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

SPECIAL SERVICES FEES AND CLASSIFICATIONS) Docket No. MC96-3

REPLY BRIEF OF

THE OFFICE OF THE CONSUMER ADVOCATE

TO THE

POSTAL RATE COMMISSION

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The Office of the Consumer Advocate (OCA) hereby submits its reply brief in this proceeding. The OCA believes that its initial brief deals with the issues of this case in a satisfactory manner. Nevertheless, we will reply to certain arguments of the Postal Service. Failure to address a specific argument should not be construed as acquiescing in that argument.

I. THE COMMISSION IS PRECLUDED FROM APPLYING STATUTORY PRICING FACTORS BY THE SELECTIVE NATURE OF THE POSTAL SERVICE'S REQUEST

The Postal Service believes that low test year before rate cost coverages for post office boxes (100 percent), certified mail (102 percent), and return receipts (127 percent) support the need for the proposed rate increases because such adjustments were deferred in the last general rate case. USPS Initial Brief at 8. The OCA's initial brief addresses the inconsistencies of this argument at pages 29-30 and 41. The Postal Service itself addresses this argument in a pleading it filed in Docket No. C97-1. According to the Postal Service, if an issue related to rate levels could have been litigated in R94-1, it cannot be relitigated now. Docket No. C97-1, Motion of the USPS for Summary Dismissal of Complaint, December 5, 1996, at 2-3.

The Postal Service implies that if the Commission denies the $339.4 million additional net revenues requested, then the Commission is effectively requiring the Postal Service to postpone implementing good ideas for reforming postal products until the next omnibus rate case (which is precisely what the Postal Service is arguing in C97-1); and, insisting that limited rate cases be held to a standard of "revenue neutrality," which would have unbusinesslike consequences. USPS Initial Brief at 8. The OCA's initial brief discusses the fallacy of this argument at pages 30, 34-35, 43, and 46.

A. The Postal Service's Goal For Restoration Of Equity Is Being Met Without The Additional $339.4 Million Requested

The Postal Service claims that a net revenue increase promotes the Postal Service's financial policy objectives which include the goal of recovery of prior years' losses (RPYL) so as to break even over time. USPS Initial Brief at 9. The OCA's initial brief opposes this argument at page 46.

The Postal Service believes that slavish adherence to a concept of revenue neutrality does not make good business sense. Additionally, the USPS grumbles about the OCA's suggestion that two necessary conditions must be present in order to consider selective rate increases appropriate. USPS Initial Brief at 9. The OCA opposes this argument as explained at pages 40-43 of our initial brief.

"A Report on the Need for Equity Restoration and the Recovery of Prior Years' Losses," USPS Library Reference SSR-112, recommended "ratemaking reform initiatives such as demand-based pricing, experimental testing of new products, and procedural adjustments which would allow the Postal Service to react more quickly to market changes and revenue needs." USPS Initial Brief at 10. The OCA opposes this argument as explained at pages 42-43 of our initial brief.

In response to USPS Library Reference SSR-112, the Board of Governors, in Resolution No. 95-9, "affirm[ed] the Postal Service's commitment to the goals of breaking even over time and taking actions to improve its equity position." Witness Lyons states that approving the Docket No. MC96-3 filing will allow the Postal Service to take advantage of its strong performance and continue restoring equity at a faster rate than anticipated in Docket No. R94-1, as well as achieve the Board of Governors' Resolution No. 95-9. USPS Initial Brief at 10-11. The OCA opposes this argument as explained at pages 27-30 of our brief.

According to the Postal Service, enhancement of its ability to recover PYL would work to the benefit of all customers in the future. As PYL are reduced, the amount for recovery of prior years' losses through rates and fees will be reduced. USPS Initial Brief at 12. The OCA rebuts this argument at pages 25-27 of our initial brief.

B. Postal Service Claims That Increased Net Revenues Will Promote Future Rate Stability Do Not Warrant Targeted Rate Increases

Higher cost coverages for post office box and caller service, certified mail and return receipts would tend to diminish the need for future increases for these services and moderate future rate increases. USPS Initial Brief at 13-14. The OCA addresses this inequitable "benefit the many at the expense of the few" argument at pages 25-27 of our initial brief.

