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UNITED STATES OF AMERICA  
Before The  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Mailing Online Experiment

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Docket No. MC2000-2

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REPLY BRIEF

OF

THE OFFICE OF THE CONSUMER ADVOCATE

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March 27, 2000

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The Office of the Consumer Advocate ("OCA"), pursuant to Rule 34 of the Rules of Practice and Procedure of the Postal Rate Commission ("Commission"), 39 C.F.R. §3001.34, and pursuant to Ruling No. MC2000-2/3,<sup>1</sup> hereby submits its Reply Brief in response to the Initial Brief filed March 15, 2000, by the Postal Service<sup>2</sup> and the Initial Brief filed jointly by Mail Advertising Service Association International ("MASA") and Printimage International<sup>3</sup> on the Service's Request for a Recommended Decision on an Experimental Classification and Fee Schedule for Mailing Online.

EXECUTIVE SUMMARY

The OCA endorses the proposal to offer MOL on an experimental basis and hopes that the Postal Service will eventually make it a permanent addition to the

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<sup>1</sup> "Presiding Officer's Ruling Establishing the Procedural Schedule and Limitation of Issues," December 21, 1999.

<sup>2</sup> Hereinafter, "Postal Service Brief."

<sup>3</sup> Hereinafter, "MASA Brief."

schedule of postal services. The OCA advocates an increase in the MOL information technology ("IT") fee to reflect the product-specific costs of MOL in the attributable cost basis of the fee. This is consistent with the views of the Commission on attribution of specific fixed costs. Moreover, the OCA believes that the cost coverage should remain at 130 percent in the event that product-specific costs are included in the IT charge. Witness Plunkett's proposed 130 percent cost coverage is preferable given the uncertainty about MOL's ability to realize the substantial volumes estimated by witness Rothschild in Docket No. MC98-1.

The OCA notes that the IT fee does not include any of the unrecovered costs from the earlier MOL operations and market tests. Contrary to the Postal Service's argument, the Commission would be justified in including the operations test costs and excess market test costs of MOL as an element of the costs to be recovered during the experiment. This view would be in keeping with the Commission's treatment of similar cost shortfalls in Docket No. R83-1, the E-COM case.

Finally, the OCA stands by its recommendation in its Initial Brief that several specific requirements be included in the MOL data collection and reporting plan.

#### STATEMENT OF THE CASE

The OCA presented a statement of the case in its Initial Brief at pages 3-6.

#### STATEMENT OF POSITION OF THE OFFICE OF THE CONSUMER ADVOCATE

The OCA finds that there is considerable agreement between its position and that of the Postal Service and MASA. In some respects, the OCA has staked out the

middle ground between the two. The OCA agrees with the Postal Service that MOL is a worthwhile service that "is designed to meet needs of smaller customers who are underserved today."<sup>4</sup> That is one of the chief reasons the OCA supports the service.

MASA argues at length in its Brief that MOL would result in vertical integration of mail production and delivery, would create an unlawful bottleneck, and would squeeze the prices of its competitors. The OCA does not take a position on the issue whether MOL is anti-competitive. The OCA notes, however, that the price for production of mail will be the result of arm's length contracts between the Postal Service and the operators of specific print sites, and that the Postal Service has agreed to "functionally equivalent" language so that other services can present mail for delivery in competition with MOL. If the Commission nonetheless concludes that there are anti-competitive elements in the MOL service, the OCA urges the Commission to adopt conditions that will permit the Postal Service to offer this worthwhile service.

The OCA's disagreement with the Postal Service is primarily over the level of the IT fee. The Postal Service would include only the volume variable IT costs of the experiment, and would attempt to recover the product-specific IT and advertising costs solely by means of the markup on printing and IT fees. This is contrary to the Commission's interpretation of 39 U.S.C. §3622(b)(3). The OCA and MASA are in agreement on this point.

