

Issue #43, October 24, 2005

## Rate Case Enters Final Phase - Expect 5.4% Postage Increase In January 2006

In April, 2005, the U.S. Postal Service filed a request for a 5.4% across-the-board rate increase for all classes of mail. In its filing, R2005-1, the Postal Service made it clear that the case was being filed to cover the \$3.1 billion escrow payment that will come due October 1, 2006. The Postal Service also made it known that they were seeking settlement in the case, hoping for an expedited conclusion.

Despite desire for a speedy process, litigation has been ongoing, but it should soon come to a close. A recommended decision by the Postal Rate Commission is expected by the end of October. If the Commission approves the settlement, the 5.4% increase will likely be implemented in early January, 2006, either the 8<sup>th</sup> or the 15<sup>th</sup> (rates always increase on Sunday). The Postal Service Board of Governors ultimately determines the implementation date.

Previously, we experienced *systemwide* averages that have caused a larger increase for one customer and a much smaller increase for another. However, in this case, it is truly an "across-the-board" increase where every rate cell increases by 5.4%. Therefore, with the exception of a few very minor rounding issues, everyone will see a 5.4% increase in their postage when the change goes into effect in January 2006.

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## Hurricanes' Far Reaching Impact

When hurricanes approach an area there is a far-reaching impact on the transportation industry. Carrier capacity is immediately reduced because FEMA takes over trucks, and drivers have an opportunity to double and/or triple their wages so they jump at these opportunities.

Specific geographical areas become difficult to ship to because drivers do not want to take freight into an area that is about to get hit by a storm. A driver that would have unloaded in the Houston/Galveston area a day or two before Hurricane Rita would have been stuck in the evacuation traffic for days.

Areas that are not even hit by the storm experience carrier capacity

issues for a variety of reasons. Most recently fuel shortages have become the key issue. GA and FL truck fueling stations were (and in some cases still are) rationing fuel to drivers so drivers are weary of driving thru these states for fear they will not be able to find enough fuel to return. And this is a result of the hurricanes that hit the gulf coast, not the east coast.

The cost of diesel fuel, which has spiked at record levels on a weekly basis since Katrina, now has drivers unable to even start their engines at the current rates they are paid. Some drivers are now asking for 80% rate increases, and they are getting it because of the supply and demand situation.

Continued on page 3...

