. Cost differences, sometimes referred to as costs

²⁰ See USPS-T-30, testimony of witness O'Hara.

1 avoided in the context of top down rate design, are the starting point for rate
2 differences within a subclass. Rates for Standard A Mail are designed by the
3 Postal Service using a **top down** approach. Here, rate differences between
4 various rate categories are referred to as worksharing discounts. These
5 discounts reflect varying **passthroughs** of costs avoided. Postal Service
6 rate design experts rely on the criteria of 39 U.S.C. Section 3622(b) to
7 rationalize the extent to which differentials in costs avoided are transformed
8 into rate differentials in the final design.

9 **Section 3622(b) criteria.** To illustrate the preceding point, witness
10 Moeller, in his discussion of proposed rates for Standard A mail, repeatedly
11 invokes the “need to temper the increase on any one rate category to
12 customers” (criterion 4).²¹ Also mentioned are:

- 13 • The “below cost rate problem” (criterion 3);²²
- 14 • The desire for simplicity in the rate structure (criterion 7);²³
- 15 • His concern that the proposed surcharge not be perceived as
16 “inappropriate or unfair” (criterion 1);²⁴

²¹ USPS-T-36, p. 10; see also pp. 13, 16, 17, 20, 28, 29, 30, and response of witness Moeller to VP-CW/USPS-T36-5 (Tr. 6/2899).

²² USPS-T-36, p. 12.

²³ USPS-T-36, pp. 13, 15 and response of witness Moeller to DMA/USPS-T36-3 (Tr. 6/2740-41).

²⁴ USPS-T-36, p. 13 and response of witness Moeller to DMA/USPS-T36-3 (Tr. 6/2740-41).

- 1 • The desire to give appropriate recognition to “the value of
- 2 worksharing activity” (criterion 6);²⁵ and
- 3 • the need for the rate structure to be “sensitive to, and priced
- 4 competitively with, the alternatives” (criterion 5).²⁶

5 Although witness Moeller appears to focus on criterion 4, he also

6 invokes criteria 1, 3, 5, 6 and 7 of the Act at least once.²⁷ He states that

7 “[r]atesetting involves balancing this factor [criterion 4] with the other

8 criteria of the Act, including cost considerations.”²⁸

9 The preceding development of the volume-variable unit cost for each

10 rate cell, in Section III of this testimony, facilitates analysis of the Postal

11 Service’s proposed rates, as well as alternative rate designs. For example,

12 using the volume-variable unit costs in Table 1, computation of the margins

13 and mark-ups that are implicit in the Postal Service’s proposed rates is a

²⁵ USPS-T-36, p. 16.

²⁶ *Id.*, p. 26.

²⁷ The only explicit criteria not mentioned by witness Moeller are value of service (criterion 2) and ECSI (criterion 8).

²⁸ VP-CW/USPS-T36-5 (Tr. 6/2899). The Postal Service’s First-Class rate design expert, witness Fronk, has a similar view. “The factors, considerations, or principles I think should guide the recommendation of a passthrough for shape-related cost differences are set forth in Section 3622(b) of title 39, United States Code. Section 3622(b) describes the pricing criteria that need to be followed when setting postal rates and fees. The recommended passthrough of cost differences depends on a balancing of the various pricing criteria set forth in Section 3622(b).” NDMS/USPS-T32-6 (Tr. 4/1498).

1 straightforward exercise.²⁹ The results make possible explicit comparisons
2 between rate elements.³⁰

3 Revenues and Costs for ECR Letters and Nonletters

4 Revenues and costs contained in, or derived directly from, Postal
5 Service projections in this docket for Standard A ECR letters and nonletters
6 are presented in Table 3. The third row of Table 3 shows the **margin** over
7 revenues, or contribution to other costs, by letters and nonletters,
8 respectively. The fourth row shows the margin as a percent of volume-
9 variable costs, referred to here as the "**mark-up**." From this first row, it can
10 be readily observed that the Postal Service's proposed rate design marks up
11 ECR letters about 24 percentage points more than nonletters (*i.e.*, 144
12 percent versus 120 percent). Unit revenues, costs and margins are shown in
13 the bottom portion of Table 3.

²⁹ Throughout this testimony the term "**margin**" will refer to the difference, stated as an absolute amount, between rates and volume-variable unit costs, and "**mark-up**" will refer to the percentage difference by which rates exceed unit costs. The margin thus represents a shorthand expression for per-piece contribution to the Postal Service's other costs.

³⁰ The Postal Service's rate design did not set or even consider cost coverages below the subclass level. Response of Postal Service to NAA/USPS-T36-29. This response was designated, but not incorporated into Transcript volume 19; response of witness Moeller to NAA/USPS-T36-48 (Tr. 6/2807), response of witness Moeller to PSA/USPS-T36-5 (Tr. 6/2883), and response of witness Moeller to PSA/USPS-T26-1 (Tr. 6/2887).

25

Revised 2/26/98

Table 3

Standard A ECR Mail
Revenues and Costs Test Year After Rates
By Shape
(\$, 000)

	<u>Letters</u>	<u>Nonletters</u>	<u>Total</u>
Revenues from Rates	<u>1,194,629</u>	<u>3,067,889</u>	4,262,518
Volume-variable Costs, including contingency	<u>495,916</u>	<u>1,389,524</u>	<u>1,885,440</u>
Margin	<u>698,713</u>	<u>1,678,365</u>	<u>2,377,078</u>
Mark-up	<u>140.89%</u>	<u>120.79%</u>	<u>126.08%</u>

Per Piece (cents)	<u>Letters</u>	<u>Nonletters</u>	<u>Average</u>
Revenues	<u>13.71</u>	<u>15.36</u>	14.86
Costs	<u>5.69</u>	<u>6.96</u>	<u>6.57</u>
Margin	<u>8.02</u>	<u>8.40</u>	8.29

Source: Revenues, Appendix C, Table C-12.
Costs, Appendix A, Table A-2.
Volumes, Appendix A, Table A-6.

1 **ECR Letters**

2 The following discussion makes use of the bottom up cost figures
3 computed for the 16 rate cells for Standard A ECR Mail, as presented in the
4 preceding Section III of this testimony.

5 **Margins.** The implicit margins for the rates proposed by the Postal
6 Service for each ECR letter rate cell are shown at Table 4, Part A. For all
7 ECR letters, the average margin, or contribution to other costs, is 8.32 cents
8 (see Table 3).³¹ Margins range from a low of 6.66 cents to a high of 9.63 cents
9 per piece.

10 **Mark-Ups.** The implicit percentage mark-ups for Standard A ECR
11 letter mail are shown in Table 4, Part B. For all ECR letters, the average
12 mark-up is 144 percent (see Table 3). Because the highest margin is imposed
13 on Saturation mail — which has the lowest unit cost — the implicit mark-ups
14 on ECR letter mail span a wide range, from 99 to 213 percent. The implicit
15 mark-ups on the different rate categories are seen to vary widely around the
16 average.

³¹ The Postal Service did not calculate unit contribution at this level of detail. Response of witness Moeller to NAA/USPS-T36-35 (Tr. 6/2795).

Table 4

Margins and Mark-Ups Implicit in Postal Service Proposed
Rates for ECR Letters

A. Margins
(cents per piece)

	No Destination Entry	- Entry at Destinating -		
		DBMC	DSCF	DDU
Basic	8.32	7.07	7.00	6.66
Automation	9.63	8.38	8.31	7.97
High-Density	8.97	7.85	7.76	7.52
Saturation	9.11	8.06	7.84	7.53

B. Mark-Ups
(percent)

	No Destination Entry	- Entry at Destinating -		
		DBMC	DSCF	DDU
Basic	113%	99%	101%	99%
Automation	142	129	132	130
High-Density	168	159	164	168
Saturation	212	210	209	211

Sources: Proposed rates from USPS-T-36, p. 31.
Unit Costs from ECR letters, Table 1.

1 As this analysis demonstrates, Saturation mail is not only in a
2 subclass which was assigned one of the highest cost coverages of any
3 postal product, it also makes a disproportionate contribution to
4 institutional costs within the ECR subclass. Not only does Saturation
5 mail contribute a higher percentage of its revenues to institutional costs than
6 other ECR mail receiving more Postal handling, the Postal Service's
7 proposed rates impose a larger cents per piece contribution on Saturation
8 mailpieces. Ironically, Saturation mail is also the ECR mail which is most
9 susceptible to diversion to alternative methods of delivery.

10 This discrimination, or "anomaly", is due to the Postal Service's
11 reliance on a top down rate design methodology rather than a bottom up
12 methodology. See discussion in Section V, *infra*.

13 **ECR Nonletters**

14 **Piece-rated Nonletters.** As explained previously, Case I assumes
15 comparatively high weight-related costs. This reduces the costs allocated to
16 those pieces that weigh less than the breakpoint (3.3 ounces) and pay
17 minimum per-piece rates. The net result of assuming high weight-related
18 cost is that (i) volume-variable unit costs are lower, and (ii) margins and

1 mark-ups increase. Margins range from 6.6 to 9.9 cents, while mark-ups
2 vary over a wide range, from 82 to 289 percent (see Table 5-A).³²

3 Case II is the reverse of Case I; weight-related costs are assumed to be
4 comparatively low. This increases the cost for all pieces that weigh less than
5 the breakpoint. In Case II, the higher volume-variable unit costs decrease
6 margins and mark-ups (in comparison with Case I). In this case, margins
7 range from 5.9 to 9.3 cents (i.e., about 0.6 cents less than Case I), and mark-
8 ups vary from 69 to 222 percent (see Table 5-B).

9 One finding stands out independently of the assumptions of Case I or
10 II. Regardless of whether weight-related cost is assumed to be high or low,
11 Basic nonletters have a significantly lower margin and mark-up than either
12 High-Density or Saturation nonletters. This finding is unaffected by the
13 wide variation of margins and mark-ups implicit in the Postal Service's
14 proposed rate design.

³² Using the estimated CRA costs for nonletters as a control here limits the effect of a higher or lower pound rate to nonletters. If the CRA letter/nonletter cost constraint were not present, explicit identification of some costs as weight-related would probably shift costs from letters (which have a lower average weight) to nonletters, as discussed in witness Moeller's response to NAA/USPS-T36-51 (Tr. 6/2810-11).

Table 5-A**Standard A ECR**

Analysis of Postal Service Rates
Piece-Rated Nonletters
 (Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)
 (cents)

	No Dest. Entry	BMC	SCF	DDU
Proposed Rates [1]				
Piece-Rated				
Basic	16.4	14.9	14.6	14.1
High-Density	15.3	13.8	13.5	13.0
Saturation	14.1	12.6	12.3	11.8
Costs [2]				
Piece-Rated				
Basic	8.99	8.19	7.90	7.54
High-Density	6.16	5.25	5.07	4.71
Saturation	4.21	3.38	3.35	3.04
Margin [3]				
Piece-Rated				
Basic	7.41	6.71	6.70	6.56
High-Density	9.14	8.55	8.43	8.29
Saturation	9.89	9.22	8.95	8.76
Mark-up [4]				
Piece-Rated				
Basic	82%	82%	85%	87%
High-Density	148%	163%	166%	176%
Saturation	235%	273%	267%	289%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-18.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

Table 5-B**Standard A ECR**

Analysis of Postal Service Rates
Piece-Rated Nonletters
 (Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)
 (cents)

	No Dest. Entry	BMC	SCF	DDU
	---	---	---	---
Proposed Rates [1]				
Piece-Rated				
Basic	16.4	14.9	14.6	14.1
High-Density	15.3	13.8	13.5	13.0
Saturation	14.1	12.6	12.3	11.8
Costs [2]				
Piece-Rated				
Basic	9.62	8.81	8.53	8.17
High-Density	6.79	5.88	5.69	5.34
Saturation	4.84	4.01	3.98	3.66
Margin [3]				
Piece-Rated				
Basic	6.78	6.09	6.07	5.93
High-Density	8.51	7.92	7.81	7.66
Saturation	9.26	8.59	8.32	8.14
Mark-up [4]				
Piece-Rated				
Basic	71%	69%	71%	73%
High-Density	125%	135%	137%	143%
Saturation	191%	214%	209%	222%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-24.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

1 **Pound-Rated Pieces Weighing 5 and 10 Ounces**

2 For any given assumption about weight-related costs, analysis of the
3 Postal Service's proposed rates is comparatively straightforward. Using the
4 assumptions in Cases I and II above, volume-variable unit costs, margins and
5 mark-ups have been developed for pieces that weigh 5 ounces and 10 ounces.
6 These results are shown in Appendix B, Tables B-3, 4, 6 and 7.

7 In both Cases I and II, the highest mark-ups and margins are paid by
8 Saturation nonletters. Regardless of the assumption about weight-related
9 costs, the margins for Saturation rate cells are higher (by about 2.3 cents)
10 than they are for the Basic category rate cells. And, since the Saturation rate
11 category has lower volume-variable unit costs, the percentage mark-ups are
12 strikingly higher than mark-ups for the Basic category rate cells.

13 **ECR Cost Coverage is Extremely High**

14 The coverage factor for the ECR Subclass was set at 218 percent in
15 Docket No. MC95-1, and under the Postal Service's Request in this docket
16 would increase to 228 percent.

17 **Recent Dockets.** In Docket No. R94-1, the Commission assigned
18 third-class bulk rate regular ("BRR") (the predecessor mail subclass to
19 Standard A) a lower cost coverage than First-Class Mail. BRR's mark-up
20 was only 90 percent of the systemwide average, while the mark-up on First-
21 Class was 131 percent of the systemwide average. The Commission said that

1 “the lower markup index for BRR reflects its **higher elasticity of demand,**
2 **the potential for volume diversion to alternative delivery** and the need
3 to set rates which are **responsive to the market...**[and] the low intrinsic
4 value of its **service standards and service performance.** Each of these
5 considerations must be taken into account under section 3622(b)(2).”³³

6 The Postal Service first proposed to create an Enhanced Carrier Route
7 (“ECR”) subclass within the new Standard A Class, in Docket No. MC95-1.
8 When presenting its Standard A ECR proposal, Postal Service witness
9 Moeller testified that the requested cost coverage for Standard A ECR (212
10 percent) was higher than that recommended by the Commission for any
11 subclass in Docket No. R94-1.³⁴ Witness Moeller nevertheless defended
12 Standard A ECR’s high cost coverage in that docket as necessary to avoid
13 major changes in rate relationships between subclasses, which were designed
14 to be revenue neutral.³⁵

15 Witness Moeller further testified that, were it not for the concern of
16 reducing the contribution to institutional costs which BRR had provided, “I
17 would propose a lower cost coverage for Enhanced Carrier Route.” Standard
18 A ECR has a relatively low economic value of service, and the
19 availability of alternatives to Standard A ECR argues for a lower cost

³³ *Op. & Rec. Dec.*, Docket No. R94-1, p. V-93, emphasis added.

³⁴ USPS-T-18, p. 6.

³⁵ *Id.* at 7.

1 coverage (Sec. 3622(b)(5)); and Standard A ECR has a **high degree of**
2 **mailer preparation**, supporting a lower cost coverage (Sec. 3622(b)(6)).³⁶

3 **Docket No. R97-1.** Witness O'Hara's testimony presents the Postal
4 Service's explanation and justification for its proposed cost coverages in
5 Docket No. R97-1. His analysis of the noncost criteria echoed witness
6 Moeller's analysis in Docket No. MC95-1: "**most of the factors**
7 **considered...would indicate a cost coverage lower than that actually**
8 **proposed**" for ECR (emphasis added). For example: the **intrinsic value** of
9 service (criterion 2) for Standard A ECR is relatively low, since it lacks access
10 to the collection system, receives ground transportation, and its delivery may
11 be deferred; the **price-elasticity** (criterion 2) of Standard A ECR is higher
12 than that of Standard A Regular, First-Class letters, or Periodicals,
13 indicating a relatively low economic value of service as well; the availability
14 of **alternatives** (criterion 5) for users of Standard A ECR mail is relatively
15 high — due to its geographic concentration, both alternate delivery firms and
16 newspaper inserts may provide alternative ways of delivering the same
17 advertising message; and this mail has a very high degree of **preparation**
18 **by the mailer** (criterion 6) — even the basic rate category must be line-of-

³⁶*Id.* at 7-8.

1 travel sequenced, and the high-density and saturation categories are walk-
2 sequenced.³⁷

3 Witness O'Hara defends the Postal Service's imposition of a high (228
4 percent) cost coverage on ECR. He notes that the Postal Service proposes a
5 3.2 percent average rate increase, which is "somewhat below the system-wide
6 average increase, reflecting a desire to lower the very high cost coverage of
7 this subclass." (Emphasis added.) He also notes that a reduction in the ECR
8 cost coverage could be achieved only by imposing greater rate increases on
9 other subclasses, and would have made it more difficult to design rates to
10 encourage the movement of ECR basic letters into the automation
11 mailstream.³⁸

12 If the Commission finds itself unable to reduce the ECR coverage
13 factor in this docket, a decision with which I would disagree, this makes it all
14 the more important to ensure that that high coverage level is shared
15 reasonably by mail within the Subclass. As can be seen from Tables 4, 5A
16 and 5B, under the Postal Service's proposal, an unduly high share of this
17 already excessive coverage is being pushed onto saturation mail, the rate
18 category most susceptible to diversion to alternative delivery. Should the
19 Commission decide to adopt the ECR coverage at the 228 percent level

³⁷ USPS-T-30, pp. 34-36.

³⁸ *Id.*, pp. 34, 36.

1 proposed by the Postal Service, that makes it all the more necessary for the
2 Commission to utilize a bottom up costing method which deliberately and
3 thoughtfully sets mark-ups that do not excessively burden saturation mail.

4 Conclusion

5 The Postal Service and the Postal Rate Commission have long been
6 concerned about increases which depart so far from the average rate increase
7 that they constitute "rate shock." This consideration presumably derives
8 from 39 U.S.C. Section 3622(b)(4).

9 To the extent that one non-cost criterion applies to an individual rate
10 category, it seems reasonable that all of the other criteria in Section 3622(b)
11 should be reviewed to determine if they to are applicable. For example,
12 fairness and equity, criterion 1, would appear to be as applicable as criterion
13 4. This is because some mailers use one rate cell predominantly, or even
14 exclusively. For this reason the Postal Rate Commission should also examine
15 closely the contribution to overhead, in both absolute amount and percent,
16 that is added to the volume-variable unit cost of each product, and extracted
17 from mailers who use that product. The explicit development of bottom up
18 costs for each rate cell provides basic data to facilitate such analysis.

1 **V. RATE DESIGN IN THE CONTEXT OF BOTTOM UP COSTS**

2 As stated previously, estimated volume-variable unit costs for
3 individual rate categories should be the same, regardless of whether derived
4 from the top down or the bottom up. Interestingly, however, the same cannot
5 be said when rates are designed from the bottom up versus the top down. At
6 present, the two approaches as utilized by the Postal Service apply
7 fundamentally different principles to rate design. As discussed below, the
8 resulting rates can be and are often quite different.

9 **Bottom up Rate Design**

10 When the Postal Service develops volume-variable unit costs using a
11 bottom up approach — that is, by summing the mail processing, shipping and
12 delivery unit costs applicable to each rate cell — volume-variable unit costs
13 are the basis for developing rate elements in the rate schedule. Rate design
14 adds a target percentage mark-up to the average volume-variable cost of each
15 rate cell, with only secondary subsequent modifications. This procedure not
16 only passes through all cost differences between rate cells to the rates derived
17 from them, but also has the effect of increasing, or amplifying, those cost

1 differences by the full amount of the contingency and the mark-up.³⁹ Thus,
2 regardless of whether the difference in volume-variable cost is caused by
3 sortation, transportation, shape, or weight, it is marked up.

4 For Priority Mail, witness Sharkey justifies this procedure on grounds
5 that all volume-variable costs in each rate cell are marked up and, by
6 inference, should be marked up.⁴⁰ To develop final proposed rates, the initial
7 target rates are then tempered, or adjusted slightly, on the basis of various
8 considerations.⁴¹

9 Top down rate design, by contrast, starts by developing an average
10 rate for a group of rate categories. Then, through a series of discounts, often
11 reflecting a dizzying array of passthroughs, the Postal Service proposes rates
12 for individual categories.⁴² Not only are volume-variable unit costs for
13 individual rate categories not analyzed, **they are not even computed.**⁴³

³⁹ The same end result (*i.e.*, rate differences greater than cost differences) can be achieved by passthroughs that exceed 100 percent. Witness Moeller's proposed rate design includes several passthroughs greater than 100 percent. He denies, however, that they are based on a mark-up of the avoided costs. Response to VP-CW/USPS-T36-17 (Tr. 6/2908).

⁴⁰ Response of witness Sharkey to NDMS/USPS-T33-13 (Tr. 4/1961).

⁴¹ Bottom up costs that have been marked up may be subject to adjustment and modification, as explained by witness Sharkey in response to UPS/USPS-T33-11 (Tr. 4/1992-95).

⁴² The top down approach to rate design is depicted graphically in witness Moeller's response to NAA/USPS-T36-8 (Tr. 6/2782).

⁴³ Response of witness Moeller to PSA/USPS-T36-5 (Tr. 6/2883).

1 Instead, an initial rate is developed from costs averaged over all applicable
2 rate cells.

3 One of the Commission's oft-stated goals is to develop and recommend
4 cost-based rates. The most obvious and logical basis from which to develop
5 cost-based rates is the volume-variable unit cost for each rate cell.⁴⁴ This is
6 true regardless of whether unit costs for individual cells are developed from
7 the top down or the bottom up.

8 Starting with the volume-variable unit cost for each rate cell, the
9 Commission can recommend rates that, on a consistent basis, treat all
10 subclasses fairly and equitably. At a minimum, the Commission should
11 strive for rates that do not produce grossly inconsistent results between
12 different rate categories and cells within subclasses. To that end, as an
13 initial step, I therefore propose the following alternative approach to rate
14 design for the Standard A ECR subclass in this docket:

- 15 (1) Compute the average unit cost for each rate cell,
- 16 (2) Establish an initial target rate for each rate cell based on
17 volume-variable unit cost plus a target mark-up, target margin,
18 or some combination of the two.
- 19 (3) Adjust the initial target rates through a conscious balancing of
20 all applicable rate setting criteria contained in 39 U.S.C. Section
21 3622(b).

⁴⁴ It is of course assumed here that costs are properly measured and computed, as they should be, and that they correctly reflect volume-variable costs. To the extent that cost systems do not track costs properly, integrity of rate design is jeopardized.

1 Computation of an average unit cost for each rate cell is explained in
2 section III of this testimony, *supra*. The other two steps are discussed below.

3 **Target Margins Versus Target Mark-Up**

4 Volume-variable unit cost reflects the extent to which mail in each rate
5 category utilizes the facilities and transportation of the postal network. That
6 is, a higher volume-variable cost generally reflects greater usage of and
7 reliance on the network for sortation and shipping, as well as delivery to
8 addressees. Using volume-variable unit cost as the basis for establishing
9 cost-based rates, one approach would be (i) to compute the average amount
10 required from each piece of mail to achieve the target contribution, and then
11 (ii) add that amount to the volume-variable unit cost in each rate cell. An
12 alternative approach would be to add a fixed percentage mark-up, or
13 coverage, that is sufficient to recover the target contribution. The extent to
14 which either of these two approaches is more appropriate for any given class
15 or subclass depends on the competitive environment for postal services, as
16 explained below.

17 **Target margin.** Establishing a fixed margin per piece of mail is one
18 way to set initial target rates.⁴⁵ By adding a constant amount, this approach
19 maintains rate differentials equal to cost differentials, but does not enlarge
20 the differential. That is, rate differences reflect cost differences, and no

⁴⁵ For ECR letters, the average margin is 8.2 cents per piece; for nonletters, it is 8.3 cents.

1 more. This approach results in rates that more or less resemble those
2 derived from a top down rate design.⁴⁶

3 Within a subclass, rate categories with the highest volume-variable
4 unit cost stand to benefit most from an approach of the type described here.
5 Since the same margin is imposed on each rate category, regardless of how
6 much processing and transportation the mail receives, this approach prices
7 intermediate postal functions such as sortation at marginal cost. The entire
8 contribution to other costs is recovered by imposing a high monopoly rent on
9 the delivery function.⁴⁷ Critical economic assumptions which underlie this
10 pricing strategy are: (i) the Postal Service faces perfect or near-perfect
11 competition for the sortation and shipping services which are offered on an
12 optional basis, and (ii) it has a perfect or near-perfect monopoly over
13 delivery which it can exploit by charging a high mark-up on the delivery
14 function.

15 **Target mark-up.** Adding a percentage mark-up to volume-variable
16 cost is the procedure used to set initial postal rates in some subclasses, such
17 as Priority Mail.⁴⁸ Because costs are increased by a percentage amount, rate

⁴⁶ The implicit margins in the Postal Service's proposed rates for ECR letters reflect only relatively small differences; see Table 4-A, *supra*.

⁴⁷ That is, the same margin is extracted regardless of cost. Hence, it is reasonable to presume that the margin is imposed on final delivery, the one function that is common to all mail in the subclass.

⁴⁸ As noted previously, the procedure of adding a percentage mark-up is
(continued...)

1 differentials exceed cost differentials.⁴⁹ The resulting rates are typically
2 identified with bottom up rate design. Within a subclass, rate categories
3 with comparatively low unit costs would pay a lower contribution to other
4 costs, and thus would stand to benefit from an approach that applies a
5 percentage mark-up to volume-variable unit costs.

6 This approach seeks to derive a contribution, or "operating profit" on
7 each function performed by the Postal Service, regardless of whether it is
8 mail processing, transportation or delivery.⁵⁰ Implicitly, it treats all postal
9 services as being subject to fair competition, and rejects the concept that
10 the Postal Service should price mail processing and transportation at (or very
11 near) marginal cost, while extracting virtually the entire contribution to
12 other costs from the delivery function in the form of a pure monopoly rent.
13 The degree to which the latter function approximates such a pure monopoly
14 is an issue which will be addressed presently.

15 To the extent that the mail processing and transportation portions of
16 the Postal Service's network provide valuable services to those mailers that

⁴⁸(...continued)

also the starting point for setting initial target prices in many industries.

⁴⁹ Priority Mail offers a good example. Under the Postal Service's proposed rates, the margin on a 50-pound package ranges from \$13.85 to \$29.56, depending on the zone, or distance traveled.

⁵⁰ In the case of ECR letters, under the Postal Service's proposed rates the average mark-up on letters is 144 percent, and the average mark-up on nonletters is 120 percent; see Table 3, *supra*.