The IT fee as proposed by the Postal Service does not include any of the unrecovered costs incurred during the development of MOL in two earlier phases: the

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<sup>4</sup> Postal Service Brief at 22.

operations test phase and the market test phase. Both MASA and the Postal Service discuss this in their briefs. The OCA disagrees with the Postal Service's argument that including such costs is improper; indeed, the recovery of such costs in the IT charge would be in keeping with the policy articulated by the Commission in Docket No. R83-1.<sup>5</sup>

Finally, since the Postal Service has made a commitment to "continue with data collection as it was performed for the market test,"<sup>6</sup> there may not be significant differences between the Postal Service's and the OCA's positions on data collection. To the extent that the Postal Service may wish to collect and report less detailed information than was ordered by the Commission in its market test opinion, the OCA has urged the Commission (in the OCA Initial Brief) to specify the level of detail required in collecting and reporting. Prior to the filing of a permanent request for a MOL service (if, indeed, the Postal Service does so file), the OCA agrees with the Postal Service that semiannual reporting is satisfactory. At the time of, and subsequent to, a filing for a permanent request, however, the OCA recommends reporting on an AP basis. Although the Postal Service may argue that establishing such a schedule is premature, the OCA believes it prudent to anticipate data needs during a permanent request proceeding so that valuable discovery time is not lost while participants dispute the need for the data and the timing for filing the data. The OCA also points out one of

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<sup>5</sup> "Opinion and Recommended Decision on E-COM Rate and Classification Changes," Docket No. R83-1, issued February 24, 1984. Hereinafter, "E-COM."

<sup>6</sup> Postal Service Brief at 25. See also Tr. 2/101-04.

the primary objectives of Rule 67 is to prepare data that is suited to consideration of a permanent request.

## ARGUMENT

### I. THE PRODUCT-SPECIFIC STARTUP COSTS OF MOL SHOULD BE INCLUDED IN THE IT FEE

The Postal Service argues on brief that product-specific costs should be excluded from the cost base used for markups.<sup>7</sup> In recent proceedings, the Postal Service has cleaved to the view that marginal costs should be the basis for markups, not incremental costs. The Commission, on the other hand, construes 39 U.S.C. §3622(b)(3) differently, consistently holding that incremental costs come closest to the congressional conception of attributable costs.

In its Initial Brief, the OCA discussed at length the reasons why the product-specific costs of MOL should be included in MOL's attributable costs and marked up. The OCA agrees with the Commission's interpretation that 39 U.S.C. §3622(b)(3) "include[s] specific fixed costs under the rubric of attributable."<sup>8</sup>

Although witness Plunkett maintains that the product-specific startup costs are distinguishable from recurring product-specific costs, the Commission disagrees with that view. In Docket No. MC97-5, virtually the same contention was presented to the Commission and the Commission explicitly rejected it. In its MC97-5 Reply Brief, the Postal Service argued:

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<sup>7</sup> Postal Service Brief at 13-15.

<sup>8</sup> PRC Op. R97-1, ¶ 4016.



[T]he issues raised by the introduction of a new service, such as in this case, involve factual circumstances which are not typically present in more conventional rate cases. . . . Start-up costs for a new service are conceptually distinct from many other types of incremental costs because unlike, for example, non-marginal incremental carrier access costs, they will no longer be incurred after the start-up period is complete.<sup>9</sup>

[and]

The[] start-up expenses are better characterized as one-time expenses . . . rather than a recurring phenomenon such as is the case with single-subclass stop attribution.<sup>10</sup>

A nearly identical argument is made by the Postal Service in its MOL Initial Brief:

The nature of Mailing Online's product-specific costs is different from that of typical product-specific costs since they generally will not be incurred on an ongoing basis and will not recur. Until Mailing Online becomes an established service exhibiting typical recurring product-specific costs, it is important to distinguish between product-specific start-up costs and volume variable costs.<sup>11</sup>

The Commission's MC97-5 decision, which considered this same argument and dismissed it, is directly applicable precedent. No exception is made for product-specific start-up costs. They are a type of specific fixed cost that the Commission has held must be included in the attributable cost base to be marked up. The Commission states unequivocally that such costs must not be recovered by means of the markup since the purpose of the markup is to make a contribution to the Postal Service's institutional costs.<sup>12</sup>

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<sup>9</sup> "Reply Brief of the United States Postal Service," Docket No. MC97-5, filed January 27, 1998, at 10-11.

