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BEFORE THE
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POSTAL RATE AND FEE CHANGES, 2000 | Docket No. R2000-1

DIRECT TESTIMONY
OF
JOHN WHITE
ON BEHALF OF
ASSOCIATION OF ALTERNATE POSTAL SYSTEMS

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I. Introduction

My name is John White, and I am General Manager of Distribution Systems of Oklahoma. Since January 1, 1999, I have served as the Executive Director of the Association of Alternate Postal Systems. I have been a member of AAPS since 1991 and served on the Board of Directors for three years, with one year as President.

I recognize that replacing Ken Bradstreet (who is now an elected member of the Michigan State Legislature) as the representative of our association before this Commission is a Herculean task. I closely followed Ken's participation in prior cases and have studied his testimony. Because much of that testimony addresses the history of the relationship between the alternate delivery industry and the Postal Service and the anticompetitive bent of the Postal Service, it is as valid and important today and in this proceeding as it was in prior proceedings. Because my attorney tells me that every case has to be decided on the basis of the record in that case, I will go over a little bit of that ground again.

I believe that I am qualified to do so, based upon my experience in the industry. My company, Distribution Systems of Oklahoma (DSO), provides a delivery alternative to the Postal Service for businesses in central Oklahoma, principally the Oklahoma City metro area.

Weekly deliveries to approximately 282,000 houses typically consist of commercial publications delivered by individual carrier route. Mostly, these publications would qualify as Standard mail saturation advertising pieces, or are phone books, packaged product samples, address specific newspapers, and doorhangers (coupon cards that are specifically hole punched to fit door handles).

We produce detailed route information along with an accurate, flexible, and audited delivery service to our clients. Because of this, we can usually provide effective competition for the Postal Service for heavier weight shared mail packages, in particular.

I have long been an advocate of preserving free enterprise and fair competition, having had a father that owned his own feed store and a grandfather who owned a battery store. Business and consumers (to both of which I belong) ultimately benefit from wider selection and better quality, not to mention lower prices.

I volunteered to serve on the Postal Committee of AAPS in 1996, after my business was dealt a severe blow following the postal reclassification case in 1995-96. The reduction in rates for densely distributed periodicals destroyed our profitable magazine delivery business, and the reduction in price for lightweight ECR pieces eliminated much of that portion of our business. And now, with the request for a lower pound rate, resulting in a rate reduction for most of the remaining, heavier weight material for which we compete, the Post Office and shared mail partners are poised to do even greater harm than what our industry and my business endured from the loss of lighter pieces of periodical and related advertising business following the reclassification case.

But it wasn't just magazines and catalogs that our industry lost in 1996. It was far more than that. It was our credibility. The one fragile thing that keeps banks, auto dealers, politicians and alternate delivery in business, any business, new or old, for that matter is credibility.

And who would know that better than a veteran businessman like then Postmaster General (a.k.a. CEO) Marvin Runyon.

"Kill the body and the head will die," was legendary boxer Smoking Joe Frazier's account of how relentless punches to the abdomen of Muhammad Ali would take their toll. Well, Mr. Runyon must have been in Smokin' Joe's corner, because with magazines embodying the bulk of deliveries for new alternate delivery companies springing to life, the Postal Service proposal under Mr. Runyon in the MC95-1 punched relentlessly where it hurt the most when it proposed very large reductions in postage for the mass circulation magazines that were most susceptible to diversion to alternate delivery. Although the Rate Commission rejected the Postal Service's reclassification proposal for periodicals, it gave the Postal Service half a loaf by reducing the postage rates for the most densely delivered magazines. That half loaf was enough to threaten many of our businesses.

Prior to that decision, at DSO we delivered more than 175,000 magazines each month into 17 central Oklahoma communities. Annual revenue from the magazines alone was more than $400,000 and projected to grow. The fact that we delivered magazines with household names such as *Better Homes and Gardens, Parenting, Mirabella, Redbook, Field & Stream,* to name a few, was priceless in terms of the credibility of our company and the service we performed.

When our magazine revenue and our lighter weight piece revenue went away, so did five sales jobs, two secretary positions, over 20 warehouse jobs, and a lot of extra money that my carriers depended on from the delivery of those magazines and inserts. I have over $40,000 in mobile magazine storage racks sitting idly, and thousands of dollars in promotion geared to magazine insert delivery in our market was wiped out instantly.