C. Postal Service Claims That Targeted Rate Increases Allow For More Efficient Use Of Resources And Better Data Analysis Are Merely Smoke Screens For Divide-and-Conquer Ratemaking

The Postal Service argues that the selective nature of the proposals in Docket No. MC96-3 allows it to: (1) manage limited resources more effectively; (2) control timing, (3) develop studies and analyses to support reforms, and (4) achieve the filing goals as stated in witness Lyons' testimony. Additionally, litigating special service reforms outside of an omnibus proceeding allows the proposals to be addressed and not overshadowed by other rate and classification matters. USPS Initial Brief at 14. If these arguments were legitimate, they would apply equally to Docket No. C97-1. The OCA focuses on these "divide-and-conquer" arguments at pages 39-40, and 46-47 of our initial brief.

D. The Targeted Rate Increases Proposed In This Docket Are Not Supported By Statutory Pricing Factors

In Docket No. MC96-3, the Postal Service claims its proposed cost coverages are consistent with the Docket No. R94-1 systemwide cost coverage of 157 percent. USPS Initial Brief at 14-15. It is meaningless to compare a systemwide cost coverage established in Docket No. R94-1 with the cost coverages proposed in Docket No. MC96-3—both have different test years. The Postal Service implies that the Docket No. R94-1 cost coverages for post office box, caller service, and certified mail were previously not properly established. USPS Initial Brief at 15. The Postal Service takes the opposite side of this argument in Docket No. C97-1. As stated in the OCA's initial brief at pages 38-40 and 42-43, "[r]ates established in an omnibus rate case filing . . . are fair and equitable."

The Postal Service states that if special service cost coverages must be established with reference to other cost coverages, the information is available to do so. USPS Initial Brief at 15. The OCA explains the fallacy of this argument at pages 37-39 of our initial brief.

E. The Nonstandard Surcharge Case Does Not Provide Support For Non-Cost-Based Fee Increases

The Postal Service relies heavily on the Commission's opinion and recommended decision in Docket No. R78-1 to support the Service's view that fee increases intended solely to generate significant increases in net revenue are appropriate outside a general rate case. However, the increased net revenues in R78-1 were the direct result of recognizing attributable cost differences between new, shaped-based rate categories. Docket No. MC96-3 does not involve recognition of attributable cost differences. It does not even involve significant classification changes.

As the Postal Service itself notes in its initial brief, the increased net revenues sought in MC96-3 flow almost entirely from "increased contribution to institutional costs for post office boxes, certified mail, and return receipts . . . ." USPS Initial Brief at 7. For these particular special services, the Postal Service proposes neither meaningful classification changes nor realistic recognition of attributable cost differences. As a practical matter, the Service is simply proposing large rate increases for existing special services that are already covering their attributable costs.

The Postal Service quotes the following sentence from the Commission's R78-1 opinion at page 12 of its initial brief:

> If the recommended seven cent surcharge does indeed result in a surplus for the Postal Service for a fiscal year it will offset prior year losses which, as we indicated, now equal $3,843 million.

This statement was made at a time when the Postal Service had just lost $379 million ($1.2 billion adjusted to FY 1996, *see* USPS Initial Brief at 12, n.15) and had no plan for recovering prior years' losses. Indeed, in its R80-1 opinion, the Commission determined that including an amount for recovery of prior years' losses in the revenue requirement was pointless, because the Service was not reducing, but rather increasing, its prior years' losses by failing to file rate cases when it began losing money. PRC Op. R80-1, para. 0141.

The financial circumstances that prompted the Commission to allow the Service to institute a cost-based surcharge in R78-1 without instituting countervailing reductions in other rates do not exist in 1997. The Postal Service has in place a plan to recover prior years' losses, and that plan is well ahead of schedule. Tr. 9/3359 (cross-examination of witness Lyons). The Postal Service has offered no good reason for accelerating its recovery of prior years' losses, and the Commission's opinion in R78-1 does not provide one.