1 utilize them, a mark-up that is fair to private providers of those services,
2 added to on the cost of performing these functions, would be appropriate.
3 Using this approach, generally higher target rates than those proposed by
4 the Postal Service would be justified for the Automation and Basic presort
5 rate categories. Target rates for High-Density and Saturation mail would be
6 correspondingly lower.

7 **Assessing the Competitive Environment**

8 The two approaches described here can be viewed as representing
9 somewhat extreme economic assumptions as regards the competitive
10 environment for the provision of postal services. For any subclass, the
11 question of which approach is more appropriate turns on the situation in
12 which the Postal Service finds itself. Furthermore, the choice is not
13 restricted to one or the other. The two approaches described here can be
14 combined in a variety of ways. For example, should each approach be
15 deemed equally applicable, half the desired contribution could be recouped
16 via a fixed amount per piece, and the other half could be recouped by adding
17 a mark-up equal to half the target mark-up to volume-variable unit cost.

18 **Competitive environment for delivery of advertising mail.** For
19 advertising material such as Standard A ECR Mail, the Postal Service is the
20 dominant provider of hard-copy delivery service. At the same time,
21 newspaper inserts are a widely used method of distributing catalogs and

1 other advertising material, and alternative delivery services exist in some
2 parts of the country.⁵¹ The Postal Service's statutory monopoly precludes
3 competitors' access to mailboxes, but to assume that the Postal Service has a
4 monopoly on the delivery of all advertising material would appear
5 presumptuous. A rate design that imposes on the delivery function the entire
6 contribution to other, non-volume-variable costs clearly represents an
7 extreme example of monopoly pricing. From an economic perspective, the
8 result is a very high monopoly rent for delivery. Over the long run, a
9 predictable effect of such monopoly pricing will be to encourage new entry
10 and competition in the provision of delivery service.

11 **Competitive environment for sorting and shipping advertising**
12 **mail.** In some respects the environment for sortation is highly competitive,
13 but considerably less so in other respects. Competition comes solely from
14 mailer presortation, which is quite common, and typically is referred to as
15 worksharing.⁵²

16 The situation with respect to shipping is similar. When advertising
17 mailings are sufficiently large to fill one or more trucks, private

⁵¹ The Postal Service commissioned a wide-ranging confidential study on alternative delivery by Strategic Analysis, Inc. See Presiding Officer's Ruling No. R97-1/46. If the Postal Service had a complete monopoly on delivery, it would have no need for such a study, nor would it be sensitive about release of the contents.

⁵² From an economic perspective, presortation is a substitute for, and thus competes with, sortation by the Postal Service.

1 transportation is usually provided or arranged by the preparer.⁵³ Like
2 presortation, dropshipment to destinating postal facilities is quite common,
3 and is also referred to appropriately as worksharing.

4 The bulk mail advertising industry noticeably lacks an infrastructure
5 of independent intermediate consolidators (*i.e.*, firms that transport and
6 merge advertising mail, and provide it to delivery firms, including – but not
7 limited to – the Postal Service, in a highly presorted condition).⁵⁴
8 Consolidators that collect, aggregate, sort and transport advertising material
9 from different preparers of bulk mail scarcely exist. The principal
10 consolidator by far is the Postal Service itself. To the extent that an
11 advertising mailer requires the services of a consolidator, the Postal Service
12 thus currently enjoys something close to a monopoly position.

13 To illustrate, within the ECR subclass, Saturation mail can be taken
14 directly to the delivery route without any further sortation. By contrast, for
15 any other ECR mail that only meets the basic requirement of 10 or more
16 pieces per route, carriers must merge it with other mail prior to delivery.
17 Hence, even this mail requires some “consolidation,” and that service is
18 available only from the Postal Service itself. Similarly, smaller ECR

⁵³ The preparer may be the mailer itself, or a letter shop that serves many clients.

⁵⁴ Independent presort houses exist for First-Class Mail, but not for advertising mail.

1 mailings that barely meet the minimum requirement of 10 pieces per carrier
2 route may find that dropshipment is not an economically feasible alternative,
3 given the lack of shipping consolidators for advertising mail.⁵⁵

4 **Balancing Applicable Criteria of Section 3622(b)**

5 On prior occasions, the Commission has explicitly resisted the idea
6 that the criteria in 39 U.S.C. Section 3622(b) should be applied
7 systematically to the design of rates within a subclass.⁵⁶ The Commission is
8 requested to reconsider its position on this issue. Regardless of the
9 Commission's stated position, consideration and balancing of the different
10 criteria in Section 3622(b) clearly underlie the rates proposed by the Postal
11 Service for each rate cell, or rate category, of Standard A mail. The real issue
12 is whether the criteria of Section 3622(b) will be invoked on an *ad hoc* basis
13 to rationalize and justify any result which the Postal Service deems desirable
14 at a particular time, or whether the criteria will be applied openly in a
15 manner that is even-handed and over time becomes reasonably predictable.

⁵⁵ Commercial letter shops that prepare and dropship large Saturation mailing occasionally may be able to piggyback smaller mailings onto their larger mailings.

⁵⁶ See, e.g., *Op. & Rec. Dec.*, Docket No. R87-1, pp. 458-59.

VI. PROPOSED RATES

My proposed rates for ECR letters are shown in Table 6. They have been designed to provide the same revenues and contribution to institutional costs as the rates proposed by witness Moeller; *see* Appendix C for details. As indicated previously, rates proposed by witness Moeller would impose a higher implicit mark-up on letters than on nonletters (Table 3). Although the reasons for this higher mark-up on letters are not altogether clear, the rates proposed here have been designed so that letters and nonletters each produce essentially the same revenues as under the Postal Service proposal; *i.e.*, no revenue burden is shifted from letters to nonletters, or vice-versa. The principles adopted and the rationale underlying the rates proposed for letters and nonletters are explained below.

Table 6
 VP-CW Proposed
 Enhanced Carrier Route Rates
 (in dollars)

		No Destination Entry	BMC	SCF	DDU
		—	—	—	—
5					
6					
7					
8	Letters				
9	Basic	0.167	0.152	0.149	0.144
10	Automation	0.160	0.145	0.142	0.137
11	High-Density	0.142	0.127	0.124	0.119
12	Saturation	0.129	0.114	0.111	0.106
13	Nonletters (piece-rated)				
14	Basic	0.167	0.152	0.149	0.144
15	High-Density	0.150	0.135	0.132	0.127
16	Saturation	0.138	0.123	0.120	0.115
17	Nonletters (pound-rated)				
18	Per Piece:				
19	Basic	0.058			
20	High-Density	0.041			
21	Saturation	0.029			
22	Per Pound:				
23	Basic	0.530	0.458	0.442	0.420
24	High-Density	0.530	0.458	0.442	0.420
25	Saturation	0.530	0.458	0.442	0.420

1 **Destination Entry Discount**

2 Rate differentials for dropshipment and destination entry are identical
3 to those proposed by the Postal Service. Costs avoided from destination entry
4 are computed on a per-pound basis.⁵⁷ Witness Moeller proposes an 80
5 percent passthrough of avoided costs, with the following proviso: for all
6 pieces that weigh less than the breakpoint (3.3 ounces), the discount is
7 computed at the breakpoint. Given the nature of the rate structure for
8 Standard A Mail, the rate differences advocated by witness Moeller for
9 destination entry seem fair and reasonable, and are adopted here.

10 **Letter Rates**

11 The starting point for rate development is the bottom up costs,
12 including the 1 percent contingency, shown in Table 1. These costs reflect
13 the full cost of sortation (otherwise referred to as presort savings), and were
14 used to develop letter rates as follows.

15 First, initial "target rates" were derived by adding to unit costs a
16 constant amount of 7.379 cents,⁵⁸ plus a mark-up of 10 percent. The 10
17 percent mark-up is a conservative recognition of the fact that the Postal
18 Service faces competition from alternate delivery in a number of markets. At

⁵⁷ USPS-LR-H-111.

⁵⁸ This represents 90 percent of the average margin per piece (8.199 cents).

1 the same time, most of the contribution to overhead costs is put on the
2 delivery function, consistent with the fact that the Postal Service is the
3 dominant provider of hard-copy advertising delivery service, and with respect
4 to hard-copy advertising the Postal Service exercises a substantial degree of
5 monopoly power as regards the delivery function.

6 Second, these initial "target rates" are adjusted to reflect the
7 differential for destination entry; *i.e.*, the Postal Service's rate differentials
8 for dropshipment, as explained previously. Revenues from these adjusted
9 rates are then compared with target revenues that result from the Postal
10 Service proposal, and a final per-piece adjustment is made.⁵⁹ These are the
11 ECR letter rates in Table 6.

12 Subtracting units costs (Table 1) from the proposed rates gives
13 margins and mark-ups for letters, which are shown in Table 7. In absolute
14 amount, Basic letters pay slightly more than the other rate categories. As a
15 percentage of cost, however, the contribution made by Basic letters is lower
16 than that of any other rate category.

⁵⁹ The adjustment amounts to 0.26 cents per piece; see Appendix C, Table C-3, for details.

51

Revised 2/11/98

Table 7

Margins and Mark-ups From
VP-CW Proposed ECR Letter Rates

A. MARGINS
(cents)

6		No Destination	- Entry at Destinating -			
7		Entry	DBMC	DSCF	DDU	
8	Automation	9.3 9.2	8.1 8.0	8.0 7.9	7.7 7.6	
9	Basic	9.4 9.3	8.2 8.1	8.1 8.0	7.8 7.7	
10	High-Density	9.0 8.9	7.9 7.8	7.8 7.7	7.5 7.4	
11	Saturation	8.7 8.6	7.7 7.6	7.4 7.3	7.1 7.0	

B. MARK-UPS

13		No Destination	- Entry at Destinating -			
14		Entry	DBMC	DSCF	DDU	
15	Automation	138% 136%	124% 123%	127% 126%	125% 123%	
16	Basic	128% 126%	115% 113%	117% 116%	115% 114%	
17	High-Density	168% 166%	159% 157%	164% 162%	168% 166%	
18	Saturation	203% 201%	200% 197%	198% 195%	200% 197%	

1 **Nonletters**

2 Since the weight-cost relationship is not known with any degree of
3 certainty, it was decided to adopt the Postal Service's proposed rate of \$0.53
4 per pound for pieces that weigh in excess of the breakpoint.

5 Designing nonletter rates in a manner analogous to letters would
6 require that each presort category reflect 100 percent of the cost difference
7 for sortation plus an additional amount for institutional costs. The
8 contribution to overhead costs would be a constant amount plus, perhaps, a
9 small percentage mark-up (similar to that for letters). Following that
10 procedure would result, however, in increasing the nonletter Basic rate well
11 beyond the rate proposed by the Postal Service, and also well beyond the
12 Basic rate for letters.

13 The effect of proposed rates on mailers (*i.e.*, possible "rate shock") is
14 one criterion of the Act. Also, in its rate design, the Postal Service
15 constrained the rate for Basic letters and nonletters to be equal. In light of
16 these considerations, the indicated rate differences were reduced below the
17 cost differences. The presort rate differences in Table 6 reflect 60 percent of
18 the presort cost differences; *i.e.*, only 60 percent of the cost of sortation is
19 passed through in the rates.⁶⁰

⁶⁰ The presort cost differences passed through by witness Moeller were 39 percent between Basic and High-Density and 72 percent between High-Density and Saturation. USPS-T-36, p. 29

1 Within the context of bottom up rate design, the difference between
2 the cost and proposed rate for Basic nonletters can be viewed in either of two
3 ways:

- 4 • Basic nonletters make the same contribution to overhead for
5 delivery service (the monopoly function) as do Saturation and
6 High-Density letters, but they receive sortation services from
7 the Postal Service at only 60 percent of cost; or, alternatively,
- 8 • Basic nonletters pay 100 percent of the cost of sortation services
9 which they receive, but for delivery service (the monopoly
10 function) they pay a lower contribution to overhead than do
11 Saturation and High-Density letters.⁶¹

12 From the perspective of bottom up rate design, the Postal Service
13 appears to use its monopoly over the delivery function to price sortation
14 services below cost to Basic nonletters. At a minimum, the Postal Service
15 needs to articulate why Basic nonletters should pay less than volume-
16 variable cost for sortation services, or, in the alternative, pay a contribution
17 to overhead that is lower in absolute amount than the contribution paid by
18 High-Density and Saturation nonletters.

⁶¹ Developing postal rates within the context of bottom up costs facilitates analogy with unbundled telephone rates. Local carriers are considered to have an effective monopoly over access, and they charge all long-distance carriers an equal amount (about 4 cents per call) for access. Interestingly, local carriers have not been permitted to enter the competitive long-distance business for fear that they would (i) find a way to charge themselves less for access than they charge independent competitors, or alternatively, (ii) they would sell competitive long-distance services below cost in order to obtain the monopolistically-set access rate.

1 **VII. CONCLUSIONS AND RECOMMENDATIONS**

2 The Commission is urged not only to recommend the Standard A ECR
3 rates proposed here, but also to utilize the bottom up approach to cost
4 development and rate design for ECR. This approach is generally consistent
5 with the printing industry, which is a major provider of mail to the Postal
6 Service, as well as many other industries. The explicit development of unit
7 costs, margins and mark-ups for each rate category within a subclass helps
8 assure that each rate will be cost-based and, at the same time, be consistent
9 with all the statutory criteria of the Act.

Appendix A

DEVELOPMENT OF UNIT COSTS FOR STANDARD A ECR MAIL

This appendix contains data to support my development of unit costs for Standard A ECR mail in Section III of my testimony. It contains 25 tables, as follows:

Table

- A-1 Test Year Unit Costs
- A-2 TYAR Total Cost of Letters and Nonletters
- A-3 1996 Base Year Volume
- A-4 1996 Base Year Weight
- A-5 1996 Base Year Average Weight
- A-6 1998 TYAR Volume
- A-7 1998 TYAR Weight
- A-8 Shipping Costs Incurred on Account of Non-Destination Entry
- A-9 Total Shipping Costs Incurred on Account of Non-Destination Entry, TYAR
- A-10 Unit Shipping Costs Incurred on Account of Non-Destination Entry, TYAR
- A-11 Unadjusted TYAR Total Unit Cost (T+MP+D)
- A-12 Unadjusted TYAR Total Cost

- A-13 Adjusted TYAR Total Unit Cost
- A-14 TYAR Unit Cost Less 2.33 Cents Per Piece (Case I)
- A-15 TYAR Adjustment Factors (Case I)
- A-16 TYAR Unit Cost Including Weight-Related Adjustment (Case I)
- A-17 TYAR Final Unit Cost Adjustment to CRA (Case I)
- A-18 TYAR Final Adjusted Unit Costs (Case I)
- A-19 TYAR Total Adjusted Costs (Without Contingency) (Case I)
- A-20 TYAR Unit Cost Less 0.5825 Cents Per Piece (Case II)
- A-21 TYAR Adjustment Factors (Case II)
- A-22 TYAR Unit Cost Including Weight-Related Adjustment (Case II)
- A-23 TYAR Final Unit Cost Adjustment to CRA (Case II)
- A-24 TYAR Final Adjusted Unit Costs (Case II)
- A-25 TYAR Total Adjusted Costs (Without Contingency) (Case II)

Basic Data

Table A-1: Mail Processing and Delivery Unit Costs. Data from various USPS sources were used to develop unit costs for mail processing, transportation (and other costs), and delivery, for letters and nonletters.

Table A-2: TYAR Total Cost of Letters and Nonletters. Unit costs in Table A-1 are multiplied by the TYAR volume projection in USPS-6A, Table 4, to

obtain total CRA costs before contingency, which comports with CRA costs before contingency from Exhibit USPS-15I.

Tables A-3 and A-4: 1996 Base Year Volume and Weight. Volumes (Table A-3) and weight (Table A-4), are taken directly from 1996 Billing Determinants, USPS-LR-H-145.

Table A-5: 1996 Base Year Average Weight. Dividing weight (Table A-4) by volume (Table A-3) produces average weight.

Tables A-6 and A-7: TYAR Volume and Weight. TYAR volume (Table A-6) and data for pound-rated pieces (Table A-7) are from USPS-T-36, WP 1, page 20. For letters and piece-rated nonletters, total weight is derived by multiplying the average base year weights (Table A-5) by the respective TYAR volumes (Table A-6).

Table A-8: Shipping Costs Incurred on Account of Non-Destination Entry. Data in Table A-8 come directly from USPS-LR-H-111.

Tables A-9 and A-10: Total and Unit TYAR Shipping Costs Incurred on Account of Non-Destination Entry. TYAR pounds (Table A-7) are multiplied by the per-pound shipping costs (Table A-8) to calculate the total shipping costs

Revised 2/11/98

incurred (Table A-9). Dividing total costs (Table A-9) by TYAR volumes (Table A-6) gives unit shipping costs (Table A-10).

Unit Costs for ECR Letters

Tables A-11 and A-12: Unadjusted TYAR Total Unit Cost and Unadjusted TYAR Total Cost. The sum of mail processing and delivery costs (Table A-1), plus shipping costs (Table A-10) results in **unadjusted** total unit costs (Table A-11). Multiplying unit costs (Table A-11) by TYAR volumes (Table A-6) gives an **unadjusted** total cost of \$463,184,000. Subtracting this from the CRA After Rates Total Cost for Letters, \$491,006,000 (Table A-2) results in a difference of \$27,822,000. Dividing this \$27,822,000 difference by total TYAR letter volume of 8,712,800,000 (Table A-6), gives a per-piece adjustment of 0.3193 cents.

Table A-13: Adjusted TYAR Unit Costs. Adding the per-piece adjustment of 0.3193 cents (Table A-12) to **unadjusted** unit costs (Table A-11) gives the **adjusted** unit costs for Standard A Regular Rate ECR Letters shown in Table A-13.

Unit Costs for ECR Nonletters

Tables A-14 and A-20: TYAR Unit Cost Less 2.33 Cents Per Piece (Table A-14) and 0.5825 Cents Per Piece (Table A-20). Unit mail processing and delivery costs (Table A-1, columns 1 and 2) together with unit

shipping costs (Table A-10), less 2.33 cents per piece, gives the piece-rated unit costs and pound-rated per piece costs for Case I shown in Table A-14.

Using the same methodology, less 0.5825 cents per piece, gives the piece-rated unit cost and pound-rated per-piece costs for Case II shown in Table A-20. Pound-rated per pound costs are unadjusted and taken directly from Table A-8 in both Table A-14 and A-20.

Tables A-15 and A-21: TYAR Adjustment Factors. Table A-15 gives the adjustment factors used in Case I (2.33 cents per piece treated as weight-related cost).

Table A-21 gives the adjustment factors for Case II (0.5825 cents per piece treated as weight-related cost). Both tables take TYAR volume from Table A-6 and TYAR weights from Table A-7.

Tables A-16 and A-22: TYAR Unit Cost Including Weight-Related Adjustment. Adjusting the unit costs in Table A-14 by the adjustment factors in Table A-15 give the adjusted TYAR unit costs shown in Table A-16 for both piece-rated pieces and pound-rated pieces, using the Case I adjustment of 2.33 cents per piece as weight-related cost.

Similarly, adjusting the unit costs in Table A-20 by the adjustment factors given in Table A-21 provides the adjusted TYAR unit costs shown in Table A-22 for

both piece-rated and pound-rated pieces, using the Case II adjustment of 0.5825 cents per piece as weight-related cost.

Tables A-17 and A-23: TYAR Final Unit Cost Adjustment to CRA.

Multiplying unit costs (Table A-16) by TYAR volumes (Table A-6) and TYAR weights (Table A-7) gives the initial total cost for nonletters under Case I. This total, \$1,354,722,000, varies from the CRA total for nonletters, \$1,375,673,000, (Table A-2) by \$20,951,000. The adjustment factors of \$0.0054 per pound and 0.0677 cents per piece, shown in Table A-23, are used to reconcile the Case I total cost for nonletters with the CRA total for nonletters.

Similarly, multiplying unit costs (Table A-22) by TYAR volumes (Table A-6) and TYAR weights (Table A-7) gives the initial total cost for nonletters for Case II. This total, \$1,356,123,000, varies from the CRA total for nonletters, \$1,375,673,000, (Table A-2) by \$19,550,000. The adjustment factors of \$0.0054 per pound and 0.0632 cents per piece, shown in Table A-23, are used to reconcile the Case I total cost for nonletters with the CRA total for nonletters.

Tables A-18 and A-24: TYAR Adjusted Unit Costs Without and With Contingency. Adding the adjustment factors of \$0.0054 per pound and 0.0677 cents per piece (Table A-17) to the **unadjusted** unit costs (Table A-16) gives **adjusted** TYAR unit costs without contingency for Case I, shown in Table A-18,

part A. Adding the 1 percent contingency factor gives the TYAR unit costs with contingency for Case I shown in Table A-18, part B.

Similarly, adding the adjustment factors of \$0.0050 per pound and 0.0632 cents per piece (Table A-22) to the unadjusted unit costs (Table A-23) gives the adjusted TYAR unit costs without contingency for Case II shown in Table A-24, part A. Adding the 1 percent contingency factor gives the TYAR unit costs with contingency for Case II shown in Table A-24, part B.

Tables A-19 and A-25: TYAR Total Adjusted Costs. As a final check, the per-piece and per-pound rates (Table A-18) are multiplied by TYAR volumes (Table A-6) and TYAR weights (Table A-7) to obtain the total TYAR costs for nonletters under Case I, as shown in Table A-19.

Similarly, for Case II, the adjusted total per-piece and per-pound rates (Table A-24) are multiplied by TYAR volumes (Table A-6) and weights (Table A-7) to obtain the total TYAR costs for nonletters, as shown in Table A-25.

Table A-1**Standard A ECR Mail****Test Year Unit Costs
(cents per piece)**

	Mail Processing [1]	Delivery [2]	Transport. [3]	Other [4]	TOTAL
LETTERS					
Auto	2.3891	3.3570	0.1877	0.4519	6.3857
Basic	1.9840	4.3670	0.1877	0.4519	6.9906
High-Density	0.3611	3.7590	0.1877	0.4519	4.7597
Saturation	0.3611	2.8520	0.1877	0.4519	3.8527
NONLETTERS					
Basic	2.3834	5.8490	0.1877	0.4519	8.8720
High-Density	0.2753	5.1570	0.1877	0.4519	6.0719
Saturation	0.2753	3.4960	0.1877	0.4519	4.4109

Sources:

- [1] USPS-T-29 (Exhibit USPS-29C, revised 8/18/97) - ECR costs reflect current level of dropshipping.
- [2] USPS-T-18.
- [3] CRA AFTER Rates (AR) CS 14 costs/volume = $(\$53,839)/(28,686,182)$.
- [4] CRA After Rates (AR) Other = $(\text{Total cost CS3.1*piggy} - \text{CS6\&7*piggy})$
CS14 costs/volume = $(\$129,647/28,686,182)$.

NOTE: Based on witness Daniels' calculations (USPS 29C, pages 3 & 6).

Table A-2**Standard A ECR Mail****TYAR Total Cost of Letters and Nonletters**

	Test Year After Rates Volume Forecast (000) [1]	Test Year Unit Costs (cents) [2]	TYAR Total Costs (000) [3]	TYAR Total Costs (000) with Contingency [4]
LETTERS				
Auto Basic	2,059,662	6.3857	\$ 131,524	
Basic	3,173,765	6.9906	\$ 221,866	
High-Density	392,986	4.7597	\$ 18,705	
Saturation	3,086,387	3.8527	\$ 118,910	
Subtotal - Letters			<u>\$ 491,006</u>	<u>\$ 495,916</u>
NONLETTERS				
Basic	10,660,705	8.8720	\$ 945,821	
High-Density	1,154,078	6.0719	\$ 70,075	
Saturation	8,158,599	4.4109	\$ 359,870	
Subtotal - Flats or Nonletters			<u>\$ 1,375,766</u>	<u>\$ 1,389,524</u>
TOTAL			<u><u>\$ 1,866,772</u></u>	<u><u>\$ 1,885,440</u></u>
CRA COSTS [5]			<u><u>\$ 1,866,715</u></u>	<u><u>\$ 1,885,382</u></u>

Sources:

[1] Exhibit USPS-6A, Table 4, page 9.

[2] Table A-1.

[5] Exhibit USPS-T-15I.

Table A-3**Standard A ECR Mail****1996 Base Year Volume
(pieces)**

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS					
Automation	336,502,422				336,502,422
Basic	2,262,380,553	3,812,854,698	3,310,581,219	278,005,401	9,663,821,871
High-Density	17,604,147	12,186,619	56,005,324	6,933,645	92,729,735
Saturation	362,745,749	172,470,941	1,517,097,795	380,384,383	2,432,698,868
Subtotal	2,979,232,871	3,997,512,258	4,883,684,338	665,323,429	12,525,752,896
NONLETTERS					
Piece-Rated					
Basic	498,545,928	1,257,928,932	2,368,814,695	136,795,553	4,262,085,108
High-Density	10,986,188	15,541,982	292,755,894	147,357,210	466,641,274
Saturation	310,552,624	257,481,767	2,072,397,579	3,025,912,800	5,666,344,770
Subtotal	820,084,740	1,530,952,681	4,733,968,168	3,310,065,563	10,395,071,152
Pound-Rated					
Basic	260,852,101	1,164,495,905	2,692,035,487	83,426,851	4,200,810,344
High-Density	4,753,608	2,622,482	130,260,726	148,915,734	286,552,550
Saturation	104,593,569	4,452,334	336,105,974	1,663,900,216	2,109,052,093
Subtotal	370,199,278	1,171,570,721	3,158,402,187	1,896,242,801	6,596,414,987
TOTAL VOLUME					29,517,239,035

Source: 1996 Billing Determinants, LR-H-145.

Table A-4**Standard A ECR Mail****1996 Base Year Weight
(pounds)**

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS					
Automation	17,119,401				17,119,401
Basic	104,880,958	310,813,167	192,178,644	8,436,165	616,308,934
High-Density	1,068,698	1,174,791	5,109,926	243,345	7,596,760
Saturation	18,747,235	9,755,931	104,539,955	22,471,632	155,514,753
Subtotal	141,816,292	321,743,889	301,828,525	31,151,142	796,539,848
NONLETTERS					
Piece-Rated					
Basic	51,818,732	169,216,938	305,960,835	14,628,446	541,624,951
High-D	1,139,460	1,738,115	37,266,159	15,468,259	55,611,993
Saturation	26,193,420	18,502,983	237,662,665	423,637,455	705,996,523
Subtotal	79,151,612	189,458,036	580,889,659	453,734,160	1,303,233,467
Pound-Rated					
Basic	79,184,436	346,823,089	866,322,625	28,388,379	1,320,718,529
High-D	1,346,976	633,829	38,784,108	48,573,948	89,338,861
Saturation	29,845,360	1,416,882	95,114,118	492,328,680	618,705,040
Subtotal	110,376,772	348,873,800	1,000,220,851	569,291,007	2,028,762,430
TOTAL WEIGHT					4,128,535,745

Source: 1996 Billing Determinants, LR-H-145.