I was also forced to explain to scores of clients for months to come that it wasn't anything we had done to cause us to lose the magazines back to the mail, but that, in fact, we were powerless to stop it. It was very nearly a lethal blow to our business and others like us, and especially to our *credibility.* To many, it was the end.

Now, here we are. It's 2000, and once again our business is beginning to grow at the heavier weight levels due to our hard work and our ability to be competitive for this material. Standard mailers, package goods manufacturers, yellow pages publishers, couponers and the like have in many cases managed to find alternate delivery as an answer to some of their delivery needs, although ours remains an industry with low profitability. Volumes are growing modestly, and credibility has returned.

All to the chagrin of the Post Office and shared mail. The question is, can we survive another round of body punches?

There's clearly no doubt the Postal Service has a great deal of work ahead of it as it continues to retool, reposition and reinvent itself to be more competitive with private enterprise and keep abreast of technology. Hey, I feel for them; we've been doing that after every rate case. Sometimes I wonder when it's our turn to file one!

But, as reported, I've seen first hand and continue to wear the scars of how private enterprise fared in the predicament the Postal Service found itself back in 1996.

As for shared mail packages, in our market, the Postal Service competes vigorously with alternate delivery for business. Their claimed advantages are lower prices, better delivery timing and placement in the mail receptacle. All pretty darn good ones.

Lowering the pound rate would further damage alternate delivery's ability to compete, not only against lack of access to the mailbox but with prices that could allow shared mail packages to arbitrarily price below our costs, forcing alternate delivery companies out of business. As a general proposition, our industry is forced to use Postal Service prices as a guide to setting ours, so a rate reduction would certainly create significant problems for alternate delivery companies.

II. Purpose of Testimony

My testimony, like testimony submitted by AAPS in prior cases, will not be technical, because I am not an expert in postal costing. I don't know the details of the in-office costing system, and I don't know a MODS pool from a swimming pool. But I do know about how the Postal Service, in addition to its prior history with respect to periodicals, seems to keep finding ways to justify a reduction in the saturation pound rate against which we compete while raising rates for captive mailers, including those small businesses who wish to target their mailed advertisements. And I know that the Postal Reorganization Act requires that when rates are set, both the Postal Service and the Postal Rate Commission are required to consider the impact of rate changes on competitors as well as on mailers. In past cases, it has been shown that the Rate Commission has taken this requirement seriously, while the Postal Service has paid it lip service at best. I will show that in keeping with its sorry tradition, the Postal Service has once again considered its competitors for saturation advertising only as prey, not as worthy of any real consideration as to impact.

To the extent I am able as a layperson (when it comes to the complex development of postal rates), I will also suggest that the Postal Service proposal to reduce the pound rate is unsound, at least insofar as it fails to address all of the relevant factors such as the difference in cost between flats and letters, the added costs of handling loose pieces put together in a set, and the true effect of weight on costs.

III. The Association of Alternate Postal Systems

The Association of Alternate Postal Systems is a trade association of approximately 110 private, door-to-door delivery companies located in 33 states. Many of these member companies are solely private postal systems; that is, they are independently owned and are not an affiliate of any particular publication. A number of member companies are owned and operated by publishers of shopping guides or "penny-savers." Others are owned by newspapers.

Because of the Postal Service's strained definition of "letter," which prevents us from delivering selectively addressed advertisements, by far the majority of items delivered by AAPS members would qualify as saturation or near saturation Standard A flats. Therefore, AAPS members, all of whom compete with the USPS for the delivery of Standard ECR saturation or high density advertising, are vitally concerned with any USPS proposal like the one in this case that affects Standard A ECR rates.

AAPS members are mainly engaged in the delivery of weekly TMC shopping guides, saturation shopping guides and accompanying preprinted inserts. In addition, most AAPS members distribute community and telephone directories and product samples. The USPS proposal would significantly harm these businesses, especially in competing for heavier weight items and those items that are lighter weight but are sent by mailers willing to combine them with other material in a heavier shared mail set. Historically, some AAPS members also distributed magazines and periodicals to specific addresses, although, as I pointed out in the introduction, that business has virtually disappeared in the past couple of years.

IV. The Postal Service's Advantages as a Governmental Monopoly

My company, like all other AAPS members and most businesses in the private sector, is free to set its own rates, pays taxes and fees, and can either turn a large profit or, like some of our members over the years, fail and go out of business. We have no monopoly, statutory or otherwise, to protect any segment of our revenues. If we make bad decisions, we pay for it in lost business.