II. THE POSTAL SERVICE HAS FAILED TO SUPPORT ITS COST ATTRIBUTIONS WITH SUFFICIENT EVIDENCE

The Postal Service devotes a significant portion of its initial brief to arguing that the Commission cannot use its own costing methodology in this proceeding. The basis for this claim is that the library references containing Commission-approved cost attributions are not in evidence. Unfortunately, the same must be said of the Postal Service's cost data. The derivation of the Service's attributable costs appears in library references that are not evidence.

A. Cost Attribution And Distribution Are Not The True Starting Points For Postal Ratemaking

The Postal Service claims that the joint starting points for postal ratemaking are cost attribution and distribution. USPS Initial Brief at 16. This is not quite accurate. The starting points for cost attribution and distribution are the statistical data collection systems that are used to build attributable costs. As stated previously, "The testimony of Postal Service witnesses Patelunas and Lyons relies heavily upon the ongoing statistical revenue and cost systems." OCA Initial Brief at 59. Since these statistical systems are the starting points for postal ratemaking, it is critical that these systems be fully documented in any Commission proceeding. They are not. See generally OCA Initial Brief, section II.

B. The Postal Service Did Not Provide Material Underlying Its Costing Information In Its Initial Filing

In its initial brief, the Postal Service states,

> In this docket, the Postal Service has presented costs for all classes and subclasses of mail and special services for the base year, the test year before rates and the test year after rates, using its traditional CRA costing methodology. *See* USPS-T-5. This costing information is presented in full compliance with Commission rules and provides sufficient information for cost coverage comparisons.

USPS Initial Brief at 28. The Postal Service goes to some length to explain why it believes that it has satisfied the requirements of Rule 54. However, there are more rules than Rule 54 that must be satisfied in a mail classification request. For example, Rule 63 specifically states that the rules of evidence outlined in Rule 31 apply. In spite of this requirement, the Postal Service continues to provide sub-par documentation of the statistical systems it relies on for production of the costing information provided to satisfy Rule 54. See generally OCA Initial Brief, section II.

In fact, Rule 31(k)(2) specifically requires "clear and accurate description of the sample design, estimation methodology, and measures of sampling error associated with estimates." OCA Initial Brief at 50, footnote omitted. The documentation for each of the ongoing cost systems was deficient in these documentation requirements. OCA Initial Brief, section II.B.

The Postal Service considers that it satisfies the requirements of (current) Rule 54, because the rule does not require "that the Postal Service present its costs in a specific manner or in accordance with a specific costing methodology." USPS Initial Brief at 28. This is a technicality of Rule 54 which will hopefully soon be corrected in Docket No. RM97-1. See OCA Initial Brief at 18-19.

C. The Commission's Cost Model Programs Can Replicate Postal Cost Models

The Postal Service quotes the OCA as stating, "The Commission's cost models have consistently replicated the Postal Service's distribution and projection of costs from case to case." USPS Initial Brief at 38. Then the Postal Service goes on to state, "The Commission's cost models most certainly do not 'replicate the Postal Service's distribution and projection of costs' as evidenced by the Commission's use and the Postal

Service's rejection of the single subclass costing approach." Id.

Clearly, the two costing methods differ in their treatment of single subclass costing. It is also clear that the Commission's cost models can replicate the Postal Service's costs very closely. In particular, the Commission's library reference for MC96-3 demonstrates an extremely high level of agreement with witness Patelunas' cost figures when single subclass methodology is not used. See PRC-LR-2 (revised), section II, Replication of USPS FY 1995 Base Year and FY 1996 Test Year, pages 1-2. The largest discrepancy between the two models is only -$14,000 for the base year and $73,000 for the test year.[1] It is in this sense that the OCA characterized the two methodologies as producing almost identical cost distributions and forecasts.

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[1] For the base year, the Commission model calculates costs of $7,496,041 thousand and the USPS model calculates $7,496,055 thousand for Third-Class total, a discrepancy of -0.00019 percent. For the test year, the Commission's model calculates costs of $14,294,445 thousand and the USPS model calculates $14,294,372 thousand for First-Class letters and parcels, a discrepancy of 0.00051 percent. See PRC-LR-2, Attachment 1.