Table A-5**Standard A ECR Mail**

**1996 Base Year Average Weight
(pounds per piece)**

	No Dest. Entry	BMC	SCF	DDU
	<hr/>	<hr/>	<hr/>	<hr/>
LETTERS				
Automation	0.0509			
Basic	0.0464	0.0815	0.0580	0.0303
High-Density	0.0607	0.0964	0.0912	0.0351
Saturation	0.0517	0.0566	0.0689	0.0591
NONLETTERS				
Piece-Rated				
Basic	0.1039	0.1345	0.1292	0.1069
High-Density	0.1037	0.1118	0.1273	0.1050
Saturation	0.0843	0.0719	0.1147	0.1400
Pound-Rated				
Basic	0.3036	0.2978	0.3218	0.3403
High-Density	0.2834	0.2417	0.2977	0.3262
Saturation	0.2853	0.3182	0.2830	0.2959

Source: Computed - Table A-4/Table A-3.

Table A-6

Revised 2/11/98

Standard A ECR Mail

1998 TYAR Volume
(pieces)

	No Dest. Entry ----	BMC ----	SCF ----	DDU ----	Total ----
LETTERS					
Automation	682,281,000	856,221,000	479,035,000	42,125,000	2,059,662,000
Basic	835,299,000	1,035,288,000	1,205,217,000	97,961,000	3,173,765,000
High-Density	40,077,000	38,040,000	248,831,000	66,038,000	392,986,000
Saturation	374,796,000	211,268,000	2,029,472,000	470,851,000	3,086,387,000
Subtotal	1,932,453,000	2,140,817,000	3,962,555,000	676,975,000	8,712,800,000
NONLETTERS					
Piece-Rated					
Basic	564,897,000	1,724,261,000	3,493,243,000	115,536,000	5,897,937,000
High-D	29,049,000	42,541,000	465,253,000	213,812,000	750,655,000
Saturation	281,107,000	285,819,000	2,229,350,000	3,097,689,000	5,893,965,000
Subtotal	875,053,000	2,052,621,000	6,187,846,000	3,427,037,000	12,542,557,000
Pound-Rated					
Basic	251,474,150	1,087,339,934	3,367,276,976	56,676,939	4,762,768,000
High-D	5,768,949	4,074,572	147,773,845	245,805,634	403,423,000
Saturation	50,048,411	5,661,585	388,837,658	1,820,086,346	2,264,634,000
Subtotal	307,291,511	1,097,076,092	3,903,888,479	2,122,568,919	7,430,825,000
Subtotal, NONLETTERS					19,973,382,000
TOTAL VOLUME					28,686,182,000

Source: Witness Moeller, USPS-T-36, WP 1, page 20.

Table A-7

Revised 2/11/98

Standard A ECR Mail

1998 TYAR Weight
(pounds)

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS [1]					
Automation	31,629,641	69,796,722	27,807,896	1,278,297	130,512,556
Basic	38,723,352	84,393,759	69,962,630	2,972,659	196,052,400
High-Density	2,432,961	3,667,059	22,703,341	2,317,687	31,121,049
Saturation	19,370,010	11,950,512	139,846,562	27,816,048	198,983,132
Subtotal	92,155,964	169,808,052	260,320,430	34,384,691	556,669,137
NONLETTERS					
Piece-Rated [1]					
Basic	58,715,245	231,948,053	451,194,240	12,355,023	754,212,560
High-Density	3,012,890	4,757,511	59,224,059	22,444,096	89,438,556
Saturation	23,709,842	20,539,334	255,661,977	433,686,352	733,597,506
Subtotal	85,437,977	257,244,898	766,080,275	468,485,471	1,577,248,622
Pound-Rated [2]					
Basic	79,660,806	344,738,349	1,067,567,737	18,005,108	1,509,972,000
High-Density	1,949,739	1,367,604	49,733,368	82,722,289	135,773,000
Saturation	14,833,445	1,651,620	115,032,091	538,486,844	670,004,000
Subtotal	96,443,990	347,757,573	1,232,333,196	639,214,241	2,315,749,000
Total Nonletters	181,881,967	605,002,471	1,998,413,471	1,107,699,712	3,892,997,622
TOTAL WEIGHT	274,037,931	774,810,524	2,258,733,901	1,142,084,403	4,449,666,759

Sources:

[1] Test Year After Rates Volumes (Table A-6) multiplied by Base Year Weight/Piece, Table A-5.

[2] Pound-rated pieces: Moeller, WP 1, page 20.

Table A-8**Standard A ECR Mail**

Shipping Costs Incurred on Account of Non-Destination Entry
(dollars per pound)

Point of Entry	Transportation	Nontransportation	Total
DDU	0	0	0
SCF	0.0202	0.0072	0.0274
BMC	0.0339	0.0136	0.0475
Other	0.1108	0.0271	0.1379

Source: LR-H-111.

Table A-9

Revised 2/11/98

Standard A ECR Mail

Total Shipping Costs Incurred
on Account of Non-Destination Entry, TYAR

	No Dest. Entry	BMC	SCF	DDU	Total
	----	----	----	----	----
LETTERS					
Automation	4,361,727	3,315,344	761,989	0	8,439,061
Basic	5,339,950	4,008,704	1,917,108	0	11,265,762
High-Density	335,505	174,185	622,114	0	1,131,805
Saturation	2,671,124	567,649	3,832,059	0	7,070,833
	-----	-----	-----	-----	-----
Subtotal	12,708,308	4,750,538	6,371,281	0	27,907,460
NONLETTERS					
Piece-Rated					
Basic	8,096,832	11,017,533	12,363,572	0	31,477,937
High-D	415,478	225,982	1,622,851	0	2,264,310
Saturation	3,269,587	975,618	7,005,620	0	11,250,825
	-----	-----	-----	-----	-----
Subtotal	11,781,897	12,219,133	20,992,042	0	44,993,072
Pound-Rated					
Basic	10,985,225	16,375,072	29,253,366	0	56,613,663
High-D	268,869	64,961	1,362,788	0	1,696,618
Saturation	2,045,532	78,452	3,152,096	0	5,276,080
	-----	-----	-----	-----	-----
Subtotal	13,299,626	16,518,485	33,768,250	0	63,586,361
TOTAL COST					136,486,893

Sources:

[1] Test Year After Rates pounds, Table A-7.

[2] Shipping Costs per pound, Table A-8 (total column).

Table A-10**Standard A ECR Mail**

**Unit Shipping Costs Incurred
on Account of Non-Destination Entry, TYAR
(cents per piece)**

	No Dest. Entry	BMC	SCF	DDU
	----	----	----	----
LETTERS				
Automation	0.6393	0.3872	0.1591	0.0000
Basic	0.6393	0.3872	0.1591	0.0000
High-Density	0.8372	0.4579	0.2500	0.0000
Saturation	0.7127	0.2687	0.1888	0.0000
NONLETTERS				
Piece-Rated				
Basic	1.4333	0.6390	0.3539	0.0000
High-Density	1.4303	0.5312	0.3488	0.0000
Saturation	1.1631	0.3413	0.3142	0.0000
Pound-Rated				
Basic	4.3683	1.5060	0.8688	0.0000
High-Density	4.6606	1.5943	0.9222	0.0000
Saturation	4.0871	1.3857	0.8106	0.0000

Sources:

[1] Test Year After Rates Shipping Costs, Table A-9.

[2] Test Year After Rates Volume, Table A-6.

Table A-11**Standard A ECR Letters**

Unadjusted TYAR Total Unit Cost (T+MP+D)
(cents per piece)

	No Dest. Entry	BMC	SCF	DDU
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Automation	6.3854	6.1333	5.9052	5.7461
Basic	6.9903	6.7382	6.5101	6.3510
High-Density	4.9573	4.5780	4.3701	4.1201
Saturation	3.9258	3.4818	3.4019	3.2131

Sources:

- [1] Mail Processing Costs, Table A-1, column 1.
- [2] Delivery Costs, Table A-1, column 2.
- [3] Shipping Costs, Table A-10.

Table A-12**Standard A ECR Letters**

Revised 2/11/98

Unadjusted TYAR Total Cost
(\$,000)

	No Dest. Entry -----	BMC -----	SCF -----	DDU -----	TOTAL -----
Automation	43,566	52,515	28,288	2,421	126,789
Basic	58,390	69,760	78,460	6,222	212,832
High-Density	1,987	1,741	10,874	2,721	17,323
Saturation	14,714	7,356	69,041	15,129	106,240
Subtotal	\$ 118,656	\$ 131,372	\$ 186,663	\$ 26,492	\$ 463,184

TARGET: CRA AFTER Rates Total Cost for Letters (Table A-2, Column 3)

\$ 491,006

Difference

\$ 27,822

Per Piece Adjustment = Difference/total Volume (cents)

0.3193**Sources:**

[1] TYAR Volume (pieces), Table A-6.

[2] TYAR Total Unadjusted Unit Costs, Table A-11.

Table A-13

Revised 2/11/98

Standard A ECR Letters

Adjusted TYAR Total Unit Cost
(cents per piece)

A: WITHOUT CONTINGENCY

	No Dest. Entry -----	BMC -----	SCF -----	DDU -----
Automation	6.7047	6.4526	6.2245	6.0654
Basic	7.3096	7.0575	6.8294	6.6703
High-Density	5.2766	4.8973	4.6894	4.4394
Saturation	4.2451	3.8011	3.7212	3.5324

B: WITH CONTINGENCY

	No Dest. Entry -----	BMC -----	SCF -----	DDU -----
Automation	6.7718	6.5172	6.2867	6.1261
Basic	7.3827	7.1281	6.8977	6.7370
High-Density	5.3293	4.9463	4.7363	4.4838
Saturation	4.2876	3.8391	3.7585	3.5678

Sources:

[1] TYAR Unadjusted Total Unit Costs, Table A-11.

[2] Per-piece adjustment, Table A-12.

Table A-14**Standard A ECR Nonletters**

TYAR Unit Cost Less 2.33 Cents Per Piece
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)

	No Dest. Entry	BMC	SCF	DDU
Piece-Rated, per piece (cents) [1]				
Basic	7.3357	6.5414	6.2563	5.9024
High-Density	4.5326	3.6335	3.4511	3.1023
Saturation	2.6044	1.7826	1.7555	1.4413
Pound-Rated, per piece (cents) [2]				
Basic	5.9024	5.9024	5.9024	5.9024
High-Density	3.1023	3.1023	3.1023	3.1023
Saturation	1.4413	1.4413	1.4413	1.4413
Pound-Rated, per pound (dollars) [3]				
Basic	0.1379	0.0475	0.0274	0.0000
High-Density	0.1379	0.0475	0.0274	0.0000
Saturation	0.1379	0.0475	0.0274	0.0000

Sources:

- [1] Mail Processing and Delivery Costs, Table A-1, columns 1 & 2 plus shipping costs per piece, Table A-10, less 2.33 cents per piece considered pound-related weight cost adjustment.
- [2] Mail Processing and Delivery Costs, Table A-1, columns 1 & 2, less 2.33 cents per piece considered pound-related weight cost adjustment.
- [3] Shipping cost, dollars per pound, Table A-8.

Table A-15**Standard A ECR Nonletters****TYAR Adjustment Factors
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)**

Piece-Rated total Volume (pieces) * 2.33 cents per peice	\$	465,380
Total Weight for NONLETTERS		3,908,681,279
Dollars per pound for adjustment	\$	0.1191
Total Piece-Rated pounds *.1191	\$	187,792
Total Pound-Rated pounds *.0748	\$	277,588
Piece-Rated adjustment, (cents)		1.4972
Pound-Rated adjustment, (dollars)	\$	0.1191

Sources

- [1] TYAR Volume (pieces), Table A-6.
- [2] TYAR Volume (weight), Table A-7.
- [3] NONLETTERS adjustment factor (2.33 cents), Table A-14.

Table A-16**Standard A ECR Nonletters**

**TYAR Unit Cost Including Weight-Related Adjustment
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)**

	No Dest. Entry ----	BMC ----	SCF ----	DDU ----
Piece-Rated, per piece (cents)				
Basic	8.8330	8.0386	7.7536	7.3996
High-Density	6.0298	5.1307	4.9484	4.5995
Saturation	4.1017	3.2799	3.2528	2.9385
Pound-Rated, per piece (cents)				
Basic	5.9024	5.9024	5.9024	5.9024
High-Density	3.1023	3.1023	3.1023	3.1023
Saturation	1.4413	1.4413	1.4413	1.4413
Pound-Rated, per pound (dollars)				
Basic	0.2570	0.1666	0.1465	0.1191
High-Density	0.2570	0.1666	0.1465	0.1191
Saturation	0.2570	0.1666	0.1465	0.1191

Sources:

[1] Table A-14.

[2] Table A-15, adjustment.

Table A-17

Standard A ECR Nonletters

TYAR Final Unit Cost Adjustment to CRA
(\$,000)

(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)

	No Dest. Entry	BMC	SCF	DDU	TOTAL
Piece-Rated (per piece)					
Basic	49,897	138,607	270,851	8,549	467,904
High-Density	1,752	2,183	23,022	9,834	36,791
Saturation	11,530	9,375	72,516	91,027	184,447
Subtotal	63,179	150,164	366,389	109,410	\$ 689,142
Pound-Rated (per piece)					
Basic	14,843	64,179	198,750	3,345	281,118
High-Density	179	126	4,584	7,626	12,515
Saturation	721	82	5,604	26,233	32,640
Subtotal	15,743	64,387	208,939	37,204	\$ 326,273
Pound-Rated (per pound)					
Basic	20,470	57,421	156,361	2,144	236,396
High-Density	501	228	7,284	9,849	17,862
Saturation	3,812	275	16,848	64,114	85,049
Subtotal	24,783	57,924	180,494	76,107	\$ 339,307
TOTAL [1]					<u>\$ 1,354,722</u>
TYAR CRA Total for NONLETTERS					<u>\$ 1,375,766</u>
Total Adjustment Required:					\$ 21,044
					(1.53% of CRA)
Adjustment per pound (dollars)					\$ 0.0054
Total Piece-Rated Add Back Adjustment					\$ 8,526
Piece-rated, per piece (cents)					<u>0.0680</u>
Per pound (dollars)					<u>\$ 0.0054</u>

Sources:

[1] Table A-16.

[2] TYAR Volume (pieces), Table A-6.

[3] TYAR Volume (weight), Table A-7.

Table A-18**Standard A ECR Nonletters**

TYAR Final Adjusted Unit Costs
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)

A: WITHOUT CONTINGENCY

	No Dest. Entry	BMC	SCF	DDU
	<hr/>	<hr/>	<hr/>	<hr/>
Piece-Rated, per piece (cents)				
Basic	8.9009	8.1066	7.8215	7.4676
High-Density	6.0978	5.1987	5.0163	4.6675
Saturation	4.1696	3.3479	3.3208	3.0065
Pound-Rated, per piece (cents)				
Basic	5.9024	5.9024	5.9024	5.9024
High-Density	3.1023	3.1023	3.1023	3.1023
Saturation	1.4413	1.4413	1.4413	1.4413
Pound-Rated, per pound (dollars)				
Basic	0.2624	0.1720	0.1519	0.1245
High-Density	0.2624	0.1720	0.1519	0.1245
Saturation	0.2624	0.1720	0.1519	0.1245

B: WITH CONTINGENCY

Piece-Rated, per piece (cents)				
Basic	8.9900	8.1877	7.8998	7.5423
High-Density	6.1588	5.2507	5.0665	4.7142
Saturation	4.2113	3.3813	3.3540	3.0366
Pound-Rated, per piece (cents)				
Basic	5.9614	5.9614	5.9614	5.9614
High-Density	3.1333	3.1333	3.1333	3.1333
Saturation	1.4557	1.4557	1.4557	1.4557
Pound-Rated, per pound (dollars)				
Basic	0.2650	0.1737	0.1534	0.1257
High-Density	0.2650	0.1737	0.1534	0.1257
Saturation	0.2650	0.1737	0.1534	0.1257

Sources:

[1] Table A-16.

[2] Table A-17, per-piece adjustment (cents) & per-pound adjustment (dollars).

Table A-19**Standard A ECR Nonletters**

TYAR Total Adjusted Costs (Without Contingency)
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)

	No Dest. Entry -----	BMC -----	SCF -----	DDU -----	TOTAL -----
Piece-Rated					
Basic	50,281	139,779	273,226	8,628	471,913
High-Density	1,771	2,212	23,339	9,980	37,301
Saturation	11,721	9,569	74,031	93,133	188,454
Subtotal	63,774	151,559	370,596	111,740	\$ 697,668
Pound-Rated, per piece					
Basic	14,843	64,179	198,750	3,345	281,118
High-Density	179	126	4,584	7,626	12,515
Saturation	721	82	5,604	26,233	32,640
Subtotal	15,743	64,387	208,939	37,204	\$ 326,273
Pound-Rated, per pound					
Basic	20,901	59,284	162,132	2,241	244,558
High-Density	512	235	7,553	10,296	18,596
Saturation	3,892	284	17,470	67,025	88,671
Subtotal	25,304	59,803	187,155	79,562	\$ 351,825
TOTAL NONLETTERS					\$ 1,375,766

Sources:

- [1] TYAR Final Adjusted Unit Costs, Table A-18.
- [2] TYAR Volume (pieces), Table A-6.
- [3] TYAR Volume (weight), Table A-7.

Table A-20**Standard A ECR Nonletters**

TYAR Unit Cost Less 0.5825 Cents Per Piece
(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)

	No Dest. Entry	BMC	SCF	DDU
Piece-Rated, per piece (cents) [1]				
Basic	9.0832	8.2889	8.0038	7.6499
High-Density	6.2801	5.3810	5.1986	4.8498
Saturation	4.3519	3.5301	3.5030	3.1888
Pound-Rated, per piece (cents) [2]				
Basic	7.6499	7.6499	7.6499	7.6499
High-Density	4.8498	4.8498	4.8498	4.8498
Saturation	3.1888	3.1888	3.1888	3.1888
Pound-Rated, per pound (dollars) [3]				
Basic	0.1379	0.0475	0.0274	0.0000
High-Density	0.1379	0.0475	0.0274	0.0000
Saturation	0.1379	0.0475	0.0274	0.0000

Sources:

- [1] Mail Processing and Delivery Costs, Table A-1, columns 1 & 2 plus shipping costs per piece, Table A-10, less 0.5825 cents per piece considered pound-related weight cost adjustment.
- [2] Mail Processing and Delivery Costs, Table A-1, columns 1 & 2, less 0.5825 cents per piece considered pound-related weight cost adjustment.
- [3] Shipping cost, dollars per pound, Table A-8.

Table A-21**Standard A ECR Nonletters****TYAR Adjustment Factors****(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)**

Piece-Rated total Volume (pieces) * .5825 cents per peice	\$	116,345
Total Weight for NONLETTERS		3,908,681,279
Dollars per pound for adjustment	\$	0.0298
Total Piece-Rated pounds *.1191	\$	46,948
Total Pound-Rated pounds *.0748	\$	69,397
Piece-Rated adjustment (cents)		0.3743
Pound-Rated adjustment (dollars)	\$	0.0298

Sources

- [1] TYAR Volume (pieces), Table A-6.
- [2] TYAR Volume (weight), Table A-7.
- [3] NONLETTERS adjustment factor (.5825 cents), Table A-20.

Table A-22**Standard A ECR Nonletters**

TYAR Unit Cost Including Weight-Related Adjustment
(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)

	No Dest. Entry —	BMC —	SCF —	DDU —
Piece-Rated, per piece (cents)				
Basic	9.4575	8.6632	8.3781	8.0242
High-Density	6.6544	5.7553	5.5729	5.2241
Saturation	4.7262	3.9045	3.8774	3.5631
Pound-Rated, per piece (cents)				
Basic	7.6499	7.6499	7.6499	7.6499
High-Density	4.8498	4.8498	4.8498	4.8498
Saturation	3.1888	3.1888	3.1888	3.1888
Pound-Rated, per pound (dollars)				
Basic	0.1677	0.0773	0.0572	0.0298
High-Density	0.1677	0.0773	0.0572	0.0298
Saturation	0.1677	0.0773	0.0572	0.0298

Sources:

[1] Table A-20.

[2] Table A-21, adjustment.

Table A-23

Standard A ECR Nonletters

TYAR Final Unit Cost Adjustment to CRA
(\$,000)

(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)

	No Dest. Entry	BMC	SCF	DDU	TOTAL
Piece-Rated (per piece)					
Basic	53,425	149,376	292,669	9,271	504,741
High-Density	1,933	2,448	25,928	11,170	41,479
Saturation	13,286	11,160	86,440	110,374	221,259
Subtotal	68,644	162,984	405,037	130,815	\$ 767,479
Pound-Rated (per piece)					
Basic	19,238	83,180	257,593	4,336	364,347
High-Density	280	198	7,167	11,921	19,565
Saturation	1,596	181	12,399	58,039	72,215
Subtotal	21,113	83,559	277,159	74,296	\$ 456,127
Pound-Rated (per pound)					
Basic	13,356	26,636	61,030	536	101,559
High-Density	327	106	2,843	2,462	5,738
Saturation	2,487	128	6,576	16,028	25,219
Subtotal	16,170	26,870	70,450	19,027	\$ 132,516
TOTAL [1]					\$ 1,356,123
TYAR CRA Total for NONLETTERS					\$ 1,375,766
Total Adjustment Required:					\$ 19,644
					(1.43% of CRA)
Adjustment per pound (dollars)					\$ 0.0050
Total Piece-Rated Add Back Adjustment					\$ 7,959
Piece-rated, per piece (cents)					0.0635
Per pound (dollars)					\$ 0.0050

Sources:

[1] Table A-22.

[2] TYAR Volume (pieces), Table A-6.

[3] TYAR Volume (weight), Table A-7.

Table A-24

Standard A ECR Nonletters

TYAR Final Adjusted Unit Costs
(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)

A: WITHOUT CONTINGENCY

	No Dest. Entry <u> </u>	BMC <u> </u>	SCF <u> </u>	DDU <u> </u>
Piece-Rated, per piece (cents)				
Basic	9.5210	8.7266	8.4416	8.0877
High-Density	6.7178	5.8188	5.6364	5.2876
Saturation	4.7897	3.9679	3.9408	3.6266
Pound-Rated, per piece (cents)				
Basic	7.6499	7.6499	7.6499	7.6499
High-Density	4.8498	4.8498	4.8498	4.8498
Saturation	3.1888	3.1888	3.1888	3.1888
Pound-Rated, per pound (dollars)				
Basic	0.1727	0.0823	0.0622	0.0348
High-Density	0.1727	0.0823	0.0622	0.0348
Saturation	0.1727	0.0823	0.0622	0.0348

B: WITH CONTINGENCY

Piece-Rated, per piece (cents)				
Basic	9.6162	8.8139	8.5260	8.1685
High-Density	6.7850	5.8770	5.6927	5.3404
Saturation	4.8376	4.0076	3.9802	3.6628
Pound-Rated, per piece (cents)				
Basic	7.7264	7.7264	7.7264	7.7264
High-Density	4.8983	4.8983	4.8983	4.8983
Saturation	3.2207	3.2207	3.2207	3.2207
Pound-Rated, per pound (dollars)				
Basic	0.1744	0.0831	0.0628	0.0352
High-Density	0.1744	0.0831	0.0628	0.0352
Saturation	0.1744	0.0831	0.0628	0.0352

Sources:

[1] Table A-22.

[2] Table A-23, per piece adjustment (cents) & per pound adjustment (dollars).

Table A-25**Standard A ECR Nonletters**

TYAR Total Adjusted Costs (Without Contingency)
(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)

	<u>No Dest. Entry</u>	<u>BMC</u>	<u>SCF</u>	<u>DDU</u>	<u>TOTAL</u>
Piece-Rated (per piece)					
Basic	53,784	150,470	294,885	9,344	508,483
High-Density	1,951	2,475	26,223	11,305	41,956
Saturation	13,464	11,341	87,854	112,340	224,999
Subtotal	69,199	164,286	408,963	132,989	<u>\$ 775,438</u>
Pound-Rated (per piece)					
Basic	19,238	83,180	257,593	4,336	364,347
High-Density	280	198	7,167	11,921	19,565
Saturation	1,596	181	12,399	58,039	72,215
Subtotal	21,113	83,559	277,159	74,296	<u>\$ 456,127</u>
Pound-Rated (per pound)					
Basic	13,758	28,376	66,417	627	109,178
High-Density	337	113	3,094	2,880	6,423
Saturation	2,562	136	7,157	18,746	28,600
Subtotal	16,657	28,624	76,668	22,252	<u>\$ 144,201</u>
TOTAL NONLETTERS					<u>\$ 1,375,766</u>

Sources:

- [1] TYAR Final Adjusted Unit Costs, Table A-24.
- [2] TYAR Volume (pieces), Table A-6.
- [3] TYAR Volume (weight), Table A-7.

Appendix B

MARGINS AND MARK-UPS FOR POSTAL SERVICE'S PROPOSED STANDARD A ECR RATES

This appendix supports the analysis of the implied margins and mark-ups implicit in the Postal Service's proposed rates for Standard A ECR mail in Section IV of the testimony. It consists of seven tables:

Table

- B-1 Analysis of Postal Service Proposed Rates for ECR Letters**
- B-2 Analysis of Postal Service Proposed Rates for Piece-Rated ECR Nonletters (Case I)**
- B-3 Analysis of Postal Service Proposed Rates for 5.0 ounce Pound-Rated ECR Nonletters (Case I)**
- B-4 Analysis of Postal Service Proposed Rates for 10.0 ounce Pound-Rated ECR Nonletters (Case I)**
- B-5 Analysis of Postal Service Proposed Rates for Piece-Rated ECR Nonletters (Case II)**
- B-6 Analysis of Postal Service Proposed Rates for 5.0 ounce Pound-Rated ECR Nonletters (Case II)**
- B-7 Analysis of Postal Service Proposed Rates for 10.0 ounce Pound-Rated ECR Nonletters (Case II)**

ECR Letters

Witness Moeller's proposed rates for Standard A ECR letters are shown in part 1 of Table B-1. Part 2, immediately below, shows estimated

unit costs. The estimated margin, part 3, is the difference, between the proposed rates and estimated unit costs. Part 4 gives the estimated mark-up, which is the margin divided by estimated unit costs shown in part 2.