The Postal Service is quite different. It has tens of billions of dollars in monopoly revenue, and I think it is unique in that it is allowed to establish the limits of its own monopoly, something it did years ago when it decided that an addressed advertising brochure, no matter how impersonal, is a "letter" subject to its monopoly. It does not pay taxes and is required only to break even over time, so that unlike a private business, it need not provide a return to its investors.

These advantages must be offset by rate regulation that to the extent possible prevents abuse and protects competitors. The Postal Service's recent history shows that it is more than willing to take advantage of its privileges and advantages in order to invade and conquer small competitors in the private sector. Therefore, those of us who feel the brunt of its efforts in all likelihood owe our continued existence, and the tens of thousands of jobs for which we are responsible, to the vigilance of the Postal Rate Commission. The Commission has been willing to take seriously Congress's concern that a huge postal monopoly not use its size and insulation from most competition and risk as a weapon against those who manage to maintain what is in comparison a tiny market share.

The Postal Service, of course and naturally, does not like having its rates regulated and would like to set prices as if it were a private business. Its thus far unsuccessful efforts to convince what appears to be a skeptical Congress to pass postal "reform" is an ongoing example of that posture. Likewise, its favored treatment of its largest saturation mail customers, compared with its captive advertising customers, and its focus on reducing advertising rates to drive out competition show that, in this sense at least, the Postal Service wants to act "like a business." But it isn't a business. It has no shareholders, pay no taxes, and is immune from antitrust and other laws. It's not a business, it's a government agency with a public service mission and a huge monopoly. Its latest effort in this case to reduce rates for its most competitive advertising product should once again be rejected.

I understand that a lot of factors well beyond my expertise go into the development of postal rates, but the proof, or at least some of it, can be found in the pudding even if you don't know all of the details of the recipe. Over time, where there is no competition, USPS proposed rate increases have been larger than where there is competition. The key competitive rate when it comes to saturation advertising and our membership is the pound rate, because the shopping guides and the free publications that make up the backbone of the business for most of our members make their delivery choices with reliance almost exclusively on the pound rate, not the piece rate.

This is because the typical publication weighs between 3 and 6 ounces. However, publishers, like shared mail companies, sell the delivery of preprinted inserts to advertisers. With one or more regular inserts, the combined weight of the publication and its inserts is in the 4 to 10 ounce range, and often higher. The cost of the incremental weight is a major consideration on the part of publishers whether to use the Postal Service, to use an alternate delivery provider, or perhaps even whether to start a delivery system of their own. The cost of weight determines, to a large extent, the cost of handling preprinted inserts.

The Postal Service is certainly aware of this key rate, as it showed most recently in its proposals in MC95-1, R97-1 and again here. The lowest proposed pound rate for ECR saturation mail of 45 cents (for DDU entry) is only 25% higher than the 36 cent rate paid by saturation advertisers in 1978 through 1980, which shows just how protected this rate has been. I understand that requirements imposed on mailers also changed over time, but the fact remains that we must compete with the Postal Service's lowest rate.

As I've already stated, the history of such favored treatment would have been much worse if the Rate Commission were the rubber stamp that the Postal Service no doubt wishes it were. In R90-1, the USPS proposed to reduce the lowest saturation rate from $0.101 to $0.091 per piece, a 10% reduction. The Commission recommended instead that the low rate be $0.105 for saturation flats, an increase of only 4%, but an increase. In the 1995 reclassification case, the USPS proposed a pound rate for saturation advertising of as little as 39.9 cents per pound. The

Commission recommended instead a rate of 55.2 cents and above. In R97-1, the Postal Service requested a decrease in the ECR base pound rate from 66.3 cents to 53 cents, but the Commission recommended that it stay where it was. Here, the Postal Service is trying the "half a loaf" approach that worked so well for periodicals, seeking a reduction from 66.3 cents to 58.4 cents in the basic ECR pound rate and reductions of 8.3 cents, 8.7 cents and 8.7 cents for BMC, SCF and DDU entry (along with an increase in the piece rate). We believe that the PRC should once again refuse to lower the rate.

