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

**POSTAL RATE AND FEE CHANGES, 2000**

**DOCKET NO. R2000-1**

**REPLY BRIEF  
OF  
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION**

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## INTRODUCTION

This Reply Brief is submitted in behalf of Florida Gift Fruit Shippers Association, and addresses issues raised in the Initial Brief filed by United States Postal Service and by United Parcel Service.

## PARCEL POST – INSTITUTIONAL COSTS

USPS proposes a cost coverage of 115 percent. (Brief, VI-23)

The effect of this is to increase the per unit contribution for Parcel Post to 32.8 cents. (See, USPS-ST-44, Exhibit 44X) In Docket No. R97-1, the per unit contribution was 25.313 cents.

No justification has been shown for this increase in the per unit contribution for parcel post. As noted by the USPS brief (VI-24) “Parcel Post exhibits a low intrinsic value of service, low priority of delivery, and generally relies upon surface transportation.” And, further, “Its own-price elasticity indicates a low economic value of service.”

The contribution to institutional costs is stated in terms of cost coverage as a percentage of attributable costs. This causes the per unit contribution to vary among parcel post parcels, depending on weight and zone destination, since there is a different amount of attributable cost for parcels in each weight and zone cell.

There is no rate design principle that would justify charging mailers who use one rate cell within Parcel Post a higher or lower unit contribution than those mailers who use some other rate cell within Parcel Post. All mailers with the parcel post subclass should be on an equal footing as regards unit contribution to cover institutional costs.

The unit contribution for Parcel Post is larger than any other class or sub-class, except for the expedited mail of Priority and Express. The Parcel Post unit contribution is almost double the unit contribution for First Class. In Docket No. R97-1 the unit contributions were 14.670 cents for First Class and 25.313 for Parcel Post. These unit contributions changed to 16.8 and 33.3 cents in FY 1999, and to 16.7 and 27.3 cents in FY 2000. The proposal now would further increase these unit contributions to 17.0 cents for First Class and 32.8 cents for Parcel Post. (USPS-ST-44, Exhibit 44X)

The differentials in unit contribution cannot be justified, especially since Parcel Post has a much lower value of service.

Similarly, the differences in unit contribution by Parcel Post parcels should not be the result of the weight or zone distance differences. The application of the "mark-up" percentage to attributable cost does not produce a fair and equitable result.

As Witness Ball (FGFSA-T1, at page 19) testified: An appropriate starting point for the determination of the mark-up is a uniform amount for each piece of mail. From there, appropriate adjustments should be made to reflect the relative benefits from participating in the system, the value of service, and the ratemaking criteria of the Postal Reorganization Act.

With the improvements, through automation, handling and processing become more efficient, with resultant lower costs. This means that, as a result of the efficiencies, that mail would make a lower contribution to institutional costs. That is inconsistent with the concept of a reasonable assignment of such costs. Starting with a uniform amount per unit, should moderate such inconsistencies.

The cost coverage and unit contribution by Parcel Post must be held to a low level, if the Postal Service is to be able to retain the parcel volume.

#### PARCEL POST RATES

The USPS brief (VI-24) references an average rate increase of 1.3 per cent for Parcel Post. It is not clear how this low percentage was derived. The rate schedules in the USPS Request show rates which increase by 10.0 per cent for Intra-BMC and for Inter-BMC. The DBMC proposed rates show proposed increases of approximately 8.0 per cent for all weights to Zone 5 and for weights over 15 pounds to Zones 3 and 4, and for weights over 25 pounds to Zones 1 & 2. In addition to these increases in the basic rates, there is a further increase for Intra-BMC and DBMC by the imposition of the nonmachinable surcharge to these classifications. These large increases come on top of the R97-1 increases of 30 per cent.

Retention and attraction of new volumes cannot be anticipated with this magnitude of rate increases.

The further increases in Parcel Post rates advocated by United Parcel Service are not supported or justified, and should not be approved by the Commission.

#### TRACS

TRACS is the statistical sampling and data collection system used to distribute purchased transportation costs to mail categories. The concerns of FGFSa relate to the subsystem for purchased highway transportation.

In Docket No. R97-1 the Commission found that a "potential" for bias is clearly present in the TRACS "expansion" process. (PRC-OP-215 at paragraph 3387).

At paragraph 3388, the Commission said: “When a truck is sampled by TRACS and found to be fully loaded, and any containers carried on the truck are similarly fully loaded, . . . it is difficult to avoid the conclusion that the cost of the destination day should be fairly attributed to the mail found on the truck at its destination. However, the same cannot be said for a partially loaded truck or for a truck carrying partially empty containers. The mail sampled on a partially empty truck and in partially empty containers may have little to do with the transportation requirements and operational decisions that produced a truck or a particular size running a particular route to that destination on that day.”

Then, in paragraph 3391, it is provided: “It appears to the Commission that TRACS would better serve the purpose of supplying information for a rate proceeding if the data collection and reporting were kept separate from the imputation that is made when the contents of trucks and containers are “expanded” to full unused capacity.”

Unfortunately, the Postal Service did not make the refinements to separate the “expansion” process. USPS-LR-I-52 explains the continued expansion process, which (a) expands to unloaded truck capacity (p. 16), (b) expands palletized mail (p. 17), (c) expands non-containerized mail (p. 17), and (d) expands containerized mail to the gross cubic foot capacity of the container (p. 19-21).

It is clear that the TRACS programs continue the “expansion” process, and there has not been a separation of the expansion from the data collection and reporting, as requested by the Commission.