All subsequent tables in Appendix B use the same format and methodology for margins and mark-ups as Table B-1.

**ECR Nonletters Under Case I
(2.33 Cents per Piece of Weight-Related Cost)**

Table B-2 analyzes the Postal Service's proposed rates for piece-rated nonletters using the estimated costs derived under Case I (Appendix A, Table A-18). Table B-3 does the same for a pound-rated nonletter which weighs 5.0 ounces, while Table B-4 analyzes the margins and mark-ups for a pound-rated nonletter which weighs 10.0 ounces. In each case, the methodology is the same as used in Table B-1.

**ECR Nonletters Under Case II
(0.5825 Cents per Piece Treated as Weight-Related Cost)**

Table B-5 analyzes the Postal Service's proposed rates for piece-rated nonletters using the estimated costs derived under Case II (Appendix A, Table A-18). Table B-6 does the same for a pound-rated nonletter which weighs 5.0 ounces, while Table B-7 analyzes the margins and mark-ups for a pound-rated nonletter which weighs 10.0 ounces. In each case, the methodology is the same as used in Table B-1.

Table B-1

Revised 2/11/98

Standard A ECR Mail

Analysis of Postal Service Proposed Rates
for ECR Letters
(cents)

	No Dest. Entry -----	BMC -----	SCF -----	DDU -----
Proposed Rates [1]				
Automation	16.4	14.9	14.6	14.1
Basic	15.7	14.2	13.9	13.4
High-Density	14.3	12.8	12.5	12.0
Saturation	13.4	11.9	11.6	11.1
Estimated Costs [2]				
Automation	6.77	6.52	6.29	6.13
Basic	7.38	7.13	6.90	6.74
High-Density	5.33	4.95	4.74	4.48
Saturation	4.29	3.84	3.76	3.57
Estimated Margin [3]				
Automation	9.63	8.38	8.31	7.97
Basic	8.32	7.07	7.00	6.66
High-Density	8.97	7.85	7.76	7.52
Saturation	9.11	8.06	7.84	7.53
Estimated Mark-up [4]				
Automation	142%	129%	132%	130%
Basic	113%	99%	102%	99%
High-Density	168%	159%	164%	168%
Saturation	213%	210%	209%	211%

Sources:

- [1] USPS-T-36, p. 31.
- [2] Appendix A, Table A-13.
- [3] Proposed rate - estimated cost.
- [4] Margin/estimated cost.

Table B-2**Standard A ECR Mail**

**Analysis of Postal Service Proposed Rates
for Piece-Rated ECR Nonletters
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)
(cents)**

	No Dest. Entry	BMC	SCF	DDU
	<hr/>	<hr/>	<hr/>	<hr/>
Proposed Rates [1]				
Piece-Rated				
Basic	16.4	14.9	14.6	14.1
High-Density	15.3	13.8	13.5	13.0
Saturation	14.1	12.6	12.3	11.8
 Costs [2]				
Piece-Rated				
Basic	8.99	8.19	7.90	7.54
High-Density	6.16	5.25	5.07	4.71
Saturation	4.21	3.38	3.35	3.04
 Margin [3]				
Piece-Rated				
Basic	7.41	6.71	6.70	6.56
High-Density	9.14	8.55	8.43	8.29
Saturation	9.89	9.22	8.95	8.76
 Mark-up [4]				
Piece-Rated				
Basic	82%	82%	85%	87%
High-Density	148%	163%	166%	176%
Saturation	235%	273%	267%	289%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-18.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

Table B-3**Standard A ECR Mail**

**Analysis of Postal Service Proposed Rates
for 5.0 ounce Pound-Rated ECR Nonletters
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)
(cents)**

	No Dest. Entry	BMC	SCF	DDU
	----	----	----	----
Proposed Rates [1]				
Pound-Rated - Pieces				
Basic	22.1	19.8	19.3	18.6
High-Density	21.0	18.7	18.2	17.5
Saturation	19.9	17.6	17.1	16.4
Costs [2]				
Pound-Rated - Pieces				
Basic	14.24	11.39	10.75	9.89
High-Density	11.41	8.56	7.93	7.06
Saturation	9.74	6.88	6.25	5.38
Margin [3]				
Pound-Rated - Pieces				
Basic	7.82	8.42	8.56	8.74
High-Density	9.55	10.15	10.29	10.46
Saturation	10.13	10.73	10.86	11.04
Mark-up [4]				
Pound-Rated - Pieces				
Basic	55%	74%	80%	88%
High-Density	84%	119%	130%	148%
Saturation	104%	156%	174%	205%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix, Table A-18.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

Table B-4**Standard A ECR Mail**

Analysis of Postal Service Proposed Rates
for 10.0 ounce Pound-Rated ECR Nonletters
(Case I: 2.33 Cents per Piece Treated as Weight-Related Cost)
(cents)

	No Dest. Entry -----	BMC -----	SCF -----	DDU -----
Proposed Rates [1]				
Pound-Rated - Pieces				
Basic	38.6	34.1	33.1	31.8
High-Density	37.5	33.0	32.0	30.7
Saturation	36.4	31.9	30.9	29.6
Costs [2]				
Pound-Rated - Pieces				
Basic	22.52	16.82	15.55	13.82
High-Density	19.69	13.99	12.72	10.99
Saturation	18.02	12.31	11.04	9.31
Margin [3]				
Pound-Rated - Pieces				
Basic	16.10	17.31	17.58	17.93
High-Density	17.83	19.04	19.31	19.66
Saturation	18.41	19.62	19.88	20.24
Mark-up [4]				
Pound-Rated - Pieces				
Basic	71%	103%	113%	130%
High-Density	91%	136%	152%	179%
Saturation	102%	159%	180%	217%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-18.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

Table B-5**Standard A ECR Mail**

**Analysis of Postal Service Proposed Rates
for Piece-Rated ECR Nonletters
(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)
(cents)**

	No Dest. Entry	BMC	SCF	DDU
	<hr/>	<hr/>	<hr/>	<hr/>
Proposed Rates [1]				
Piece-Rated				
Basic	16.4	14.9	14.6	14.1
High-Density	15.3	13.8	13.5	13.0
Saturation	14.1	12.6	12.3	11.8
Costs [2]				
Piece-Rated				
Basic	9.62	8.81	8.53	8.17
High-Density	6.78	5.88	5.69	5.34
Saturation	4.84	4.01	3.98	3.66
Margin [3]				
Piece-Rated				
Basic	6.78	6.09	6.07	5.93
High-Density	8.52	7.92	7.81	7.66
Saturation	9.26	8.59	8.32	8.14
Mark-up [4]				
Piece-Rated				
Basic	71%	69%	71%	73%
High-Density	126%	135%	137%	143%
Saturation	191%	214%	209%	222%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-24.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

Table B-6**Standard A ECR Mail**

**Analysis of Postal Service Proposed Rates
for 5.0 ounce Pound-Rated ECR Nonletters
(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)
(cents)**

	No Dest. Entry ----	BMC ----	SCF ----	DDU ----
Proposed Rates [1]				
Pound-Rated - Pieces				
Basic	22.1	19.8	19.3	18.6
High-Density	21.0	18.7	18.2	17.5
Saturation	19.9	17.6	17.1	16.4
Costs [2]				
Pound-Rated - Pieces				
Basic	13.18	10.32	9.69	8.82
High-Density	10.35	7.50	6.86	6.00
Saturation	8.67	5.82	5.18	4.32
Margin [3]				
Pound-Rated - Pieces				
Basic	8.89	9.49	9.62	9.80
High-Density	10.61	11.22	11.35	11.53
Saturation	11.19	11.79	11.93	12.11
Mark-up [4]				
Pound-Rated - Pieces				
Basic	67%	92%	99%	111%
High-Density	103%	150%	165%	192%
Saturation	129%	203%	230%	280%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-24.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

Table B-7**Standard A ECR Mail**

**Analysis of Postal Service Proposed Rates
for 10.0 ounce Pound-Rated ECR Nonletters
(Case II: 0.5825 Cents per Piece Treated as Weight-Related Cost)
(cents)**

	No Dest. Entry	BMC	SCF	DDU
Proposed Rates [1]				
Pound-Rated - Pieces				
Basic	38.6	34.1	33.1	31.8
High-Density	37.5	33.0	32.0	30.7
Saturation	36.4	31.9	30.9	29.6
Costs [2]				
Pound-Rated - Pieces				
Basic	18.63	12.92	11.65	9.92
High-Density	15.80	10.09	8.82	7.09
Saturation	14.12	8.42	7.15	5.42
Margin [3]				
Pound-Rated - Pieces				
Basic	20.00	21.20	21.47	21.83
High-Density	21.73	22.93	23.20	23.56
Saturation	22.30	23.51	23.78	24.13
Mark-up [4]				
Pound-Rated - Pieces				
Basic	107%	164%	184%	220%
High-Density	138%	227%	263%	332%
Saturation	158%	279%	333%	446%

Sources:

[1] USPS-T-36, p. 31.

[2] Appendix A, Table A-24.

[3] Proposed rate - estimated cost.

[4] Margin/estimated cost.

Appendix C

DEVELOPMENT OF PROPOSED RATES

This appendix supports development of the rates proposed for Standard A ECR Mail in Section VI of my testimony. It consists of 12 tables:

Table

- C-1 Standard A ECR Letters TYAR Total Unit Costs and Current Rates**
- C-2 Standard A ECR Letters Test Year Initial Target Rates**
- C-3 Standard A ECR Letters Development of VP-CW Proposed Rates**
- C-4 Standard A ECR Mail TYAR Volume**
- C-5 Standard A ECR Mail TYAR Weight**
- C-6 Standard A ECR Mail Postal Service Proposed Rates**
- C-7 Standard A ECR Nonletters Postal Service Proposed Rates TYAR Projected Revenues and Margins**
- C-8 Standard A ECR Nonletters TYAR Unit Costs with Contingency**
- C-9 Standard A ECR Nonletters TYAR Total Cost**
- C-10 Standard A ECR Nonletters VP-CW Proposed Rates**
- C-11 Standard A ECR Nonletters VP-CW Proposed Rates TYAR Projected Revenues and Margins**
- C-12 Standard A ECR Mail TYAR Projected Revenue**

VP-CW Proposed Rates for ECR Letters

Tables C-1 through C-3 develop proposed rates for ECR letters.

Table C-1: Standard A ECR Letters TYAR Total Unit Costs and Current Rates. Parts A and B present the unit costs for ECR letters. Basic ECR letters have the highest unit cost. Using this cost as a baseline, part C shows the presort cost differentials for the other rate categories. Current ECR letter rates in part D are used for computations in Table C-3, Part H.

Table C-2: Standard A ECR Letters Test Year Initial Target Rates. Part A adds a constant amount of 8.1990 cents to unit costs with contingency (Table C-1), to produce revenues equal to those from the Postal Service's proposed rates. The constant amount is derived by dividing the total TYAR margin for letters, \$714,361,000 (Table 3), by the TYAR letter volume, 8,712,800,000 (Table A-6).

Part B multiplies unit costs with contingency (Table C-1) by 2.4405, the coverage necessary to provide revenues equal to those from the Postal Service's Proposed Rates. This coverage is the result of dividing the TYAR letter revenues, \$1,210,277,000 (Table C-12) by the TYAR letter costs, \$495,916,000 (Table A-2).

As explained in Section VI of my testimony, 90 percent of the constant amount in part A, together with 10 percent markup of unit costs, are used to derive VP-CW's proposed rates. This initial combination is shown in part C.

Revised 2/26/98

In part D, rates developed for BMC dropship were rounded. Shipping costs of 1.5 cents were added to develop rates in the No Destination Entry column. Rate differentials of 0.3 and 0.5 cents, respectively, were subtracted to develop the SCF and DDU rates. These are the initial adjusted rates.

Table C-3: Standard A ECR Letters Development of VP-CW

Proposed Rates. This table is a continuation of Table C-2. Part E reproduces TYAR Volumes from Table A-6. These volumes multiplied by the initial adjusted rates (Table C-2, part D) result in TYAR initial projected revenues of \$1,223,728,727, as shown in part F. Subtracting target revenues for letters, \$1,194,628,579 (Table C-12) results in a difference from the initial rates of \$29,100,148, or 0.33 cents per piece. Adjusting initial rates by this amount results in the proposed rates for letters shown in part G.

The difference between proposed rates and the current rates (Table C-1, part D), stated as a percentage, is shown in part H. The presort discount from the Basic Rate is shown as the differential in part I.

Multiplying the final rates in part G by the TYAR volumes gives us the TYAR projected revenues of \$1,194,503,940, as shown in part J. This is a slight decrease of \$124,639 or 0.01 percent from the Postal Service's proposed rates TYAR revenues of \$1,194,628,579.

Revised 2/11/98

VP-CW Proposed Rates for ECR Nonletters

Tables C-4 through C-12 support development of VP-CW's proposed rates for ECR nonletters.

Tables C-4 and C-5: Standard A ECR Mail TYAR Volume and Weight. TYAR volumes and weight are directly from Tables A-6 and A-7, respectively.

Table C-6: Standard A ECR Mail Postal Service Proposed Rates.

Table C-7: Standard A ECR Nonletters Postal Service Proposed Rates TYAR Projected Revenues and Margins. Table C-7 gives the nonletter TYAR projected revenues, derived by multiplying the Postal Service's proposed rates (Table C-6) by the volumes (Table C-4) and weight (for pound-rated pieces). The margin or expected contribution (\$1,678,365,324), shown at the bottom of Table C-7, is obtained by subtracting TYAR total projected costs (Table C-9).

Table C-8: Standard A ECR Nonletters TYAR Unit Costs with Contingency. The unit costs shown in Table C-8 are directly from Appendix A, Table A-18 (B).

Table C-9: Standard A ECR Nonletters TYAR Total Cost. Multiplying the unit TYAR costs (Table C-8) by TYAR volumes (Table C-4) and weights (Table C-5) gives TYAR total projected costs.

Revised 2/26/98

Table C-10: Standard A ECR Nonletters VP-CW Proposed**Rates.****Table C-11: Standard A ECR Nonletters VP-CW Proposed Rates**

TYAR Projected Revenues and Margin. Multiplying the VP-CW proposed rates (Table C-10) by the volumes (Table C-4) and weights (Table C-5) gives TYAR projected revenues. Deducting the total TYAR costs (Table C-9) leaves the margin, or expected contribution to institutional costs, of \$1,682,409,408, which is \$4,044,084 more than the contribution of \$1,678,365,324 developed from projections of the Postal Service's proposed rates.

Table C-12: Standard A ECR Mail TYAR Projected Revenue.

Comparing the contributions projected by USPS and VP-CW proposed rates shows that the rates proposed by VP-CW provide a combined margin that is essentially equal but slightly more (by ^{\$3,919,084}~~\$4,044,084~~) than the margin from rates proposed by the Postal Service.

	USPS Proposed Rates	VP-CW Proposed Rates	Difference
LETTER MARGIN	\$ 698,713,000	\$ 698,588,000	\$ -125,000
NONLETTER MARGIN	1,678,365,324	1,682,409,408	4,044,084
TOTAL MARGIN	\$ 2,377,078,324	\$ 2,380,997,408	\$ 3,919,084

Table C-1

Revised 2/11/98

Standard A ECR Letters
 TYAR Total Unit Costs and Current Rates
 (cents per piece)

A: UNIT COSTS WITHOUT CONTINGENCY [1]

	No Dest. Entry ---	BMC ---	SCF ---	DDU ---
Automation	6.7047	6.4526	6.2245	6.0654
Basic	7.3096	7.0575	6.8294	6.6703
High-D	5.2766	4.8973	4.6894	4.4394
Saturation	4.2451	3.8011	3.7212	3.5324

B: UNIT COSTS WITH CONTINGENCY [1]

	No Dest. Entry ---	BMC ---	SCF ---	DDU ---
Automation	6.7718	6.5172	6.2867	6.1261
Basic	7.3827	7.1281	6.8977	6.7370
High-D	5.3293	4.9463	4.7363	4.4838
Saturation	4.2876	3.8391	3.7585	3.5678

C: PRESORT COST DIFFERENTIALS [1]

	Entry ---	BMC ---	SCF ---	DDU ---
Automation	0.61	0.61	0.61	0.61
Basic	—	—	—	—
High-D	2.05	2.18	2.16	2.25
Saturation	3.10	3.29	3.14	3.17

D: CURRENT RATES [2]

	Entry ---	BMC ---	SCF ---	DDU ---
Automation	14.6	13.3	12.8	12.3
Basic	15.0	13.7	13.2	12.7
High-D	14.2	12.9	12.4	11.9
Saturation	13.3	12.0	11.5	11.0

Sources:

[1] Appendix A, Table A-13.

[2] Docket No. MC95-1, *Opinion and Recommended Decision*.

Table C-2

Revised 2/11/98

Standard A ECR Letters
 Test Year Initial Target Rates
 (cents per piece)

A: WITH CONSTANT AMOUNT ADDED

Margin = 8.199

No Dest.

Entry	BMC	SCF	DDU
-------	-----	-----	-----

Automation	14.9708	14.7162	14.4857	14.3251
Basic	15.5817	15.3271	15.0967	14.9360
High-D	13.5283	13.1453	12.9353	12.6828
Saturation	12.4866	12.0381	11.9575	11.7668

B: WITH CONSTANT PERCENT APPLIED

Coverage = 2.4405

No Dest.

Entry	BMC	SCF	DDU
-------	-----	-----	-----

Automation	16.5265	15.9051	15.3428	14.9507
Basic	18.0175	17.3962	16.8338	16.4417
High-D	13.0063	12.0714	11.5590	10.9428
Saturation	10.4638	9.3694	9.1725	8.7071

C: 90% FIXED; 10% CONSTANT PERCENT

No Dest.

Entry	BMC	SCF	DDU
-------	-----	-----	-----

Automation	15.1263	14.8351	14.5714	14.3876
Basic	15.8253	15.5340	15.2704	15.0866
High-D	13.4761	13.0379	12.7977	12.5088
Saturation	12.2843	11.7713	11.6790	11.4608

D: ADJUSTED TO REFLECT DEST. ENTRY

No Dest.

Entry	BMC	SCF	DDU
-------	-----	-----	-----

Automation	16.3	14.8	14.5	14.0
Basic	17.0	15.5	15.2	14.7
High-D	14.5	13.0	12.7	12.2
Saturation	13.3	11.8	11.5	11.0

Table C-3

Revised 2/26/98

Standard A ECR Letters
Development of VP-CW Proposed Rates

E: (TYAR Volume - Pieces)					
	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS					
Automation	682,281,000	856,221,000	479,035,000	42,125,000	2,059,662,000
Basic	835,299,000	1,035,288,000	1,205,217,000	97,961,000	3,173,765,000
High-D	40,077,000	38,040,000	248,831,000	66,038,000	392,986,000
Saturation	374,796,000	211,268,000	2,029,472,000	470,851,000	3,086,387,000
	1,932,453,000	2,140,817,000	3,962,555,000	676,975,000	8,712,800,000

F: INITIAL REVENUES					
LETTERS					
Automation	111,211,803	126,720,708	69,460,075	5,897,500	313,290,086
Basic	142,000,830	160,469,640	183,192,984	14,400,267	500,063,721
High-D	5,811,165	4,945,200	31,601,537	8,056,636	50,414,538
Saturation	49,847,868	24,929,624	233,389,280	51,793,610	359,960,382
Subtotal	308,871,666	317,065,172	517,643,876	80,148,013	1,223,728,727

Target Revenues from letters (Table C-12)
Difference

1,194,628,579
29,100,148

Per piece difference

0.003339931

G: FINAL ADJUSTED PROPOSED 90% FIXED, 10% PERCENTAGE RATES				
	No Dest. Entry	BMC	SCF	DDU
Automation	16.0	14.5	14.2	13.7
Basic	16.7	15.2	14.9	14.4
High-D	14.2	12.7	12.4	11.9
Saturation	12.9	11.4	11.1	10.6

H: PERCENT CHANGE FROM CURRENT RATES

Automation	9.6%	9.0%	10.9%	11.4%
Basic	11%	11%	13%	13%
High-D	0%	-2%	0%	0%
Saturation	-3%	-5%	-3%	-4%

I: PRESORT DIFFERENTIAL

Automation	0.7	0.7	0.7	0.7
Basic	--	--	--	--
High-D	2.5	2.5	2.5	2.5
Saturation	3.8	3.8	3.8	3.8

J: INITIAL REVENUES					
LETTERS					
Automation	109,164,960	124,152,045	68,022,970	5,771,125	307,111,100
Basic	139,494,933	157,363,776	179,577,333	14,106,384	490,542,426
High-D	5,690,934	4,831,080	30,855,044	7,858,522	49,235,580
Saturation	48,348,684	24,084,552	225,271,392	49,910,206	347,614,834
Subtotal	302,699,511	310,431,453	503,726,739	77,646,237	1,194,503,940

Table C-4
Standard A ECR Mail
TYAR Volume
(pieces)

Revised 2/11/98

	No Dest. Entry	BMC	SCF	DDU	Total
LETTERS					
Automation	682,281,000	856,221,000	479,035,000	42,125,000	2,059,662,000
Basic	835,299,000	1,035,288,000	1,205,217,000	97,961,000	3,173,765,000
High-D	40,077,000	38,040,000	248,831,000	66,038,000	392,986,000
Saturation	374,796,000	211,268,000	2,029,472,000	470,851,000	3,086,387,000
Subtotal	1,932,453,000	2,140,817,000	3,962,555,000	676,975,000	8,712,800,000
NONLETTERS					
Piece-Rated					
Basic	564,897,000	1,724,261,000	3,493,243,000	115,536,000	5,897,937,000
High-D	29,049,000	42,541,000	465,253,000	213,812,000	750,655,000
Saturation	281,107,000	285,819,000	2,229,350,000	3,097,689,000	5,893,965,000
Subtotal	875,053,000	2,052,621,000	6,187,846,000	3,427,037,000	12,542,557,000
Pound-Rated					
Basic	251,474,150	1,087,339,934	3,367,276,976	56,676,939	4,762,768,000
High-D	5,768,949	4,074,572	147,773,845	245,805,634	403,423,000
Saturation	50,048,411	5,661,585	388,837,658	1,820,086,346	2,264,634,000
Subtotal	307,291,510	1,097,076,092	3,903,888,479	2,122,568,919	7,430,825,000
Subtotal, NONLETTERS					19,973,382,000
TOTAL VOLUME					28,686,182,000

Source:

[1] Appendix A, Table A-6.

Table C-5
Standard A ECR Mail
TYAR Weight
(pounds)

LETTERS [1]

Automation
 Basic
 High-D
 Saturation

Subtotal

NONLETTERS

Piece-Rated [1]
 Basic
 High-D
 Saturation

Subtotal	No Dest. Entry	BMC	SCF	DDU	
Pound-Rated [2]					
Basic	79,660,806	344,738,349	1,067,567,737	18,005,108	1,509,972,000
High-D	1,949,739	1,367,604	49,733,368	82,722,289	135,773,000
Saturation	14,833,445	1,651,620	115,032,091	538,486,844	670,004,000
Subtotal	96,443,990	347,757,573	1,232,333,196	639,214,241	2,315,749,000

Source:

[1] Appendix A, Table A-7.

TABLE C-6

Standard A ECR Mail
Postal Service Proposed Rates

	No Dest. Entry	BMC	SCF	DDU
<hr/>				
LETTERS [1]				
Automation	0.157	0.142	0.139	0.134
Basic	0.164	0.149	0.146	0.141
High-D	0.143	0.128	0.125	0.120
Saturation	0.134	0.119	0.116	0.111
NONLETTERS				
Piece-Rated [1]				
Basic	0.164	0.149	0.146	0.141
High-D	0.153	0.138	0.135	0.130
Saturation	0.141	0.126	0.123	0.118
Pound-Rated [2]				
Basic	0.055	0.055	0.055	0.055
High-D	0.044	0.044	0.044	0.044
Saturation	0.032	0.032	0.032	0.032
Per pound				
Basic	0.530	0.458	0.442	0.420
High-D	0.530	0.458	0.442	0.420
Saturation	0.530	0.458	0.442	0.420

Source:

[1] USPS-T-36, p. 31.

Table C-7

Revised 2/26/98

Standard A ECR Nonletters
Postal Service Proposed Rates
TYAR Projected Revenues and Margins

	No Dest. Entry	BMC	SCF	DDU	Total
NONLETTERS					
Piece-Rated					
Basic	92,643,108	256,914,889	510,013,478	16,290,576	875,862,051
High-D	4,444,497	5,870,658	62,809,155	27,795,560	100,919,870
Saturation	39,636,087	36,013,194	274,210,050	365,527,302	715,386,633
Subtotal	136,723,692	298,798,741	847,032,683	409,613,438	1,692,168,554
Pound-Rated					
Basic	13,831,078	59,803,696	185,200,234	3,117,232	261,952,240
High-D	253,834	179,281	6,502,049	10,815,448	17,750,612
Saturation	1,601,549	181,171	12,442,805	58,242,763	72,468,288
Subtotal	15,686,461	60,164,148	204,145,088	72,175,443	352,171,140
Per pound					
Basic	42,220,227	157,890,164	471,864,940	7,562,145	679,537,476
High-D	1,033,362	626,363	21,982,149	34,743,361	58,385,234
Saturation	7,861,726	756,442	50,844,184	226,164,474	285,626,827
Subtotal	51,115,315	159,272,968	544,691,273	268,469,981	1,023,549,537
TOTAL					3,067,889,231
LESS COST:					1,389,523,907
MARGIN (CONTRIBUTION)					1,678,365,324

(Deleted)

Sources:

- [1] Table C-4 Volume.
- [2] Table C-5 Weight.
- [3] Table C-6 USPS Proposed Rates.

