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

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

JOINT REPLY BRIEF

CONCERNING
CITY CARRIER COST ATTRIBUTION

OF

ADVO, INC.
ALLIANCE OF NONPROFIT MAILERS
AMERICAN BUSINESS MEDIA
ASSOCIATION FOR POSTAL COMMERCE
ASSOCIATION OF AMERICAN PUBLISHERS
COALITION OF RELIGIOUS PRESS ASSOCIATIONS
DIRECT MARKETING ASSOCIATION
DOW JONES & COMPANY, INC.
MAGAZINE PUBLISHERS OF AMERICA, INC.
MAIL ORDER ASSOCIATION OF AMERICA
THE McGRAW-HILL COMPANIES, INC.
NATIONAL NEWSPAPER ASSOCIATION
PARCEL SHIPPERS ASSOCIATION
AND
TIME WARNER INC.

September 22, 2000

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INTRODUCTION

The undersigned parties, who are the co-sponsors of the Joint Brief Concerning City Carrier Cost Attribution (September 13, 2000), respectfully submit this joint reply brief in response to the initial briefs of the Newspaper Association of America (NAA) and the Office of the Consumer Advocate (OCA).

The NAA and the OCA argue that the Commission should use the Engineered Standards (ES) city carrier out-of-office time proportions. However, to derive the variability associated with the ES proportion of load time, both parties attack the ES route-level load time model presented by the Postal Service to match the ES estimate of accrued load time. They state their preference for the use of the older Load Time Variability (LTV) stop-level models, based on data collected in 1985.

NAA and OCA inconsistently and illogically argue that the ES study is suitable for estimating proportions of carrier out-of-office time but, for various picayune reasons, not for estimating the variability of that time. They gloss over the fact that the ES estimates of load time have been proven to be far different from those for the LTV/STS (Street Time Survey) and, therefore, that *the ES and LTV data represent different sets of carrier activities*. No mistake should be made. The ES and LTV data sets do not match, and there must be a proper matching of accrued times and variabilities associated with those times, or the result will be nonsensical. Either the ES must be used for both accrued load time proportions and variabilities, or the combination of STS and LTV must be used. There is no logical, methodologically defensible middle ground.

I. THE MISMATCH BETWEEN ES AND STS/LTV

As we explained on brief, MPA witness Crowder demonstrated that there is a large mismatch between the load time definition implicit in the ES data and that used by the STS/LTV data sets:

- The ES variabilities are substantially lower than the LTV variabilities, indicating that the ES load times contain a broader range of out-of-office operations than do the LTV/STS load times.
- The ES volume-load time model demonstrates a large amount of fixed route time embedded within the ES load times, unlike the LTV/STS load times.

- A limited analysis of ES videotapes of park and loop routes indicates that the ES definition of load time includes far more time than that included in the LTV/STS definition.

We explained why such a mismatch produces a variable cost estimate that is methodologically nonsensical and clearly excessive. Thus, it is clear that the ES load time model variability must be used if the Commission uses the ES estimate of accrued load time. Even the Postal Service, which initially proposed the use of the LTV load time variability, subsequently recognized the need for a correct matching of accrued load time and variability and placed the correctly modeled variabilities on the record in ample time for all participants to fully examine and rebut.[1] No one even questioned them.

II. THE ES ACCRUED LOAD TIME ESTIMATE

The Postal Service, NAA, and OCA all believe the ES time proportions should be used. Relying on the rebuttal testimony of USPS witnesses Stevens and Raymond and NAA witness Kent, all three argue that the ES is a more up-to-date and reliable data collection than the STS. USPS Int. Br. at V-75; NAA Int. Br. at 34; OCA Int. Br. at 133. However, the NAA also argues further, albeit in a far more subdued manner, that the ES estimate of accrued load time is not understated, so that there is no problem matching it with the LTV stop-level variabilities. NAA Int. Br. at 39. The OCA makes no such claim; it simply states that it sees no reason why it would be analytically improper for the Commission to use the ES accrued cost with the LTV variabilities. OCA Int. Br. at 141. Both NAA and OCA are demonstrably wrong.

