

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

RECEIVED
JUN 29 4 52 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000 : Docket No. R2000-1

**JOINT TRIAL BRIEF OF AMERICAN BANKERS ASSOCIATION AND
NATIONAL ASSOCIATION OF PRESORT MAILERS.**

(June 29, 2000)

The Postal Service is faced with the imminent threat of electronic diversion of substantial volumes of First Class Letter Mail, particularly automated First Class Letter Mail which has extremely high and favorable cost coverages for the USPS. Inexplicably, the reaction of the USPS in this case to the threat of electronic diversion is to hold down (and in real terms cut) discounts for automated FCLM by utilizing questionable costing methodologies , which significantly understate cost avoidance. This one-sided "low-ball" USPS cost avoidance methodology, coupled with use of a Bulk Metered Mail (BMM) Benchmark which incorrectly assumes that stamped mail is not a candidate for worksharing, sends the wrong signal to the mailing public, and represents a missed opportunity of the USPS to attract substantial volumes of automated First-Class letter mail through discounts which fully reflect the true cost avoidance of such mail.

The American Bankers Association ("ABA") and the National Association of Presort Mailers ("NAPM") have proposed in this case increases in discounts for automated First Class Letter Mail which are fully supported by a reasonable measure of cost avoidance and which would reduce the inequitable cost coverage currently

borne by automated FCLM. ABA and NAPM are also recommending a P-Stamp rate category, which would enable a broad spectrum of single piece mailers, including household mailers, to share in the worksharing program. This P-Stamp proposal would greatly benefit the USPS by converting substantial volumes of single piece stamped mail to the much more efficient automated First Class Letter Mail which bears a much higher and favorable cost coverage for the USPS.

ABA&NAPM's Proposed Rates And Discounts

I. Set forth below are the rates and discounts proposed by ABA and NAPM in this case, along with the current rates and discounts, and the rates and discounts proposed by the USPS in this case.

<u>Mail Type</u>	<u>ABA/NAPM R-20001</u>	<u>Current Rates/ Discount</u>	<u>USPS-R-20001</u>
Automated Basic FCLM	6.6 Cents Discount	6.0 Cents Discount	6.0 Cents Discount
Automated 3 digit FCLM	7.8 Cents Discount	6.9 Cents Discount	6.9 Cents Discount
Automated 5-digit FLCM	9.5 Cents Discount	8.7 Cents Discount	8.7 Cents Discount
Heavyweight Discount Automated FCLM	4.6 Cents Discount for 2d and 3d Ounce	4.6 Cents Discount for 3d ounce	4.6 Cents Discount for 3d ounce
Additional Ounce FCLM	22 Cents Rate	22 Cents Rate	23 Cents Rate
P-Stamp ¹	32 Cents Rate	None	None

¹ As described herein, the P-Rate applies to single piece mailed delivered to a P-Stamp collection box with a P-Stamp, meter imprint, or electronic stamp, and subsequently upgraded by the workshare mailer to at least basic automated FCLM.

II. ABA&NAPM's Proposed Discounts for Automated Basic, Three-Digit and Five-Digit First Class Letter Mail Are Fully Supported By Reasonable Cost Avoidance Measurements.

USPS cost Witness Miller has presented a radically different costing methodology in this case which results in artificially reduced measurement of cost avoidance for automated FCLM. It is important to note that this reduced measurement of cost avoidance is not due to an actual shrinking of cost avoidance, but rather to this new methodology which appears to be in large part designed simply to reduce measured cost avoidance, rather than to isolate savings due to worksharing. Indeed, in response to interrogatories, USPS Witness Miller was forced to admit, "I do not have the view that cost avoidance is shrinking".²

ABA&NAPM Witness James A. Clifton has provided testimony in this case which demonstrates that USPS witness Miller's cost avoidance studies represent a significant departure from past USPS methodologies.³ Most of the changes made by Miller to past USPS methodologies result in a reduced measure of cost avoidance; yet little or no effort seems to have been made to identify or measure potentially significant cost avoidance features of automated FCLM.

Dr. Clifton demonstrates in his testimony that the trends in First Class Mail total unit attributable costs from 1992 to 1999 show a continued increase in the gap between single piece and presort⁴. Dr. Clifton then proceeds to demonstrate that when measured on any consistent basis, cost avoidance for automated FCLM rate

² Miller Interrogatory Response to ABA&NAPM/USPS-T24-26(b) at Tr.Vol. 7, page 3071.

