

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

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POSTAL RATE AND FEE CHANGES

Docket No. R2000-1

**Pretrial Brief Of
Major Mailers Association**

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**Dated: Round Hill, Virginia
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Pursuant to the Presiding Officer's Ruling No. 4, Major Mailers Association ("MMA") hereby submits its pretrial brief. In this case, MMA is presenting its case-in-chief on First Class Mail issues through the testimony and exhibits of three witnesses:

- Richard E. Bentley, an expert witness who has testified before this Commission in numerous rate and mail classification proceedings for over twenty years. Mr. Bentley's direct testimony is designated MMA-T-1 to which he has attached four Exhibits MMA-1A through 1D. In addition, he has sponsored Library Reference MMA-LR-1, which derives workshare unit cost savings.
- Sharon Harrison, the Technical Director, Billing Solutions Technology of SBC Services Inc. Ms. Harrison, who has over twenty years of experience in all aspects of mail operations for large telecommunications mailers, is responsible for SBC's overall relationship with the Postal Service. Ms. Harrison's direct testimony is designated MMA-T-2.
- Mury Salls, Executive Vice President of AccuDocs, a large document processing company which mails more than 300 million statements, invoices, and other documents each year. Mr. Salls, the co-founder and President of MMA, previously testified before this Commission in Docket No. MC95-1. His direct testimony is designated MMA-T-3.

Statement Regarding MMA's Interest In This Proceeding

MMA is an association of quality First-Class Mailers, organized for the purpose of promoting fair and equitable postal rates, classifications, and rules. MMA has participated actively in all major rate and classification proceedings considered by the Commission over the past decade.

The members of MMA are among the largest mailers of First-Class Mail that is presorted and prebarcoded. The Postal Service's rate and fee proposals in this proceeding directly affect MMA members' postage costs, their costs of mail preparation, and their postage discounts.

Introduction And Overview Of The Postal Service's Proposals

As part of its case-in-chief in this proceeding, the Postal Service has made several proposals that adversely impact First-Class mailers in general and the members of MMA specifically. Among other things, the Postal Service has proposed to increase the basic First-Class rate by one cent to 34 cents, to increase the rate for the second and subsequent ounces from 22 to 23 cents, and to increase the rates for First-Class presort rate categories in real terms by maintaining the nominal workshare discounts at current levels.¹

Another important factor in the Postal Service's proposals for increased rates is the Service's claim that the contingency allowance should be raised from the 1 percent level approved by the Commission in Docket No. R97-1 to 2.5 percent. That proposal has a pervasive impact on all mailers.

Finally, as it did in the last case, the Postal Service proposes to modify the long-established method of attributing costs to subclasses and services. Postal witnesses claim that labor costs, the major cost component, do not vary 100 percent with volume.

Summary Of MMA's Proposals

In contrast to the Postal Service's hold-the-line approach to First-Class workshare discounts, MMA urges the Commission to recommend modest increases of at least .2 cents and .3 cents, respectively, in the Basic Automation and 3-Digit Automation discounts.² MMA further requests that the Commission recommend that the 4.6 cent heavy weight discount be extended to First-Class letters weighing between 1 and 2 ounces.

1 The Postal Service is proposing to reduce the discount for Non-Automation Letters, from 2.5 to 2.0 cents.

2 MMA is also proposing that the Commission recognize and give presort mailers credit in the form of higher discounts for the cost sparing efforts in connection with the dissemination of automation compatible, prebarcoded courtesy envelopes and the successful implementation of the Postal Service's Move Update Program.

ARGUMENT

I. First-Class Rates Are Too High And Need To Be Reduced

One of the Commission's most important long term goals has been to foster and maintain a "equilibrium condition" for the First-Class revenue target. In that regard, the Commission has often noted its intention to recommend rates for First Class and Standard Mail (A) that result in markup indices near the system wide average. However, since the omnibus rate proceeding in Docket No. R84-1, the Postal Service has recommended First-Class rates that were higher than they should be. MMA-T-1 at 4-5 and cases cited. Under the Postal Service's proposals in this case the disparity in markup indices for First Class (an increase from 132.0 to 145.1) and Standard Mail (A) (a reduction from 95.8 to 75.9) will be even more pronounced. MMA-T-1 at 6-7 and Table 2.