<sup>10</sup> *Id.* at 11, n. 6 (citations omitted).

<sup>11</sup> Postal Service Brief at 14 (citations omitted).

<sup>12</sup> PRC Op. MC97-5 at 45.

The Postal Service also argues that

[p]lacing the burden of recovering the up-front product-specific costs of system development entirely on the experimental period could be counter-productive. Attempting to recover all start-up costs in the experimental period would result in higher recommended fees for the experiment. Higher fees would inhibit demand for Mailing Online and therefore decrease the likelihood of its success.<sup>13</sup>

The real threat to the success of MOL is that the Postal Service will fail to make potential users aware of the service, as pointed out by the OCA in its Initial Brief.<sup>14</sup>

Whether the IT fee is 0.1 ¢, 0.5 ¢, or even 1.0 ¢, it is a small portion of the overall cost of an MOL mailpiece.<sup>15</sup>

Anticipating that the Commission may decide to apply its longstanding policy concerning specific fixed costs, the Postal Service argues that a lower cost coverage is in order if the IT fee is set at a level that includes product-specific costs.<sup>16</sup> Holding revenues at the level proposed by witness Plunkett in his Exhibit D, the Postal Service evidently is suggesting that an institutional cost contribution of 19.4 percent is adequate. The OCA has serious concerns about so low a markup for MOL.

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<sup>13</sup> Postal Service Brief at 14. A similar argument was made by the Postal Service in Docket No. MC97-5: "since packaging service is a new service, using start-up costs in the markup base could result in prohibitively high prices for packaging service in its introductory period." Postal Service Reply Brief (MC97-5). This argument was rejected by the Commission.

<sup>14</sup> OCA Initial Brief at 20-22.

<sup>15</sup> In any event, the Postal Service's argument is inconsistent with witness Plunkett's assertion that the Postal Service will recover the product-specific costs of MOL during the experiment. Tr. 3/457.

<sup>16</sup> Postal Service Brief at 14.

In its Initial Brief, the OCA explained that, given the very low advertising budget for MOL,<sup>17</sup> it is questionable whether the volumes estimated by witness Rothschild will be realized, thus calling into question whether the start-up costs of MOL can be recovered. As a margin of safety for a new service such as this, the Postal Service's proposal for a 130 percent cost coverage is preferable to the effective fallback of 119.4 percent coverage.

Furthermore, 130 percent moves the cost coverage closer to levels recommended in recent pricing recommendations for new services. In Docket No. MC97-5, for example, the Commission recommended a cost coverage set at the systemwide average of 157 percent.<sup>18</sup> Likewise, in Docket No. MC97-4,<sup>19</sup> a cost coverage of 156 percent was recommended. Consequently, for reasons of caution (uncertainty about volume estimates) and equity (establishing a cost coverage high enough that a reasonable contribution to institutional costs can be made), the OCA urges the Commission to apply a 130 percent cost coverage together with an IT fee that includes all product-specific costs.

## II. THE IT FEE DOES NOT INCLUDE MOL'S PREVIOUS START-UP COSTS

In its Initial Brief, the Postal Service makes an issue of the as-yet unrecovered costs of the MOL operations test and market test. These costs, the Postal Service

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<sup>17</sup> Only \$725,000 per year (USPS-T-2, Exhibit A, Table 7), compared to a \$4.67 million expenditure during the year-long market test see note 40, *infra*).