Table C-8
Standard A ECR Nonletters
TYAR Unit Costs with Contingency
(in dollars)

	<u>No Dest. Entry</u>	<u>BMC</u>	<u>SCF</u>	<u>DDU</u>
NONLETTERS				
Piece-Rated				
Basic	0.0899	0.0819	0.0790	0.0754
High-D	0.0616	0.0525	0.0507	0.0471
Saturation	0.0421	0.0338	0.0335	0.0304
Pound-Rated				
Basic	0.0596	0.0596	0.0596	0.0596
High-D	0.0313	0.0313	0.0313	0.0313
Saturation	0.0146	0.0146	0.0146	0.0146
Per pound				
Basic	0.2650	0.1737	0.1534	0.1257
High-D	0.2650	0.1737	0.1534	0.1257
Saturation	0.2650	0.1737	0.1534	0.1257

SOURCE:

[1] Appendix A, Table A-18 (B).

TABLE C-9
Standard A ECR Nonletters
TYAR Total Cost

	No Dest. Entry	BMC	SCF	DDU	Total
NONLETTERS					
Piece-Rated					
Basic	50,783,985	141,176,516	275,957,812	8,714,063	476,632,375
High-D	1,789,058	2,233,706	23,571,997	10,079,507	37,674,267
Saturation	11,838,326	9,664,501	74,771,705	94,063,851	190,338,383
Subtotal	64,411,369	153,074,723	374,301,513	112,857,421	704,645,026
Pound-Rated					
Basic	14,991,440	64,820,944	200,737,658	3,378,753	283,928,795
High-D	180,760	127,670	4,630,232	7,701,884	12,640,546
Saturation	728,561	82,416	5,660,360	26,495,234	32,966,572
Subtotal	15,900,761	65,031,030	211,028,250	37,575,871	329,535,912
Per pound					
Basic	21,109,510	59,877,062	163,753,500	2,263,484	247,003,556
High-D	516,666	237,537	7,628,568	10,399,303	18,782,074
Saturation	3,930,751	286,867	17,644,695	67,695,027	89,557,340
Subtotal	25,556,927	60,401,466	189,026,763	80,357,813	355,342,969
TOTAL					<u>1,389,523,907</u>

Sources:

- [1] Table C-4 Volume.
- [2] Table C-5 Weight.
- [3] Table C-8 Unit Costs.

TABLE C-10

Standard A ECR Nonletters
VP-CW Proposed Rates
(in dollars)

BASIC RATE	0.167			
Presort Discount for High-Density	0.017			
Presort Discount for Saturation	0.012			
	No Dest. Entry	BMC	SCF	DDU
	—	—	—	—
NONLETTERS				
Piece-Rated				
Basic	0.167	0.152	0.149	0.144
High-D	0.150	0.135	0.132	0.127
Saturation	0.138	0.123	0.120	0.115
Pound-Rated				
Basic	0.058	0.058	0.058	0.058
High-D	0.041	0.041	0.041	0.041
Saturation	0.029	0.029	0.029	0.029
Per pound				
Basic	0.530	0.458	0.442	0.420
High-D	0.530	0.458	0.442	0.420
Saturation	0.530	0.458	0.442	0.420

Table C-11
Standard A ECR Nonletters
VP-CW Proposed Rates
TYAR Projected Revenues and Margins

	No Dest. Entry	BMC	SCF	DDU	Total
NONLETTERS					
Piece-Rated					
Basic	94,337,799	262,087,672	520,493,207	16,637,184	893,555,862
High-D	4,357,350	5,743,035	61,413,396	27,154,124	98,667,905
Saturation	38,792,766	35,155,737	267,522,000	356,234,235	697,704,738
Subtotal	137,487,915	302,986,444	849,428,603	400,025,543	1,689,928,505
Pound-Rated					
Basic	14,585,501	63,065,716	195,302,065	3,287,262	276,240,544
High-D	236,527	167,057	6,058,728	10,078,031	16,540,343
Saturation	1,451,404	164,186	11,276,292	52,782,504	65,674,386
Subtotal	16,273,432	63,396,960	212,637,084	66,147,797	358,455,273
Per pound					
Basic	42,220,227	157,890,164	471,864,940	7,562,145	679,537,476
High-D	1,033,362	626,363	21,982,149	34,743,361	58,385,234
Saturation	7,861,726	756,442	50,844,184	226,164,474	285,626,827
Subtotal	51,115,315	159,272,968	544,691,273	268,469,981	1,023,549,537
TOTAL					3,071,933,315
LESS COST:					1,389,523,907
MARGIN (CONTRIBUTION)					1,682,409,408

Sources:

- [1] Table C-4 Volume.
- [2] Table C-5 Weight.
- [3] Table C-10 VP-CW Proposed Rates.
- [4] Table C-9 Total Cost.

Table C-12

Revised 2/26/98

Standard A ECR Mail
TYAR Projected Revenue

TY Revenue - After Rates
Enhanced Carrier Route Subclass
(Volumes and Revenues in Millions)

Categories	Unit	Rates (1)	Volume (2)	Revenue (3)	Letters (4)	NonLetters (5)
Letters						
1 Basic	per piece	0.164	3173.765	520.497	520.497	
2 High Density	per piece	0.143	392.986	56.197	56.197	
3 Saturation	per piece	0.134	3086.387	413.576	413.576	
4 Automated	per piece	0.157	2059.662	323.367	323.367	
4a Subtotal			8712.8	1313.637	1,313.637	
Nonletters, Piece-Rated						
5 Basic	per piece	0.164	5897.937	967.262		967.262
6 High Density	per piece	0.153	750.655	114.850		114.850
7 Saturation	per piece	0.141	5893.965	831.049		831.049
8 Subtotal			12542.558	1913.161		1,913.161
Nonletters, Pound-Rated						
9 Basic	per piece	0.055	4762.7676	261.952		261.952
10 High Density	per piece	0.044	403.423	17.751		17.751
11 Saturation	per piece	0.032	2264.6339	72.468		72.468
12 Subtotal			7430.8242	352.171		352.171
13 Basic	per pound	0.530	1509.972	800.285		800.285
14 High Density	per pound	0.530	135.773	71.960		71.960
15 Saturation	per pound	0.530	670.004	355.102		355.102
16 Subtotal			2315.7493	1,227.347		1,227.347
17 Total	pieces		28686.182			
Dropship Discounts:						
Piece-Rated						
18 BMC	per piece	-0.015	4193.438	-62.902	-32.112	-30.789
19 SCF	per piece	-0.018	10150.400	-182.707	-71.326	-111.381
20 DDU	per piece	-0.023	4104.013	-94.392	-15.670	-78.822
21 Subtotal			18447.852	-340.001	-119.009	-220.992
Pound-Rated						
22 BMC	per pound	-0.072	347.758	-25.039		-25.039
23 SCF	per pound	-0.088	1232.333	-108.445		-108.445
24 DDU	per pound	-0.110	639.214	-70.314		-70.314
25 Subtotal			2219.305	-203.797		-203.797
26 Net Revenue from Rates (L.4a+L.8+L.12+L.16+L.21+L.				4262.518	1,194.629	3,067.889
27 Revenue adjustment factor (Page 1)				1.000002		
28 Adjusted revenue from rates (L.26*L.27)				4262.527	28.03%	71.97%
29 Fees (Page 14)				33.08869		
30 Revenue from residual shape surcharge (Page 13)				8.38882		
31 Total Revenue (L.28+L.29+L.30)				4304.004		
32 TYAR revenue per piece (L.31 / L.17)				0.150038		

- (1) Lines 5,9,13,14,15 from formula, page 19. Dropship discounts from Page 9.
Other rates calculated by subtracting discounts (p.18) from Basic rates
from formula.
- (2) Page 20, Col (1,2,6 to 11)
- (3) Col (1) * Col (2)

Split in shaded area developed by Haldi Associates, Inc.

Source:

[1] USPS-T-36, WP1, page 23.

Appendix D

WEIGHT-COST RELATIONSHIP

The relationship between weight and cost of mail is an issue that has bedeviled the Postal Service and the Commission for many years. Despite a number of studies submitted by the Postal Service, including one in this docket,¹ the results remain inconclusive, unconvincing and inadequate for rate making purposes.² This appendix examines the weight-cost relationship in an effort to establish a framework and rationale for more definitive studies on how weight affects cost, especially within Standard Mail A.

Dropship Discounts Give Rise To Multiple Weight-Cost Relationships

The first fact that needs to be recognized is that a number of weight-cost relationships exist, even within a single subclass of Standard Mail A. For example, the Postal Service updated a study on shipping costs avoided from dropshipment in LR-H-111. Transportation costs constitute the bulk of

¹ USPS-LR-H-182. A critique of LR-H-182 follows the presentation of the rationale and framework for studying the weight-cost relationship set forth in this appendix.

² Due to the Postal Service's lack of a reasonable benchmark for weight-related costs, Section IV of my testimony, which analyzes the Postal Service's proposed rates for nonletters, was forced to use a parametric approach that spanned a wide range of possible pound costs.

shipping costs avoided, with mail handling costs for activities such as cross-docking making up the remainder. Costs avoided are estimated on a per-pound basis. The Postal Service itself has identified four different weight-cost relationships for mail:

- one where there is no destination entry;
- a second where mail is entered at DBMCs;
- a third for mail entered at DSCFs; and
- a fourth for mail entered at DDU.

Each weight cost relationship depends upon the point of entry into the Postal network.

Further, LR-H-111 uses an average density for all mail, even though the cost driver for transportation is density, not weight. In fact, the cost driver for certain mail handling costs, such as cross-docking, may also be density, not weight. Furthermore, the different rate categories within Standard Mail A have different densities.

Using density of the different existing and proposed rate categories within Standard Mail A, it would appear to be a reasonably straightforward exercise re-computing separate costs avoided for letters, flats and parcels. This would result in 12 different possible discounts for costs avoided (including "no destination entry," where no costs are avoided), and 12 different weight-cost relationships.

With so many different weight-cost relationships, it becomes necessary to address the following questions:

- For what purpose is empirical data on the various weight-cost relationships desired? and
- Which weight-cost relationship(s) best fit(s) the stated purpose?

If the purpose is to establish **top down** rates, the weight-cost relationship for mail which is not entered at a destinating facility would appear to be the most appropriate. Weight-based discounts, which presumably make the correct adjustment for costs avoided (especially if adjusted for differences in density), may then be calculated for destination entry. Alternatively, to develop rates from the **bottom up**, the weight-cost relationship for mail entered at DDUs would appear to be the most appropriate. Weight-based costs for non-destination entry (*i.e.*, shipping costs) could then be added to this benchmark.

To conclude, LR-H-111, the Postal Service's study of dropship costs avoided identifies one important consideration influencing the effect of weight on cost: the degree to which the weight-cost relationship differs depending upon the entry point into the postal network.

Further Complications

Within the preceding framework, which ignores handling costs within P&DCs, one can use the weight-cost relationship, exclusive of transportation

costs incurred or avoided, to develop either bottom up or top down rates.

Starting with the applicable weight-cost relationship, then adding or subtracting transportation costs as appropriate, will produce the same result.

The actual situation may be more complex, however. Let us examine two contrasting possibilities:

- A large nationwide mailing presorted to carrier route and entered at a single non-destinating facility without any dropship; and
- A large nationwide mailing in Basic presort condition, entered at a single non-destinating facility without any dropship.

The carrier route mailing presumably will receive little or nothing more than transportation and cross-docking until it reaches the DDU. Aside from transportation costs, the only other weight-related costs will be those incurred in the DDU and the subsequent delivery function. In other words, this mailing appears to fit within the framework discussed above; *i.e.*, no consideration needs to be given to handling costs within intermediate facilities.

The Basic presort mailing, however, will be processed within one or more P&DCs before it arrives at the DDU. With respect to this mailing, additional questions must be answered:

- What weight-related handling costs (if any) are incurred by mail that is taken from the loading dock into the facility, processed, then returned to the loading dock?
- Do presort cost differences, all of which are currently estimated solely on a per-piece basis, correctly reflect all cost differences,

or are only some of those costs piece-related, while other costs are related more to weight or density?

The Postal Service incurs substantial mail processing costs within its P&DCs. Although a significant portion of those costs are undoubtedly piece-related, some may vary with weight or density. For any given class or type of mail (*e.g.*, letters or flats) with homogeneous density, weight can be a proxy for cube because the two change in tandem. For a simple illustration, consider a bulk mailing of 1,600,000 identical letters or flats. If the mailpiece weighs 0.5 ounces, total weight will be 50,000 pounds — which is slightly more than the capacity of a 40' trailer. If the mailpieces weigh 1.0 ounce, total weight will equal 100,000 pounds (more than two trailer loads). A 2-ounce mailpiece would total 200,000 pounds. The density (pounds per cubic foot) of letters and flats may differ, but for a given type of mail, this example illustrates how weight and cube change in tandem.

How do weight and cube affect mail handling costs? More trailer loads of mail will, in general, mean more containers of every type: letter trays, sacks, OTRs, pallets, etc. Each container that enters a P&DC will have to be moved through the different mail processing operations. After use, the empty containers will have to be moved. It thus seems likely that where the Postal Service processes mailpieces, weight does affect cost, over and above those costs related solely to shipping/dropshipment.

In her direct testimony, witness Mayes explains how cube affects costs within a mail precessing plant:³

Other areas in which cube plays an important role in cost incurrence become apparent when one considers the mail processing flow models such as those developed by Postal Services witnesses Crum (USPS-T-28) and Daniel (USPS-T-29). In such models, the Postal Service attempts to measure costs for mail processing activities, **including dumping containers or sacks, or crossdocking containers.** The cost associated with a **particular dumping or crossdocking activity is the same no matter how many pieces are in the container being dumped or crossdocked.** This cost is usually assigned on a per-piece basis. But the **cost per piece associated with the dumping or crossdocking activity varies with the number of pieces in the container at the time it is dumped or moved, and the number of pieces in the container depends on the cube of the pieces.** Therefore, the number of pieces contained therein will necessarily be lower as the average cube of the pieces increases. Even in the absence of explicit cost analysis in other areas, such as delivery costs, the Postal Service submits that cube is, in fact, an important cost driver for Parcel Post. (emphasis added)

Although witness Mayes' principal concern is with parcel post, her cogent observations apply with equal force to letters or flats, (e.g., 1.6 million 2-ounce letters will occupy many more trays than an equal number of 0.5-ounce letters).

³ USPS-T-37, pp. 13-14.

The situation is not entirely straightforward, however. With respect to mail processing costs, witness McGrane distinguishes between distribution and non-distribution activities.⁴ He states that:

[c]osts for non-distribution labor activities are generally in proportion to the number of items or containers that are handled in a particular operation...these costs [do not necessarily] vary proportionally with mail piece weight...because weight can influence the manner in which Standard A pieces are made up, and ultimately handled in non-distribution activities."

Witness McGrane further states that computer simulation has not been entirely successful in isolating and estimating weight-related costs.

Problems of LR-H-182

A common thread running through the Postal Service's IOCS-based weight-cost studies is the almost complete lack of a theoretical foundation concerning (i) how weight affects cost, (ii) which weight-cost relationship the Postal Service is attempting to measure, and (iii) which subset of IOCS tallies (if any) can be expected to shed light on the weight-cost relationship being measured.⁵

⁴ Response of witness McGrane to VP-CW/USPS-ST44-3 (Tr. 15/7725-28).

⁵ As noted above, weight and cube may play a highly significant role in the number of containers that enter a facility. This affects both the number of empty containers that must be handled as well as the number of IOCS tallies for "handling empty equipment." Once containers are empty, however, there is no way to know that their numbers were increased because of the weight (or cube) of the mail. This is but one problem associated with using IOCS tallies to study the

Revised 2/11/98

As explained above, the Postal Service faces multiple weight-cost relationships. Minimal presort mail that is not dropshipped and is entered upstream in the postal network will likely incur far more weight-related bulk handlings than will, say, saturation mail, whether entered upstream or at a destination SCF or DU. Thus, a "global" study that seeks to estimate THE weight-cost relationship is fatally flawed from the outset.

The Postal Service should study the weight-cost relationship for mail entered into the postal network **at identical points**. If lighter-weight pieces are entered upstream, and heavier-weight pieces are dropshipped, any study that does not control for this factor will be biased, perhaps heavily so. Unfortunately, IOCS tallies cannot record where mail is entered into the postal network. Hence, a study based on IOCS tallies cannot control for this critical element.

Witness Moeller has observed that a properly-designed study must control for variations "in the amount of drop shipping, presortation, average haul of non-dropshipped mail, and other factors, all of which could cause variations in the unit cost by weight increment."⁶ LR-H-182 did not control for any of these factors.

weight-cost relationship.

⁶ Response of the Postal Service to NAA/USPS-T36-22 (Tr. 15/7714).

LR-H-182 also suffers from variability due to small sample size, especially in the heavier-weight increments. This problem can be illustrated from data presented in Tables 1 and 2 of LR-H-182. Those two tables are reproduced here. Table 1 contains data for all Standard Mail A, and Table 2 contains data for flats only. Table 2 purports to show a reliable weight-cost relationship for flats. As a "reality check," Table 3 was constructed simply by subtracting the data in Table 2 from the corresponding data in Table 1.

Table 3 is thus the "residual," for letters and parcels combined. Note that the carrier route volume in Table 3 consists of 15.2 billion pieces, and the volume for "other" consists of 28.1 billion pieces. Inspection of Table 3 shows that for carrier route mail the results are obviously absurd.

- Carrier route letters and parcels weighing 5, 6, 7, 12 and 13 ounces have **negative unit costs**.
- Carrier route piece letters and parcels weighing 15 and 16 ounces have unit costs, respectively, of **\$15.40 and \$45.25**.

For "other" Standard Mail A the results, while perhaps less absurd, appear equally unreliable. The unit costs for 5-, 6- and 7-ounce pieces are, respectively, 21, 45 and 16 cents. The unit costs dance up and down, for no discernable reason, and in no systematic manner.

Serious weight cannot be given to data for flats when the "residual" produces results such as these.

Research Recommendations

It is recommended that the Postal Service continue its modeling efforts, including but not limited to simulation models of the type discussed by witness McGrane. In order to narrow to manageable proportions the scope of research with respect to mail processing costs, it is suggested that the Postal Service employ a "bottom-up" approach and focus initially on the effect of weight on cost of mail after it arrives at DUs.⁷ Since the CSBCS is the only sorting equipment at any DU, that should simplify the problem somewhat.

Once a reasonable understanding of the weight-cost relationship at DUs is achieved, in a bottom-up approach the next step would be to study the weight (shape) cost relationship of mail arriving at DSCFs. Such a study might have two components: (i) mail arriving from BMCs, and (ii) mail dropshipped and entered at the SCF by mailers.⁸ Such a study would of course be limited to and focus on mail not presorted to carrier route; *i.e.*, mail that must be taken from the dock into the P&DC sorted, and then returned to the dock.

⁷ The effect of weight (and shape) on city and rural delivery costs can and should be studied separately.

⁸ These two components would be appropriate only if significant differences exist between mail received from BMCs and mail that is dropshipped into an SCF.

Developing a reasonable estimate of the weight-cost relationship for just the DU and incoming P&DC components of the postal network would constitute a significant improvement over the existing situation.

Recommendations for the Commission

In view of the substantial uncertainty concerning the effect of weight on cost, it is recommended that the Commission adopt a conservative approach and accept witness Moeller's proposed pound rates for Standard Mail A. The Commission should also either initiate or request that the Postal Service initiate a study of the respective shape-based weight-cost relationships for mail receiving no dropshipment and/or for mail dropshipped to DDUs.

Table D-1

FY 1996 Volume Variable Unit Cost by Weight Increment
Standard A Bulk Mail

Weight Inc. (oz.)	Carrier Route			Other		
	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)
1	788,270	11,884,976	6.6	2,285,008	19,888,875	11.5
2	386,172	6,618,447	5.8	959,157	8,310,370	11.5
3	310,369	6,100,688	5.1	545,665	4,143,309	13.2
4	215,977	3,024,681	7.1	521,302	3,025,509	17.2
5	120,104	2,352,129	5.1	195,698	1,615,153	12.1
6	62,508	1,145,220	5.5	151,920	904,275	16.8
7	29,064	495,384	5.9	76,972	546,745	14.1
8	16,047	176,959	9.1	84,282	370,421	22.8
9	10,646	137,224	7.8	46,548	255,938	18.2
10	6,992	70,751	9.9	48,357	201,637	24.0
11	3,727	39,292	9.5	39,991	165,235	24.2
12	1,939	21,572	9.0	50,452	168,569	29.9
13	2,239	33,805	6.6	41,204	154,530	26.7
14	1,710	13,118	13.0	42,003	127,321	33.0
15	1,731	12,681	13.7	25,253	62,867	40.2
16	1,946	10,735	18.1	21,044	37,420	56.2
	1,959,439	32,137,662	6.1	5,134,854	39,978,176	12.8

Source: LR-H-182, Table 1.

Table D-2

FY 1996 Volume Variable Unit Cost by Weight Increment
Standard A Bulk Mail - Flats

Weight Inc. (oz.)	Carrier Route			Other		
	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)
1	163,993	1,940,793	8.4	293,227	999,913	29.3
2	232,231	3,492,117	6.7	488,694	2,270,219	21.5
3	238,264	4,393,866	5.4	382,288	2,316,990	16.5
4	193,505	2,609,668	7.4	443,034	2,540,075	17.4
5	124,110	2,315,073	5.4	183,001	1,554,744	11.8
6	64,407	1,139,485	5.7	123,629	841,942	14.7
7	30,305	493,084	6.1	59,255	436,500	13.6
8	15,764	175,941	9.0	56,042	291,739	19.2
9	10,264	136,848	7.5	31,649	203,096	15.6
10	6,574	70,577	9.3	27,463	142,388	19.3
11	3,491	39,111	8.9	17,194	78,470	21.9
12	2,003	21,399	9.4	15,622	62,529	25.0
13	2,341	33,746	6.9	12,345	58,855	21.0
14	1,510	13,020	11.6	11,530	41,871	27.5
15	1,069	12,638	8.5	8,301	36,541	22.7
16	1,584	10,727	14.8	7,940	24,172	32.8
	1,091,415	16,898,093	6.5	2,161,215	11,900,045	18.2

Source: LR-H-182, Table 2.

Table D-3

FY 1996 Volume Variable Unit Cost by Weight Increment
Standard A Bulk Mail - Non-Flats (Letters and Parcels)

Weight Inc. (oz.)	Carrier Route			Other		
	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)	Attributable Costs (000)	Mail Volume (000)	Unit Cost (cents)
1	624,277	9,944,183	6.3	1,991,781	18,888,962	10.5
2	153,941	3,126,330	4.9	470,463	6,040,151	7.8
3	72,105	1,706,822	4.2	163,377	1,826,319	8.9
4	22,472	415,013	5.4	78,268	485,434	16.1
5	-4,006	37,056	-10.8	12,697	60,409	21.0
6	-1,899	5,735	-33.1	28,291	62,333	45.4
7	-1,241	2,300	-54.0	17,717	110,245	16.1
8	283	1,018	27.8	28,240	78,682	35.9
9	382	376	101.6	14,899	52,842	28.2
10	418	174	240.2	20,894	59,249	35.3
11	236	181	130.4	22,797	86,765	26.3
12	-64	173	-37.0	34,830	106,040	32.8
13	-102	59	-172.9	28,859	95,675	30.2
14	200	98	204.1	30,473	85,450	35.7
15	662	43	1539.5	16,952	26,326	64.4
16	362	8	4525.0	13,104	13,248	98.9
	868,026	15,239,569	5.7	2,973,642	28,078,131	10.6

Source: Table 1 minus corresponding entry in Table 2.

1 CHAIRMAN GLEIMAN: Dr. Haldi, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: Yes, they would, Mr. Chairman.

9 CHAIRMAN GLEIMAN: That being the case, I'm going
10 to provide two copies of the designated written
11 cross-examination of this witness to the reporter, and
12 direct that it be accepted into evidence and transcribed
13 into the record at this point.

14 [Designation of Written
15 Cross-Examination of Dr. John
16 Haldi, VP/CW-T-1, was received into
17 evidence and transcribed into the
18 record.]

19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF VAL-PAK DIRECT MARKETING SERVICES, VAL-PAK
DEALERS ASSOCIATION, AND CAROL WRIGHT
WITNESS JOHN HALDI
(VP-CW-T1)

Party

Interrogatories

Advo, Inc.

AAPS/VP-CW-T1-1-2
MOAA/VP-CW-T1-13

Mail Order Association of America

AAPS/VP-CW-T1-1-2
MOAA/VP-CW-T1-1-6, 10-13
NAA/VP-CW-T1-3-11
USPS/VP-CW-T1-1-3, 6-24

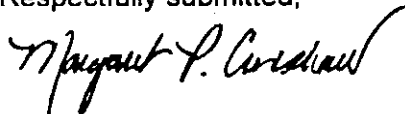
Newspaper Association of America

AAPS/VP-CW-T1-1
MOAA/VP-CW-T1-2-4, 6, 8, 10, 13
NAA/VP-CW-T1-1, 6-11
USPS/VP-CW-T1-3, 8-9, 11, 14, 21

United States Postal Service

AAPS/VP-CW-T1-1-2
MOAA/VP-CW-T1-6-8, 10, 12-13
NAA/VP-CW-T1-4, 6
USPS/VP-CW-T1-1, 4-6, 9-11, 13, 15-16, 18-25

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
VAL-PAK DIRECT MARKETING SERVICES, VAL-PAK
DEALERS ASSOCIATION, AND CAROL WRIGHT
WITNESS JOHN HALDI (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

AAPS/VP-CW-T1-1
AAPS/VP-CW-T1-2
MOAA/VP-CW-T1-1
MOAA/VP-CW-T1-2
MOAA/VP-CW-T1-3
MOAA/VP-CW-T1-4
MOAA/VP-CW-T1-5
MOAA/VP-CW-T1-6
MOAA/VP-CW-T1-7
MOAA/VP-CW-T1-8
MOAA/VP-CW-T1-10
MOAA/VP-CW-T1-11
MOAA/VP-CW-T1-12
MOAA/VP-CW-T1-13
NAA/VP-CW-T1-1
NAA/VP-CW-T1-3
NAA/VP-CW-T1-4
NAA/VP-CW-T1-5
NAA/VP-CW-T1-6
NAA/VP-CW-T1-7
NAA/VP-CW-T1-8
NAA/VP-CW-T1-9
NAA/VP-CW-T1-10
NAA/VP-CW-T1-11
USPS/VP-CW-T1-1
USPS/VP-CW-T1-2

Designating Parties:

ADVO, MOAA, NAA, USPS
ADVO, MOAA, USPS
MOAA
MOAA, NAA
MOAA, NAA
MOAA, NAA
MOAA
MOAA, NAA, USPS
USPS
NAA, USPS
MOAA, NAA, USPS
MOAA
MOAA, USPS
ADVO, MOAA, NAA, USPS
NAA
MOAA
MOAA, USPS
MOAA
MOAA, NAA, USPS
MOAA, NAA
MOAA, NAA
MOAA, NAA
MOAA, NAA
MOAA, NAA
MOAA, USPS
MOAA

Interrogatory:

USPS/VP-CW-T1-3
USPS/VP-CW-T1-4
USPS/VP-CW-T1-5
USPS/VP-CW-T1-6
USPS/VP-CW-T1-7
USPS/VP-CW-T1-8
USPS/VP-CW-T1-9
USPS/VP-CW-T1-10
USPS/VP-CW-T1-11
USPS/VP-CW-T1-12
USPS/VP-CW-T1-13
USPS/VP-CW-T1-14
USPS/VP-CW-T1-15
USPS/VP-CW-T1-16
USPS/VP-CW-T1-17
USPS/VP-CW-T1-18
USPS/VP-CW-T1-19
USPS/VP-CW-T1-20
USPS/VP-CW-T1-21
USPS/VP-CW-T1-22
USPS/VP-CW-T1-23
USPS/VP-CW-T1-24
USPS/VP-CW-T1-25

Designating Parties:

MOAA, NAA
USPS
USPS
MOAA, USPS
MOAA
MOAA, NAA
MOAA, NAA, USPS
MOAA, USPS
MOAA, NAA, USPS
MOAA
MOAA, USPS
MOAA, NAA
MOAA, USPS
MOAA, USPS
MOAA
MOAA, USPS
MOAA, USPS
MOAA, USPS
MOAA, NAA, USPS
MOAA, USPS
MOAA, USPS
MOAA, USPS
USPS

Response of Dr. John Haldi to AAPS/VP-CW-T1-1
Page 1 of 1

AAPS/VP-CW-T1-1. At page 33, line 18, through page 34, line 2, you testify that because there are substantial alternatives available to standard A ECR MAIL, the Postal Reorganization Act would support a lower cost coverage.