One solution for this present and growing dilemma would be for the Commission to reject the Postal Service's proposal to increase the basic First Class rate and hold the line at 33 cents for the first ounce. In the last omnibus case, the Commission considered doing just that but, ultimately, decided against that course of action because of adverse impacts on other classes of mail. Instead, the Commission lowered the First-Class revenue burden somewhat by lowering the additional ounce rate and limiting the increases for workshare mail categories. Docket No. R97-1, Opinion And Recommended Decision (Op.) at 275-76.

MMA recommends that the Commission take the same approach that it took in the last case – accept the Postal Service's proposal for a 1-cent increase in the First-Class 1-ounce rate but lower the revenue burden by reducing the rate for additional ounces and workshared letters.

II. First-Class Workshare Discounts Should Be Increased, Not Effectively Reduced As The Postal Service Proposes

As noted above, the Postal Service proposes to maintain discounts for most of the presort categories at their current levels. Under the circumstances, maintaining

presort discounts unchanged effectively results in a reduction in those discounts in real terms. As explained below, workshare discounts should be increased.

A. The Importance Of First-Class Workshare Mail

First-Class presort mail is the most important mail category both in terms of its contribution to institutional costs and maintenance of financially viable and efficient postal services. While these presort letters incur just over one-third of the volume variable costs as First-Class single piece letters do, they contribute almost as much to institutional costs. Characterized by consistently strong volume growth, First-Class presort mail has demonstrated itself to be a workhorse for the postal system. Although the Postal Service has spent billions of dollars deploying automated barcoding and sorting equipment to accomplish what presort mailers do, the Service's equipment is at capacity even though it barcodes just 25 percent of all letters, far less than anticipated, while presort mailers prebarcode the lion's share. Moreover, as Postal Service witnesses concede, the Postal Service would experience serious operational problems if large portions of workshare mail reverted back to the Postal Service for barcoding and sorting. As Mr. Bentley sums up these current operational realities, "the Postal Service and large First-Class presort mailers need each other." MMA-T-1 at 11. His recommendation: "[t]he Commission should nurture this mutually beneficial relationship by increasing presort discounts rather than reducing them in real terms as the Postal Service proposes." *Id.*

B. The Postal Service's Measurement Of Workshare Cost Savings Is Fundamentally Flawed

The following table compares the Postal Service's First-Class presort cost savings and the proposed discounts in this case with those of the Commission in Docket No. R97-1:

Comparison of First-Class Presorted Cost Savings
And Proposed Discounts
(Cents)

First-Class Category	PRC Docket No. R97-1		USPS Docket No. R00-1	
	Cost Savings	Discount	Cost Savings	Discount
Basic Automation	7.2	6.0	4.9	6.0
3-Digit Automation	0.9	0.9	1.0	0.9
5-Digit Automation	1.8	1.8	1.2	1.8
Carrier Route	0.5	0.5	0.3	0.5
Sources: Docket No. R97-1, PRC Op. at 297, USPS-T-24 at 18				

As the table shows, in Docket No. R97-1 the Commission recommended a discount of 6 cents for Basic Automation presort letters based on unit cost savings of 7.2 cents. By contrast, in this case the Postal Service proposes to *maintain* the Basic Automation discount at 6 cents despite the “finding” of USPS witness Miller that the related cost savings are only **4.9 cents**. At the same time, however, Postal Service witness Fronk, pointing to this anomalous finding, warns *repeatedly* “if the cost data presented in this docket are the beginning of a new cost trend indicating that the value of worksharing to the Postal Service has peaked, then the mailing community might anticipate smaller discounts in the future.”