The result of the proposed changes for saturation advertising mail would be an overall *reduction* in the effective rate starting at five ounces. The rate for a six ounce piece will decrease by 3.56% with SCF entry and by 3.73% with delivery unit entry. The percentage rate change grows steadily with weight, rising to negative 7.49% (SCF) and negative 7.85% (delivery unit) at nine ounces, and to negative 9.47% (SCF) and negative 9.92% (delivery unit) at twelve ounces. At the heaviest weights, there would be double-digit percentage decreases.

In our highly competitive world, I wonder how we can survive if our competition is permitted to reduce rates by these amounts starting a year from now and continuing at least a couple of years beyond that, especially if the recent rise in gasoline prices, which along with other cost increases significantly affects our business, leads to an increase in the overall rate of inflation and drives up our costs still further over that three-year period. Even if gasoline prices return to last year's levels, we can expect some cost inflation in the next few years. But we will see no increase in the postal rates against which we compete.

V. The Postal Service as a Competitor

The Postal Service's approach to rates for saturation advertising speaks for itself in establishing that the Postal Service is focused on, if not obsessed with, increasing its business with little concern for the consequences. It finally realizes, however, that it should try to shove its intentions under the rug. In Docket R97-1 it made the "mistake" of admitting in witness Moeller's testimony in that case (T-36 at 26) that the proposal to reduce the pound rate was based in part upon the fact that ECR mail "is in a competitive market and is susceptible to diversion to alternate media." In his latest testimony, Mr. Moeller makes no such reference, and in response to an NAA interrogatory (Tr. 3881), claims that, this time, "the pound rate proposal is not based on an effort to stem diversion to alternate media." I don't want to make any inappropriate accusations, but given that the market is no less competitive now than it was in 1997, and given that the Postal Service continues to contract with SAI to study our business, I find that claim difficult to reconcile with the proposed reduction. In fact, SAI prepared reports on the alternate delivery industry in 1993, 1994, 1995, 1996, 1997, and 1998. Ironically, while I have been preparing this testimony in the past two months, and while the Postal Service has refused to let me see or us use information on our industry in prior SAI reports, I have had two phone calls from SAI seeking to interview me about our business. Other members of our association have as well. Perhaps the question to Mr. Moeller could have been asked differently, because it may be that the proposal is not designed "to stem diversion *to* alternate media" but to create diversion *from* alternate media.

Such a purpose and goal would be consistent with recent Postal Service history, and it is worth retelling here a bit of that history that Mr. Bradstreet recited in his R97-1 testimony when he discussed a speech made by Postmaster General Marvin Runyon shortly after the results of the MC95-1 case were in. In that case, the Postal Service made it abundantly clear that among its prime targets were alternate delivery companies that through the early 1990s were gaining a small foothold in the delivery of subscriber magazines.

Time Warner had started a company named Publishers Express (PubEx) to organize the private delivery of subscription magazines. My company, DSO, was a licensee of Publishers Express, as were a number of other AAPS members. Another company, Alternate Postal Delivery (APD) of Grand Rapids, Michigan, had already demonstrated the feasibility of delivering subscription magazines, and had developed delivery capability in a number of major markets. With the addition of Publishers Express, by 1994 more than 80 markets were being served by either APD or PubEx affiliates, most of which were members of AAPS. The fact that the volumes delivered outside the mail were extremely small by Postal Service standards did not stop the Postal Service's search and destroy mission.

Thus, the USPS proposal in MC95-1 would have split regular rate periodicals into two subclasses, producing rate reductions for favored large magazine publishers (those whose density made them prospects for APD and PubEx and thus for us) at the expense of large rate increases for small magazines that did not produce the density to make alternate delivery viable for them. Although the Rate Commission rejected this aspect of reclassification, it did order rate decreases for the mass circulation periodicals, leading to the practical abandonment of alternate delivery by magazine publishers. As a result, Publishers Express announced in mid-February, 1996, that it would cease operations, the result of which killed a significant portion of alternate delivery.

Just days later, on February 20, Postmaster General Marvin Runyon, in a speech to the NAPUS Leadership Conference in Washington, DC addressed the demise of Publishers Express with what Mr. Bradstreet aptly described as "unmistakable glee":

> I would like to close with a story that tells it all. Remember the alternate delivery company called Publishers Express? They came on the scene a few years back with a lot of fanfare and tough talk. They said they were going to deliver magazines and advertisements faster and cheaper than us. Eleven days ago, they quietly went out of business. They said that they were no longer needed. They had no more customers. We ran them out of business, by improving service and keeping costs low!