<sup>18</sup> PRC Op. MC97-5 at 49, and Appendix B at 7, section VI, "Commission Adjustments."

<sup>19</sup> PRC Op. MC97-4, "Bulk Parcel Return Service and Shipper Paid Forwarding Classifications and Fees" at 5.

asserts, should be excluded from the IT fee.<sup>20</sup> The Commission, however, may properly include these costs in the IT fee if it so chooses.

A. The Experiment Is Phase Three of a Four-Part Progression

The Postal Service states that it “does not include in the experimental cost base those costs incurred for prior versions of Mailing Online,” characterizing the hardware and software of version 3 of MOL as a “completely new system.”<sup>21</sup> The Postal Service’s refusal to acknowledge that its design of the MOL experiment evolved from the MOL operations and market test phases is hardly convincing.

The evolutionary nature of the experiment is evident from the Postal Service’s description of the purpose of the market test in Docket No. MC98-1:

The purpose of the market test is to permit testing of Mailing Online service *under conditions that approximate those sought for the experimental service.*<sup>22</sup>

The Postal Service also stated that “the market test is . . . a *stepping stone* to a more permanent service offering.”<sup>23</sup>

Although Postal Service witnesses resisted mightily any concessions that the MOL market test was a “stepping stone” to the descendant MOL experiment, witness Plunkett characterized the “market test” and “prior versions of Mailing Online” as

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<sup>20</sup> Postal Service Brief at 13.

<sup>21</sup> *Id.*

<sup>22</sup> “Request of the United States Postal Service for a Recommended [sic] Decision on a Market Test Classification and Fee Schedule, and a Recommended Decision on an Experimental Classification and Fee Schedule Mailing Online Service,” filed July 15, 1998, at 5 (emphasis added).

<sup>23</sup> *Id.* (emphasis added).

akin to a research and development cost that allowed us to learn and to get – collect information that we will then use in developing the Mailing Online experiment.<sup>24</sup>

Witness Plunkett also agreed that “the concept is the same, and that is the concept that we were seeking to test in the market test;”<sup>25</sup> and that,

I don't think you do a market test for its own sake. You do a market test in expectation of something beyond that market test. For us, what was beyond that market test was the experiment. . . . I don't think we would have proposed a market test with nothing expected beyond it.<sup>26</sup>

He elaborated:

Now during the experiment we don't expect to learn much about the basic concept. We think we're there. We expect to learn things that will allow us to refine our approach and to make some technical improvements where appropriate and to offer additional features. And those I would sort of characterize as possible evolutionary steps in the future.<sup>27</sup>

In an exchange comparing advertising during the market test with planned advertising during the experiment, witness Plunkett stated that: “I would also hope that we've learned something from what we did in the market test.”<sup>28</sup>

Witness Plunkett was not alone in acknowledging (albeit reluctantly) that costs expended to design the experimental system reflected knowledge acquired during the market test. Witness Lim conceded that version 3 of the MOL software was built upon

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<sup>24</sup> Tr. 3/486.

<sup>25</sup> *Id.* at 490.

<sup>26</sup> *Id.* at 490-91.

<sup>27</sup> *Id.* at 493.

<sup>28</sup> Tr. 2/236.

knowledge gained from the operation of version 2, the version of the software used during the market test.

Q. Would you describe the development of Version 3 as a building process on Version 2, that is the Postal Service learned from its mistakes and its correct choices in Version 2 and then designing Version 3, is that correct?

A. Again, there is some feedback that was received, and some of that feedback was I am sure in some capacity used in the – the feedback from the user and the experiences of the users was used in some capacity in terms of formulating a better design that is equipped to fill the need of the users during the system that is developed for Version 3.<sup>29</sup>

\* \* \* \* \*

Q. [T]o the extent that Version 2 was effective, if there were portions of it that were working well, wouldn't it be prudent for the designers to incorporate those features and functions to the extent possible in Version 3?

