

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

;

REPLY BRIEF OF THE
AMERICAN POSTAL WORKERS UNION, AFL-CIO
TO THE POSTAL RATE COMMISSION

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March 8, 2002

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(March 8, 2002)

The American Postal Workers Union, AFL-CIO ("APWU") hereby submits its reply brief to the Postal Rate Commission ("PRC" or "Commission") concerning the request by the United States Postal Service ("USPS" or "Postal Service"), and the other proponents of the proposed Stipulation and Agreement, that the PRC submit to the Governors of the Postal Service a recommended decision based on that Stipulation and Agreement.

THE LEVEL OF SUPPORT OF THE PROPOSED STIPULATION AND AGREEMENT IS NOT A REASON TO ADOPT THAT AGREEMENT WITHOUT MODIFICATION

Virtually all of the initial briefs of the other parties praise the Postal Service and the intervenors who signed the proposed Stipulation and Agreement for their unprecedented agreement. They imply or state that the Postal Rate Commission should find this near unanimous support of the proposed Stipulation and Agreement evidence of the appropriateness of the Commission adopting that document as the Commission's recommendation. Given the circumstances that motivated the proposed Stipulation and Agreement, it is not surprising that almost all the parties to this case are supporting it. Once the motivations of the parties are considered, it becomes clear that the fact of their agreement is not

evidence of the appropriateness of the proposed Stipulation and Agreement as the basis for the Commission's Recommendation.

First and foremost, the Postal Service's advocacy of the settlement is motivated by its desperate need to raise cash before the end of this fiscal year, FY2002, in order to meet its yearend obligations as it approaches the \$15 billion debt ceiling. Revising the case or refileing with more accurate figures reflecting changes that have occurred since the filing was prepared, such as September 11th or the bio-terrorism attacks of October 2001, would not have solved this cash flow problem for the Postal Service as any increased revenue would have come in FY2003. The interest of the Postal Service in additional FY2002 revenue is served by the early implementation date in the Stipulation and Agreement.

Second, the mailers who have signed on are relying on the near certainty that their postage bills over the next year and a half will be lower than they would have been without the settlement. This is because the rate increases provided by the stipulation in July 2002 would be smaller than the alternative increases in October 2002, based on revised data. The next increase is unlikely to come earlier than October 2003. Thus, the short run interest of mailers in paying as little for postage as possible for as long as possible is clearly served by the proposed Stipulation and Agreement.

Third, to the competitors of the Postal Service the proposed Stipulation and Agreement looks favorable because it starves the Postal Service of capital for several more years, further weakening it as a competitor. Accordingly, it is

logical for competitors of the Postal Service to favor the proposed Stipulation and Agreement

The APWU, too, is an interested party, but its interest is in having a Postal Service that survives and thrives. The Postal Service cannot continue to pay more to discount mailers to do work than it would cost to do the same work itself, especially when its own finances are so precarious.¹ Nor can the Postal Service continue to have rates that starve its capital investment program. Referring to FY 2002, the Annual Report 2001 states: "for the second year in a row we will not be able to make the necessary capital investments to meet the growth demands of universal delivery." (Annual Report 2001, page 29). Consequently, the APWU opposes the proposed Stipulation and Agreement because the Postal Service will be undermined and weakened by its adoption.

The effect of failing to make needed capital expenditures will be felt for years to come not only by the APWU, but by all postal customers. With the proposed Stipulation and Agreement rates, the projects currently frozen will remain frozen for a third year. Capital projects will increase in cost with these delays. Decisions made because of a lack of cash will increase operating expenses for years to come, e.g., not buying cluster boxes. Customer service will be affected as the Postal Service fails to acquire adequate and properly located space to fulfill its mission in new and expanding neighborhoods. And

¹ Given the situation facing the Postal Service, any doubts about the size of avoided costs must be decided in favor of the Postal Service and the rates adjusted accordingly.

huge rate increases will be needed in the future to recover losses and pay back debt.

When compared to the magnitude of the increases that will be needed in the next rate case, the concerns about the size of the rate increases in the APWU's proposal will seem small. The APWU proposed increases to First-Class rates for worksharing mailers in this case will better spread the inevitable increases over time.

THE POSTAL RATE COMMISSION HAS CHANGED PROPOSED STIPULATIONS AND AGREEMENTS IN PRIOR RATE CASES AND IT CAN AND SHOULD MODIFY THIS ONE

There is precedent for the Commission modifying a proposed Stipulation and Agreement in these circumstances. The Postal Rate Commission was presented with a non-unanimous settlement in Docket No. R94-1 which was supported by 42 of the 63 parties to that case. See, Postal Rate Commission Decision in R94-1 at footnote 5, page I-14. As in this case, the proposed Stipulation and Agreement asserted that the rates and fees proposed by the Postal Service, as modified in the settlement process, were in accordance with the factors in 39 U.S.C. Section 3622 and the testimonies in the docket "provide sufficient reasons and substantial evidence for establishing rates and fees" that were proposed by the USPS Id. at [1045]. Nonetheless, the Commission rejected the non-unanimous settlement agreement as the basis for its recommended decision." Id. at [1051].

