

**DOCKET SECTION**

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

RECEIVED  
APR 1 3 55 PM '98

POSTAL  
OFFICE

**POSTAL RATE AND FEE CHANGES, 1997**

**DOCKET NO. R97-1**

**INITIAL BRIEF OF  
MAGAZINE PUBLISHERS OF AMERICA  
ON QUALIFIED BUSINESS REPLY MAIL AND  
DISTRIBUTION OF RURAL CARRIER COSTS**

**April 1, 1998**

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

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

INITIAL BRIEF OF  
MAGAZINE PUBLISHERS OF AMERICA  
ON QUALIFIED BUSINESS REPLY MAIL AND  
DISTRIBUTION OF RURAL CARRIER COSTS

April 1, 1998

## TABLE OF CONTENTS

INTRODUCTION .....	1
I. QUALIFIED BUSINESS REPLY MAIL .....	1
1. The Postal Service QBRM Proposal Is Based on Erroneous Costs .....	1
2. The MPA Proposal Should Be Adopted .....	2
3. If the Commission Decides Not to Recommend Prepaid Reply Mail, the QBRM Fee Should Reflect Prebarcoding Cost Savings .....	3
II RURAL CARRIER COSTS .....	4
1. Introduction and Background .....	4
2. As Demonstrated By MPA Witness Glick, the Postal Service Has Over-Attributed Costs to Flat Volume .....	5
3. The Commission Should Recommend Witness Glick's Correction to the Distribution of Rural Carrier Costs. ....	5

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

POSTAL RATE AND FEE CHANGES, 1997

DOCKET NO. R97-1

INITIAL BRIEF OF  
MAGAZINE PUBLISHERS OF AMERICA  
ON QUALIFIED BUSINESS REPLY MAIL AND  
DISTRIBUTION OF RURAL CARRIER COSTS

INTRODUCTION

Magazine Publishers of America (MPA) is filing this separate initial brief on two issues: 1) the Qualified Business Reply Mail (QBRM) rate; and 2) the distribution of rural carrier costs to classes and subclasses. MPA's views on mail processing costs and the impact on rates paid by Periodicals are discussed in the joint brief being filed this date by the consortium of Periodicals mailers (including MPA) which has litigated those issues throughout this proceeding.

**I. QUALIFIED BUSINESS REPLY MAIL**

1. The Postal Service QBRM Proposal Is Based on Erroneous Costs.

The Postal Service's proposed fee for QBRM is 6 cents, representing a 200 percent increase from the present fee, which is 2 cents. The basis for this 6 cent QBRM fee is an estimate of attributable costs by USPS witness Schenk of Advance Deposit BRMAS-qualified BRM pieces. Witness Schenk estimated the test year costs of counting, rating, and billing for BRM service above and beyond the costs already attributed to First-Class

Mail. USPS-T-27 at 2. To do this, she first assessed the mail flows for Advance Deposit BRM and other automation-compatible First-Class Mail and then applied unit cost differentials for the operations through which the mail flows.

In calculating the Test Year unit attributable cost of Advance Deposit BRM, witness Schenk made two inappropriate assumptions. The first assumption was that the mail that would migrate from Advance Deposit BRM to Prepaid Reply Mail was entirely mail that, in the Base Year, was processed in the BRMAS operation. This erroneous assumption is contradicted by the witness's own written cross-examination response, in which she stated: "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 of a per-piece fee more advantageous financially." MPA/USPS-T27-5c, Tr. 3/828.

The second assumption we challenge is that all Advance Deposit BRM not processed in the BRMAS operation was processed manually. She made this assumption because she did not have an estimate of the cost of a barcode sort for Advance Deposit BRM. She did indicate, however, "it would be appropriate to include the cost of processing BRM in a barcode sorter operation, if costs could be developed." MPA/USPS-T27-2c, Tr. 3/822. As shown below, the record now contains a reliable estimate of those costs.

## 2. The MPA Proposal Should Be Adopted.

Using more reasonable assumptions, MPA witness Glick develops an upper bound estimate of the cost of sorting Advance Deposit BRM on a barcode sorter (including Postage Due Unit activities) by subtracting 4.7 cents, the cost difference between a manual and a barcode sort of First-Class Mail, from the cost for manually sorting Advance Deposit BRM. MPA-T-4 at 5, Tr. 27/15000.

In addition to this adjustment, MPA proposes that the attributable cost for Advance Deposit BRM also reflect the fact that only 25 percent of BRM, as opposed to 66 percent for First-Class Mail, requires rural or city delivery. MPA/USPS-T27-7, Tr. 3/830; MPA-T-4 at 6, Tr. 27/15001. For this reason, unit BRM delivery cost is smaller than that for First-Class Mail as a whole. Witness Glick calculated a 2.74 cent unit delivery cost difference

between BRM and First Class Mail. MPA-T-4 at 6, Tr. 27/15001.