- (a) Would it therefore also be your opinion that where there are few alternatives, or no alternatives, this rate standard would support a higher cost coverage?
- (b) Please identify the most important authorities that support your interpretation of Section 3622(b)(5).

Response:

(a)-(b) Actually, the footnote at the end of the sentence of my testimony cited in your question refers to witness O'Hara's testimony (USPS-T-30) as citing Section 3622(b)(5) as supporting a lower cost coverage for Standard A ECR. As I now review witness O'Hara's testimony, I see that his application of Criterion 5 was more ambiguous than I recalled when I prepared my testimony, *i.e.*, he does not specifically cite Criterion 5 as supporting a lower cost coverage. Instead, he states that "most of the factors considered above would indicate a cost coverage lower than that actually proposed." However, I also testify that "[h]is analysis of the noncost criteria echoed witness Moeller's analysis in Docket No. MC95-1." Witness Moeller stated that:

The availability of alternatives (criterion 5) would argue for a lower cost coverage since carrier route mail, by virtue of its high-density component, has more options than other mail in the Standard class. Alternate delivery systems and newspaper inserts offer similar means of distribution. Other local media are also available as alternatives to mail. [Docket No. MC95-1, USPS-T-18, p. 7, ll. 21-25.]

Response of Dr. John Haldi to AAPS/VP-CW-T1-2
Page 1 of 2

AAPS/VP/CW-T1-2. Given your testimony at page 16 that the Postal Service has “failed to present any reliable evidence” on the issue of which ECR costs are pound-related and which are piece-related, and your testimony at page 52 that the weight-cost relationship “is not known with any degree of certainty,” please explain in greater detail why you have decided to “adopt the Postal Service’s proposed rate of \$0.53 per pound” rather than adopting the pound rate last approved by the Postal Rate Commission. In this answer, please explain how it is “conservative,” as you state at page D-11, to adopt Witness Moller’s [sic] proposed pound rates rather than those last approved by the Commission.

Response:

At page 17 of my testimony, I describe the assumption in my Case I as representing “moderately high” weight-related costs, and the assumption in my Case II as representing “moderately low” weight-related costs. My recommendation that the Commission adopt “moderately high” weight-related costs, as opposed to “moderately low” weight-related costs is, in my opinion, a conservative recommendation. That is the short answer to your question. There is more, however, as explained below.

A strength of the bottom-up cost analysis developed in my testimony is that it enables various things to be seen and examined in a different light, including the issue of the impact of weight on cost. Note that my methodology does not redistribute costs between letters and nonletters; *i.e.*, the total cost of nonletters remains fixed. Consequently, increasing the portion of cost assigned to weight will decrease the per-piece cost of nonletters — and vice versa — but will not affect the unit cost of letters. With this in mind, compare the unit cost in Table A-13 (letters), Table A-18 (nonletters, Case I), and Table A-24 (nonletters, Case II). To take one example, the unit costs of saturation letters and piece-rated nonletters (without contingency), DDU entry, are as follows:

Response of Dr. John Haldi to AAPS/VP-CW-T1-2
Page 2 of 2

	<u>Unit Cost (cents)</u>
Letters	3.4876
Nonletters	
Case I	3.0065
Case II	3.6266

The same comparison of unit costs for saturation mail with "no destination entry" is as follows:

	<u>Unit Cost (cents)</u>
Letters	4.2003
Nonletters	
Case I	4.1696
Case II	4.7897

As the above comparisons show, the "moderately high" assumption for weight-related cost in Case I reduces the unit cost of saturation nonletters below the unit cost of letters, regardless of entry point. Since letters everywhere cost less to handle than nonletters, this result is already hard to swallow. Using even higher pound rates, such as those last approved by the Commission, would cause a further reduction in the unit cost of nonletters below the corresponding cost of letters. In light of these considerations, I consider witness Moeller's recommended pound rate to be conservative.

Response of Dr. John Haldi to MOAA/VP/CW-T1-1
Page 1 of 1

MOAA/VP/CW-T1-1.

Please provide all workpapers, including machine-readable spreadsheets (with any formulas and source references), supporting the tables found in your testimony and Appendices A-D.

Response:

The requested information has been provided to counsel for MOAA. Errata will be filed shortly and revised information provided at that time.

Response of Dr. John Haldi to MOAA/VP/CW-T1-2
Page 1 of 1

MOAA/VP/CW-T1-2.

Please confirm that the Enhanced Carrier Route ("ECR") rates found in your Table 6 reflect the rates that you are proposing on behalf of VP/CW in Docket R97-1. If confirmed, please provide sources and calculations of your proposed rates found in Table 6. If not confirmed, please provide the rates for ECR that you are proposing as well as sources and calculations supporting your proposed ECR rates.

Response:

Confirmed that Table 6 reflects rates proposed originally on behalf of VP/CW in Docket No. R97-1. For the derivation of proposed rates, see Appendix C, especially Tables C-3 and C-10, and the tables antecedent thereto. Certain rates are being revised; see Table 6 (revised 2/_/98) and Table C-3 (revised 2/_/98).

Response of Dr. John Haldi to MOAA/VP/CW-T1-3
Page 1 of 1

MOAA/VP/CW-T1-3.

Please confirm that the volume variable unit costs found in Table 1 of your testimony reflect estimated costs for Standard (A) ECR letters that are applicable to the rates that you have proposed in Table 6 of your testimony. If you cannot confirm, please provide the volume variable unit costs applicable to the rates that you have proposed in Table 6 of your testimony.

Response:

Confirmed that Table 1 contains volume variable unit costs that reflect estimated unit costs of Standard A ECR letters. However, see errata containing Table 1 (revised 2/_/98).

Response of Dr. John Haldi to MOAA/VP/CW-T1-4
Page 1 of 1

MOAA/VP/CW-T1-4.

Please confirm that the margins shown in Table 7 of your testimony are developed by subtracting the volume variable cost in Table 1 of your testimony from the rates in Table 6 of your testimony. If not confirmed, please provide the sources and calculations of the margins shown in Table 7 of your testimony.

Response:

Confirmed, but see Table 7 (revised 2/_/98).

Response of Dr. John Haldi to MOAA/VP/CW-T1-5
Page 1 of 1

MOAA/VP/CW-T1-5.

Please refer to pages 11 and 41 of your testimony. Please list the subclasses other than Priority Mail where you believe that the USPS utilizes "Bottom-Up" and "Target Mark-up" procedures in setting rates.

Response:

I have not subjected the rate design procedure for all other subclasses to careful study, but I suspect that the procedure for designing rates for Express Mail is generally similar to that for Priority Mail. These are the only two subclasses for which I can state with reasonable confidence that the Postal Service uses "bottom-up" procedures for setting rates in each cell of the rate structure. I have not studied the rate design for BPM or Parcel Post, but they could be potential candidates as well.

Response of Dr. John Haldi to MOAA/VP/CW-T1-6
Page 1 of 1

MOAA/VP/CW-T1-6.

Please confirm that in developing the aggregate revenues generated by your rate proposal, you have not considered the impact on ECR volumes caused by your rate proposal. If you cannot confirm, please provide all workpapers supporting the changes in volume caused by your rate proposal.

Response:

Confirmed. Since my rates were designed to produce the same aggregate revenues as the rates proposed by the Postal Service, my analysis assumes that aggregate ECR volumes would not change.

Response of Dr. John Haldi to MOAA/VP/CW-T1-7
Page 1 of 1

MOAA/VP/CW-T1-7.

Please refer to Table A-6 of your testimony.

- (a) Please confirm that the source of the test year after rate volumes is USPS Witness Moeller (USPS-T-36) workpaper 1, page 20. If you cannot confirm, please provide the source of the volumes.
- (b) Please confirm that you utilized the following volumes for ECR letters from Witness Moeller's testimony.

<u>Volume (Pieces)</u>		
<u>Item</u> (1)	<u>High Density</u> (2)	<u>Saturation</u> (3)
1. Total	392,986,000	3,086,387,000
2. BMC	38,040,000	211,268,000
3. SCF	248,831,000	2,029,472,000
4. DDU	<u>66,038,000</u>	<u>470,851,000</u>
5. No destination entry ^{1/}	40,077,000	374,778,000

^{1/} Line 1 minus (Line 2 + Line 3 + Line 4)

If you cannot confirm, please provide the correct volumes.

Response:

- (a) Confirmed.
- (b) Confirmed, except that the saturation mail with no destination entry is 374,796,000 pieces, rather than the 374,778,000 pieces shown in your chart.

See errata containing Table A-6 (revised 2/_/98).

Response of Dr. John Haldi to MOAA/VP/CW-T1-8
Page 1 of 1

MOAA/VP/CW-T1-8.

Please refer to Table A-10 of your testimony.

- (a) Please confirm that the unit shipping costs for high-density mail with no destination entry is based on a volume of 106,048,962 pieces. If you cannot confirm, please provide the correct volume as well as the sources and calculations supporting the volumes.
- (b) Please confirm that the unit shipping costs for saturation mail with no destination entry are based on a volume of 845,176,149 pieces. If you cannot confirm, please provide the correct volume as well as the sources and calculations supporting the volumes.

Response:

- (a) Confirmed for the testimony as filed. However, see errata filed 2/_/98. The volume for high density mail with no destination entry changes to 40,077,000 pieces, but the unit cost in Table A-10 does not change.
- (b) The volume for saturation mail with no destination entry changes to 374,796,000 pieces, but the unit cost in Table A-10 does not change. By way of explanation, the revised (reduced) volume datum in Table A-6 reduces the computed weight in Table A-7, as noted in MOAA/VP/CW-T1-7, and the computed total shipping cost in Table A-9, which leaves the unit cost unchanged.

Response of Dr. John Haldi to MOAA/VP/CW-T1-10
Page 1 of 1

MOAA/VP/CW-T1-10.

Please refer to page 18 and 19 of your testimony. Please provide a detailed explanation of the derivation of the calculations of 11.91 cents per pound, 0.54 cents per pound and 26.50 cents per pound.

Response:

- (a) For the computation of 11.91 cents per pound, see Table A-15. The datum on the first row, \$465,380 (thousand), is computed by multiplying total volume from Table A-6 (19,973,382,000 pieces) by 2.33 cents. The dollars per pound, \$0.1191 on row 3, is the result of dividing \$465,380 (thousand) by the total weight, shown on row 2.
- (b) The computation of 0.54 cents per pound is shown in Table A-17. The adjustment necessary to conform the computed cost of nonletters with CRA costs (\$21,044 thousand) is divided by the total weight of nonletters, 3,892,997,622 pounds (from Table A-7).
- (c) The figure of 26.50 cents per pound for mail with no destination entry is the result of adding 12.57 cents (the contingency-adjusted cost for DDU entry) and 13.93 cents. This latter number is the shipping cost for destination entry (13.79 cents per pound, as shown in Table A-8), times the contingency factor (1.01).

Response of Dr. John Haldi to MOAA/VP/CW-T1-11
Page 1 of 1

MOAA/VP/CW-T1-11.

Please refer to Table A-5 of your testimony. Please confirm that the pounds per piece for automation letters entered at the BMC, SCF and DDU is not known. If you cannot confirm, please provide the average pounds per piece for automation letters entered at the BMC, SCF, and DDU, as well as the sources and calculations supporting your values.

Response:

The Postal Service does not provide any data that would enable the computation of pounds per piece for automation letters entered at BMC, SCF and DDU. For TYAR, witness Moeller provides the volume (pieces) of automation letters by destination entry (see LR-H-202). These volumes are shown in my Table A-6. In computing my Table A-7, I have assumed that these letters have the same average weight as Basic Presort letters (Table A-5) for each corresponding destination entry point.

Response of Dr. John Haldi to MOAA/VP/CW-T1-12
Page 1 of 1

MOAA/VP/CW-T1-12.

On page C-3 in Appendix C of your testimony, you state that the rates “developed for BMC dropship were rounded” in part D of Table C-2.

- a. Please confirm that the “Initial Target Rates” shown in Part C of Table C-2 for no destination entry, SCF and DDU are not utilized in the development of your proposed rates for letters. If you cannot confirm, please explain how the “Initial Target Rates” in Part C of Table C-2 impact your proposed rates.
- b. Please explain why the constructed BMC rates were chosen as the base rates from which the differentials were applied as opposed to the no destination entry, SCF or DDU rates.

Response:

- (a) Confirmed.
- (b) The decision was essentially arbitrary, and the constructed rates for another destination entry point could have been selected for the base rates. The goal was to select base rates that would minimize the necessary adjustment factor that is computed in Table C-3.

Response of Dr. John Haldi to MOAA/VP/CW-T1-13
Page 1 of 1

MOAA/VP/CW-T1-13.

Please provide sources and all workpapers supporting the following values found in Table C-10 of your testimony:

- a. Basic rate of \$0.167 per piece:
- b. Presort discount for high density mail of \$0.017 per piece; and,
- c. Presort discount for saturation mail of \$0.012 per piece.

Response:

- (a) The Basic rate for nonletters with no destination entry was constrained, or "capped," at \$0.167 per piece, for reasons discussed in my testimony; see page 52, lines 5-15.
- (b) and (c) Because the Basic rate was constrained, the presort discounts also had to be constrained; see my testimony, page 52, lines 15-19. The percentage passthroughs of the cost differences between (i) Basic-High Density and (ii) High-Density-Saturation were reduced equally, to 60 percent. The cost differences can be computed from the unit costs shown in Table C-8. For example, in the No Destination Entry column, the cost difference for Basic-High Density is \$0.0283. Similarly, the cost difference for High Density-Saturation is \$0.0195. Sixty percent of each respective figure (rounded), is \$0.017 and \$0.012, respectively.

Response of Dr. John Haldi to NAA/VP/CW-T1-1
Page 1 of 2

NAA/VP/CW-T1-1.

Please refer to page 6, lines 19-21 of your direct testimony where you state that the Postal Service has encouraged VPDMS to delivery point barcode all of its mail.

- (a) Why has the Postal Service encouraged VPDMS to delivery point barcode its mail?
- (b) Is there any advantage to VPDMS in complying with the Postal Service's request to delivery point barcode the mail? If yes, please explain the advantage to VPDMS.

Response:

- (a) It provides the Postal Service with the option of using automation equipment to sort VPDMS letter-shaped mail to carrier route.
- (b) In theory, Val-Pak should get better delivery service by providing the Postal Service with the option to sort its mail on automation equipment. If saturation letters do not have barcodes, the carrier's only options are to take them as a third bundle or else case them manually. If the carrier cannot do either (*e.g.*, the carrier has a heavy load of preferred mail to sort manually and another third bundle which takes precedence), then Standard A may be deferred at the carrier case for a limited period.

In practice, however, events often do not work as they theoretically should. By virtue of having barcoded its mail, Val-Pak has actually experienced extra delay at delivery units which do not have CSBCS equipment. Following is a description of the scenario in which this extra delay occurs. The mail is

Response of Dr. John Haldi to NAA/VP/CW-T1-1**Page 2 of 2**

entered at the SCF and, because it is saturation mail, is sent on to the DDU unopened. After arriving at the DDU, the mail is opened and the mail is found to be barcoded (this may occur the same day it arrives at the DDU or after some deferral). It is then decided to send the mail back to the P&DC for DPS on automation equipment. Since it is Standard A mail, the P&DC may also decide to defer it (the P&DC has no way of knowing that it may have spent 2 to 3 days in transit to the DDU and back). The mail thus winds up being deferred longer and receiving worse service than if it had never been barcoded.

Response of Dr. John Haldi to NAA/VP/CW-T1-3
Page 1 of 1

NAA/VP/CW-T1-3.

Please refer to Table 4 at page 27. Please confirm that automation letters have the highest margins on a "cents per piece" basis. If you cannot confirm this statement, please explain why.

Response:

Confirmed.

Response of Dr. John Haldi to NAA/VP/CW-T1-4
Page 1 of 1

NAA/VP/CW-T1-4.

Please refer to page 34, lines 5-8 and lines 13-17 of your direct testimony. In your opinion, does the "relatively high" availability of alternatives for Standard A ECR mail indicate whether a higher or lower cost coverage than that proposed is appropriate? Please explain your response.

Response:

In my opinion, the "relatively high" availability of alternatives for delivery of Standard A ECR, considered by itself, would indicate that a cost coverage lower than that proposed is appropriate.

Response of Dr. John Haldi to NAA/VP/CW-T1-5
Page 1 of 1

NAA/VP/CW-T1-5.

Please refer to page 47 lines 6-10. Given the higher implicit markup on letters compared to nonletters shown in Table 3 at page 25, please explain why you designed rates so that "no revenue burden is shifted from letters to nonletters, or vice-versa."

Response:

My exercise in developing bottom-up costs, margins, and markups had multiple purposes.

The first purpose was to show that the available data enable the computation of costs, margins and markups for each rate cell. In my opinion, this is a much more straightforward and useful way to evaluate proposed changes in rates. It enables the Commission and participants to see clearly the relationships between costs and proposed rates. Regardless of whether the Commission adopts my proposed rates for Standard A ECR mail, it is my strong desire and hope that the Commission will urge the Postal Service to prepare and present bottom-up costs in future dockets. Toward that end, I did not want to embroil my proposed bottom-up cost methodology in a dispute over the appropriate markup (implicit) on letters and nonletters (sometimes referred to as the "passthrough" of the letter-flat cost differential).

Second, I wanted to focus attention on criteria for determining (implicit) markups on the different presort and destination entry categories within the context of bottom-up rate design; *see* my testimony, Section V, pp. 37-46. It was felt that simultaneously proposing a change in the implicit markup on letters and nonletters would unduly complicate this important issue.

Response of Dr. John Haldi to NAA/VP/CW-T1-6
Page 1 of 1

NAA/VP/CW-T1-6.

Please confirm that if rates are set on a "bottom up" basis with an equal contribution per piece, these rates will equal rates set on a "top down" basis, assuming 100 percent passthrough of all cost savings in the presort and dropship discounts. If you cannot confirm this statement, please provide a numeric example illustrating the difference in "bottom up" rates and "top down" rates.

Response:

Confirmed, for the assumptions stated above.

Response of Dr. John Haldi to NAA/VP/CW-T1-7
Page 1 of 2

NAA/VP/CW-T1-7.

Please refer to Column [1] of Table A-1 at page A-6.

- (a) Please confirm that the figures in this column are derived by Postal Service Witness Daniel (USPS-T-29) based on the total costs for walk-sequenced and non-walk sequenced mail computed in Library Reference H-109 (also submitted by the Postal Service as Exhibit USPS-44A).
- (b) Did you examine the data in Library Reference H-109 to determine whether these cost data are reliable? If so, please describe your examination and provide the results of any such examination.
- (c) Did you examine the data in Library Reference H-109 to determine whether the cost data are applicable to the test year in this rate proceeding? If so, please describe your examination and provide the results of any such examination.
- (d) Is it your understanding that the cost data in Library Reference H-109 are based on an analysis of the IOCS data for the base year? If no, please describe your understanding of the basis for the cost data in Library Reference H-109.
- (e) In Appendix D of your testimony you discuss the difficulties encountered in using IOCS data to measure the effect of weight upon costs. For example, you note the fact that IOCS data do not control for other cost causing characteristics (page D-8) and you state that the data "suffer" from significant variability due to small sample sizes (page D-9). Have you examined the cost data in Library Reference H-109 to determine whether these same or similar difficulties exist. If yes, please describe your examination and provide the results of any such examination.
- (f) If the unit mail processing cost data in Column [1] of Table A-1 prove to be inaccurate, unreliable or not relevant for the test year, would you recommend that the Commission revise your recommended rate schedule? If no, please explain why not. If yes, please explain how the Commission should revise your recommended rate schedule for Standard A ECR mail.

Response of Dr. John Haldi to NAA/VP/CW-T1-7
Page 2 of 2

Response:

- (a) The data are from witness Daniel's Exhibit USPS-29D, as shown in the notes to my Table A-1 at page A-6 of my testimony. Library Reference H-109 is among the references cited by witness Daniel in Exhibit USPS-29D. Witness Daniel does not provide any reference to specific pages, tables, columns or rows from which the data in Exhibit USPS-29D were derived, and I am not in a position to confirm either her specific sources or what she did to derive the data shown in her exhibit. In that respect, it would be better to direct your question to witness Daniel.
- (b) No.
- (c) No.
- (d) In order to develop a response to this question, I have reviewed LR-H-109. It explicitly states that the analysis is based on IOCS tallies. It does not, however, state whether the analysis is based on the complete set of IOCS tallies covering all of Base Year 1996, or for tallies from some subperiod of Base Year 1996, or for some other period.
- (e) No.
- (f) Should the unit mail processing cost data in Column [1] of Table A-1 prove to be inaccurate, unreliable or not relevant for the test year, as your question posits, I would recommend that the Commission follow the methodology developed in my testimony, using the Base Year unit cost data on which it finally decides to rely.

Response of Dr. John Haldi to NAA/VP-CW-T1-8

Page 1 of 1

NAA/VP/CW-T1-8.

You note (p. D-7, fn. 5) that weight and cube may play a highly significant role in the number of containers that enter a facility. Is the Postal Service's cost study of LR-H-182 biased because it ignores the relationship between weight/cube and the costs of handling empty equipment? If so, does this bias overestimate or underestimate the effect of weight on cost? Please explain.

Response:

As your question points out, I have postulated that weight and cube may be significant factors with respect to the number of containers that enter a facility. To the extent that my premise is correct, then a study that ignores the relationship between weight of mail and the costs of handling empty equipment will be biased in the direction of understating costs attributed to weight.

Response of Dr. John Haldi to NAA/VP-CW-T1-9
Page 1 of 1

NAA/VP/CW-T1-9.

Is the Postal Service's cost study LR-H-182 biased because it does not control for destination entry category (DDU, DSCF, DBMC, none)? If so, does this bias overestimate or underestimate the effect of weight on cost? Please explain.

Response:

As my testimony notes, the Postal Service has documented the relationship between weight and costs avoided by virtue of destination entry. For example, mail that is not shipped to any destination entry point, is not highly presorted, and therefore must be taken into a facility to be processed, may incur weight-related costs. It is precisely these costs that a proper weight-cost study should seek to measure. On the other hand, it should also be obvious that mail which is dropshipped directly to a DDU will bypass any intermediate handling and certainly will not incur any intermediate weight-related costs whatsoever (to the extent that such costs exist). The same is true, to a lesser extent, of mail dropshipped to SCFs and BMCs. When tallies of mail dropshipped to destination entry points are treated like any other tallies, with no controls, the likely result will be to understate the weight-cost relationship — unless, of course, one assumes that there are no intermediate handling costs caused by weight and/or cube.

Response of Dr. John Haldi to NAA/VP-CW-T1-10
Page 1 of 1

NAA/VP/CW-T1-10.

The Postal Service's cost study LR-H-182 allocates city carrier street time costs among weight increments using pieces, not weight. To the extent that city carrier street time costs are weight-related, is LR-H-182 is biased? If so, does this bias overestimate or underestimate the effect of weight on cost? Please explain.

Response:

As worded, this question virtually answers itself. To the extent that city carrier street time costs are weight-related, a study that totally ignores any possible causal relationship and treats all city carrier street time costs as piece-related will obviously be biased in the direction of understating weight-related costs. No study can investigate a possible weight-cost relationship when, at the outset, any possible relationship is assumed out of existence. See testimony of witness Bradstreet, AAPS-T-1, pages 33-41, for a discussion of how weight may affect carrier street time costs.

Response of Dr. John Haldi to NAA/VP-CW-T1-11
Page 1 of 1

NAA/VP/CW-T1-11.

Approximately 60% of Cost Segment 7 is not attributed.

- (a) Are all of the institutional costs in Cost Segment 7 non-volume-variable? If not, please explain how much is volume variable and why.
- (b) If all of the volume disappeared from the system, what portion of these Cost Segment 7 institutional costs would remain? Please explain.

Response:

- (a) I have not testified about the volume variability of cost segment 7. It is my understanding that non-volume variable costs have traditionally been treated as institutional costs in proceedings before the Commission.
- (b) I do not fully comprehend the question. The study in LR-H-182 pertains to the effect of weight on bulk mail. If the question is intended to ask what would happen if all bulk mail volume disappeared from the system, I would not expect any diminution in the institutional costs of Cost Segment 7. Alternatively, if the question concerns what would happen if all mail volume — First-Class, periodicals, bulk mail, etc. — disappeared entirely, my response to this rather extreme hypothetical is that I would expect the Postal Service to fold up its tent and ride off into the sunset.