The Commission need not concern itself with the Postal Service’s finding that the related cost savings are lower than the discount the Service is proposing. The unit cost savings that the Postal Service derives for workshare letters in this case simply are not comparable to the cost savings derived by the Commission in the last case. As Mr. Bentley explains “the Postal Service’s derived workshare cost savings are, indeed, lower than those derived in the last proceeding; but only because the Service’s new methodology *insures* that they will be lower. MMA-T-1 at 12 (emphasis in original).³

One of the most important methodological changes proposed by the Service involves the claim that labor costs do not vary 100 percent with volume. MMA witness Bentley counsels against adoption of the Postal Service’s new cost attribution

³ For example, Mr. Bentley demonstrates that the new cost attribution method employed by USPS witness Miller has the effect of reducing workshare cost savings. See MMA-T-1 at 15-16 and Table 8.

methodology. As he points out, attributing costs on the assumption that labor costs do not vary 100 percent with volume reduces the amount of total costs considered attributable, a reduction of \$3.5 billion in this case, and increases the amount of such costs that are considered to be "institutional" costs. Ultimately, such a change in cost attribution methodology could result in the assignment of an excessive portion of institutional costs to First-Class Mail. Such a change in cost attribution methodology would also artificially reduce derived workshare cost savings and mask the traditional yardsticks used by the Commission to judge the fairness of proposed rates. MMA-T-1 at 15.

In this case, the USPS witness Miller proposes another significant change in the way workshare cost savings are measured. He removed from his analysis of workshare cost savings of over 1.3 cents in 22 MODS cost pools because he deemed the costs to be unrelated to worksharing. Excluding these costs from consideration had the effect of reducing Basic Automation cost savings by .63 cents and reduced the savings from 3- and 5-Digit Automation letters by 30 percent. MMA-T-1 at 16. There are several problems with this approach, as Mr. Bentley explains. First there is the problem of possible sampling errors that result due to the loss of accuracy that accompanies the disaggregation of cost data to very low levels. MMA-T-1 at 16-17. Second, the cost pools that USPS witness Miller proposes to exclude do not affect single piece and workshare letters in the same manner. As Mr. Bentley observes, "in virtually every case, workshare letters cost less than single piece letters." *Id.* In Mr. Bentley's opinion, the fact that USPS witness Miller cannot explain the cost differences is a "fundamental flaw" in the Postal Service's case. As Mr. Bentley elaborated:

If exogenous factors impact single piece letters and workshare letters differently, then Mr. Miller's CRA- and model-derived unit costs do not accurately reflect just workshare cost differences, his stated goal. In other words, eliminating the cost pools Mr. Miller removed essentially invalidates his derived workshare cost savings.

However, if the exogenous factors impact single piece and workshare letters similarly, which I contend, then the observed cost differences totaling over 1.3 cents in the cost pools that Mr. Miller removed from consideration are more than likely caused by worksharing attributes. Accordingly, they should be included in, not eliminated from, the workshare cost savings analysis.

In either situation, inclusion of these cost pools in the analysis will produce a more accurate estimate of workshare cost savings. If particular costs are unrelated to worksharing, as Mr. Miller claims, and the costs affect single piece and workshare letters alike, then including the cost pools in the analysis will have no impact on the derived cost differences.

MMA-T-1 at 18. Moreover, Mr. Miller cannot explain why certain cost pools, particularly platform costs, are different for single piece and workshare letters. Former USPS witnesses Smith and Hatfield chose to include such cost differences as part of the presort cost savings derivation. Mr. Smith actually went one step further by specifically concluding that platform costs (among others) "are, in fact, presort related". Docket No. MC95-1 at IV-44 and IV-31.⁴

USPS witness Miller proposes to eliminate from consideration platform and other cost pools in his derivation of workshare cost savings. The Postal Service bears the burden of proof on this issue. Mr. Miller's failure to explain why platform costs are different is remarkable, particularly because he claims that the differences are due to factors other than worksharing but performed no study. In fact, he has no idea what mailers do in order to facilitate the movement of presorted letters within and between post offices. At TR 7/3149 he concedes:

I am not really an expert on presort mailers so I wouldn't know the answer to questions in terms of what they do prior to entering their mail at a postal facility.