III. THE POSTAL SERVICE'S FEE PROPOSALS FOR POST OFFICE BOXES, AND ITS PROPOSED NONRESIDENT SURCHARGE, ARE IRREPARABLY FLAWED AND CANNOT BE RESCUED ON THIS RECORD

On brief, the Postal Service struggles mightily to find support in the record for its proposed post office box fees and the nonresident surcharge. Its justifications rely on anecdotal evidence in the record. *See* OCA Brief at 110-15. OCA believes that the Postal Service claims are unsubstantiated or constitute pure speculation. *See* OCA Brief at 115-16; *see also* id. at 121-23.

In this classification proceeding, the Postal Service fails to address the unfairness and inequity underlying the existing delivery group fee structure.[2] That fee structure "allocates higher costs to rural areas, and lower costs to urban/suburban areas, resulting in unfairly higher fees in rural areas." OCA Brief at 88. The Postal Service acknowledges the problem on brief but misrepresents its proposal as "prepar[ing] the way for possible future reforms..." However, the cited reforms are nowhere in evidence. USPS Brief at 56. The Commission should disregard such posturing.

[2] As discussed in OCA's Brief at 89-93, the Postal Service has been aware of the inequity of the underlying fee structure for some time. *See* Docket No. R90-1, LR-F-183.

While failing to address the existing fee structure's underlying defects, the Postal Service struggles to defend higher fees for all boxholders, and a surcharge for nonresidents, in order to alleviate localized problems of box shortages. Most of the Postal Service's justifications have been thoroughly discredited by OCA on brief. Nevertheless, several points raised in the Postal Service's brief warrant a reply.

A. The Record Evidence Is Inadequate To Support The Postal Service's Higher Box Fees For Group I Boxholders Or The Nonresident Surcharge

1. The PO Box Study has been misused

The Postal Service properly relies on the PO Box Study to determine the number of boxes in use. However, other Postal Service conclusions drawn from the study are misleading or limited in usefulness.

According to the Postal Service, the PO Box Study "sheds light on capacity utilization of post office boxes." USPS Brief at 48. Witness Lion's testimony, which contains calculations based on the study of different capacity utilization ranges for boxes, is also cited. Id. at 49. However, these capacity utilization rates are not useful since the Postal Service has presented no evidence as to which of the many capacity utilization rates is the *actual* rate for postal facilities nationwide. Is full capacity 85 percent, 90, 95, 98 percent or some other figure? The Postal Service has no evidentiary basis for choosing one figure as more correct than others.[3] Consequently, an assumption of full capacity at anything less than 100 percent of installed boxes is wholly speculative. Tr. 9/3536.

The Postal Service mounts a meager defense of another of its measures of capacity constraint, i.e., that 38 percent of post offices face a capacity constraint in at least one box size. USPS Brief at 48. There, the Postal Service quotes approvingly from witness Lion that there are "'many potential measures' that can be used to evaluate box capacity." Id. (citation omitted). As a general proposition, this is true. However, some measures are more useful than others. The 38-percent figure is far down the scale of relevance. It stands as a misleading measure of capacity constraint that grossly exaggerates the difficulty

[3] There is no clearer statement on the absence of data than LR-SSR-113, which contained the PO Box Study survey data collection form. LR-SSR-113 at 4-5. While the survey form collected box data on "# Rentable Today," that data "was deleted because reviews of the hard copy returns showed misleading and/or inconsistent reporting . . . ." Id. at 7.

potential boxholders face obtaining box service. *See* OCA Brief at 117-19.

2. The Postal Service's justifications for higher Group I fees are not consistently applied or supported by the evidence

The Postal Service argues that higher fees for Group I boxes are justified for "business reasons." USPS Brief at 56. Specifically, fee increases of 25 percent for box sizes 1 through 3, and lesser increases for box sizes 4 and 5,[4] are claimed to be necessary to 1) encourage customers to shift to larger boxes, 2) minimize postal-related business loss arising from flight of users of larger boxes, and 3) help justify box expansion. The latter goal is merely theoretical since the Postal Service has made no commitment to expand box service at post offices with known shortages. OCA Brief at 102.