³ Clifton Direct Testimony (ABA&NAPM-T1) at page 24.

categories has increased since the last rate case. In particular, Dr. Clifton shows that whether you apply the USPS R2000-1 methodology to both the Test Year 98 data and the Test Year 2001 data, or whether you apply the USPS R97-1 methodology to the Test Year 98 data and the Test Year 2001 data, the result is the same. . . cost avoidance for automated FCLM is increasing.⁵

In his testimony Dr. Clifton makes reasonable revisions to Miller's cost avoidance calculations by including 12 of the 35 cost pools which Miller excluded from the cost avoidance equation as "non-worksharing related fixed," all of which were included in the refined methodology used by the USPS in the last rate case. Dr. Clifton then adds USPS Daniel's delivery costs, and arrives at the following conservative measure of cost avoidance: ⁶

automated basic FCLM	6.575 Cents
automated 3-digit	1.085 Cents increment
automated 5-digit	1.370 Cents increment

Dr. Clifton correctly characterizes his measurement of cost avoidance as "very narrowly defined".⁷ Indeed, his measure does not include additional unrecognized cost savings identified by NAPM witness Dennis MacHarg (NAPM-T1) at Pages 2-8 of Mr. MacHarg's testimony.

Continued from previous page

4 See Clifton Direct Testimony (ABA&NAPM-T1) at page 7, Figure 1.

5 Clifton Direct Testimony (ABA&NAPM-T1) at Pages 15 and 16, Figures 4 and 5.

6 Clifton Direct Testimony (ABA&NAPM-T1) at Page 33, Table 4 and Exhibit A.

7 *Id.*

Dr. Clifton's narrowly defined measure of cost avoidance, which excludes 23 CRA mail processing cost pools, fully supports the discounts proposed by him on behalf of ABA&NAPM. The 6.6 cents discount for automated basic FCLM represents a 100% pass through of cost avoidance; the 7.8 cents discount for automated 3-digit represents a 102% pass through; and the 9.5 cents discount for automated 5-digit represents a 105% pass through. The establishment of discounts for automated three-digit and five-digit FCLM slightly above 100% of Dr. Clifton's measure of their cost avoidance is fully merited by the fact that his cost avoidance figures are very conservative and that these rate categories are the key automated rate categories for the USPS automation program for which high volume should be encouraged.

In addition to the extremely conservative estimate of avoided costs identified by Dr. Clifton using his very narrow definition of cost avoidance, NAPM witness MacHarg, at pages 2-8 of his Direct Testimony, identifies additional cost savings not included in the estimates of either the USPS or Dr. Clifton. These additional savings which should be reflected in automated FCLM discounts arise from (a) reduced capital costs and avoidance of reversion costs, (b) reduced maintenance costs, (c) reduced UAA costs as a result of the move-update requirements imposed upon workshare mail, (d) cost reductions attributable to customer service and education efforts made by workshare mailers, (e) reduced supply costs, (f) reduced trucking fleet costs as a result of functions performed by workshare mailers, and (g) reductions in activities that the USPS would have to provide during daily peak load periods were these function not performed by the presort industry."

III. The Bulk Meter Mail Benchmark Has Lost Its Usefulness And Sends The Wrong Signal To Mailers.

There are several deficiencies in the Bulk Meter Mail Benchmark utilized by the USPS to measure cost savings for automated FCLM. It appears that there is not any significant volume of BMM, particularly not in the form assumed by the USPS (i.e., metered mail which is trayed by mailers so it does not require preparation that bundled metered letters would and which requires no facing or canceling⁸).

Perhaps most important, the use of BMM as a benchmark to measure cost avoidance for workshare mail sends a signal to workshare mailers which discourages them from making an effort to convert stamped single piece mail to automated mail. The BMM Benchmark then becomes a self-fulfilling prophecy, which effectively narrows the field of mail which workshare mailers will attempt to convert to automated mail. The anachronistic nature of the BMM Benchmark is truly exposed by ABA&NAPM's proposed P-Rate, which demonstrates that there are indeed large volumes of single piece stamped mail which under a P-Rate environment are real candidates for conversion to automated FCLM. The BMM benchmark was based on the concept that stamped single piece mail was not a candidate for conversion to worksharing. Since this concept is no longer accurate, the BMM benchmark should be discarded.