Certainly, the Postal Service has not justified such a dramatic change to the methodology for measuring workshare cost savings. For these reasons, Mr. Bentley urges the Commission to adopt a commonsense "Rule Of Reason" – "When in doubt . . . leave costs in the analysis. If the cost pools are not affected by worksharing, and the cost pools are accurate, then leaving the costs in the analysis will not impact the final results." MMA-T-1 at 19.

Still another problem with the Postal Service's measurement of workshare cost

⁴ MMA witness Harrison specifically points out that palletizing as well as other mail preparation requirements serve to reduce platform costs. See Response Of Sharon Harrison to Interrogatory

savings lies in the use of an unrealistic benchmark from which to measure cost savings. Exhibit MMA-1A contains a concise review of the benchmarks utilized by the Commission over the years.

In Docket No. R97-1, the Commission accepted Bulk Metered Mail (“BMM”) as the appropriate benchmark and that is what the Postal Service uses in this case. MMA urges the Commission to reconsider use of BMM and instead adopt Metered Mail Letters (“MML”). Using MML rather than BMM as the benchmark simply recognizes that mail preparation costs are also avoided by worksharing efforts of presort mailers.

Mr. Bentley explains how choice of an appropriate benchmark mail piece relates to the process of deriving workshare cost savings:

The objective of the cost savings analysis is to isolate costs that the Postal Service can avoid when mailers presort and prebarcode their own letters. In other words, benchmark letters should represent what workshared letters would be if they were not prebarcoded or presorted.

MMA-T-1 at 19. Using BMM as the benchmark assumes that the letters are always properly faced, trayed, and brought to the post office for mailing.

Mr. Bentley explains at length why using BMM as the benchmark is unrealistic and unfair to presort mailers. The Postal Service witnesses who advocate using BMM as the benchmark do not agree on why they chose BMM and merely *assume* that BMM is still the mail most likely to convert to workshare status; neither they nor the Postal Service have any reliable data demonstrating that BMM even exists in today’s mail stream. Unlike these witnesses, Mr. Bentley traces the evolution and maturation of the presort program and explains how the characteristics of the type of mail most likely to convert to worksharing has changed over time. MMA-T-1 at 19-20. He also explains why it is illogical to assume that mailers will forego workshare discounts but still voluntarily prepare their mailings in the same manner as presort mailers and why, even assuming some isolated mailers do so, it is unfair to penalize all workshare mailers who mail out 47 *billion* pieces per year.

The methodology that the Postal Service employs to derive workshare cost

savings also arbitrarily excludes from consideration other cost sparing attributes of presorted letters. These include prebarcode savings of .46 cents per originating letter resulting from a Postal Service requirement that courtesy reply envelopes enclosed in outgoing workshare letters must meet automation compatibility requirements and be prebarcoded, savings of almost .9 cents per originating workshare letter that is attributable to reduction in the proportion of mail requiring forwarding or return service that has occurred due to presort mailers' compliance with the Service's Move Update Program, and window service cost savings of about 1.5 cents. MMA-T-1 at 22-24. The testimony of MMA witness Sharon Harrison provides further support for giving presort mailers appropriate credit in the determination of presort discounts for a portion of the savings achieved due to presort mailers support for prebarcoding CEM letters and their contributions to the successful Move Update Program. MMA-T-2 at 4,

C. MMA's Proposal For Modest Increases In Presort Discounts Are Reasonable

Reproduced below are Tables 9 and 10 from MMA witness Bentley's testimony. Table 9 shows the total cost savings and workshare-related cost savings derived by Mr. Bentley and the presort discounts he recommends in this case. As Table 9 shows, Mr. Bentley proposes to increase the discount for Basic Automation Letters by .2 cents to 6.2 cents, and to increase the discounts for 3-Digit and 5-Digit Automation Letters by .3 cents.