Although the Postal Service professes that it wishes to encourage customers to shift to larger boxes, its fee proposal is inconsistent with that goal. OCA witness Sherman shows that the Postal Service's proposed fees encourage "use of the smallest

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[4] The Postal Service claims (without reference to the nonresident surcharge) that "the increases for box size 5, Groups A and B, are designed to cover costs . . . ." USPS Brief at 57. In point of fact, they do not. Neither the USPS nor OCA proposed fees for box size 5 in Groups A or B would cover cost. Tr. 5/1541.

boxes through lower cost coverages, as well as the largest boxes, so the goal of encouraging use of larger boxes is not consistently served." Tr. 7/2301. Moreover, the below-average cost coverage for the smallest boxes "is counter-productive and contributes to box shortages." OCA Brief at 99.

With respect to reason 2), the Postal Service claims that "[u]sers of large boxes are likely to take more of their postal-related business away, if they give up their post office box, than smaller customers . . . ." USPS Brief at 57. The Postal Service provides no evidence to support its claim. Most postal-related business that an individual or small business customer might conduct at a post office during a visit to pick up box mail would involve First Class (i.e., the purchase of stamps or mailing of a letter). That business clearly cannot be diverted to CMRAs. The instances when parcels are shipped (via either the Postal Service or a competitive carrier) tend to be infrequent and of so little significance that no account need be taken of them in setting fees for box size 5.

3. There are no nationwide box shortages for those fee cells in which OCA proposes fee reductions

According to the Postal Service, the OCA's proposal to maintain or reduce fees for Group I boxholders is "bad business practice." USPS Brief at 59. Specifically,

> OCA's proposal for Group I fees would not provide any added incentive to expand box availability where demand warrants.

USPS Brief at 59.

The reality is that "demand" does not warrant higher fees because box availability is not a problem. Table 1, derived from the "pivot" tables in LR-SSR-157, shows the proportion of all post offices at capacity (where capacity equals 100 percent of boxes installed) by delivery group and box sizes for those cells in which fees will be reduced under OCA's proposal.

Table 1

	Box Size				
Delivery Group	1	2	3	4	5
1A		0.01%	0.03%		
1B		0.08%	0.09%		
1C	3.26%	2.76%	3.09%	3.81%	3.07%
Total	3.26%	2.85%	3.21%	3.81%	3.07%

As this table demonstrates, box shortages are close to zero for Groups IA and IB and are insignificant for Group IC. On a nationwide basis, only 0.01 percent of all post offices may be found in Group IA, with a constraint in box size 2. Even in Group IC, where box fees are being reduced an average of 22.5 percent,[5] less than 4 percent of offices are at capacity for any particular box size.

Table 2 shows the same analysis, representing the proportion of offices at capacity by group and box size where capacity equals 98 percent of boxes installed. In Group IC, Table 2 reveals that less than 8 percent of offices are at capacity for any particular box size.

Table 2

	Box Size				
Delivery Group	1	2	3	4	5
1A		0.01%	0.04%		
1B		0.10%	0.09%		
1C	7.92%	4.97%	3.80%	3.88%	3.07%
Total	7.92%	5.08%	3.93%	3.88%	3.07%

4. OCA has taken account of the impact of its proposed box fees on CMRAs.

The Postal Service argues that "witness Callow ignores a potential for adverse impact on CMRAs . . . ." USPS Brief at 59. In making this argument, the Postal Service conveniently ignores the logic of OCA's proposal.

[5] *See* OCA-LR-3 at 5.

Witness Sherman explains that re-examination of the pricing criteria is appropriate in an omnibus rate case. Tr. 7/2270-2305 (testimony of witness Sherman). Moreover, the cost coverage for post office boxes in the test year before rates is 100 percent. USPS-T-1, Exhibit C. Similarly, OCA's 101 percent cost coverage is virtually equal to the test year cost coverage resulting from the current fees recommended by the Commission. As a consequence, OCA's fee proposal takes into account the level of CMRA fees to the same extent as current fees. Tr. 5/1572. Since OCA's proposed box fees are designed to produce a cost coverage that is contribution neutral, OCA never intended to second-guess the Commission's consideration of pricing criterion (b)(4).