[The Commission] concludes that the record demonstrates a need to make significant revisions to the cost and revenue estimates to which the participants had stipulated. It also concludes that some significant

revisions to the rates proposed by the Postal Service are required by the rate setting criteria enumerated in section 3622(b).

Id. The Commission can and should reject the First-Class Mail discounts in the proposed Stipulation and Agreement in this case.

EVIDENCE IN THE RECORD OF FIRST-CLASS MAIL COST AVOIDED

The only set of cost avoided numbers that were mentioned in USPS witness Robinson's testimony (USPS-T-29, page 9) were those of USPS witness Miller (USPS-T-22) from his Library Reference USPS-LR-J-60. These are the only First-Class Mail cost avoided figures in the record that Mr. Miller sponsored. These are the only cost avoided numbers mentioned during the explanation of Ms Robinson's rate making design and thus are the ones that underlie the proposed Stipulation and Agreement. The Postal Service states at page V-3 in its initial brief:

Accepting the First-Class Mail revenue target by witness Moeller's proposed First-Class cost coverage, the mission of Postal Service witness Maura Robinson (USPS-T-29) was to take into account the ratemaking policies of the Postal Reorganization Act and to design First-Class Mail rates that would generate revenues sufficient to meet witness Moeller's cost coverage goal. The Postal Service's Request reflects the First-Class Mail rates that resulted from witness Robinson's performance of this exercise. When comparing the requested First-Class Mail rates to the rates in the Stipulation and Agreement ("settlement rates"), the Commission will notice very minor changes in First-Class Mail rate design that were a product of the discussions among the parties that led to the filing of the Stipulation and Agreement. (footnote omitted).

In their briefs, intervenors American Bankers Association & National Association of Presort Mailers (ABA&NAPM) (at page 12 at footnote 16) and Major Mailers Association (MMA) (at pages 6 – 7) assert that APWU witness

Riley and the APWU ignored two other cost avoided estimates in the record, because Mr. Riley and the APWU, like USPS witness Robinson and the proposed Stipulation and Agreement, relied solely on the First-Class Mail cost avoided figures sponsored by USPS witness Miller. ABA&NAPM and MMA cite Institutional Response to ABA&NAPM/ USPS-T22-4 (Tr. 10A/2638-2639) (attached hereto as Exhibit A) and Institutional Response to MMA/USPS-T22-76 (Tr. 10A/2862) (attached hereto as Exhibit B) as the "other" cost avoided estimates in the record. The APWU is attaching these exhibits to show that they are not estimates of cost avoided. They are merely instances in which MMA and ABA&NAPM have specified calculations to be made using the figures in Library Reference USPS-LR-J-84² and then asked the Postal Service to confirm the

² The document underlying these interrogatory responses, USPS Library Reference USPS-LR-J-84, is not sponsored by any witness in these proceedings. The Postal Service responses to interrogatories that have anything to do with this library reference are all institutional responses because there is no sponsoring witness. Mr. Miller was questioned about USPS-LR-J-84 during his oral cross-examination. His responses, and those of counsel, make clear that this library reference is not sponsored by any Postal Service witness.

When asked during cross-examination whether he had calculated this library reference, witness Miller responded:

Mr. Miller: I'm not sponsoring that as a library reference, but given that I was the one that developed those cost model I was the one that also input the data for the Postal Rate Commission cost models, but it's not a library reference I'm sponsoring as part of my testimony.

Ms. Catler: Is there anyone who is sponsoring this library reference?

Mr. Tidwell: No, no one from the Postal Service.

Tr. 7/1399-1400

In response to additional questions on Library Reference USPS-LR-J-84, Mr. Tidwell stated: "And again the Postal Service will object because, as the

calculations. The Postal Service's response is not unlike confirming that two plus two is equal to four; the response to neither interrogatory indicates any Postal Service sponsorship or agreement to the appropriateness of the calculation. In fact, the Postal Service's Institutional Response to ABA&NAPM/USPS-T22-4 provides the reasons that the Postal Service did not do the calculations the way ABA&NAPM does in the interrogatory. There was no reason for APWU witness Riley or the APWU to consider these interrogatory responses to be alternative estimates of cost avoided. Furthermore, Commission reliance on these calculations as "estimates" or on the "surrebuttal" testimonies using them would deny the APWU due process for reasons explained in the APWU's initial brief.

CONCLUSION

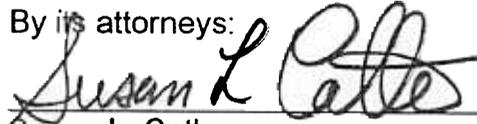
For the reasons set forth above and in the initial brief of the American Postal Workers Union, AFL-CIO, the Postal Rate Commission should recommend rates for First-Class Mail with worksharing discounts set between eighty and one hundred percent of the costs avoided by the Postal Service by mailer worksharing.

witness has explained, those inputs were developed by other witnesses for J-60, and there are no Postal Service witnesses who are sponsoring any testimony relating to the inputs that go into J-84, including this witness. . . .". Tr. T/1402.