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[1] *See* Motion Of MPA Et Al. To Incorporate Into Evidence USPS Responses To UPS/USPS-T12-12-17 And USPS Library References LR-I-310, LR-I-386 And LR-I-398 Or, In The Alternative, To Direct The Postal Service To Provide A Sponsoring Witness For Said Library References (*filed* June 8, 2000; *granted, without opposition*, Presiding Officer's Ruling No. R2000-1/92, July 18, 2000).

a. The Comparison Between the STS and ES Data Collections

Witnesses Stevens and Kent compared the old STS data collection to the new ES data collection and concluded that the ES is more up-to-date and "reliable." Both claim that the ES data is sufficient for ratemaking purposes. However, nowhere in Stevens' or Kent's testimony did they address how volume variabilities should be measured so that they fit with the ES accrued time estimates and provide reliable estimates of volume-variable costs. Nowhere did they validate the use of a non-ES-based load time variability with the ES accrued load time estimate. Their testimonies do not support the use of the ES accrued load time cost estimate with the LTV-modeled load variabilities.

b. The Overstatement of ES Load Time Relative to the LTV/STS Estimates

The OCA and NAA rely solely on the rebuttal testimony of USPS witness Raymond to support their untenable position that the carrier activities in each of the ES out-of-office categories are generally (and reliably) the same as those in the comparable STS/LTV categories (i.e., that the ES load time estimate can be used with the LTV variabilities). However, the Postal Service itself carefully avoids making that claim and, in fact, agrees on brief with Crowder that the ES accrued load time data do not match the LTV data. USPS Int. Br. at V-79. The reason the Postal Service takes this position is that Raymond's rebuttal testimony provides no support for the definitional equivalence of the ES and STS/LTV data sets.

Based on her review of Raymond's testimony and the library references sponsored by Raymond and Baron, Crowder identified numerous aspects of the ES data collection that demonstrated the tremendous mismatch with LTV definitions. Tr. 32/16151-64. On rebuttal, Raymond provided no evidence that his ES data collectors reliably and consistently applied the ES activity sampling codes so as to permit him to allocate the tallies correctly among the originally defined

STS costing categories. Further, all quantitative data--the videotape and the ES data analyses--suggest otherwise.

Although not entirely error-free, Crowder's videotape results remain powerful evidence of one reason *why* the ES load time includes far more than the LTV/STS definition of load time and should, therefore, not be used with the LTV variabilities.[2] Tr. 16399-16402. The proportions of load time shown on the tapes are only a small fraction of the proportions indicated by the ES tallies. The tapes are a source of data that have not been filtered by any sort of "observer bias" and, therefore, should not be ignored. They are available for the Commission to review and, when compared to the amount of load per delivery estimated from the ES tallies, speak eloquently for themselves.

Both the videotape and data analyses performed by Crowder and the data analyses performed by Baron all indicate that the ES "definition" of load time encompasses substantially more carrier time than that for STS/LTV. This fact is incontrovertibly established on the record.

III. LOAD TIME VARIABILITY

NAA claims that the credibility of the ES route-level load model proposed by the Postal Service is suspect because the model remains in steady flux. NAA Int. Br. at 43. OCA comes up with a grab-bag of apparent reasons to reject the ES route-level model: that it is "untested"; that it does not specifically reflect stop-level characteristics, like the LTV model; that the ES data require more manipulation to generate "believable" regression results; that the variabilities are based on 1996-1998 volumes rather than 1998 volumes alone; and that the model was introduced

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[2] She also explained that she attempted to be extremely conservative in her analysis of the videotapes – leaning toward adding more load time rather than less. Tr. 16259-60, 16267, 16396-16398.

after the USPS and intervenor direct evidence was submitted--thus suggesting that participants had insufficient time to thoroughly investigate the model.