Combining these adjustments, witness Glick finds that the Test Year attributable cost for Advance Deposit BRM is 1.28 cents. Based on this cost estimate, MPA is proposing a QBRM fee of 2 cents, which yields a cost coverage of 156 percent, significantly higher than the 108 percent cost coverage proposed by the Service. MPA-T-4 at 7, Tr. 27/15002.

3. If the Commission Decides Not to Recommend Prepaid Reply Mail, the QBRM Fee Should Reflect Prebarcoding Cost Savings.

In this case, the Postal Service is proposing Prepaid Reply Mail (PRM) with a rate of 30 cents. Furthermore, it is proposing that the QBRM fee be in addition to this PRM rate. USPS-T-32 at 44-45. If the Commission does not recommend the PRM rate, the Commission should still reflect the 3 cent prebarcoding savings developed by witness Miller (USPS-T-23 at 11) in the QBRM rate. Since the PRM cost is based on a 75 percent passthrough of the 3 cent prebarcoding savings (USPS-T-32 at 46), it is important that the Commission preserve this savings for QBRM users if PRM is not recommended. Otherwise, the QBRM fee could be added on to the proposed 33 cent First-Class rate, a result not intended or desired by any party to this proceeding.

Also, if the Commission does not recommend PRM, no mail would migrate from Advance Deposit BRM to PRM, and therefore, the base year mail flows used by witness Glick to estimate the cost for Advance Deposit BRM would clearly be appropriate.

## II. RURAL CARRIER COSTS

### 1. Introduction and Background.

Unlike city carriers who are paid on an hourly basis, the Postal Service pays rural carriers on evaluated routes (which comprise more than 90 percent of rural salary costs) based on the amount of work they perform. This work is determined through route evaluations, which in total are called the National Mail Count (NMC). On these route evaluations, the Postal Service counted the workload of individual rural carriers for each

evaluation item (e.g., regular letter, flat, etc.). USPS-T-5, WP-B, W/S 10.1.1; MPA-T-3 at 2-4, Tr. 28/15478-15480.

To distribute rural carrier costs to mail subclasses, the Postal Service first determines the volume variable portion of rural carrier cost for each type of volume (route evaluation item). The distribution keys for these individual volume-type cost pools are then developed from the Rural Carrier Cost System (RCCS), which has two identifiable defects. The first defect is that while the NMC records small flats as flats, the RCCS categorizes them as letters. MPA-T-3 at 7-8, Tr. 28/15483-84. If the RCCS is not adjusted to be consistent with the NMC definitions, it would overstate letter volume and understate flat volume. This would, in turn, result in distributing too much rural cost per flat and too little rural cost per letter to mail subclasses. The Postal Service has attempted, but failed, to correct this problem by what it calls the "mail shape adjustment." Through this procedure the Service shifts RCCS letter volume into flat volume so that volumes and costs by NMC shape correctly match. MPA-T-3 at 7-8, Tr. 28/15483-84.

The second defect is that the NMC individually identifies and evaluates Delivery Point Sequence (DPS) letters, regular (non-DPS) letters, and Sector Segment (SS) letters, while the RCCS only identifies total letters. Tr. 33/17797. This issue was first raised in an interrogatory to witness Glick (USPS/MPA-T3-3, Tr. 28/15495-97), and later in Postal Service rebuttal testimony (USPS-RT-1, 34 et. seq., Tr. 33/17750 et. seq.). In response to the Postal Service interrogatory, witness Glick revised his testimony to adjust for this inconsistency. Postal Service witness Baron takes issue with this adjustment and offers a new solution to this problem, but as we show below, his attempted correction mistakenly skews the distribution of rural carrier costs among subclasses.

## 2. As Demonstrated By MPA Witness Glick, the Postal Service Has Over-Attributed Costs to Flat Volume.

MPA witness Glick argued, and witness Baron later conceded, that the ratio of the cost distributed per piece to evaluation cost per piece should be the same or comparable for the Letters Delivered and Flats Delivered route evaluation items. MPA-T-3 at 8, Tr.

28/15484; Tr. 33/17816, 17823. In his testimony, Glick has shown that, although the Postal Service has attempted to correct the letter-flat disparity, its effort has fallen short. Even after accounting for DPS and SS letters in his analysis, Glick reveals that the letter-flat volume disparity remains. His comparison shows that the Service's markup, *i.e.*, the ratio of distributed cost to evaluated cost for each shape, for non-DPS/SS letters is only 9.6 percent while for flats it is at 15.3 percent. Tr. 28/15496. As Glick explains, and witness Baron eventually agrees, the markups should be equal while the markups sponsored by the Postal Service are not. Tr. 33/17816, 17823. The net effect is that the Postal Service's proposed distribution keys under-attribute cost to each letter piece and over-attribute cost to each flat piece. This results in a skewing of costs and, in particular, distributes excess cost to Periodicals. MPA-T-3 at 10, Tr. 28/15486.