5. The OCA's proposal to eliminate disparities in cost coverage by group and box size is one of the many advantages of OCA's proposal over the Postal Service's proposal

The Postal Service makes no defense of its box fee proposals, which perpetuate disparities in cost coverage by group and box size. *See* OCA Brief at 95-99. The Postal Service fails to acknowledge OCA's improved fee design, which corrects this flaw in the Postal Service's fee proposal and creates a more fair and equitable fee schedule for boxes. *See* OCA Brief at 170-71.

6. The Postal Service's cost coverage for post office boxes is seriously understated and will not prompt an expansion of box service

The Postal Service asserts that a higher cost coverage is warranted "for post office boxes to make an adequate contribution to institutional costs," and for other purposes, such as expansion of box service where necessary. USPS Brief at 72. OCA explains on brief why a contribution neutral cost coverage is the only correct approach. *See* OCA Brief at 160-61. It also warns that expansion of box service is by no means an inevitable consequence of higher box fees, since the Postal Service has made no commitment to expand box service even though it has sufficient revenues to do so. OCA Brief at 99-103. Without such a commitment, the Commission should disregard any Postal Service representations that higher fees create greater incentives for local postal managers to install boxes.

The Postal Service's estimates for post office box revenues and cost coverage are seriously understated. If adopted by the Commission, the Postal Service's fee proposals will likely generate $127 million more in revenue than the Postal Service calculates, and a much higher cost coverage of approximately 147 percent. OCA Brief at 167-69.

7. The nonresident surcharge is unfair and inequitable and not supported by substantial evidence in the record

The Postal Service struggles in vain to justify the nonresident surcharge. Its efforts on brief constitute pulling together bits and pieces of anecdotal or unsupported testimony. These efforts are futile, as alleged justifications for the surcharge have been thoroughly discredited. OCA Brief at 107-131; *see also* Carlson Brief at 2-30. Nevertheless, several points deserve discussion.

On brief, the Postal Service asserts that

> Together, Mr. Landwehr's and Ms. Needham's testimonies provide substantial record evidence that nonresident customers place unusual, costly demands on the operation of post office box service.

USPS Brief at 68. The Postal Service's assertion is without basis in the record.

The testimonies of witnesses Landwehr and Needham can only be described as anecdotal. Neither witness is able to demonstrate that the "qualitative descriptions of operational difficulties" exist on a nationwide basis or are sufficiently widespread to justify a nationwide nonresident surcharge. OCA Brief at 111.

Moreover, assertions by witnesses Needham and Landwehr of greater costs and a "greater frequency" of problems arising from nonresident boxholders are contradicted by other Postal Service witnesses. For example, witness Lion's testimony contradicts any allegations by witness Needham that nonresident boxholders "have a cost impact." USPS Brief at 67. There are no known attributable cost differences associated with providing box service to nonresidents. OCA Brief at 109. Witness Ellard, in oral testimony, contradicts assertions by witness Landwehr that nonresident boxholders create operational difficulties with greater frequency than residents. Assertions of "greater frequency" require knowledge of the behaviors of both resident and nonresident boxholders. Such information was not obtained by the Postal Service. OCA Brief at 113-14.

> The Postal Service contends that nonresidents must
>
> place a greater value on box service than do residents. If such customers did not, they would travel less instead of more and obtain box service at a location closer to their residences.

USPS Brief at 68. The Postal Service's statement represents pure speculation. It did not contact or interview nonresident boxholders to determine the reasons nonresidents seek box service outside their local delivery area. Tr. 3/677. Moreover, election of nonresident box service may be a reaction to limited box section hours at their local delivery office or poor delivery service. Tr. 5/1546; *see also* Carlson Brief at 26-27.

The Postal Service is correct that the "fairness and equity of the nonresident fee[] should be evaluated in terms of its impact on groups of boxholders . . . ." USPS Brief at 69. Using this standard, one can only conclude that the nonresident surcharge is unfair and inequitable. The Postal Service has not established that nonresident boxholders engage in cost-causing behaviors that are different in kind than residents, or that nonresidents engage in those or other activities in a significantly greater frequency than residents. *See* OCA Brief at 111-14. Moreover, implementation plans for the nonresident surcharge discriminate against nonresident boxholders from smaller communities who are similarly situated to boxholders in larger communities. *See* OCA Brief at 126-28; *see also* Carlson Brief at 12-18.