A. Again, based on the functional requirements, I would suspect that in designing the system for Version 3, some of that feedback that was received on what worked well for the user would have been, it would have been prudent to incorporate those into design.

Q. And to the extent that there is personnel overlap between that group that designed Version 2 and the group that designed Version 3, they were able to bring the experience to bear in designing Version 3, that they had acquired in designing Version 2, isn't that also correct?

A. I would think there is some level of, again, experience or feedback that was received during the market test that was beneficial to them.<sup>30</sup>

It simply cannot be disputed that the market test was designed, and in fact functioned, as a preliminary step to the MOL experiment requested in the instant docket.

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<sup>29</sup> Tr. 3/433.

<sup>30</sup> *Id.* at 434.

The earlier operations test served the same purpose. Witness Garvey testified in Docket No. MC98-1 that:

the market-test version of the software of the system itself is no more than a more robust and scaled version of that same prototype software that we were using in the operations test . . . .<sup>31</sup>

[and]

The period of th[e] market test was intended to be a very short time and we had taken the operations test system and beefed it up a little bit so that we could get through that time . . . .<sup>32</sup>

At an earlier hearing, witness Garvey testified that: "the market test . . . is really an expanded version of the operations test, in a technical sense . . . ."<sup>33</sup>

At the time that Docket No. MC98-1 was filed, the Postal Service envisioned "four distinct phases in product development: operations test, market test, experiment, and permanent service."<sup>34</sup> An exchange took place between counsel for Pitney Bowes and witness Seckar concerning system development costs that confirmed the continuous nature of the MOL chronology, from operations test to market test to experiment.

The system developer costs associated with writing software are contained in that contract. . . . I believe the intended use for that software in that contract for the system developer was centered on generating software for versions prior to that which would be deployed for the experiment, although it may possibly be the case that there may be some carryover from one version to another such that it would end up in

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<sup>31</sup> Tr. 12/3064 (MC98-1).

<sup>32</sup> *Id.* at 3076.

<sup>33</sup> Tr. 6/1585.

<sup>34</sup> Postal Service Request (MC98-1) at 4.

the experimental period as well as, for example, the market test period or their operations test period.<sup>35</sup>

If, as a factual matter, the Commission finds that the operations test and market test phases are part of the start-up of MOL, then the Commission may consider it appropriate to add the operations test costs and the market test excess costs to the experimental start-up costs reported by witness Poellnitz.<sup>36</sup>

The unrecovered costs of the operations and market tests may be found in the record of Docket No. MC98-1 and in the periodic reports<sup>37</sup> filed by the Postal Service in the market test. Much of this data has been included in the present record by designation. The reports indicate that more than \$1.7 million of MOL-specific costs were incurred in the market test,<sup>38</sup> offset by revenues of only \$19,486.<sup>39</sup> The Postal Service also identified in excess of \$5.1 million in MOL "shared" costs,<sup>40</sup> that is costs

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<sup>35</sup> Tr. 5/1068 (MC98-1).

<sup>36</sup> USPS-T-2, Exh. A, Table 6.

<sup>37</sup> The reports broke out spending into five main categories—advertising and marketing, help desk, hardware and software, communications, and print site costs.

<sup>38</sup> The AP reports filed throughout the market test reported that total MOL-specific costs were \$8,449,034. The OCA breaks out the market-test related expenditures from the total and finds that the MOL-specific costs caused by the MOL market test were \$19,029 of MOL-specific advertising; \$5,490 of MOL-specific help desk costs plus MOL's share of "Shared" help desk costs (*i.e.*, 25 % of total "Shared" help desk costs based upon witness Lim's workpaper C, or \$628,496); \$739,033 of hardware and software costs expended to develop version 2 of the MOL system; \$64,400 of MOL-specific communications costs; and \$251,867 of printer costs, guaranteed to the printer by the Postal Service (Tr. 2/142 and 264-65). These costs sum to \$1,708,315.