### INSIDE THIS ISSUE

PLANET Code  
Scans Improve  
Pg. 2

USPS Network  
In 2010  
Pg. 5

Diesel Fuel Hits  
Record Prices  
Pg. 4

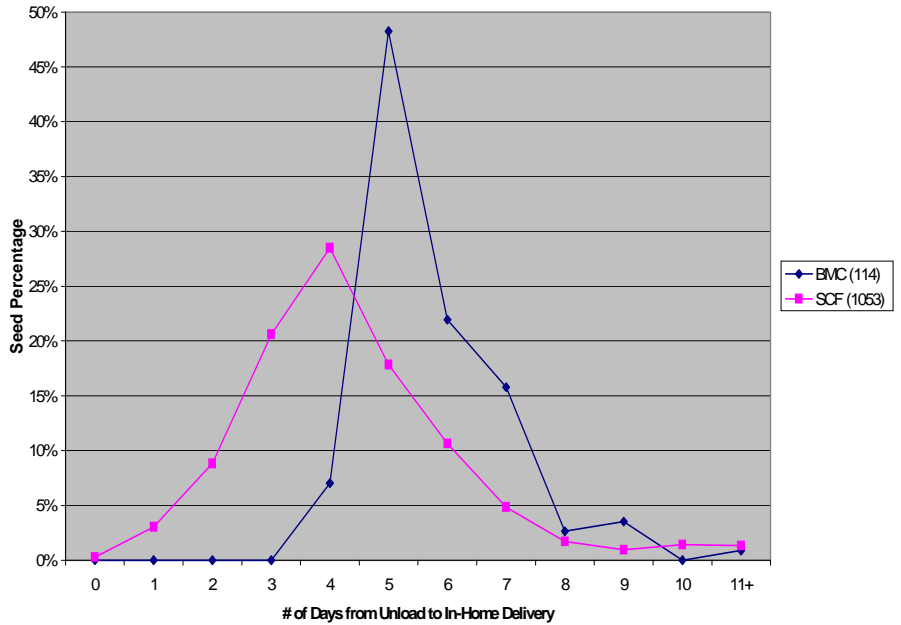
New Marketing  
Specialist  
Pg. 4



## USPS Processing And Delivery Trend

Comparing the September '05 USPS processing & delivery trends to August '05, you can see the curve has flattened and shifted to the right. This illustrates that the mail is travelling at a slower pace, and that there is less mail getting in home on the peak day. This is typical for September due to the increase in catalog volume. In August at the BMC level the peak was day 5 with about 50% of the mail getting in home that day; whereas in September the peak shifted to day 6 and only 35% of the mail got in home on that peak day. At the SCF level the peak day has remained day 4, however there is a drop off in the percentage delivered on day 4 and thus an even bigger drop off in the percentage delivered on day 3, as well as increases in the percentage delivered on days 5, 6 and 7.

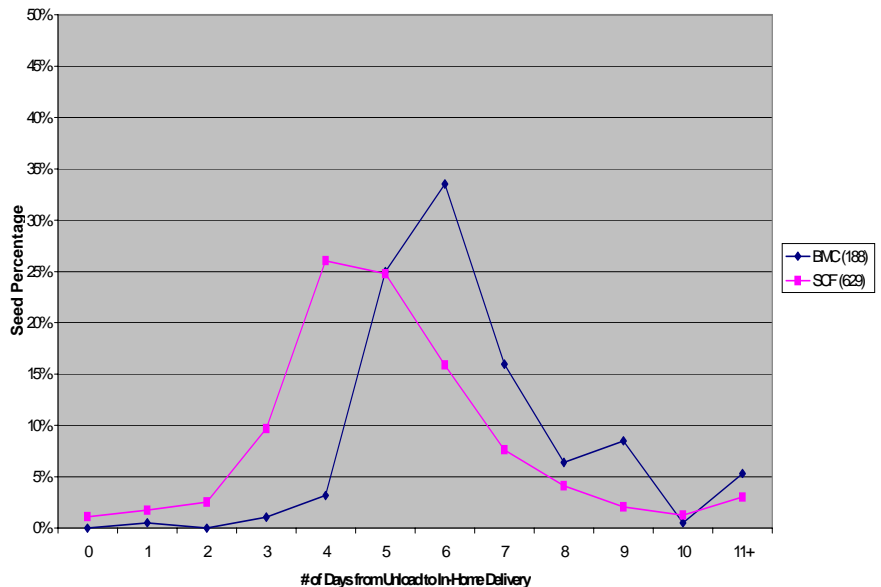
USPS Processing & Delivery Trend  
8/1/2005 to 8/31/2005  
Total Seeds: 1167



### PLANET Code Scans Improving

Final scan percentages for flats (catalogs and magazines) have improved dramatically in recent months and QWL is now seeing final scans consistently around 80%. Jobs with a high percent of Carrier Route presort and high percent of 5 digit pallets are scanning between 75-80% and jobs with lower CR presort are scanning between 85-92%. This is a great improvement over what was previously around 50-60%.

USPS Processing & Delivery Trend  
9/1/2004 to 9/30/2004  
Total Seeds: 817



## Hurricanes (Con't.)

For the print industry this is the busiest time of the year since more printed product is shipped in September and October than any other time of the year, therefore the demand is obviously up. And with the impact of the hurricanes on the trucking industry supply has been significantly reduced, thus leading to a supply and demand strain.



Following are a few real life examples of what has happened in recent weeks:

After hurricane Katrina hit the gulf coast an estimated 4,000 drivers moved 91,000 tons of ice cubes intended to cool food, medicine and sweltering victims of the storm.