IV. OCA OPPOSES POSTAL SERVICE PROPOSALS TO INCREASE SPECIAL SERVICE FEES

A. The Commission Must Reject The Postal Service's Proposal To Increase The Certified Mail Fee By 36 Percent

OCA argued at length in its initial brief that fee increases of the type proposed for certified mail, i.e., increases solely for the purpose of generating revenue, must be rejected. OCA Initial Brief (OCA Brief) at 23-48. The attempt to impose a "pure price increase" on certified mail users is simply one manifestation of the behavior condemned by OCA at 32, i.e., that the Postal Service behaves like a profit-maximizing private retailer. The Postal Service makes the surprising assertion that it is appropriate for a public service institution to emulate the profit-maximizing behavior of companies such as McDonald's or Burger King. OCA Brief at 33.

Witness Needham's assertions about reflecting the high value and premium character of certified mail service in high cost coverage levels raise issues that must be deferred to the next omnibus rate case when *all* services may be examined simultaneously—so that a complete set of rates conforming to the pricing criteria of 39 U.S.C. § 3622(b) may be established. OCA Brief at 37-38.

The Postal Service's reliance upon market research to confirm that private alternatives to certified mail are available only at much higher prices demonstrates the profit-maximizing, monopolistic aspirations of the Service. OCA Brief at 147-48.

OCA also explained why any action upon witness Needham's allegations—that errors in the calculation of certified mail's cost coverage warrant a substantial price increase for certified mail—must be deferred until the next omnibus rate case. OCA Brief at 131-146. She makes the extraordinary claim that in every omnibus rate case from Docket No. R84-1 through R94-1 Postal Service pricing witnesses and the Commission have made errors in their calculations of this cost coverage. Her position became apparent only after scheduled discovery on the Postal Service's direct case had ended. Consequently, no participant was ever able to probe thoroughly the bases for these claims. No action should be taken by the Commission until this claim can be fully explored in the next omnibus rate case.

The Postal Service cites witness Sherman's testimony for the proposition that "past errors in setting the certified mail fee serve as a justification for increasing the certified mail fee." USPS Initial Brief at 80. However, this misrepresents his position, as is evident from later questioning of him on this point by Chairman Gleiman at Tr. 7/2480-81. As OCA stated in its initial brief, witness Sherman's position is that "making up for such shortfalls with certified mail fee increases should only occur (if at all) at a very slow, deliberate pace over a series of rate proceedings." OCA Brief at 144.

The two operational improvements cited by the Postal Service as justification for the 36 percent fee increase are far too insignificant to warrant *any* increase in this fee, let alone an increase of the magnitude proposed. Adding a "print name" block to the delivery receipt for certified mail may be of marginal utility to a small percentage of certified mail purchasers.[6] It is reasonable to assume, however, that most certified mail purchasers know the name of the recipient to whom the mailpiece is addressed and would be able to read (or decipher) the signature based upon this prior knowledge. Furthermore, witness Needham has presented no evidence that a large number (or percentage) of certified mail purchasers have difficulty reading the signature alone.

[6] The same reasoning applies to the Postal Service's justification of a higher cost coverage for return receipt service on the same ground. See Tr. 5/1767 (response of witness Collins to interrogatory USPS/OCA-T400-33).

The addition of fluorescent tags to certified mail labels offers operational advantages to the Postal Service, in particular, the enhanced ability of "the Postal Service to transfer certified pieces to the accountable mailstream." Postal Service Brief at 82. However, requiring certified mail customers to pay higher prices for this enhanced capability is clearly inequitable since they do not benefit directly from the change; i.e., the benefit runs chiefly to the Postal Service. These "operational improvements" are an insufficient ground for *any* increase in the certified mail fee.