<sup>39</sup> See Docket No. MC98-1, final weekly report filed December 7, 1999.

<sup>40</sup> Total "Shared" advertising and marketing costs were \$4,674,932 over the course of the market test and total "Shared" communications costs were \$488,548. These sum to \$5,163,480. Help desk costs are counted as MOL-specific; "Shared" hardware and software costs are omitted because most of them were probably incurred to develop POL, which has now been discontinued.



that would not disappear if MOL did not exist, but which would change.<sup>41</sup> A significant portion of the shared costs—approximately \$4.7 million—was for advertising.

The OCA notes that MASA agrees that these costs should be included in the MOL fee.<sup>42</sup> The OCA does not take a position on whether these costs, from the operations and market tests, must be included in the MOL IT fee, but agrees with MASA that the Commission may properly include these costs if it so chooses.

**B. The Postal Reorganization Act Does Not Require Reciprocity for the Recovery of Attributable Costs**

One of the grounds alleged by the Postal Service on brief for excluding operations test costs and market test costs is that, "If Mailing Online had been profitable during its previous testing, one would not deduct such *profits* from the cost of the experiment . . . ."<sup>43</sup> This contention reveals a misunderstanding about the policies underlying the Postal Reorganization Act. In 39 U.S.C. §3622(b)(3), Congress established a "*requirement* that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type . . . ."<sup>44</sup> The remaining costs of the Postal Service—those that have come to be known as the institutional costs—are to be recovered by application of the remaining factors. Each postal class and service is expected to make a contribution to institutional costs.

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<sup>41</sup> This definition of shared costs is given in the AP reports.

<sup>42</sup> MASA Brief at 31-34.

<sup>43</sup> Postal Service Brief at 13 (emphasis added).

<sup>44</sup> Emphasis added.

Moreover, while the Commission and the courts have long held that each class and service of mail must be responsible for the costs that it causes, and should not be cross-subsidized by any other class or service, the Commission has never articulated a policy of symmetry for "profits."<sup>45</sup> Theoretically, it may be possible to take into account excess contribution to institutional costs (*i.e.*, over an entire rate cycle, the cost coverage exhibited by a given service far exceeds that intended by the Commission in the last proceeding in which its rate or fee was established) when the cost coverage of the class is under consideration in the next omnibus rate proceeding; but this is idle speculation in the context of Docket No. MC2000-2, as the market test revenues fell precipitously short of the market test costs.

The Commission's opinion in Docket No. R83-1 is germane to resolving the question whether MOL losses generated during the operations test and market test may be included taken into account in the instant proceeding. In the E-COM decision, the Commission stated that it had decided "to seek, as far as reasonably possible, to recover past shortfalls through a practical maximization of net revenues . . . ."<sup>46</sup> In a section entitled "The Problem of Past Shortfalls," the Commission gave careful consideration to the question of past E-COM shortfalls. The factual circumstances of E-COM were that:

It is uncontroverted that during the period from the initiation of E-COM service through the beginning of the test period E-COM has operated at a loss. . . . [I]t is likely that E-COM revenues will have failed to recover in

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<sup>45</sup> In fact, the term "profit" has no real place in postal ratemaking since, under section 3621, rates set for the Postal Service by the Commission are only intended to achieve a break even position.

<sup>46</sup> PRC Op. R83-1, ¶ 7030.

excess of \$47 million dollars of attributable costs prior to the beginning of the test period. These expenses have been paid out of the general fund of the Postal Service.<sup>47</sup>

The Commission then expressed concern about the unfairness of having other services cross-subsidize E-COM:

The rates we set for E-COM, in order to be fair and equitable with regard to other postal services must recover attributable costs in the test period plus make a sufficiently large contribution [to] institutional costs as to fairly deplete the outstanding balance of accumulated revenue deficiencies incurred in the past.