Mark Kostinec was dropping a load of beef in Canton, OH, on September 2 when his dispatcher called with an urgent government job: pick up 20 tons of ice in Greenville, PA, and take it to Carthage, MO, a staging area for the Federal Emergency Management Agency. Mr. Kostinec, 40, a driver for Universe Truck Lines of Omaha, was happy to help with the crisis. But at Carthage, instead of unloading, he was told to take his 2,000 bags of ice on to Montgomery, AL.

After a day and a half in Montgomery, he was sent to Camp Shelby, MS. From there, on September

8, he was waved onward to Selma, AL. And after two days in Selma he was redirected to Emporia, VA, along with scores of other frustrated drivers who had been following similarly circuitous routes. At Emporia, Mr. Kostinec sat for an entire week, his trailer burning fuel around the clock to keep the ice frozen, as FEMA officials studied whether supplies originally purchased for Hurricane Katrina might be used for Hurricane Ophelia. On September 17, Mr. Kostinec headed to Fremont, NE where he unloaded his ice into a government-rented storage freezer the next day.

"I dragged that ice around for 4,100 miles, and it never got used," Mr. Kostinec said. He had learned to roll with the punches, and he was pleased to earn double his usual paycheck.

Mike Hohnstein, a dispatcher in Omaha, sent a truckload out of Dubuque, IA, to Meridian. From there, the driver was sent

to Barksdale Air Force Base in LA, to Columbia, SC, and finally to Cumberland, MD, where he waited for six days.

Finally, 10 days after he started, the driver was told to take the ice to storage in Bettendorf, IA. The truck had traveled 3,282 miles, but not a cube of ice had reached a hurricane victim. His company's bill to the government will exceed \$15,000. "Our trucks had been tied up for 17 days," a Universe dispatcher said.

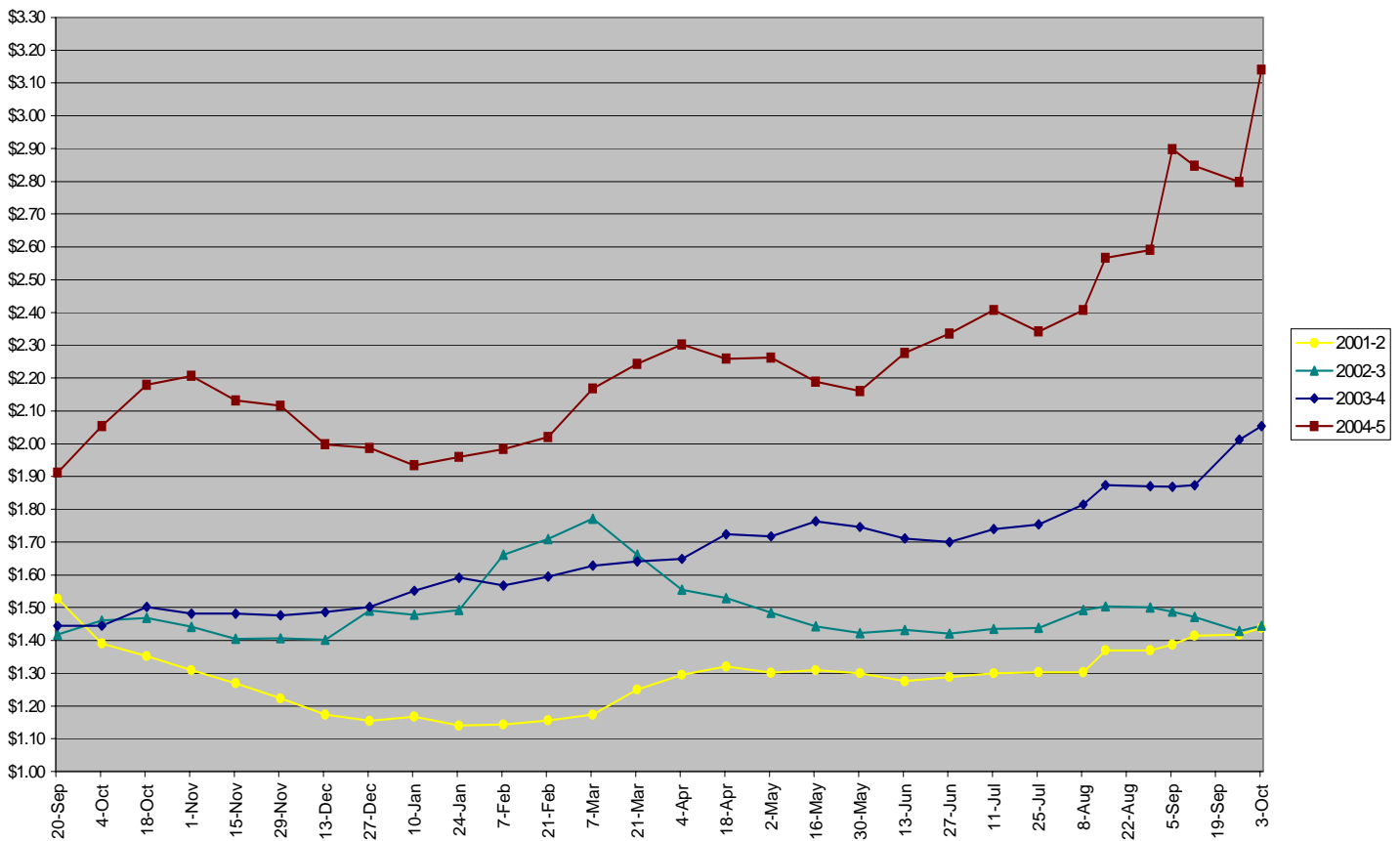
Since the drivers are being paid more than double their normal wages it is easy to overcome the frustration of a futile pursuit.