3. The Commission Should Recommend Witness Glick's Correction to the Distribution of Rural Carrier Costs.

It is clear that Glick has corrected the disparity between flats and letters. His correction equalizes for major volume types (route evaluation items) the ratio of per-piece distributed rural cost to per-piece evaluated rural cost. MPA-T-3 at 9, Tr. 28/15485.

On rebuttal, Postal Service witness Baron comes up with a new twist: he ignores Glick's flats correction and claims the entire problem is within the letter distribution keys. He adopts the Postal Service's original and flawed flats distribution key. Tr. 33/17752-53, 17829. Unfortunately, Baron has erred -- there is a problem in both his flats and letters distribution keys. With incorrect letter and flats keys, the letter and flat markup figures he uses to rebut Glick are also wrong.<sup>1</sup> Glick's solution to the letter/flat disparity is correct.

On cross-examination, Baron backed off somewhat from his enthusiasm for his flats distribution key. Tr. 33/17828-29. The flats distribution key proposed by Glick should be adopted. Not only is Glick's flats key consistent with the only reliable rural carrier volume data, the NMC, but it also generates reasonable results within the parameters specified

---

<sup>1</sup> This explains why the markups in Baron's Tables 1 and 2 are wrong. Tr. 33/17756,58. Since the volume inputs are wrong, the markups, perforce, must be wrong.

by Baron himself -- relatively equal markups of distributed over evaluated cost. Tr. 33/17751-52, 17816, 17823-24, 17827.

Another difference between the Baron and Glick solutions is the method used to adjust the Letters Delivered and DPS distribution key. It is necessary to correctly calculate the ratio of DPS/SS letters to total letters (DPS ratio) to make this adjustment. Tr. 33/17831. However, Glick and Baron disagree upon the way to determine rural DPS letter volume. Tr. 33/17754; Tr. 28/15496. Glick's is clearly the better approach. To determine the volume of DPS rural letters for RCCS, witness Glick analyzed FY 1996 rural DPS letter volumes using NMC data. Specifically, he found that 22.5 percent of FY 1996 rural letters in the NMC were DPS letters and 77.5 percent were non-DPS letters. Tr. 28/15496.

Baron, on the other hand, determined rural DPS letter volume through the use of systemwide DPS percentages from mail processing models that pre-date 1995. On cross-examination, Baron conceded that there were several flaws with his DPS percentages. First, Baron's DPS percentages are based on data that pre-date 1995. Tr. 33/17808. This is particularly problematic because the Postal Service is currently delivery point sequencing a great deal more mail than it did in FY 1993 and 1994. USPS-T-4 at 8. Second, Baron's DPS percentages are systemwide percentages that are not specific to rural delivery. Tr. 33/17825. By using these percentages, Baron implicitly assumed that rural DPS percentages are the same as the systemwide average without providing any evidence that this is the case.

Finally, Baron's DPS percentages are clearly inconsistent with the Postal Service's own data. His DPS percentages indicate that the Postal Service did not delivery point sequence any Periodicals letters or Standard A ECR letters in FY 1996. This is clearly not the case. Tr. 33/17802-03, 17830-17831. Hence, based on this record, the evidence is overwhelming that Glick's estimates of DPS volumes and his mail shape adjustment are preferable to those of Baron.<sup>2</sup>

---

<sup>2</sup> Witness Baron indicated that his mail shape adjustment resulted in a smaller letter-flat disparity. Tr. 33/17758. His analysis is, however, based on his faulty DPS percentages. Tr.33/17831. Because Glick's DPS percentages are accurate, his analysis of the letter-flat disparity is most reasonable and his mail shape adjustment is appropriate.

Because Baron's DPS percentages are clearly inaccurate, they should not be used to develop the letters delivered or DPS distribution keys. In rebuttal testimony, witness Crowder (ADVO-RT-1) proposed more reasonable keys. She proposed to distribute the sum of all rural letter costs (DPS, Sector Segment and letters delivered) on the basis of total letters from the RCCS. Tr. 34/18342. In the absence of better subclass data, this is the most reasonable path for the Commission to follow at this time.

Respectfully submitted,



---

James R. Cregan  
Magazine Publishers of America  
Suite 610  
1211 Connecticut Avenue, N.W.  
Washington, D.C. 20036  
(202) 296-7277  
(202) 296-0343 [Fax]

## CERTIFICATE OF SERVICE

I hereby certify that I have this date 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

Washington, D.C.  
April 1, 1998