a. Timeliness and Quality of the ES Load Time Model

The OCA is incorrect in claiming that the ES route-level model was introduced after intervenor direct evidence was submitted. The model was first presented by USPS witness Baron on May 12, 2000.[3] MPA witness Crowder had sufficient time to review the model and its results and prepare comments prior to filing her testimony. Tr. 32/16148. All participants had sufficient opportunity to examine the model and its results and participate in discovery on them, although the OCA and NAA both declined to do so. All participants also had sufficient opportunity to provide rebuttal testimony on the model and its results, and none did so. If the record is "thin," as OCA contends (Int. Br. at 140), then it is because the OCA and others chose not to expand it.

Both the OCA and NAA participated in discovery on the ES data set (and Crowder's analysis of that data) and yet did not pursue the model developed directly from that data. NAA even filed rebuttal testimony on the ES data set, yet made no mention of the ES route-level model that accompanied it. OCA 's and NAA's highly generalized criticisms of the model on brief should be given no credence, since they chose not to sully the record with support for those arguments during the discovery and rebuttal phases of this case.

b. The Need to Reflect Stop-Level Characteristics and the Data Manipulation Required to Develop the ES Model

The OCA claims that two issues raise serious concerns regarding the ES route-level model: (1) the need for stop-level models that contain various stop-level

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[3] On that date, USPS-LR-310 was filed in response to USPS/Advo-T12-11. See note 1 above; *see also* Tr. 18/7094 *and* USPS-LRs-I-386 and I-398.

variables, and (2) the amount of data manipulation required to develop the ES model. The first concern is, in fact, trivial, since the ES route-level model subsumes the stop-level characteristics of the stops on the routes from which it was developed. It is not necessary to know what these individual characteristics are (e.g., receptacle types) to know that the load time results are influenced by them. In the route-level model those characteristics are implicit; in the stop-level models, they are explicit. That is a distinction without a difference.[4]

The OCA's second concern actually demonstrates why the ES load time model variability is the only correct variability to use with the ES accrued load time cost. The considerable manipulation of the ES data was caused by the fact that the ES load data were not collected using consistent definitions of terms and, in many cases, included more than the time required to load mail at a delivery point. Thus, witness Baron had to manipulate the data because some routes, unexpectedly, had more "load" time than the associated volume and deliveries could explain.[5] Baron's manipulations do not invalidate the resulting ES route-level load model's usefulness for derivation of variability. In fact, because the ES data are so inconsistent, they are absolutely necessary to develop a model and variability that match the ES accrued load time costs. Even Baron, who cannot break the party line and acknowledge that the ES load time includes more than "true" load time, recognized that the matching of ES accrued load time cost and ES

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[4] *See, e.g.*, Tr. 32/16193, where Crowder explained that the volume coefficients reflect the entire volume effect in the route-level load time model just as they did in the stop-level load time models. *See also* UPS/USPS-T12-16(a& b) at 15-16: Tr. 46-D/21100-09 *and* USPS-LR-I-310 at 21.

[5] As noted above, Crowder completely explained this phenomenon. The additional "unexpected" load time included in the ES data represents fixed route time that was incorrectly designated "load" when Raymond translated the ES tallies into STS categories. And Crowder's videotape analyses demonstrate that, at least in part, this occurred for park-and-loop routes. Tr. 32/16188, 16190.

model variability are necessary to obtain a correct estimate of variable "load" cost. Tr. 43/18703.

c. The ES Modeled Variabilities Are Acceptable But Can Be Adjusted To Reflect Base Year Volumes, If Necessary

The OCA criticizes the ES modeled variabilities because they reflect route-level volumes for 1996 through 1998. OCA appears to believe that this is a serious flaw. However, the time period over which the ES volumes were collected is very close to base year 1998 and an update to reflect the entirety of base 1998 would likely have only a minimal effect. Certainly the minor discrepancy caused by the slight difference in timing should not cause the Commission to use completely inappropriate variabilities derived from LTV models with base year volumes.