IV. The P-Stamp Proposal

⁸ Fronk Direct Testimony (USPS-T33) at Page 18, Footnote 2.

Dr. Clifton has proposed, at pages 35-42, a 32 cent "P" rate which would allow individual mailers and businesses to receive a discounted rate on First Class Letter Mail which would otherwise be mailed at full rates. Such P-Rate mail would be upgraded by worksharing to at least the automated basic FCLM level, thereby reducing Postal Service costs by increasing the amount of workshared mail. This proposal would allow households and businesses mailing single piece stamped mail to participate in the USPS workshare program, and would also address, head-on, the Postal Service's concerns about the electronic diversion of First-Class Mail by providing a lower cost option to First-Class mailers.

V. The ABA&NAPM Extra Ounce and Heavyweight Discount Proposal

ABA and NAPM have presented, in Dr. Clifton's testimony at page 57, lines 1-11, proposals to retain the First Class extra ounce rate at 22 cents and to extend the 4.6 cent heavy weight discount to the second ounce, as well as the third ounce of First Class automated presort mail. As Dr. Clifton's testimony has demonstrated, these proposals would more accurately reflect Postal Service costs for extra ounces of First-Class presort mail and would reduce the cost coverage for First-Class Mail to more equitable levels than the rates proposed by the Postal Service. NAPM witness MacHarg also testifies that Dr. Clifton's heavyweight discount proposal would provide a much-needed incentive to increase the volume of automated flats delivered to the USPS.

VI. Comments on Pitney Bowes, Stamps.com, and E-Stamp Proposals

ABA and NAPM are still evaluating the cases of intervenors, since we have interrogatories still pending to Stamps.com and E-Stamp witnesses (for which

responses are not due until July 3, 2000); and we have not yet had the benefit of cross-examination of any intervenor witnesses. However, at this point we do note the following concerning proposals made by Pitney Bowes, Stamps.com and E-Stamp.

Pitney Bowes witness Haldi proposes a discount for metered mail based on cost savings compared to stamped mail. Stamps.com witness Heselton proposes a discount for mail bearing the Information Based Indicia ("IBI"), based on costs avoided compared to mail preparation and address deficiencies costs of a handwritten letter benchmark. Automated FCLM avoids the same costs, as those relied upon by Pitney Bowes and Stamps.com for their proposed discounts; however such costs avoidance is not reflected in current or proposed discounts for automated FCLM because of the use of the BMM benchmark. We submit that this is yet another reason not to use the BMM benchmark to measure cost avoidance of automated FCLM.

E-Stamp witnesses Jones and Prescott propose a discount for PC Postage which is based on an erroneous calculation which confuses automation cost avoidance with cost avoidance due to 3-digit and 5-digit presortation, and which otherwise fails to isolate the cost savings for a single piece prebarcoded letter.

Respectfully submitted,

AMERICAN BANKERS ASSOCIATION
NATIONAL ASSOCIATION OF PRESORT MAILERS

By:  _____

Henry A. Hart, Esq.
Reed Smith Shaw & McClay LLP
1301 K Street N.W.
Suite 1100 - East Tower

Washington, DC 20005
Ph: 202-414-9225

Irving D. Warden
Assoc. General Counsel
American Bankers Association
1120 Connecticut Ave., NW

Washington, DC 20036
Ph: 202-663-5027

Fax: 202-414-9299

Counsel for
National Association
of Presort Mailers

June 29, 2000
Washington, D.C.

Fax: 202-828-4548

Counsel for
American Bankers Association

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

A handwritten signature in dark ink, appearing to read 'I. D. Warden', is written over a horizontal line.

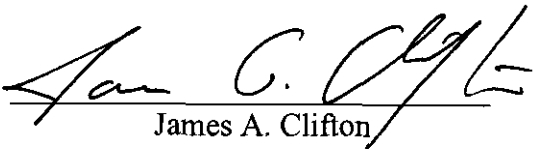
Irving D. Warden

American Bankers Association
1120 Connecticut Ave., N.W.
Washington, D.C. 20036
Phone (202) 663-5027
Fax (202) 828-4548
email: lwarden@aba.com

June 29, 2000

DECLARATION

I, James A. Clifton, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


James A. Clifton

Dated: 06-29-00