After the demise of Publishers Express we became a licensee of APD, looking to salvage what magazine revenue and credibility we could. In March, 1997, we were informed by APD that it was forced to shut down that portion of its business, a sad day for the company that had pioneered the concept of magazine delivery by private carrier.

The former Postmaster General voiced no concern for those whose jobs he "ran out," or about the investment by small companies in magazine delivery that the Postal Service wiped out. While we have no knowledge of equivalent statements by current postal management, we do have tangible evidence of its continuing intent: the proposed rate reductions for much of the very product for which our members compete.

We also have a very mixed and therefore suspicious message from the Postal Service about the extent to which it focused on its competitive position in proposing the ECR rates here, clearly a relevant consideration given the language of statutory Criterion 4 *requiring* consideration of the impact of rate changes on competitors. On the one hand, as I've already noted, witness Moeller conveniently omitted his prior reference to competition as a justification for reducing the pound rate and now claims incongruously that it was not a consideration. I say "incongruously" not only because the competitive situation has not changed, but also because the Postal Service continues to pay an outside contractor to study the alternate delivery business, even if its witnesses (but perhaps not those giving the orders) studiously avoid looking at any of these studies.

Indeed, Postal management and Postal Service witnesses appear to be playing "hide and seek" with its studies of alternate delivery. I would have thought that, after the past two cases, the Postal Service would have proven that it really does consider Criterion 4 by *insisting* that its rate setters and witnesses actually take a look at the studies it pays for year after year. However, in response to an AAPS interrogatory (Tr. 4196), witness Mayes answers a simple "no" when asked if she had reviewed the initial SAI study, a question that should have been anticipated, since she claims to be testifying about the effect of the proposed rates on competitors. In her answer to a later interrogatory (Tr. 4197), the witness responded to a question about the impact of rates on competitors, but professed a less than complete ability to do so because "other providers of delivery services are not required to reveal cost structures, rates, pricing and other practices." Perhaps she should have looked at the SAI studies. Although we are not permitted to reveal much about the latest study (and I have neither seen them nor been advised of their contents beyond what is in this testimony), we have been permitted to state that it contained a redacted section entitled "Threat to USPS" and a redacted market forecast for 1999-2005. Most of the current market analysis was also redacted. It seems, therefore, that the Postal Service does collect information of the type Ms. Mayes deems relevant, but she chooses not even to look at it because she can't be convinced of its accuracy and because, she says (Tr. 4206), the report (that she still hasn't read) is "anecdotal." But I wonder why the Postal Service continues to study our industry if such studies are irrelevant, ancedotal and not relevant to the Postal Service's own pricing.

Witness Moeller remained similarly isolated from the very information that should have been crucial to his testimony, if in fact he really sought to examine the impact of rates on competitors. He recalls (Tr. 3834) controversy surrounding the earlier SAI study in MC95-1, but he has not since seen it or any updates. He was asked in AAPS interrogatory T35-9 if there had been any updates, and the Postal Service objected.

The objection itself revealed that, in fact, the study had been updated in 1998 and that there was a 1999 "assessment" by SAI of an unidentified, multi-market alternate delivery company. In response to follow-up interrogatories, Mr. Moeller stated (Tr. 3836) that he was not even aware of the 1998 revised SAI study and (Tr. 3838) that he was not aware of, had not read prior to his testimony and still had not read the 1999 "assessment." He also admitted (Tr. 4019) that he considered nothing beyond his virtually silent written testimony concerning the impact on alternate delivery companies, that he made no inquiry and did no research on our industry (Tr. 4020) and that he did no analysis of the impact of MC95-1 on our industry. Yet this is a witness to whom is entrusted the Postal Service's legal obligation to consider the impact of rates on competitors! I simply cannot understand why, even if I believe that, the Postal Service would commission these clearly relevant studies, and then its witnesses on the subject would not only fail to read them, but they don't even know about them and make no effort to obtain any relevant information.

The latest "SAI studies" and the curious avoidance of such studies by Postal Service witnesses must be set in the historical context of the extent to which the Postal Service has claimed that it did, or did not, consider competition from companies such as the members of AAPS and Criterion 4. For example, in Docket R94-1, USPS witnesses admitted that they made no effort to study the alternate delivery industry (Tr. 1251, Docket R84-1) and that they did not even discuss private delivery among themselves in preparing the rate proposal (Tr. 2004-05, Docket R84-1).