Response of Dr. John Haldi to USPS/VP-CW-T1-1
Page 1 of 2

USPS/VP-CW-T1-1.

Please refer to page 12 of your testimony. You state, "In the present docket, the cost models for Standard A mail have further refined through, for example, explicit attention to certain costs which were not modeled previously in Docket No. MC95-1. As a result of the more detailed cost information provided by the Postal Service in Docket No. MC95-1 and in this docket, it is now possible for the first time to develop bottom up estimates of volume-variable unit costs for each rate cell within the Standard A ECR subclass."

- a. Is the first sentence of your statement intended to refer to models for Standard Regular or Standard ECR, or both subclasses?
- b. If the first sentence is intended to refer to Standard ECR, what costs in Standard ECR are presented through models? Please provide citations.
- c. To what refinements does your statement refer? Please provide citations to testimony or analyses.
- d. What information was lacking that made it impossible, prior to this docket, to develop bottom up cost estimates? Please explain.
- e. Please confirm that, prior to this docket, the Postal Service presented separate unit delivery costs for Standard (A) ECR subclass categories, including ECR Basic, High Density, and Saturation.
- f. Please confirm that delivery costs make up the largest share of total volume variable ECR estimated costs. If not confirmed, please explain.

Response:

a., b. and c.

The further refinements refer to certain mail processing costs that were referred to in Docket No. MC95-1 as "non-model costs." These refinements were applicable to both Standard Regular and Standard ECR, hence my statement could apply to both, although my testimony only deals with Standard A ECR mail.

Response of Dr. John Haldi to USPS/VP-CW-T1-1**Page 2 of 2**

- d. Bottom-up unit cost estimates were presented in Docket No. MC95-1, but the bottom-up estimates of mail processing costs contained a significant portion of non-model costs, which have now been the subject of testimony by Postal Service cost witnesses.
- e. Confirmed.
- f. Confirmed.

Response of Dr. John Haldi to USPS/VP-CW-T1-2
Page 1 of 1

USPS/VP-CW-T1-2.

Please refer to page 12 of your testimony at lines 11-13. You state that "[b]ottom up costs for Standard A Mail have therefore been developed separately for letters and nonletters."

- a. Does your statement apply only to Standard (A) ECR subclass mail?
Please explain your Response.
- b. Is your statement intended to convey that the Postal Service has developed bottom up costs for Standard A Mail, or that you have developed them for Standard A Mail, or both? Please explain your Response.

Response:

- a. Yes. See my testimony, VP/CW-T-1.
- b. The statement is intended to apply only to my testimony, and only to Standard A ECR Mail.

Response of Dr. John Haldi to USPS/VP-CW-T1-3
Page 1 of 1

USPS/VP-CW-T1-3.

Please refer to your testimony at page 13, lines 5-6. You state, "[e]ach rate cell is thought of, appropriately, as a separate product." Are you aware of other contexts in which the Commission has endorsed the idea within any Standard (A) subclass that rate cells within the subclass are separate products? If so, please provide citations.

Response:

I am aware of prior occasions when the Commission has directed its attention to specific rate categories within a subclass and reduced the size of rate increases for those selected rate categories so as to avoid "rate shock." *See, e.g.,* the Commission's actions to avoid "unacceptably large" (*see e.g.,* Docket No. MC95-1, para. 5648) and "unreasonably large" (*Id.*, para. 5654) rate increases regarding Standard Mail A flats.

Response of Dr. John Haldi to USPS/VP-CW-T1-4
Page 1 of 1

USPS/VP-CW-T1-4.

Please refer to your testimony at page 17, footnote 14. Please reconcile the statement that the final adjustment for nonletters was treated as weight related, as was done with letters, with the statement on page 14, lines 13-14, that the costs for letters were adjusted on a per-piece basis.

Response:

Footnote 14 on page 17 was in error. It should have read as follows:

The small final adjustment to conform to total CRA costs for nonletters is treated as weight-related.

This change was made in the errata filed 2/11/98.

Response of Dr. John Haldi to USPS/VP-CW-T1-5
Page 1 of 1

USPS/VP-CW-T1-5.

Please refer to your testimony at page 18, line 7. Please show the derivation of the 220 percent figure.

Response:

See Table 3, page 25, column indicated as "Nonletters." (Coverage = markup + 100 percent).

Response of Dr. John Haldi to USPS/VP-CW-T1-6
Page 1 of 2

USPS/VP-CW-T1-6.

Please refer to your testimony at page 18, lines 7-12. You state, "[u]sing witness Daniel's per-piece data for mail processing, delivery, transportation, and other costs, the unit cost for a Saturation letter would be 3.8527 cents per piece. Shifting 2.33 cents of this amount to weight-related cost leaves a piece-related cost of 1.5227 cents which, when multiplied by a slightly-reduced coverage of 210 percent, results in 3.2 cents, which is the same as witness Moeller's proposed rate."

- a. Why do you use the cost of saturation letters rather than nonletters when determining the shift to weight related costs?
- b. Why did you limit the shift such that the resulting cost coverage was 210 percent rather than 220 percent?

Response:

- a. The purpose of the exercise is to determine the unit cost of nonletters after making an arbitrary assumption about weight. That is, the unit cost of saturation nonletters was not known, and could not be known, until an assumption was made concerning how much cost to shift from pieces to weight. The unit cost for letters was available, and was therefore used as a benchmark.
- b. Mathematically, 210 percent times 1.5227 cents equals 3.2 cents (rounded). Perhaps I should have added that 210 percent is close to the coverage of 220 percent for nonletters that is implicit in witness Moeller's rate design. Alternatively, I might have said that 220 percent, witness Moeller's implicit coverage for nonletters, times 1.5227 cents equals 3.35 cents, which is just slightly more than witness Moeller's proposed rate of 3.2 cents per piece for nonletters

Response of Dr. John Haldi to USPS/VP-CW-T1-6
Page 2 of 2

above the breakpoint.

The point that I was endeavoring to make was that shifting 2.33 cents per piece to the pound rate gave results that were very much in the ballpark of witness Moeller's rate design, assuming that witness Moeller would apply the same markup to weight-related costs, if those costs were known with any certainty. Note that witness Moeller's testimony did not address the issue of the extent to which weight-related costs were, or ought to be, marked up.

Response of Dr. John Haldi to USPS/VP-CW-T1-7
Page 1 of 1

USPS/VP-CW-T1-7.

Please show the derivation of the 11.91 cent figure in line 14 of page 18 of your testimony.

Response:

See Appendix A, Table A-15, page A-22.

Response of Dr. John Haldi to USPS/VP-CW-T1-8
Page 1 of 1

USPS/VP-CW-T1-8.

Please refer to page 18 lines 14-17. You state, "[t]reating 'other' costs as pound-related further increases the weight-related cost for mail entered at DDU's by another 0.54 cents per pound, to 12.45 cents per pound."

- a. What reasons support treating "other" costs as pound-related?
- b. What reasons support treating "other" costs as piece-related?

Response:

a. and b.

The computation of "other" costs is shown in Table A-17, page A-24. The "other" costs are essentially a residual that arises from rounding. These residual costs, which arise from the pound-rated adjustment, are pro-rated among piece-rated and pound-rated non-letters on the basis of the total weight of each respective group. For piece-rated pieces, the aggregate amount of this adjustment is translated into a per-piece adjustment, as shown in Table A-17. For pound-rated pieces (*i.e.*, pieces whose weight exceeds the breakpoint), the adjustment was made to the pound rate, as discussed in the text cited in your question.

As discussed in my testimony, since the Postal Service has again failed to produce a reliable study that shows that effect of weight on cost, any decision to treat the small residual as pound-related or piece-related is somewhat arbitrary. Since Case I was designated as assuming "moderately high" weight-related costs, it was decided to allocate the residual on the basis of weight instead of pieces.

Response of Dr. John Haldi to USPS/VP-CW-T1-9
Page 1 of 1

USPS/VP-CW-T1-9.

Please refer to your testimony at page 21, lines 12-14. You state, “[m]ailers who enter mail in only one or two rate cells are more concerned with the coverage assigned to the rates which they use, than with the average coverage for the subclass as a whole.” In previous rate dockets, have cost coverages been explicitly “assigned” to rate categories in Standard (A), as opposed to subclasses in Standard (A), either through Postal Service proposed rates or through Commission recommended decisions? Please explain your Response:.

Response:

No. Neither the Postal Service nor the Commission explicitly has assigned cost coverages to rate categories in Standard A, nor has either even stated the implicit cost coverages for most rate categories. Moreover, the top-down procedure has often made it extremely difficult to estimate the unit cost, margin and markup or cost coverage that is implicit for each rate category.

In further response to your question, it is worth noting that, while the Postal Service does not explicitly address cost coverage for individual rate categories in Standard A, it nevertheless invokes the cost coverage criteria in 39 U.S.C. Section 3622(b) to support rate proposals that affect only rate categories, not entire subclasses in Standard A. For further discussion on this point, see pages 22-23 of my testimony, VP/CW-T-1.

Response of Dr. John Haldi to USPS/VP-CW-T1-10
Page 1 of 1

USPS/VP-CW-T1-10.

Please refer to your testimony at page 25, Table 3. Please provide the margins and markups for flats and non-flats separately in the Nonletter grouping.

Response:

My testimony concerning bottom-up costs for Standard A ECR Mail does not develop costs for flats and non-flats separately. Consequently, it does not provide the necessary basis for computing separate margins and markups for ECR flats and non-flats.

Response of Dr. John Haldi to USPS/VP-CW-T1-11
Page 1 of 2

USPS/VP-CW-T1-11.

Please refer to your testimony at page 28, lines 8-9. You state, "[s]aturation mail is also the ECR mail which is most susceptible to diversion to alternative methods of delivery."

- a. Please describe or provide the facts or other information that you considered in drawing this conclusion.
- b. To what types of alternative methods of delivery does your statement refer?
- c. How should the Commission evaluate this information in terms of criterion 3622(b)(4)? Please explain.
- d. How should the Commission evaluate this information in terms of criterion 3622(b)(5)? Please explain.

Response:

- a. Alternate delivery companies need sufficient density in order to cover a route economically. As stated by witness Bradstreet (AAPS-T-1, page 5): "By far the majority of items delivered by AAPS members would qualify as saturation or near saturation Standard A flats." Also see the testimony of witness Buckel on behalf of the Saturation Mail Coalition (SMC-T-1), who states (page 4) that "a number [of its members] also distribute a portion of their circulations via private delivery."
- b. The statement refers to all alternative methods of delivering hard copy advertising material, especially to residences. This includes newspaper inserts as well as alternate delivery companies and firms that distribute their own advertising material.

Response of Dr. John Haldi to USPS/VP-CW-T1-11
Page 2 of 2

- c. Criterion 3622 (b)(4) provides for consideration of the effect of rate increases on both mailers and private sector competitors of the Postal Service. The Commission needs to examine the effect of proposed rate increases on competitors and consider whether proposed rates would constitute unfair competition. Within the context of a bottom-up approach to developing costs and rates, unfair competition would include imposing a disproportionately high markup and margin on sortation and transportation services while charging a comparatively low markup and margin on delivery service. The bottom-up approach makes markups and margins explicit, as shown in my testimony. By comparing the markup and margin on mail that essentially receives only delivery service (*e.g.*, saturation mail entered at DDU) with the markup and margin when the mailer buys additional sortation and transportation from the Postal Service, one can compare margins and markups objectively to determine whether delivery is being priced artificially low.
- d. Criterion 3622 (b)(5) considers the availability, at reasonable cost of alternate means of sending and receiving letters and other mail matter. In prior cases, this criterion has led the Commission to temper rate increases for subclasses of mail subject to either a statutory or *de facto* monopoly. The fact that more alternatives are available for ECR mail than other subclasses would indicate that this criterion may be of less weight when applied to the ECR subclass than when considered with respect to other subclasses.

Response of Dr. John Haldi to USPS/VP-CW-T1-12
Page 1 of 3

USPS/VP-CW-T1-12.

Please refer to page 35, lines 12-14. You state, "[i]f the Commission finds itself unable to reduce the ECR coverage factor in this docket, a decision with which I would disagree, this makes it all the more important to ensure that the high coverage level is shared reasonably by mail within the Subclass."

- a. What reasons would you offer in favor of a lower ECR cost coverage?
- b. Does your reference to sharing the "high coverage level" "reasonably" intended to be an endorsement of any particular pricing strategy, such as equal markups or Ramsey pricing? Please explain your response.

Response:

- a. See my testimony, page 34. The reasons cited by witness O'Hara, USPS-T-30, strike me as compelling. With specific reference to value of service, witness O'Hara does not take account of actual delivery performance. Unfortunately, no reliable performance data are available for ECR mail. In view of the fact that ECR mail enjoys a high degree of mailer preparation (*e.g.*, is presorted to the carrier's walk sequence or line of travel), and the vast majority of it is dropshipped to destinating facilities, one might *a fortiori* think that such mail receives fairly consistent delivery service. It is my impression, however, that delivery can be and has been unpredictably inconsistent; thereby reducing the value of service.
- b. Postal rates are now set through a two-step process. First, the criteria contained in Section 3622(b) of the Postal Reorganization Act are applied to each subclass to determine, for the subclass as a whole, a coverage level and target contribution to

Response of Dr. John Haldi to USPS/VP-CW-T1-12
Page 2 of 3

institutional cost. Second, within each subclass specific rates are designed to meet the coverage level and target contribution established in step one. The sentence referred to in your question alludes to both steps of the rate-setting process. Let me address each, *seriatim*.

First, with respect to establishing the coverage and target contribution level for each subclass, no, I do not endorse rote application of either equal markup or Ramsey pricing. It is my lay opinion that the Commission has no alternative but to apply all the criteria contained in Section 3622(b) of the Act to each subclass, as it has in each prior rate case.

With respect to rate design within subclasses, my direct answer to your question again is an unequivocal no, I do not endorse any particular pricing strategy such as equal markups or Ramsey pricing. The preliminary issue that needs to be addressed, in my opinion, is whether the criteria of Section 3622(b) have any meaningful application to assessing rates charged to rate categories within subclasses. The Commission has repeatedly held that they do not so apply, yet the Postal Service and the Commission both have applied the criteria to rate categories on an ad hoc basis (see pages 22-23 of my testimony, for examples). At page 46 of my testimony I advocate that the Commission reconsider its position and apply all the criteria in section 3622(b) to the rate design within each subclass.

Should the Commission nevertheless determine that the criteria in section 3622(b) are wholly inapplicable to rate design within categories, then the Commission (and

Response of Dr. John Haldi to USPS/VP-CW-T1-12
Page 3 of 3

the Postal Service) need some other criteria and methodology for determining individual rates within subclasses. In this event, I advocate that the Commission apply both the target markup and target margin approaches (discussed in my testimony at pages 40-43), but remain eclectic and not commit itself to either. In each case the Commission should weigh factors that favor each approach, and determine an appropriate balance. The underlying factors, such as competitiveness of alternate delivery, will evolve and change over time, and they need to be reevaluated periodically. In this docket I have proposed what I consider to be an appropriate mix for conditions as they exist at this time.

Response of Dr. John Haldi to USPS/VP-CW-T1-13
Page 1 of 1

USPS/VP-CW-T1-13.

Please refer to pages 35-36. You state, "[s]hould the Commission decide to adopt the ECR coverage at the 228 percent level proposed by the Postal Service, that makes it all the more necessary for the Commission to utilize a bottom up costing method which deliberately and thoughtfully sets mark-ups that do not excessively burden saturation mail." If the Commission does not adopt a "bottom up" costing approach, can it still set rates within the ECR subclass which "deliberately and thoughtfully" avoid imposing an excessive burden on saturation mail? If so, how?

Response:

Theoretically, the Commission can recommend whatever rates it considers appropriate.

However, within the methodological framework employed by the Commission, which is based on the efficient component pricing theory (and its implicit assumption of complete monopoly over delivery service), it may find itself constrained by its own methodology.

The bottom-up approach does not incorporate any assumption about the degree of monopoly enjoyed by the Postal Service in the delivery function, but leaves that issue as an open, empirical issue to be analyzed in each rate case as events unfold. Should the Postal Service find itself faced with increasing competition for delivery service, it also may find that the efficient component pricing methodology is unduly constraining. The efficient component pricing methodology rationalizes allowing incumbent monopolists to extract maximum economic rent from their monopoly. Should conditions change, however, and the efficient component pricing methodology become frozen by precedent, it could turn out to be an albatross.

Response of Dr. John Haldi to USPS/VP-CW-T1-14
Page 1 of 2

USPS/VP-CW-T1-14.

Please refer to page 39 lines 10-12. You state, “[a]t a minimum, the Commission should strive for rates that do not produce grossly inconsistent results between different rate categories and cells within subclasses.”

- a. To what does your reference to “inconsistent results” refer? What results are inconsistent?
- b. Is your statement intended to imply that you have adopted a particular pricing approach, such as equal markups or Ramsey pricing, in the context of comparing rates within a subclass?
- c. To what extent are your proposed rates inconsistent as the term is defined in subpart (a)?
- d. To what extent are your proposed rates inconsistent with the concept of an equal markup pricing theory?

Response:

- a. My dictionary defines “inconsistent” as, *inter alia*, lacking in harmony between the different parts or elements; at variance; not consistent in principles; acting at variance with professed principles.

Within the context of the discussion where the above-quoted phrase occurs, an example of inconsistent results would involve (i) espousing principles of cost-based rates, while (ii) pricing recognized rate categories below cost, and cross-subsidizing those rate categories by imposing additional markups on other recognized rate categories within the subclass. When cost and rate design is viewed from the bottom up, another example of an inconsistent result would be (i) a rate design that implicitly charges some recognized rate categories less than

Response of Dr. John Haldi to USPS/VP-CW-T1-14
Page 2 of 2

volume variable cost for sortation and transportation services provided by the Postal Service, which form the very basis for establishment of the rate categories, while (ii) expressing concern that some mailpieces not even recognized as a rate category are priced below cost. For further discussion, see my testimony, VP/CW-T-1, page 53.

- b. No.
- c. None of my rates reflect below-cost pricing of any services offered by the Postal Service.
- d. I assume that you are using the term "markup" as defined in my testimony; at page 24; namely, as the *percentage* increment over cost. As indicated at page 49 of my testimony, my proposed rates embody a *percentage* markup over cost of only 10 percent, thus they are somewhat removed from an equal markup. Please note that my proposed rates are fully consistent with my analysis that (i) the Postal Service has some competition for delivery of advertising material, and (ii) it is not faced with "perfect competition" for sortation and transportation services, hence it enjoys some latitude with respect to the pricing of these services.

Response of Dr. John Haldi to USPS/VP-CW-T1-15
Page 1 of 1

USPS/VP-CW-T1-15.

Please refer to page 52 of your testimony. You state, "[t]he presort rate differences in Table 6 reflect 60 percent of the presort cost difference; *i.e.*, only 60 percent of the cost of sortation is passed through in the rates." Did you intend to pass through 60 percent of *the cost of sortation*, or did you intend to pass through 60 percent of *presort cost differential*? Please explain.

Response:

The intent was to set rate differentials equal to 60 percent of the presort cost differential.

Also see my response to MOAA/VP/CW-T1-13.

Response of Dr. John Haldi to USPS/VP-CW-T1-16
Page 1 of 1

USPS/VP-CW-T1-16.

Please refer to your testimony at page A-8 Table A-1. Please confirm that footnote [1] should refer to Exhibit USPS-29C instead of Exhibit USPS-29D.

Response:

Confirmed.

Response of Dr. John Haldi to USPS/VP-CW-T1-17
Page 1 of 2

USPS/VP-CW-T1-17.

Please refer to your testimony at page A-8, Table A-1.

- a. Please provide your calculations of "Other" costs in column [4].
- b. Please provide citations for each of the inputs used in the calculation of the figures in column [4].
- c. Please explain why you chose to use CRA After Rates costs.
- d. Please explain if you used Before Rates or After Rates piggyback factors. If you used Before Rates piggyback factors, please explain why you believe it is appropriate to mix these piggyback factors with CRA After Rates costs.

Response:

- a. The unit cost shown under "Other," 0.4519 cents, is the result of dividing \$129,647 (000) by TYAR volume of 28,686,182 (000).
- b. The TYAR volume is contained in Table A-6, page A-13. We are unable to locate the work which developed the figure of \$129,647 (000) at this time, and will supplement this response after we locate it.
- c. First, the intent was to develop after rates unit costs that could be used for rate design. Second, to the maximum extent feasible, I wanted the testimony to be self-contained. The after rates volume appear in Table A-6, but the before rates volume was not needed or used in the preparation of my testimony.

Response of Dr. John Haldi to USPS/VP-CW-T1-17
Page 2 of 2

- d. We used the same piggy back factors as those used by witness Daniels Exhibit USPS-29C, p. 6. Questions relating to those piggyback factors are better directed to witness Daniels. Note that witness Daniels' footnotes simply refer to LR-H-77, without any further specification as to where her piggyback factors can be found within that rather lengthy document. In LR-H-77, the piggyback factor for ECR mail processing cost at p. 41, line 17 is simply referred to at the head of the page as "Test Year," with no designation as to whether the piggyback factors shown are before or after rates. A similar comment pertains to the city delivery carrier piggyback at p. 87, line 17, and the rural carrier piggyback at p. 138, line 17.

Response of Dr. John Haldi to USPS/VP-CW-T1-18
Page 1 of 1

USPS/VP-CW-T1-18.

Please refer page A-10, Table A-3 in your testimony.

- a. Please confirm that the source of the data is USPS LR-H-145.
- b. Please confirm the number of pieces reported for ECR Basic Automation letters (336,502,422) in USPS LR-H-145 is already included in the figure reported for Basic letters (2,262,380,553).
- c. Please confirm that including the 336,502,422 ECR Basic Automation letters in the 2,979,232,871 figure results in double counting. If you cannot confirm, please explain why the total number of pieces for Standard A Enhanced Carrier Route reported on page A-10 of your testimony is 336,502,422 pieces greater than the same total found on page G-2 of USPS LR-H-145.

Response:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed. This change does not affect any subsequent computation of costs, rates, volumes, or revenues, however.

Response of Dr. John Haldi to USPS/VP-CW-T1-19
Page 1 of 1

USPS/VP-CW-T1-19.

Please refer to your testimony page A-11, Table A-4.

- a. Please confirm that the source of the data is USPS LR-H-145.
- b. Please confirm the number of pounds reported for ECR Basic Automation letters (17,119,401) in USPS LR-H-145 is already included in the figure reported for Basic letters (104,880,958).
- c. Please confirm that including the 17,119,401 pounds assigned to Basic Automation letters in the 104,880,958 total results in double counting. If you cannot confirm, please explain why the total number of pounds for Standard A Enhanced Carrier Route reported on page A-10 of your testimony is 17,119,401 pounds greater than the same total found on page G-2 of USPS LR-H-145.

Response:

- a. Confirmed.
- b. Confirmed.
- c. Confirmed. This change does not affect any subsequent computations of costs, rates, volumes, or revenues, however.

Response of Dr. John Haldi to USPS/VP-CW-T1-20
Page 1 of 1

USPS/VP-CW-T1-20.

Please refer to page A-14, Table A-7 of your testimony. Please explain how you calculated costs for automated letters dropshipped to BMC, SCF, and DDU. Please give exact citations for each figure used in your calculations, including page and column number.

Response:

Table A-7 at page A-14 pertains to weight, not costs. The following answer presumes that you intended to inquire how weights shown for automation letters were computed. The volumes for automated letters, shown in Table A-6 (page A-13), were multiplied by the respective unit weight for Basic letters, shown in Table A-5 (page A-12). For example, the weight for BMC letters is equal to

856,221,000	pieces	(Table A-6)
x .0815171811	lbs/piece	(Table A-5, rounded)
69,796,722	pounds	(Table A-7)

Response of Dr. John Haldi to USPS/VP-CW-T1-21
Page 1 of 2

USPS/VP-CW-T1-21.

Please refer to page 11 of your testimony. You state that "theoretically it should be possible to estimate that the average unit cost either from top down or from the bottom up."

- a. Please confirm that although it may be theoretically possible to estimate the average unit cost from either a top down or a bottom up analysis, it may not be realistically possible if every element of costs was not known.
- b. Please confirm CRA does not track the cost of ECR pieces by entry point because there are no unique dropship endorsements for IOCS to tally.

Response:

- a. Not confirmed, since the reference is to ESTIMATED average unit cost, as opposed to ACTUAL unit cost. In Docket No. MC95-1, the Commission estimated average unit costs for Standard A Mail even though the mail processing costs contained a significant portion of non-model costs about which very little was known. In each rate case, the Postal Service estimates average unit cost for Standard A Mail using such data as are available, plus various estimating techniques. I would also note, however, that the results of any estimation are no better than the data used. If the data are thin, shaky and unreliable, the resulting estimates of unit cost will be no better. Nor does aggregating a number of unreliable components to arrive at an estimate for total unit cost necessarily make the aggregate more reliable. That said, it is my opinion that bottom-up costing would improve cost estimation for ECR Mail.

Response of Dr. John Haldi to USPS/VP-CW-T1-21
Page 2 of 2

- b. Confirmed. The Postal Service uses a model, described in LR-H-111, to estimate the costs avoided by virtue of destination entry. This is one of the various estimating techniques referred to in response a. above.

Response of Dr. John Haldi to USPS/VP-CW-T1-22
Page 1 of 1

USPS/VP-CW-T1-22.

Please refer to page A-19 Table A-12, and page A-24 Table A-17, of your testimony.

- a. Please confirm that, despite the identification of the \$491,006 figure on page A-19 as a "CRA After Rates Total Cost for Letters," this figure is not reported in the CRA or USPS-T-15I.
- b. Please confirm that, despite the identification of the 1,375,766 figure as "TYAR CRA Total for Nonletters," this figure is not reported in the CRA or the USPS-T-15I.
- c. Please confirm that the sum of the figures in subparts (a) and (b) do not equal the total adjusted volume variable costs of ECR Standard A mail reported in USPS-T-15I.

Response:

- a. Confirmed. This number is computed in Table A-2, page A-9, and reconciled to the total volume variable cost for Standard A ECR Mail shown in USPS-T-15I.
- b. Confirmed. This number is computed in Table A-2, page A-9, and reconciled to the total volume variable cost for Standard A ECR Mail shown in USPS-T-15I.
- c. Confirmed. The sum of the figures in subparts (a) and (b), which are shown in my Table A-2, exceed the total reported in USPS-T-15I by \$57,000, or 0.003 percent, which difference was presumed to be due to rounding of unit costs to four decimals (in cents). The reference to "CRA" may inadvertently be used as a shorthand reference to witness Patelunas Exhibit USPS-T-15I.