The supply and demand issue has resulted in a severe overall cost impact that goes beyond fuel. QWL is doing everything possible to minimize the cost impact to our customers while trying to maintain the high level of service our customers expect.

Source: *NYTimes* 10/2/2005

## Diesel Price Comparison

The graph illustrates the dramatic increase in the price of diesel from 2001 to date. The national average price of diesel fuel exceeded \$3.00/gallon for the first time ever in October. It is also the highest diesel price in over 50 years, adjusted for inflation.



## Logistics Solutions Gets A New Editor

Aleksandra Novicevic is the new Marketing Specialist for Quebecor World Logistics, replacing Jennifer Lukasiak who has moved to the QW Retail and Catalog group. Aleksandra is the new editor of the Logistics Solutions newsletter

and also the key contact for any QWL marketing and information needs. Aleksandra has a degree in Marketing from the Carlson School of Management at the University of Minnesota.

## What Will The USPS Network Look Like In 2010?

For several years now, the mailing industry has been anxious to learn more about the Postal Service's plans for network redesign, now known as Evolutionary Network Design (END) and previously known as Network Integration Alignment (NIA). More specifically, mailers are hoping that whatever is designed, is a lowest combined cost network for the entire mailing industry. As is often the case, mailers are not consulted by the USPS during the planning stages of its projects and only learn the outcome when decisions are already made. In all fairness to the Postal Service, there was an attempt made to involve the mailing community when the concept was originally introduced as NIA, but it only complicated matters. Now, as noted in an April 2005 report by the Government Accounting Office (GAO), the Postal Service is reluctant to publicly disclose information on its realignment strategy because it believes that it will meet with resistance from

employees, communities and government representatives if it does so too far in advance.

For mailers, who are large stakeholders of the Postal Service, this seems unfair.

Uncertainty about what the Postal Service is planning to do about new processing operations, and potentially new discount structures, can inhibit a mailer's investment in it's own infrastructure. Here are only a few examples of questions being asked: How will Flat Sequencing impact co-mail investments? What is the best way to determine optimum transportation networks? What are the best geographic locations for consolidation facilities? Needless to say, mailers are quite anxious and relieved that the Postal Service is beginning to reveal details.