Docket R87-1 was much the same. In his initial testimony, USPS witness Lyons suggested that the proposal considered "the continued competitiveness of newspapers and private delivery firms." When questioned about that consideration, Lyons referred to an article he had read in *Advertising Age* which did mention newspapers but did not mention private delivery (see Tr. 3844, Docket R87-1).

In R90-1, witness Lyons proposed a rather novel interpretation of Criterion 4. It was apparently his testimony that Criterion 4 was automatically satisfied as long as Criterion 3 was satisfied. The new doctrine was that as long as rates covered their direct cost (direct testimony at 39 and 41), and as long as rates are not specifically designed to hurt competitors (Tr. 4293-94), then that amounted to due consideration of competitors and satisfied Criterion 4. That testimony was similar to the testimony of witness Donald J. O'Hara's in Docket R97-1, who concluded: "Given the very high cost coverage of the ECR sub-class, this rate increase *[decrease?]* does not result in unfair competition for its competitors." Testimony, page 35. I note that the same theme is repeated here by witness Mayes, who stresses (at page 8 of T-32) that the rates were not designed "with the specific goal of harming a competitor or group of competitors," as if that's all that matters. The fact is that the pound rate at the levels relevant to us hasn't risen in years and, under this proposal, would go down.

In Docket MC95-1 the Postal Service changed direction, proposing rates under new classification headings that it freely admitted were developed for competitive reasons. Its "consideration" of competitors was apparently a consideration of how to put them out of business. It was to some extent successful, as the Mr. Runyon's speech concerning Publishers Express cited above demonstrates.

In R97-1, the Postal Service may have been confused about its motives. Its witness Moeller, as stated above, referred to competition as one of the reasons for proposing a reduction in the pound rate, yet in an objection to an interrogatory in that case (AAPS/USPS-6) asking about any updates to the SAI study of alternate delivery, the Postal Service stated: "Nowhere in the Postal Service's testimony is there a claim that the existence of a 'competitive threat' from alternative delivery forms the basis for any of the rate and classification proposals in this docket."

That claim of no competitive consideration appears to be repeated here, yet it is not credible. Just as the USPS fought hard in Docket R97-1 to avoid releasing the complete new SAI study done after the study revealed in Docket MC95-1, it has revealed in discovery responses (but not in the testimony of its witnesses) that it has once again contracted for yet two more SAI studies. As in Docket R97-1, the studies were apparently so controversial – and perhaps inconsistent with the testimony of its witnesses – that the Postal Service didn't even let the witnesses that testified about impact on competition and competitors see them or learn of their existence! In that docket, witness O'Hara was asked to "describe what efforts the Postal Service made to determine whether the rate decreases proposed will have an adverse impact on competitors or on competition." He responded, "...a quantitative assessment of the effects on competitors would require information on competitors' costs, prices, and volumes, and as far as I am aware this information is not available... ." Tr. 116. Unbeknownst to Mr. O'Hara, this type of information was indeed available. The powers that be just decided not to tell him.

Similarly in Docket R97-1, witness Moeller, who was charged with the rate design for the highly competitive ECR rates, was obviously not aware of the SAI study either. He acknowledged that he had not reviewed competitors' rates for two and a half years. He thought he might have logged onto some web sites for information, but couldn't remember seeing any rate information. He had acknowledged studying competitive rates, however, in preparation for MC95-1. And now witness Mayes claims that comparative information is not available from competitors, but she hasn't bothered to look at the Postal Service's own studies. Do we see a pattern here?

With this history, the Commission should not believe that competition, which was a serious USPS consideration in MC95-1 and may have been considered in R97-1 is no longer a consideration for the reduced pound rate in this case. The Postal Service cannot be permitted to blind itself, or at least its witnesses, to the facts when it proposes large rate reductions for its most competitive advertising mail. It continues to this day to retain SAI to study our industry and apparently obtains strategic advice. The 1999 SAI "assessment" contains a redacted page entitled "Opportunities for USPS." Is one of those "opportunities" a pound rate reduction? Why?

With this history, and with the little we have been permitted to learn about the details of the latest and past SAI studies, it is easy to conclude that despite the professed ignorance of its key witnesses, the Postal Service knows exactly what it is doing, and to whom.