Table 9
MMA Proposed First-Class Workshare Discounts
(Cents)

	Total	Workshare-Related	Current	MMA Proposed
First-Class Category	Cost Savings	Cost Savings	Discount	Discount
Basic Automation	9.7	6.9	6.0	6.2
3-Digit Automation	4.3	1.5	0.9	1.2
5-Digit Automation	4.7	1.9	1.8	1.8
Carrier Route	3.3	0.5	0.5	0.5
Source: MMA-LR-1				

Table 10 shows the resulting presort rates and the percentage increases.

Table 10

Comparison of Current and MMA Proposed First-Class Rates
(Cents)

First-Class Category	Current Rate	MMA Proposed Rate	MMA Proposed Increase
Single Piece	33.0	34.0	3.0%
Basic Automation	27.0	27.8	3.0%
3-Digit Automation	26.1	26.6	1.9%
5-Digit Automation	24.3	24.8	2.1%
Carrier Route	23.8	24.3	2.1%

The discounts derived by Mr. Bentley do not include the additional cost savings related to enclosure of prebarcoded CEM envelopes where applicable and for presort mailers' contributions to the success of the Postal Service's Move Update Program. MMA urges the Commission to take these important cost sparing efforts of presort mailers into account when determining the specific level of presort discounts it will recommend.

The modest increases in presort discounts that MMA is proposing are lower than the derived cost savings, much lower than the total cost savings that presort mailers should receive credit for. The high cost coverage for First-Class as a whole and the much higher implicit cost coverage for presort letters warrants even greater increases in the discounts. However, limiting increases in the workshare discounts at this time insures that there will be no adverse impact on the Service's proposed rates for other subclasses and services.

III. Issues Regarding The First Class Additional Ounce Rate

In this case, the Postal Service proposes to raise the additional ounce rate for First-Class mail from 22 cents to 23 cents per ounce. In part to support that proposal, USPS witness Daniel prepared and presented the results of a study that purported to measure the impact of weight on costs. For the reasons explained by MMA witness Bentley, the Daniel weight study does not provide reliable information regarding the

impact on processing costs of the second ounce of a two-ounce letter. MMA-T-1 at 28-29.

MMA proposes the 4.6-cent heavy weight discount that currently applies to letters weighing over 2 ounces be applied to automation letters weighing between 1 and 2 ounces. Adoption of MMA's proposal would not disturb the Commission's preference for a uniform rate structure for additional ounces. It would also be consistent with USPS witness Fronk's observation "that initial additional ounces cost less for presort, but that this difference does not continue to grow as the pieces get heavier." USPS-T-33 at 31.

MMA witness Mury Salls provides additional support for implementation of the additional ounce rate recommended by Mr. Bentley. Mr. Salls explains how the existing rate structure encourages mailers to "break up" their mailings into two separate mailings – a First-Class mailing limited to one ounce per piece and a Standard (A) mailing weighing up to 3 ounces. Mr. Salls has presented, in Exhibit MMA-3A, an illustration of how mailers save money by breaking up their mailings in this fashion. Table 1 shows that breaking up a 10,000 piece 2-ounce mailing into two separate mailings can save a mailer approximately \$540, even though the Postal Service incurs significantly greater costs to handle and process twice the number of pieces. Table 2 of that exhibit demonstrates how extending the heavy weight discount to pieces weighing between 1 and 2 ounces will help to eliminate the counterproductive incentives built into the current additional ounce rate structure.

CONCLUSION

For the foregoing reasons, the Commission should adopt MMA's recommendations for reasonable increases in the discounts for presort mail and extension of the heavy weight discount to letters weighing between 1 and 2 ounces.

Respectfully submitted,

Major Mailers Association

By: 

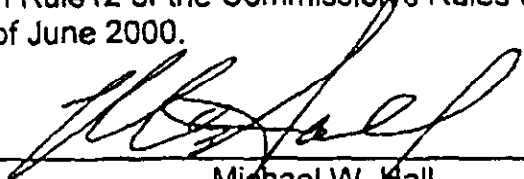
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Dated: Round Hill, VA
June 29, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties to this proceeding, in compliance with Rule 12 of the Commission's Rules of Practice.

Dated this 29th day of June 2000.



Michael W. Hall