Response of Dr. John Haldi to USPS/VP-CW-T1-23
Page 1 of 1

USPS/VP-CW-T1-23.

If one were to employ a "bottom-up" rate design in the Regular Subclass, would the resulting rate for residual shape pieces (that is, pieces which are subject to the residual shape surcharge under the Postal Service's proposal) be higher or lower than the USPS-proposed rates? Do you advocate bottom-up costing and rate design in the Regular subclass?

Response:

I have not testified concerning bottom-up costing and rate design in the regular subclass. I did not develop bottom-up costs and rates for the Regular Subclass, hence my data do not enable or support analysis of any rate cell or rate category, within the regular subclass. I would only add that the bottom-up approach to rate design does not dictate or require any specific result with respect to rates. As one example, any specific rate may be "capped" or set to a specific amount, if desired. The bottom-up approach does, however, make explicit the relationship between rates and unit costs.

Response of Dr. John Haldi to USPS/VP-CW-T1-24
Page 1 of 1

USPS/VP-CW-T1-24.

Please see your testimony at page 7, lines 11-14, where you discuss the characteristics of VPDMS' mail.

- a. Is this mail generally lighter than 3.3 ounces? If not, what is the average weight per piece?
- b. Is the current rate paid by the 98 percent of VPDMS' mail described in this passage of your testimony 11.5 cents? If not, what rate does this mail pay?
- c. Is the proposed rate for this mail 11.6 cents, an increase of less than 1 percent? If not, what is the proposed rate and the proposed percentage increase?

Response:

- a. Yes.
- b. Yes.
- c. Yes.

Response of Dr. John Haldi to USPS/VP-CW-T1-25
Page 1 of 1

USPS/VP-CW-T1-25.

On page D-5 of your testimony you state "After use, the empty containers will have to be moved".

- a. Does this statement imply that you believe the costs of removing empty equipment should be borne by the classes of mail that cause those containers to arrive in the place from which they are being removed?
- b. Do you believe that IOCS observations of equipment when full in a particular operation provides a good indication of the classes of mail that cause empty equipment to need to be removed from a particular operation?

Response:

- a. Yes, to the extent possible.
- b. No.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for Witness Haldi?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross-examination. Two parties have requested oral
6 cross-examination of this witness, ADVO, Inc., and the Mail
7 Order Association of America.

8 Does any other party wish to cross-examine?

9 [No response.]

10 CHAIRMAN GLEIMAN: Mr. McLaughlin?

11 MR. McLAUGHLIN: Mr. Chairman, our intended
12 cross-examination dealt with the issues that have been
13 covered by Dr. Haldi's errata today, and with those errata
14 we have no questions.

15 CHAIRMAN GLEIMAN: That brings us to the Mail
16 Order Association of America, and unless my eyes deceive me,
17 MOAA is a no-show this morning, which I assume means that
18 their concerns have been satisfied likewise.

19 Any questions from the bench?

20 [No response.]

21 CHAIRMAN GLEIMAN: Would you like some time with
22 your witness for redirect, Mr. Olson?

23 [Laughter.]

24 CHAIRMAN GLEIMAN: Well, Dr. Haldi, the
25 appearances -- your appearances here seem to be getting

1 shorter -- more frequent, but shorter in duration. I guess
2 we get to see you one more time at least in this round.

3 In any event, I want to thank you yet again. We
4 appreciate your appearance here today and your contributions
5 to our record.

6 If there's nothing further, you're excused for the
7 day, and we will see you next week wearing which hat is
8 that? A different one.

9 THE WITNESS: I believe the Alliance of Nonprofit
10 Mailers in response to POIR 13, Mr. Chairman.

11 CHAIRMAN GLEIMAN: Thank you.

12 THE WITNESS: Thank you, sir.

13 [Witness excused.]

14 CHAIRMAN GLEIMAN: That brings us to our last
15 witness of the day. I thought for sure we were going to see
16 Mr. Volner today.

17 MR. WIGGINS: Out of luck again, Mr. Chairman.

18 CHAIRMAN GLEIMAN: But I just want you to know
19 that it's not that we would prefer to see him to you, it's
20 just that there's been a lot of communications with him
21 regarding this witness' appearance.

22 If you could please identify your witness.

23 MR. WIGGINS: The Advertising Mail Marketing
24 Association, Mr. Chairman, calls Joseph E. Schick.
25 Whereupon,

1 JOSEPH E. SCHICK,
2 a witness, was called for examination by counsel for the
3 Advertising Mail Marketing Association and, having been
4 first duly sworn, was examined and testified as follows:

5 CHAIRMAN GLEIMAN: Counsel, if you could proceed
6 to introduce his testimony.

7 DIRECT EXAMINATION

8 BY MR. WIGGINS:

9 Q Mr. Schick, you have in front of you a document
10 captioned AMMA-T-1, Direct Testimony of Joseph E. Schick on
11 behalf of the Advertising Mail Marketing Association. Was
12 that testimony prepared under your direction?

13 A It was.

14 Q Do you have any corrections to it?

15 A Yes, I do. On page 6, line 16, the letter "a" or
16 the word "a" should be inserted between "to" and "level" and
17 we should add an "s" to make "approximate" plural.

18 Q So that that line would now read "differential to
19 a level which closely approximates the current
20 differential".

21 Is that correct?

22 A Correct.

23 Q And if you were to testify today on the subjects
24 covered by this written testimony, would your testimony
25 under oath here be the same?

1 A It would.

2 MR. WIGGINS: Mr. Chairman, I'm going to hand to
3 the reporter two copies of the testimony that have been
4 marked to reflect those corrections, and I ask that they be
5 admitted into the record.

6 CHAIRMAN GLEIMAN: Are there any objections?

7 Hearing none, Mr. Schick's testimony and exhibits
8 are received into evidence, and I direct that they be
9 transcribed into the record at this point.

10 [Direct Testimony and Exhibits of
11 Joseph E. Schick, AMMA-T-1, was
12 received into evidence and
13 transcribed into the record.]

14

15

16

17

18

19

20

21

22

23

24

25

AMMA T-1

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268**

Postal Rate and Fee Changes, 1997)

Docket No. R97-1

Direct Testimony
of
JOSEPH E. SCHICK

On Behalf Of

ADVERTISING MAIL MARKETING ASSOCIATION

Communications with respect to this document may be sent to:

Ian D. Volner, Esquire
N. Frank Wiggins, Esq.
Venable, Baetjer, Howard & Civiletti, L.L.P.
1201 New York Avenue, N.W.
Suite 1000
Washington, D.C. 20005

Due Date: December 30, 1997

TESTIMONY OF JOSEPH E. SCHICK**Purpose**

My name is Joseph E. Schick. I submit this testimony in support of the proposal advanced by the Advertising Mail Marketing Association ("AMMA") concerning the BMC and SCF drop entry discounts for Standard (A) mail. The purpose of my testimony is to show why, in the real world, a readjustment that closely approximates the existing differential between the SCF drop entry discount and the BMC drop entry discount will not only serve the interests of mailers, but also of the Postal Service and all users of the postal system. In separate testimony of its economic consultant, the AMMA has shown how the readjustment of these two discounts should be carried out and why, as a matter of economic theory, this readjustment is proper.

Autobiographical Sketch

I am the Manager of Postal Affairs at Quad/Graphics, Inc. headquartered in West Allis, Wisconsin. Quad is one of the largest printing and distribution companies for magazines, books, and parcels and for catalogs and other direct mail marketing materials. I have over 12 years of experience in postal affairs, and have been employed in my present position since 1990. I have served on numerous Mailer Technical Advisory Committee and informal industry working groups. I am presently Industry Vice-Chair of MTAC.

1 **Why the BMC/SCF Discount Differential is Important in the Real World**

2 Simply put, the differential in the discounts offered for BMC and SCF drop entry
3 strongly influences the decision whether it is worthwhile for mailers to drop enter at
4 destination SCFs, or whether they should simply enter their mailings at the BMC. The
5 "BMC/SCF discount differential" is the difference between the BMC destination entry
6 and the SCF entry discount. For example, at current rates, Standard (A) automation
7 letters presorted to the three digit level and drop entered at a destination BMC pays 16.2
8 cents per piece, whereas the same mail drop entered at a destination SCF pays a rate of
9 15.7 cents per piece. Thus, the BMC/SCF differential is .5 cents at current rates. This .5
10 cent differential between the BMC and SCF discounts is preserved throughout the rate
11 schedule for both Regular and ECR Standard (A) mail.

12 The rates proposed in this case, however, result in a change in the BMC/SCF
13 differential. Using the same example as before, the proposed rate for automation letters
14 sorted to the three digit level and entered at a destination BMC is 16.3 cents per piece,
15 whereas the same mail entered at a destination SCF is 16.0 cents. Thus, under the
16 proposed rates, the BMC/SCF discount differential would decrease from .5 to .3 cents,
17 and this differential, too, is preserved throughout the schedule.

18 On its face, the change in the differential between the two discounts may seem
19 small, only 2/10 of a cent. However, in the real world, direct mail marketers and mail
20 service providers measure costs and cost savings on the total size of a mailing. The
21 adjustment from a .5 to a .3 cent differential translates to \$2 per thousand. Thus, on a
22 moderately sized mailing of one million pieces, the savings that a mailer could realize by
23 entering its mail at a destination SCF rather than entering the same mailing at a BMC is

1 reduced, under the proposed rates, by \$2,000, per mailing. The change in the BMC/SCF
2 drop entry discount differential proposed here is significant in dollar terms.

3 That change will influence the behavior of direct mail marketers. The Rate
4 Commission, understandably, and the Postal Service (somewhat less understandably)
5 tend to think of price signals that influence the behavior of mailers only in terms of
6 postage rates. However, to mail service providers and their direct marketing clients, it is
7 the total cost of the job that counts. The total of the job includes not just postage but also
8 the cost of preparing and, in the case of drop entry, transporting the mail to qualify for a
9 particular discount. Drop entry at a destination SCF is more complex both in terms of
10 basic transportation costs (including labor, stop-off charges and the like) and logistics
11 (including scheduling and coordination of arrivals with SCF managers) than drop entry at
12 a destination BMC. As a result, as a general proposition, it is more costly to drop enter at
13 a destination SCF than the corresponding destination BMC.

14 At each step in the mail preparation process, mailers have a range of choices. The
15 decision whether to drop enter mail at a destination SCF rather than the corresponding
16 BMC is significantly determined by the extent to which the additional transportation cost
17 is offset by a lower postal bill. Plainly, mailers that find it economically attractive to
18 drop enter at destination SCF facilities will generally also accomplish an economic
19 advantage at BMCs because the cost of transportation of the mail to the BMC is, in
20 general, less than the cost of transportation to the destination SCF.

21 Thus, drop entry mailers must -- every time postage rates change -- ask
22 themselves the following question: Is it still worthwhile, in terms of reduced postage, to
23 bear the additional cost of transporting mail to destination SCFs? The change in the

1 BMC/SCF discount differential resulting from the rates proposed by the Postal Service
2 will have an impact on the answer to that question: under the proposed rates, it is simply
3 worth less -- by \$2.00 per thousand -- to drop enter at a SCF than it is at current rates.¹

4 Some mailers will, unquestionably, decide that SCF destination entry is no longer
5 worth it and will shift their entry points to the destination BMC. Other mailers, faced
6 with an overall increase in postage cost and a reduced incentive to drop enter to the
7 destination SCF, will nonetheless continue to drop enter principally for the non-monetary
8 reasons I describe below. But, neither these mailers nor the printing and distribution
9 companies that serve them can afford to simply ignore the price signal that the Postal
10 Service's drop entry discounts sends. Because the proposed rates will provide mailers a
11 comparatively smaller (in relation to BMC entry) incentive to drop enter at the SCF,
12 many will seek other means of offsetting the additional costs of doing so. The two most
13 obvious means are to either to reduce the volume of their mailings or mail less frequently.
14

¹ Of course, the actual calculations are done much more precisely than I have described here. In most cases the information for each job is entered into computers to calculate the cost and savings for each destination BMC and destination SCF to which the mailing could be sent. Nonetheless, the basic choice of whether it is worth it, in dollar terms, to drop enter at a destination SCF rather than the corresponding destination BMC is driven by the discount differential.

Why Readjustment of the BMC/SCF Discount Differential Serves All Mailers

The drop entry discounts for Standard (A) mail were introduced in R90-1. There is no question that this worksharing undertaking has been a resounding success. Both in absolute and comparative terms, the volume of mail that is drop entered has increased from year-to-year and certainly from rate case to rate case.

The drop entry incentives have worked in all dimensions. Obviously, there is a benefit to the very substantial number of mailers who drop enter, in the form of reduced postage costs. There are other, non-monetary benefits to these mailers as well. For example, precisely because mail trucked by a mailer to a destination BMC or SCF avoids intermediate stops and processing steps in the postal system, mail that is drop entered tends to arrive at its ultimate addressee destination in better condition than non-drop entered mail. This consideration is particularly important for catalog mailers. Also, drop entry enables mailers to compress the lag time between production of the mailing and its delivery and this favorably affects the total cost of the job. Drop entry mailers are not, however, the only beneficiaries of this worksharing arrangement. Hundreds of millions, if not billions, of dollars have been saved by the Postal Service since drop entry of Standard (A) mail was first introduced.

Experience also confirms that the deeper mail is entered into the postal system, the greater the monetary and non-monetary benefits to both the mailer and the postal system. For this reason, it makes sense to encourage mailers, through appropriate discounts, to drop enter at destination SCFs to the maximum extent possible. Put another way, in developing rates, the Postal Service and the Commission should, to the maximum

1 extent possible, maintain a BMC/SCF differential that makes it worthwhile for mailers
2 who have the choice to absorb the additional cost of transporting their mail and entering it
3 at destination SCFs.

4 These considerations have not been taken into account by the Postal Service in
5 developing its drop entry rates in this case. The decision to narrow the differential from
6 .5 to .3 cents does not appear to have been dictated by cost or operational considerations.
7 Nor does the differential reflect Postal Service marketing objectives. It is true that the
8 drop entry discount proposed by the Postal Service for BMC entered mail provides a
9 greater incentive than exists under current rates for mailers who do not now drop enter at
10 all to begin to enter their mail at destination BMCs. At current rates, the BMC entry
11 discount is 1.3 cents and the Postal Service has proposed to deepen that discount to 1.5
12 cents. But preservation of an appropriate BMC/SCF differential is not in conflict with the
13 creation of a discount structure that also encourages greater BMC drop entry. The
14 proposal advanced by AMMA preserves, and even strengthens, the incentive for mailers
15 who do not now drop enter to begin to do so. At the same time it restores the BMC/SCF
16 differential to ^alevel which closely approximate^s the current differential.

17

18 Conclusion

19 For these reasons, readjustment of the BMC and SCF discount rates in Standard (A)
20 mail to preserve, as closely as possible, the existing BMC/SCF differential will serve the
21 interests not only of affected mailers but of the postal system as a whole. The testimony
22 of AMMA's economic consultant shows how this recalculation can be accomplished on a
23 revenue neutral basis. There are those in the industry that believe paramount

1 consideration should be given to the differential and there are other methods of
2 readjustment that would, indeed, increase the differential above current levels. At the
3 very least, the readjustment advanced by AMMA should be adopted.

4

5

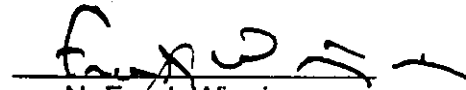
6

7

8

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served this document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.



N. Frank Wiggins

DATE: January 20, 1998

1 CHAIRMAN GLEIMAN: Mr. Schick, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available earlier today?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: And if these questions were
6 asked of you today, would your answers be the same as those
7 you previously provided in writing?

8 THE WITNESS: They would be.

9 CHAIRMAN GLEIMAN: That being the case, I'm going
10 to provide two copies of the witness' designated written
11 cross-examination to the reporter, and direct that it be
12 accepted into evidence and transcribed into the record at
13 this point.

14 [Designation of Written
15 Cross-Examination of Joseph E.
16 Schick, AMMA-T-1, was received into
17 evidence and transcribed into the
18 record.]

19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF ADVERTISING MAIL MARKETING ASSOCIATION
WITNESS JOSEPH E. SCHICK
(AMMA-T1)

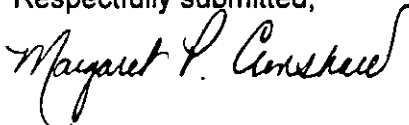
Party

United States Postal Service

Interrogatories

USPS/AMMA-T1-2

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw".

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
ADVERTISING MAIL MARKETING ASSOCIATION
WITNESS JOSEPH E. SCHICK (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/AMMA-T1-2

Designating Parties:

USPS

**RESPONSE OF WITNESS SCHICK (AMMA-T1)
TO POSTAL SERVICE INTERROGATORIES**

USPS/AMMA-T1-2. Please see your testimony at page 6, line 19, through page 7, line 3, where you recommend that, at the very least, the rates advanced by AMMA witness Andrew be adopted.

- a. Is it your understanding that witness Andrew's proposal would decrease the current differential between the per piece discounts for DBMC and DSCF from 0.5 cent per piece to 0.4 cent per piece? If that is not your understanding, please explain.
- b. Is it your understanding that witness Andrew's proposal would result in an increase (versus the Postal Service proposed rates) of 1/2 cent per piece for non-destination entry, piece-rated ECR pieces? If that is not your understanding, please explain.
- c. Is it your understanding that witness Andrew's proposal would result in an increase (versus the Postal Service proposed rates) of 1/10th of one cent for DBMC-entered piece-rated ECR pieces? If that is not your understanding, please explain.
- d. Is it your understanding that witness Andrew's proposal would result in no change (versus the Postal Service proposed rates) for DSCF- or DDU- entered piece-rated ECR pieces? If that is not your understanding, please explain.

Response:

- a. I did not perform the calculations set forth in witness Andrew's testimony. I understand that he has confirmed the correctness of this calculation in his response to Postal Service Interrogatories. I note that the question compares the DBMC/DSCF differential in terms of current rates and the rates proposed by witness Andrew. Under the rates proposed by the Postal Service the differential would have been 0.3 cent. We were advised that it would be possible to readjust rates in order to maintain the current 0.5 cent differential but that this readjustment would have required that some of the drop entry discounts be set at less than 100% of cost savings and that such a result would be inconsistent with Commission policy. That is why my testimony urges that "at the very least" the rates advanced by witness Andrew be adopted.
- b. I did not perform the calculations set forth in response to this question but I understand that witness Andrew has confirmed the correctness of this result.
- c. I did not perform the calculations set forth in response to this question but I understand that witness Andrew has confirmed the correctness of the calculations set forth in this interrogatory.
- d. I did not perform the calculations set forth in response to this question but I understand that witness Andrew confirmed the correctness of the calculations set forth in response to this question.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross-examination for Witness Schick?

3 [No response.]

4 CHAIRMAN GLEIMAN: There does not appear to be
5 any.

6 The only party who requested oral
7 cross-examination of Witness Schick is the Postal Service.
8 Does anyone else wish to cross-examine this witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, then Mr. Hollies, you
11 may begin when you are ready.

12 CROSS-EXAMINATION

13 BY MR. HOLLIES:

14 Q Good morning, Mr. Schick. I'm Ken Hollies, on
15 behalf of the U.S. Postal Service, and thank you for
16 appearing here today. Your testimony is straightforward,
17 and I have only a few brief questions.

18 Since you start the discussion in the purpose
19 section of your testimony, is it fair to say that your
20 testimony focuses upon the differential and discounts
21 between the BMC and SCF drop entry, or as you summarize it
22 on page 2, line 5, the BMC SCF discount differential?

23 A It is.

24 Q And under the existing rates, that differential is
25 0.5 cents; correct?

1 A Correct.

2 Q Indeed, you would prefer that the existing BMC SCF
3 discount should be maintained, quote, as closely as
4 possible, unquote. That's from page 6, lines 19 to 21. Is
5 that correct?

6 A That is correct.

7 Q Now I'd like to under -- to examine your
8 understanding of Witness Andrews' testimony about which we
9 asked you in the designated interrogatory. Does his
10 proposal maintain the BMC SCF differential at 0.5 cents?

11 A No, it doesn't.

12 Q His proposal is for a 0.4 cent differential, is it
13 not?

14 A Correct.

15 Q Leaving aside for a moment Witness Andrews'
16 testimony, is it safe to say that all else being equal, as a
17 mailer you would prefer that rates remain the same or go
18 down?

19 A Yes, I would rather see the rates -- the rates
20 themselves stay where they are or go down.

21 Q Okay. Returning now to Witness Andrew's
22 testimony, does his proposal include any increases over and
23 above the Postal Service's proposed rates?

24 A Increases in the rates themselves?

25 Q Yes. For example, does it increase the

1 non-destination entry piece rated enhanced carrier route
2 pieces by 0.5 cents?

3 A Yes.

4 Q And does it increase the DBMC entered piece rate
5 ECR pieces by 0.1 cents?

6 A I believe that was the number.

7 Q Now, hypothetically speaking, if there were a way
8 to keep the base rates proposed by the Postal Service, while
9 keeping the BMC SCF drop ship differential at 0.5 cents,
10 would this be an attractive alternative to you as a mailer?

11 A If we were able to keep the base rates the way
12 they were while still maintaining the drop ship discounts
13 and keeping the differential between the BMC and SCF, that
14 would be the optimum, yes.

15 Q If this was all you knew for comparing Witness
16 Andrew's proposal and this hypothetical, which would you
17 prefer?

18 A I'm not sure I understand that.

19 MR. HOLLIES: Mr. Presiding Officer, I would like
20 now to make use of a cross-examination exhibit which has
21 been distributed in advance to counsel for Mr. Schick, which
22 has been marked as USPS/AMMA-T1-XE1, and which consists of
23 Postal Service Witness Moeller's response to Interrogatory
24 MASA/USPS-T36-5, found in the record at Volume 6 of the
25 transcript, pages 2760 and 61, and I have copies for the

1 bench.

2 CHAIRMAN GLEIMAN: If you could please distribute
3 them. I assume counsel has a copy.

4 MR. WIGGINS: When he says in advance, Mr.
5 Chairman, it was at the break this morning.

6 CHAIRMAN GLEIMAN: Well, something is better than
7 nothing.

8 MR. WIGGINS: Agreed.

9 [Cross-Examination Exhibit
10 USPS/AMMA-T1-XE-1 was marked for
11 identification.]

12 BY MR. HOLLIES:

13 Q Mr. Schick, have you had an opportunity to review
14 this document?

15 A I have.

16 Q Do you understand it to describe briefly one or
17 more means of retaining the existing DBMC SCF discount
18 differential without pushing up other rates?

19 MR. WIGGINS: Mr. Chairman, I don't fully
20 understand the propriety of examining my witness on the
21 Interrogatory response of a Postal Service witness. If Mr.
22 Hollies could give us a proffer on where he is going with
23 this, it would be helpful to me.

24 CHAIRMAN GLEIMAN: Well, ordinarily, we don't
25 require counsel to lay out where it is they are heading or

1 which trap they are setting, or what-have-you, and absent,
2 you know, some specific objection, I am reluctant to stop
3 Mr. Hollies at this point from his cross-examination.

4 MR. WIGGINS: If he wants to frame a hypothetical
5 for my witness, I have no objection to that, if that is what
6 this is going to be. Otherwise, he is asking my witness
7 about something that is utterly outside the scope of his
8 testimony, and I will object to it on that ground.

9 CHAIRMAN GLEIMAN: Mr. Hollies, you have an
10 opportunity to respond.

11 MR. HOLLIES: At this point -- I'm sorry.

12 CHAIRMAN GLEIMAN: You have an opportunity to
13 respond.

14 MR. HOLLIES: I would be happy to. At this point,
15 the question I have asked extends solely to his
16 understanding of whether or not he has read that, whether he
17 understands what he is reading. And to be frank about it, I
18 have no hidden agenda here. I am not going much farther
19 than where we are.

20 MR. WIGGINS: You can't be more frank than I am.

21 I will permit the witness, Mr. Chairman. I
22 withdraw the objection for purpose of this first question.

23 CHAIRMAN GLEIMAN: Well, we do know that the
24 witness has had this at least since a little bit earlier
25 this morning.

1 MR. WIGGINS: He has indeed.

2 THE WITNESS: I do understand.

3 BY MR. HOLLIES:

4 Q You do understand that it describes one or more
5 means of retaining the existing differentials --
6 differential without pushing up other rates?

7 A Yes.

8 MR. HOLLIES: Thank you. I have no further
9 questions.

10 CHAIRMAN GLEIMAN: Are you sure we can't stretch
11 this out until after the lunch break?

12 Is there any follow-up cross-examination?
13 Questions from the bench?

14 [No response.]

15 CHAIRMAN GLEIMAN: No questions from the bench.
16 Would you like some time for redirect, sir?

17 MR. WIGGINS: I don't believe I will require that,
18 Mr. Chairman.

19 CHAIRMAN GLEIMAN: If that is the case --

20 COMMISSIONER LeBLANC: Can you be any franker than
21 that?

22 [Laughter.]

23 CHAIRMAN GLEIMAN: If that is the case, Mr.
24 Schick, we appreciate your appearance today, and your
25 contributions to the record. We are sorry that we were

1 unable to make things happen more quickly earlier on. But,
2 nonetheless, we do appreciate your appearance.

3 If there is nothing further, you are excused.

4 [Witness excused.]

5 CHAIRMAN GLEIMAN: The hearing for today is
6 adjourned. We will convene tomorrow, the 27th, to receive
7 testimony from American Business Press Business, Witnesses
8 Crane, McGarvey and Cavnar; Direct Marketing Association,
9 Witness Buc; Magazine Publishers of America -- not Magazine
10 Publishers Association, Witness Glick; Dow-Jones and
11 Company, Witness Shew; United Parcel Service, Witness Neels;
12 and Office of the Consumer Advocate, Witness Smith; and
13 then, finally, National Federation of Non-Profit, Witness
14 Emigh.

15 I want to thank you all and I hope you have an
16 opportunity to enjoy the afternoon.

17 [Whereupon, at 11:43 a.m., the hearing was
18 recessed, to reconvene at 9:30 a.m., Friday, February 27,
19 1998.]

20

21

22

23

24

25