VI. Flaws in the Postal Service Case

Although I will again admit that I am not an expert in postal ratemaking, I believe that I do know enough about the process and about how costs are incurred in delivering material to homes to provide useful comments on the proposal for ECR rates here. The first matter about which I wish to comment is one that AAPS has been raising for many years—the Postal Service's over-reliance on the concept of "cost coverage" to justify various rate relationships and, especially, the relationship between First-Class and Standard A rates without adequate (or in this case any) consideration of the unit contribution. USPS witness Mayes concedes (Tr. 4210 and Tr. 4493) that unit contribution was considered only with respect to the overall breakeven obligation, not as a way to compare classes' and subclasses' relative contribution to institutional costs. This is wrong.

AAPS has been critical of the Postal Service's over-reliance on percentage cost coverage since it began participating in these rate cases. For example, as we stated at page 33 of our initial brief in R90-1, the saturation mailers will argue that the rates for saturation mail "are too high because the 'attributable cost coverage' is higher for that particular type of mail than for other particular types of mail." I expect that again.

It was AAPS's position then, and it is AAPS's position now, that the USPS's embrace of percentage cost coverage (whether attributable, incremental or volume variable) has "elevated a convenient but misleading tool of comparison into the exclusive rate making tool." In fact, in the words used by AAPS witness Bradstreet while testifying in R90-1 (Tr. 18490), the percentage attributable cost coverage concept has "evolved into a rigged system where first-class mailers are forced to pay a hugely disproportionate share of institutional costs, whereas third-class mailers pay a meager share of the total."

In his dissent in R84-1, Commissioner Crutcher (at page 3) was critical of a "strict adherence to percentage markups" which, he said, "ignores absolute unit cost contribution to institutional costs." Mr. Crutcher was simply reiterating what the Commission found in R80-1. There it explained (at page 455, footnote 1) that use of percentage cost coverage "can misrepresent" institutional cost burdens where there are substantial differences in attributable costs and that, consequently, the Commission "must be guided more by the per piece cost contributions than by percentage cost coverage" in comparing first-class letters and third-class bulk mail.

To its credit, the Commission recognized this important concept in evaluating the Postal Service's proposals in recent rate cases, and, as a result, has tempered the First-Class increases and rejected USPS attempts to impose either small or negative rate increases on Third Class/Standard ECR saturation mailers. The Commission should consider the disproportionately low burden now being borne by Standard ECR in assessing the USPS's proposal to reduce even further the rate for many saturation flats.

As AAPS has contended in previous cases, the shortcomings of the percentage markup analysis become more pronounced as mailers bypass attributable costs and, therefore, attempt to free themselves from institutional costs burdens as well. I repeat below footnote 16 from page 36 of the AAPS initial brief in Docket No. R90-1:

> In earlier cases, the Coalition of Non-Postal Media had hypothesized a class of mail handed to the letter carrier on the way out the door, in which the attributable costs are to be extremely low and which would, therefore, be 'assigned' a very low percentage of institutional carrier street time, contrary to all logic. The Postal Service's deep discounts in this case for walk-sequenced, delivery office mail show that our earlier hypothetical analogy is becoming frightfully real.

Most recently, the Rate Commission's decision in R97-1, for example at page 259, recognizes the need to examine unit contributions to institutional costs, especially when it comes to classes like ECR, where the mail heavily uses postal functions whose costs are classified as institutional. The Commission said there that in future cases it will consider the adequacy of contributions from these classes, presumably from the perspective of per piece as well as percentage. It should do so here, even if the Postal Service refuses.

At the proposed rates, the unit contribution to institutional costs will continue to show a much more severe burden on First Class than on Standard mail pieces. Under the USPS proposal, each piece of First Class letter mail will make a contribution of

16 cents toward institutional costs (Tr. 4502). Standard ECR, which on average weighs much more, will contribute only 8.19 cents per piece (Tr. 4391, 4627).

Another issue raised for years by AAPS is the Postal Service's refusal to recognize fully the effect of weight on costs. This is a subject about which Mr. Bradstreet testified extensively in R97-1 and that the Commission discussed in its Recommended Decision at pages 392-93 and 399-403. The Commission concluded, as it should once again, that the Postal Service has failed to produce a reliable cost/weight study, because once again the Postal Service has failed to study and measure the impact of weight on out-of-office costs. It has conducted no new studies since that case (Tr. 1157).