If the OCA had really been concerned about this aspect of the ES modeling effort, it could have explored potential corrections. For example, it is within the Postal Service's ability to convert the CCS stop-level data to a measure of route-level volumes by shape. And it also could have made some adjustments to update ES volumes (assuming a rough 1997 mid-point) to base year 1998 estimates. If this issue were a serious concern for OCA, it should have explored the means to improve the analyses. Instead, it chose simply to complain on brief. Neither the issue nor OCA's complaints merit any consideration at this stage of the proceedings.

d. The Attribution of Coverage-Related Load Time

Coverage-related load time is the load time associated with a marginal piece causing an entirely new stop. As Crowder correctly explained, in the ES route-level model coverage-related variability is subsumed within the total variability derived from the volume coefficients, and, therefore, no additional analysis is required. Tr. 32/16191-93. Witness Baron argued, however, that the

variability from the ES model volume coefficients represents only "elemental" volume variability and that the variability from the possible delivery coefficient represents the portion of "coverage-related" load in the accrued load time estimate. He then applied a stops coverage variability to his proposed measure of "coverage-related" load to develop his estimate of volume-variable coverage-related load. Tr. 43/18708-13.

OCA and NAA argue that the Commission should not only use the LTV stop-level models but that the "coverage-related" load times estimated from those models be attributed on the basis of single subclass stop time, which is a measure of incremental (rather than volume-variable) cost. Moreover, they imply that a key reason to choose the LTV stop-level variabilities over the ES route-level variabilities is to derive a separately measurable estimate of coverage-related load time that can then be attributed on the basis of single subclass stops. That would be a singularly trivial reason for applying the LTV variabilities to the plainly incommensurate ES proportions. Postal Service testimony comparing incremental to volume-variable costs showed that, for most subclasses and operations, incremental cost is only slightly greater than the volume-variable cost, which is included within incremental. USPS-T-23 at 22-23. Variable coverage-related load time is already included in the total variable load time measured from the volume coefficients in the ES route-level load time model. To use an extremely overstated volume variability (via the use of the LTV variabilities) to capture a minor difference between volume-variable and incremental coverage-related load time would be equivalent to swatting a fly with a sledge hammer.[6]

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[6] In Docket No. R97-1, Joint Parties witness Crowder provided a full explanation of why the single subclass stops analysis was not a correct measure of subclass incremental load cost. No one has yet addressed or rebutted that explanation. Docket No. R97-1, NAA/JP-NOI3-1: Tr. 29/16233-43.

This is especially true since volume-variable costs are the correct cost measure for cost coverage purposes and the Commission already has estimates of subclass incremental costs to ensure that no subclass is priced below its own costs.

We have explained at length why the LTV variabilities cannot rationally be used with the ES accrued load time costs. To do so results in an extreme overattribution of load time. If the Commission requires, as a precondition for its acceptance of the ES route-level model volume variabilities, some mechanism to identify coverage-related load so that it can perform another single subclass stops attribution, then it should use the Postal Service estimate of coverage-related load, derived from the possible deliveries coefficient in the ES route-level load time model. Such an attribution would, we believe, be excessive, since volume variable coverage-related load is already estimated from the volume coefficients. But, that overstatement would pale by comparison to the overstatement if the Commission used the LTV stop-level load model variabilities with the ES accrued load time estimate. If the choice must be made--a somewhat overstated attribution derived from the ES load model or a grossly overstated attribution derived from the LTV load model – then the Commission must in reason choose the lesser of the two evils.

CONCLUSION

For the reasons discussed herein, the undersigned parties respectfully submit that, if the Commission uses the ES study data as a basis for estimating proportions of carrier street time, reason and methodological consistency require that it use the same data as a basis for estimating the variability of carrier street time.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document on all participants of record in this proceeding in accordance with sections 12, 25(a), and 26(a) of the Rules of Practice.

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September 22, 2000