B. OCA Recommends Adoption Of The Classification Change For Non-Merchandise Return Receipt, But Without The Fee Increase

OCA is unopposed to several of the changes for return receipt that have been proposed by the Postal Service. For example, limiting return receipt for merchandise service to Priority Mail and specified Standard Mail subclasses appears reasonable.[7] We favor collapsing the "no address" and "with address" options into a single "address only if different"

[7] OCA witness Collins expressed reservations about eliminating the address option for merchandise return receipt customers since they choose this option at a much higher rate than non-merchandise customers. This is discussed at 152-53 of the OCA Brief.

service, but only on the firm condition that no price increase be imposed as part of the change. OCA Brief at 150-52.

The Postal Service argues, in its initial brief, that its "sincere determination to improve return receipt service" warrants a fee increase for return receipt. Postal Service Brief at 92. This is an extraordinary position for the Service to take and is accompanied by an even more surprising set of statements that, implicitly, in the past: (1) employees have not been "providing the high quality service customers expect", (2) service must be improved, and (3) employees have been confused about whether the customer is the sender or the addressee. Until the Postal Service is able to offer tangible proof that these exhortations to delivery managers have resulted in correction of past service deficiencies, it is very clear that no increase in return receipt fees can possibly be justified.[8]

C. OCA Challenges The Postal Service's Contention That The Record Amply Supports Its Proposal To Impose A Stamped Card Fee On Postal Card Users

The Postal Service proposes the creation of a two-cent stamped card fee intended to impose the manufacturing costs of

[8] In fact, the statements made in the brief and on the record probably make the case for fee *reductions* for return receipt. However, OCA is not making this recommendation at the present time.

postal cards exclusively on postal card users. While this proposal has a superficial appeal, upon closer examination, it is seen to be both unfair and uneconomic. OCA Brief at 153-59. The Postal Service refuses to acknowledge that the processing costs of private cards are more than twice those of postal cards. See Id. at 157. It is irrational for the Service to introduce a fee that will (according to witness Sherman) discourage the use of highly efficient postal cards and encourage the use of relatively inefficient private cards.

V. OCA IS UNOPPOSED TO SEVERAL OF THE CLASSIFICATION CHANGES PROPOSED BY THE POSTAL SERVICE

A. The Postal Service Correctly States In Its Brief That No Participant (Including OCA) Challenges The Extension Of Insurance To Higher Value Articles

OCA witness Sherman favors the extension of insurance coverage to higher value articles. Tr. 7/2283 (OCA-T-100 at 12). However, OCA witness Collins questions whether the insurance fees charged by the Service will need to be so high in the future, once data is collected on the actual costs associated with these higher insurance levels. Tr. 5/1715-19 (OCA-T-400 at 26-30). She urges the Commission to direct the Service to gather the data needed to evaluate the costs and fees of insurance in future proceedings. Id. at 1722 (and 33).

B. OCA Witnesses Find The Postal Service Proposal To Reduce Express Mail Document Reconstruction Coverage Reasonable

Although the reduction in the indemnity limits for Express Mail document reconstruction (both per occurrence and per piece) makes the insurance service offering "less attractive," witness Sherman believes that the current indemnity levels are "probably inappropriate" and that the proposed offerings "seem[] adequate." Tr. 7/2285 (OCA-T-100 at 14).

OCA witness Collins generally concurs in this conclusion. However, she advises the Commission to proceed with caution in its determination of how severe the reductions ought to be. Tr. 5/1720-22 (OCA-T-400 at 31-33). She adds that data collection will be a crucial part of future evaluations of appropriate indemnity levels.

C. The Proposed Classification Change For Registry Appears To Be Beneficial

The Postal Service correctly states that the record before the Commission, concerning registry, is uncontroverted. OCA witness Sherman's testimony on this issue reflects his belief that the proposed change is beneficial and appears to redress past rate disparities. Tr. 7/2285-88 (OCA-T-100 at 14-17).

D. OCA Is Unopposed To The Elimination Of Special Delivery Service

OCA witness Sherman reviews the Postal Service's reasons for withdrawing special delivery from its menu of services and concludes that "this might be a wise course." Tr. 7/2283 (OCA-T-100 at 12). The "declining usage of special delivery" and "its inability to contribute above its attributable costs" appear to make continued availability of this service undesirable.

Respectfully submitted,

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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.

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