For example, witness Daniel admitted (Tr. 1158) that city carrier street Route and Access costs were "assumed" to vary only with pieces, not with weight. Access and route costs continue to be allocated "strictly on the basis of pieces." (Tr. 1160). Witness Daniel also conceded that route costs "*may* vary" (emphasis hers) depending upon the weight of the piece and, while the Postal Service allocated route costs as if they will not vary with weight, the allocation of elemental load costs in proportion to weight "could compensate" for that error. (Tr. 1162). Two wrongs must make a right. In addition, to the extent that weight is not given enough weight, then Support Costs will also be affected, because they are distributed as if they vary with all other city carrier costs. (Tr. 1162).

I run a delivery business. I know that weight has a substantial impact on the amount of time it takes and the cost to make deliveries—the "out-of-office" time. It is preposterous to assume that there is very little difference between the "street time" costs for a carrier to deliver 500 half-ounce pieces (in FY 1999, the average city delivery route had 496.3 pieces) that weigh a total of 15.6 pounds and 500 three-ounce pieces that weigh a total of 93.75 pounds, or that there are not substantial cost increases if there are 500 twelve-ounce pieces that weigh a total of 375 pounds versus 500 six-ounce pieces that weight half as much. This is especially true, of course, for a carrier on a walking route that can carry only about 30-35 pounds of mail at a time. In FY 1999, 47.6% of the city routes were door delivery. Yet the Postal Service would price the half-ounce piece and the three-ounce piece the same.

In the past year, we had a TMC product that had increased on average by a half ounce, from 7½ to 8 ounces. Based on delivery of the product over a 52 week period and figuring the average households per carrier route, DSO carriers packed an extra 26 pounds *every week*. The fact that the dimensions (bulk) of the product alone precluded them from putting more that 30 to 35 papers in their bags, the additional weight added two additional trips back to their vehicle to restock bags. This caused an extra half to one mile of walking based on how far away each carrier had to park (these are address specific products, so not every household was delivered, requiring greater distances between carrier and car). This translated into 50 miles of additional walking over a one year period, a fact that did not escape our carriers' notice and for which we increased the delivery charge to the customer.

Now, I can't say what the effect of weight on costs actually is, just as I don't know the precise effect of loose as opposed to bound matter (for which the Postal Service charges the same price), but I know that there is a difference. On that point, witness Daniel recognizes (Tr. 1157) that the degree to which mail is loose or bound "could conceivably affect costs," but no study of such costs has been conducted. Of course not. If it were, or if the Postal Service differentiated in its rates to reflect the differences in costs between pound-rated Standard A letters and flats, the shared mail sets of the nation's largest mailer might be required to pay more postage. And the Postal Service has long sought to lower, rather than raise, the postage of shared mailers.

It does appear certain that the Postal Service has once again measured only what it chooses to measure, not what it should measure, in order to justify its continuing effort to reduce the price it charges for the mail for which our members and other competitors compete. It hasn't attempted to measure diversion from solo piece to shared mail (Tr. 3835, 4132-34), nor did witnesses Tolley and Thress make separate elasticity forecasts for piece and pound-rated pieces (or separate volume forecasts) (Tr. 3632 and Tr. 3766). According to witness Tolley, the Postal Service didn't ask him to.

Despite ups and downs, small delivery companies have been successful over the past decade or so in building business volumes on weekly newspapers, TMC advertisements, phone books, and product samples. USPS volume and profit figures demonstrate that these privately delivered materials have not negatively impacted the USPS. There is more advertising mail volume than ever. Certainly a reduction of as much as 11% per piece for this type of mail would have a severe impact on the private delivery of these heavier pieces. I do not want our company or any of our members to be the next USPS victim for which a postmaster general takes credit.

VII. Conclusion

Let's face it, the Post Office just cannot escape from the fact that its every attempt to manipulate rates is yet another veiled effort to keep competitors from the private sector at bay.

It would prefer to have us all think that competitors of the Post Office lie in wait and pounce only on the weaknesses that it is powerless to change, unless given the latitude by the Postal Rate Commission.

Alternate delivery's strengths are not solely predicated on USPS weaknesses, but on our strengths also. Tough competition, as I said in my opening, is good for all of us. Deliberately pricing postal rates in order to drive our industry into the ground is not.

The road back for alternate delivery since 1996 has been a particularly long and winding one. We ask that we not go down it again. The pound rate should not be reduced.