Respectfully submitted,

AMERICAN POSTAL WORKERS UNION, AFL-CIO

By its attorneys:



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

Date: March 8, 2002



Susan L. Catler

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
REDIRECTED FROM WITNESS MILLER

ABA&NAPM/USPS-T22-4 Please confirm that had you used delivery unit costs of First-Class Mail Nonautomation Presort Letters as the proxy for delivery unit costs of the benchmark, Metered Letters, as both you and the Commission did in R2000-1, the Worksharing Related Savings shown in column 5 of page 1 of USPS LR-J-84 ("First-Class Mail Presort Letters Summary PRC Version"), revised 11-05-01 would have been 1.867 cents higher for each of the FCLM automation rate categories shown on such page 1, resulting in the following "Worksharing Related Savings": 7.825 cents for Automation Mixed AADC Letters; 8.907 cents for Automation AADC Letters; 9.27 cents for Automation Three-Digit Presort Letters; and 10.542 cents for Automation Five-Digit Presort Letters. If you cannot confirm, please explain why.

RESPONSE:

The benchmark for the First-Class automation presort rate categories is not metered letters, but is Bulk Metered Mail (BMM) letters. However, the IOCS system cannot be used to isolate BMM letters mail processing unit costs. Consequently, the costs for all metered letters are used as a proxy.

In Docket No. R2000-1, the aggregate nonautomation presort letters delivery unit cost was used as the proxy for Bulk Metered Mail (BMM) letters. Witness Clifton criticized this cost methodology (please see Docket No. R2000-1, Tr.26/12421 at 1-3). The Commission, however, subsequently relied upon this methodology.

In this docket, the nonautomation presort letters costs are de-averaged based on mail piece machinability and presort level. Consequently, more detailed delivery unit cost estimates are available. Given that BMM letters are machinable letters, the nonautomation machinable mixed AADC presort letters delivery unit cost estimate is used as the proxy for BMM letters in this docket. Please see the response to MMA/USPS-T22-19(B) for further discussion as to why this methodology is appropriate.

The aggregate nonautomation presort letters delivery unit cost found on page 1 of USPS LR-J-84 is 5.942 cents (please see the revisions filed on 11/15/01). This figure is 1.859 cents higher than the delivery unit costs for BMM letters. Were this figure to be

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION &
NATIONAL ASSOCIATION OF PRESORT MAILERS
REDIRECTED FROM WITNESS MILLER

RESPONSE TO ABA&NAPM/USPS-T22-4 (CONTINUED)

adopted as an alternative, the worksharing related savings estimates for the automation presort categories would inflate to the following figures:

Automation Mixed AADC	7.835 cents
Automation AADC	8.918 cents
Automation 3-Digit	9.280 cents
Automation 5-Digit	10.552 cents

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
REDIRECTED FROM WITNESS MILLER

MMA/USPS-T22-76

Please refer to Library Reference USPS-LR- J-84. The table below compares (in Column 1) First-Class Mail cost avoidances for certain rate categories determined by using a modified version of Library Reference USPS J-84 to (Column 2) the discounts proposed for such rate categories in the amended December 26, 2001 settlement proposal ("Settlement"). For purposes of this interrogatory, USPS LR J-84 is modified by reclassifying four "nonworksharing related fixed" cost pools ("1 MISC" -- cost pool no. 36; "1 SUPPORT" -- cost pool no. 37; LD 48 OTH -- cost pool no. 44; and LD 48_ADM" -- cost pool no. 45, as shown on page 8 of USPS-LR-J-84(attached hereto as part of Attachment A) to the "worksharing related fixed" classifications applied in Docket No. 2000-1. Library Reference UPSS-LR J-84 also is modified by the use of the aggregate Non-Automation Presort Letters Delivery unit cost estimate. The resulting cost avoidances are shown on page 1 of Library Reference USPS-LR-J-84, which is also attached as part of Attachment A to this interrogatory, and in Column 1 below.

- A. Please confirm that the aforementioned reclassification of the cost pools and the substitution of the delivery cost estimate indicated above would result in the USPS LR J-84 cost avoidance calculations as shown in Column 1 of the Table below. If not, please provide the correct figures as well as the derivation of those numbers.
- B. Please confirm that the cost avoidance calculations shown in Column 1 of the Table exceed the discounts in the proposed Settlement, as shown in Column 2 of the Table.

Comparison of Workshare Cost Savings
Using the Docket No. R00-1 Methodology
With USPS Proposed Workshare Discounts

Rate Category	Workshare Cost Savings Docket No. R00-1 Methodology	USPS Proposed Discounts
Mixed AADC	7.994	6.1
AADC	9.076	6.9
3-Digit	9.439	7.0
5-Digit	10.711	7.0

RESPONSE:

- (A) Confirmed
- (B) Confirmed