The TRACS program used for the R97-1 data did include a “weighting” factor applied to samples on the outbound and inbound trips, in order to adjust for the imbalance

in mail volumes. However, no such “weights” are used in this case. Reference, in the USPS brief (III-5), to a weighting procedure references USPS-LR-I-52, at pages 22-23. A review of those pages does not identify any such “weighting procedure”.

There can be no real question but that there is an imbalance in mail volume between the out-bound trip and the in-bound trip. The utilization of vehicle capacity on the in-bound trip is significantly less than on the out-bound trip. Utilization is 71.25% on the out-bound trip, but only 39.25% on the in-bound trip. (TR 6760)

As noted in the USPS brief (III-3) in the past TRACS took 70% of Intra-BMC samples on the inbound movement and 30% on the outbound movement. Expressed concerns about bias caused by the imbalance in sample size, compared with the actual mail volumes in each direction, caused the Postal Service to change the sample allocation so that 51% of the samples are taken on the in-bound trip, and 49% on the out-bound trip. However, this change does not correct the problem.

As Witness Ball (FGFSA-T-1) notes: “This selection of the TRACS samples does not reflect the relative mail volumes and makes the sampling non-representative and biased.” USPS responds that TRACS “produces unbiased estimates for the cubic-foot-miles used in the distribution key calculation.” (Brief, III-3) We do not quarrel with the computation of cubic-foot-miles on the samples recorded (except to the extent that the computation is founded on the “expanded” cubic feet from the samples). Witness Ball’s testimony was that the samples do not reflect the relative mail volumes.

At page 13 of his testimony, Witness Ball provided comparison of the developed distribution keys, with the estimated volume and cubic feet of the mail in Standard A,

Parcel Post and DBMC. It is very clear that the distribution keys do not reflect the actual mail volumes and cubic feet for these three mail categories.

The USPS response to the figures shown by Witness Ball is that “approximately 68 percent of Standard A Intra-BMC mail included in the second table is entered at the DSCF or DDU”. That is simply not correct. USPS-T-27, Attachment B, Table 1, sets forth the type of transportation for each type of mail flow for Standard A mail. Mail entered at the DSCF or DDU is not included in this table for the mail flow determined for Inter-BMC or Intra-BMC transportation. This “explanation” by the Postal Service is not founded on any factual basis, and should carry no weight. Then, the Postal Service says that comparison of the transportation mode with rate category volumes is not appropriate since there is not a one to one relationship between these two.

There is no reason to believe that different classes of mail are transported for different distances in Intra-BMC transportation. The disparity in the two tables is such that the differences in distance would have to be very substantial. The offered explanation just does not make any sense. Especially, it does not explain the dramatic discrepancy in the volume and distribution keys between parcel post and DBMC. Since the volume of DBMC is more than twice as much and Intra-BMC and Inter-BMC combined, there is no reasonable explanation for the distribution key to accurately show that DBMC is less than the distribution key for Intra-BMC and Inter-BMC.

The record does not provide an explanation for this discrepancy, but the record is clear that the distribution keys developed by TRACS for these three mail categories are wrong!

The other problems and inconsistencies from the TRACS analysis, which are described by Witness Ball, FGFS-A-T-1, are such that the results from TRACS simply cannot be used, at least in the determination of costs and rates for Standard A, Parcel Post and DBMC.

If the distribution keys developed by TRACS cannot be used, how should the transportation costs be distributed? Witness Ball recommended that purchased highway transportation cost be distributed to these three mail categories according to the cubic feet of each category. That is consistent with the distribution of the costs in C.S. 8, Vehicle Service Drivers.

#### VARIABILITY OF PURCHASED TRANSPORTATION

This issue is addressed by the Postal Service Initial Brief, beginning at V-108.

Witness Bradley, USPS-T-18, presents his analysis of purchased highway transportation contracts, and determined that contract costs vary with purchased capacity. However, Witness Bradley did not take into account the changes, if any, in mail volumes transported in the highway transportation capacity.

In fact, there is a low and declining utilization of highway capacity. TR 2462. Witness Bradley reported an increase in the cubic-foot-miles of capacity which was contracted for. Since there was a decline in the utilization of the capacity, this demonstrates that the capacity purchased is not variable with mail volume to be transported.

USPS Witness Young, USPS-RT-10, described the procedure for contracting for highway transportation. He emphasized the schedule requirements, and the number of

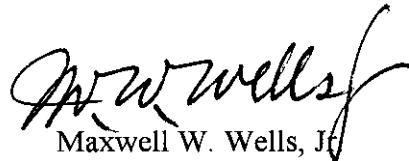


containers usually required, but, interestingly, did not refer to any analysis of mail volume in determining highway transportation contracts.

The record in this proceeding does not support a finding that the cost of purchased highway transportation varies with mail volume, since mail volume was not taken into consideration in the determination of variability. Dr. Bradley's analysis must be rejected.

FGFSA Witness Ball recommended that the variability and attribution of purchased highway transportation cost be based on the vehicle utilization for Inter-BMC and Intra-BMC transportation. That appears to be a reasonable solution, and we urge the Commission to apply that concept of variability.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Maxwell W. Wells, Jr.", written in a cursive style.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT A TRUE AND CORRECT COPY OF THE FOREGOING HAS BEEN MAILED THIS DATE TO ALL PARTIES OF RECORD, IN ACCORDANCE THE RULES OF PRACTICE.

DATED THIS 22<sup>ND</sup> DAY OF SEPTEMBER, 2000.

  
M. W. WELLS, JR., ATTORNEY