

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

INTERROGATORY OF THE UNITED STATES POSTAL SERVICE TO  
POSTCOM WITNESS CLIFTON B. KNIGHT, JR.  
(USPS/POSTCOM-T7-7)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the above-listed interrogatory to POSTCOM witness Clifton B. Knight, Jr.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

---

Sheela A. Portonovo

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-3012, FAX -6187  
September 28, 2006

USPS/POSTCOM-T7-7.

Please confirm that, attached to this interrogatory, is an authentic duplicate of a three-page letter, dated August 30, 2006, addressed to The Honorable Patrick R. Donahoe, Deputy Postmaster General of the United States, and signed by you. If not confirmed, please explain fully.

tel 212.930.4241  
fax 212.930.4755  
clif.knight@bmgch.com

BMG Columbia House, Inc.  
28 East 28th Street, 8th Floor  
New York, NY 10016



**Clifton B. Knight, Jr.**  
Executive VP, Legal & Business Affairs

August 30, 2006

The Honorable Patrick R. Donahoe  
Deputy Postmaster General of the  
United States  
475 L'Enfant Plaza, S.W.  
Washington, DC 20260

Re: Meeting With BMG Columbia House

Dear Mr. Donahoe:

I am writing first to thank you for agreeing to meet with representatives of BMG Columbia House and, second, to explain why we have requested this meeting and what we perceive to be its fundamental purpose. In brief, we and the Postal Service need to find a mutually acceptable solution to a problem created by changes in operations contemplated by the Postal Service in the pending rate case.

BMG Columbia House is the leading operator of music and video clubs in the United States. The company has long used the United States Postal Service to ship its CD and DVD products to consumers, as well as to market to existing and prospective club members. We spend well over \$100 million in postage annually. The focus of our October 3, 2006 meeting is on product shipments.

Simply put, operational and classification changes that the Postal Service has proposed will make it impossible for us to remain in the business of selling music and video products by mail.

Under the rate schedules proposed by the Postal Service, our product shipments would



[www.bmgmusic.com](http://www.bmgmusic.com)



[www.columbiahouse.com](http://www.columbiahouse.com)



[www.yourmusic.com](http://www.yourmusic.com)



[www.cdnw.com](http://www.cdnw.com)

The Honorable Patrick R. Donahoe  
August 30, 2006  
Page 2

experience rate increases ranging from 62% to 115%. If we are constrained to stop using the mail for product shipment, we will inevitably reduce, if not entirely eliminate, our use of the mail for marketing and promotional purposes. This is not simply a function of the overall rate increase. Rather, it is the result of a decision by Postal Service operations to reclassify our products from flats to parcels and, at the same time, to impose staggering increases on Standard Mail parcels. For years, millions of our product shipments have met the Postal Service's written specifications concerning automation flat eligibility, have been prepared by our company – at considerable expense – as flats, and have, in fact, been processed and delivered as flat mail. The operating capabilities of the flats automation equipment have not changed. The only thing that has changed is the Postal Service's decision to disqualify millions of our CDs and DVDs for automation flats rates, regardless of how they are actually prepared or processed.

We do not know whether our current flat mailings will meet future specifications for flats automation eligibility, for those specifications that have not yet been issued. We do know that the Postal Service has repeatedly stated that it would work with us to help us redesign our product mailings to meet these as yet unknown specifications. That is the purpose of a September 7 meeting between our technical people and Postal Service's operations and engineering personnel. Even if a technical solution is possible, we would likely be forced to radically redesign our product mailings to meet these as yet unknown future specifications. It will take months, if not years, to design and will require substantial investments in our product

The Honorable Patrick R. Donahoe

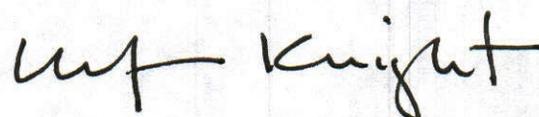
August 30, 2006

Page 3

processing equipment to handle them. We do not have years. The new rates will undoubtedly take effect some time next spring or summer.

In sum, we need your help in finding a swift and mutually agreeable solution to this issue. It is our hope and expectation that the September 7 technical meeting will be a first step toward that outcome and that you will encourage the Postal Service representatives attending that meeting to be receptive to the searches for creative solutions. The purpose of our meeting in October is to follow up on the technical meeting and to explain more fully to senior Postal Service management why this problem is not merely an operations issue, but has profound economic consequences to both our company and the Postal Service. I look forward to seeing you on October 3.

Very truly yours,

A handwritten signature in black ink, appearing to read "W. Knight". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.