The amelioration of past deficits was recognized as an important factor by the Postal Service. The Postal Service decided as a matter of policy to treat revenue deficiencies incurred in the early years of E-COM operation as an institutional cost which should be recovered by E-COM revenue only.

We agree with management's policy to recover past E-COM revenue deficiencies only through net revenues from E-COM rates.<sup>48</sup>

The Commission's disapprobation of rates set so low that a service is cross-subsidized by other services is absolute. For example, the Commission underscored in the most recent overhaul of the postal classification scheme that:

issues of cross-subsidization, fairness of competition and potential undue discrimination have long been matters of concern for the Commission. In particular, it must guard against cross-subsidizing competitive subclasses by increasing rate burdens of mailers subject to the letter monopoly.<sup>49</sup>

This declaration was reinforced in the rulemaking proceeding that established "fast-track" procedures for requests for new and innovative postal services:

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<sup>47</sup> *Id.*, ¶ 7037.

<sup>48</sup> *Id.*, ¶¶ 7037-39.

<sup>49</sup> PRC Op. MC95-1, ¶ 2124.

in recommending rates under the new rules, the Commission will be bound, as always, to observe the § 3622(b)(3) requirement that rates be compensatory . . . .<sup>50</sup>

The Supreme Court, which has issued the definitive construction of this section of the Act, declared that

Congress' concern about . . . cross-subsidies, of course, was one motive for including the rate floor established in 3622(b)(3).<sup>51</sup>

[and]

The statute's plain language and prior legislative history, discussed above, indicate that Congress' broad policy was to mandate a rate floor consisting of all costs that could be identified, in the view of the expert Rate Commission, as causally linked to a class of postal service.<sup>52</sup>

The implication of the Postal Service's argument on brief that costs caused by MOL may be ignored because the Commission likely would not have given it "credit" for any excess contribution to institutional costs<sup>53</sup> is inimical to the essential principles of the PRA, *i.e.*, that attributable costs are the floor upon which all rates must rest. In E-COM, the attribution of all costs causally related to the E-COM service involved a "look backward" to the previous rate cycle to see whether E-COM rates had been compensatory. Finding that they had not, the Commission made E-COM ratepayers of

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<sup>50</sup> Order No. 1141 at 7, Docket No. RM95-4.

<sup>51</sup> *Nat'l Assoc. of Greeting Card Publishers v. U.S.P.S.*, 462 U.S. 810, 829 (1983).

<sup>52</sup> *Id.* at 833.

<sup>53</sup> The OCA believes that in some cases it might be appropriate to take account of repeated over-contribution by a given class of mail. For example, First Class has contributed significantly to the institutional costs of the Postal Service for many years. That fact can legitimately be considered in establishing First Class cost coverage in the contemporaneous omnibus rate proceeding. Nevertheless, the Postal Service's argument and the OCA's observation are irrelevant in the factual circumstances of the MOL case since MOL made no contribution to institutional costs whatsoever during the market test (let alone excess contribution), and generated so little revenue that it recovered almost none of its volume variable and product-specific costs.

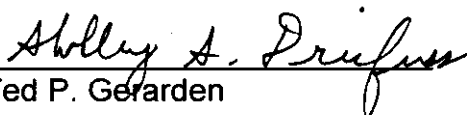
the next rate cycle responsible for these shortfalls. The OCA is not aware of any judicial or Commission precedent that premises this recovery on reciprocity for "excess" contribution to institutional cost.

### CONCLUSION

The OCA urges the Commission to recommend a MOL experiment. For all the reasons presented, MOL's IT charge should be at least 0.5 cent per impression, and the Commission should adopt the OCA's recommendations on the data collection plan and reporting requirements.

Respectfully submitted,

OFFICE OF THE CONSUMER ADVOCATE

  
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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.

A handwritten signature in cursive script, reading "Stephanie S. Wallace".

Stephanie S. Wallace

Washington, D.C. 20268-0001  
March 27, 2000