In an August presentation before the Mailer's Technical Advisory Committee, USPS Senior VP Bill Galligan, gave mailers just enough information to wet their appetites. The future network will include Regional Distribution Centers (RDC's), Local Processing Centers (LPC's) and Destinating Processing Centers (DPC's). The new Automated Package Processing System (APPS) equipment will be housed in the RDC's (approximately 70) and will process packages and bundles of flat mail. The



current AFSM 100 flat sorting machines and the new Flat Sequencing System (FSS) equipment will be located at the LPC's and DPC's. Galligan noted that the Postal Service's current network of all-purpose incoming/outgoing plants would take on redefined consolidated network roles. So what can we gather (guess) from this new information combined with other known facts?

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Full deployment of the APPS is 74 machines. If you look at the APPS deployment schedule, it will likely reveal the future locations of the RDC's.

Drop ship mailers will likely deliver their flat mail (3-digit, SCF and BMC pallets, under current preparation rules) to the 70 +/- RDC's. These RDC's will then sort the bundles to the 5-digit level and transport the mail to the LPC or DPC (to be processed on a FSS or an AFSM 100).

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## USPS In 2010 (Con't.)

Future plans for FSS deployment (which won't begin until 2008) will be in the "hundreds" of machines and will process mail for roughly 7,000 zip codes. Although an exact percentage is not known, those zip codes may handle 70 to 85% of the flat mail volume

Since affluent areas receive the most flat mail, we can expect to see high concentration of FSS machines in certain parts of the country like California and Florida.

The regular enhanced carrier route rate will likely be eliminated for the 7,000 +/- automated zones handled by the FSS equipment. Assuming that the carrier route discount will still apply to the remaining 30,000+ zip codes, it is uncertain as to whether it would be greater than or equal to a 5-digit discount for the automated zones.

The Postal Service will want mailers to prepare 5-digit mail (and full 5-digit pallets) and should offer the best rate (or discount) for the 7,000 +/- zip codes.

5-digit pallets may be drop shipped to the LPC or DPC for sorting into walk sequence for the ultimate delivery carrier. It should be safe to assume that any future discounts (presort and drop ship) would encourage mail to be prepared to these locations and to this finest level.

Co-mail will take on a slightly different role for differing areas of the country but should still be lucrative for creating the finest levels of presort and the greatest postal discounts.

Co-palletization efforts might increase in an attempt to create more 5-digit pallets.

A more complicated rate structure is anticipated in the future. Software changes will be required. Mail preparation rules will change. The transition period will likely be lengthy and confusing.

As mentioned, mailers are quite relieved that the Postal Service is beginning to reveal details of their plans. Soon, we expect a formal announcement unveiling the complete plans for the future network. When this is done, mailers can begin to determine the impact on their own operations and assist the Postal Service with making the transition easiest

for the entire mailing industry.

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## Canadian Postal Service Implements Changes

The Canadian Postal Service has relaxed its addressing standards as a result of the improved mail processing technology. Margin of error in scanning the mail will be reduced as this change provides customers with a wider area on which to print the address information. This change will be followed by a price increase where machineable under 50g would cost \$0.37, and over 50g would follow the formula of \$0.53 + \$0.27\*gram. This applies for Addressed Admail, Lettermail, Domestic Registered Mail and Incentive Lettermail.

Under old criterion, the postal code was required to be within a 26 mm zone on an item. It can now appear anywhere in a larger area except for a 19 mm band at the bottom, a 40 mm band at the top and 15 mm on either side. The full length of the card measuring 19 mm up from the bottom edge must be kept clear for machine barcoding. This change is effective January 16, 2006 however; it is recommended that customers begin to adhere to this specification now for maximum machineability. The Growth Rebate Program is ending December 31, 2005. For all customers who are participating in only the Growth Rebate Program, settlement will take place within 90 days following the program end-date of December 31, 2005.