Postal Rate Commission
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BEFORE THE

POSTAL RATE COMMISSION

Docket No. R2005-1

POSTAL RATE AND FEE CHANGES, 2005

REPLY BRIEF

OF

THE DIRECT MARKETING ASSOCIATION, INC.

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

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REPLY BRIEF OF THE DIRECT MARKETING ASSOCIATION, INC.

The Direct Marketing Association, Inc. ("The DMA") respectfully submits this reply brief in support of the proposal filed by the U.S. Postal Service in this proceeding and in opposition to the arguments made by Valpak in its brief.[1]

The essence of this case can be boiled down to a single pricing issue: how should postal rates be increased to give the Postal Service an additional $3.1 billion in the test year? Is it appropriate to impose equal percentage increases to all classes across-the-board ("ATB"), or must the Commission go through its traditional, lengthy and detailed, costing and pricing process?

The vast majority of the parties, including The DMA, agree with the Postal Service that an ATB increase comports with the statutory rate-making principles, is supported by the evidence of record, and is the fairest outcome under the circumstances of this case. The merits of the ATB approach have been explained in detail in the testimony and other evidence of record and have been explained again in the initial briefs of the Postal Service, The DMA and other parties. There is no need to reiterate these explanations here.

[1] Initial Brief of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc. (hereinafter "Valpak Br.).

Valpak argues for the full-blown approach. It claims that ATB rates are not "cost-based."[2] At the end of the day, however, Valpak's lengthy brief can be summarized in a single sentence: Fairness requires the Commission to go through the traditional costing and pricing process[3] and to give Standard ECR mail an increase less than all the other subclasses.

The DMA respectfully suggests that Valpak is wearing blinders. It does not offer a comprehensive set of alternative rates. It sees only its own rates. It perceives the rates it pays to be too high in comparison with current costs and is apparently oblivious to the impact its approach would have on all the other parties.[4] How fair would it be for the Commission to grant rate relief only to Valpak, leaving all other mailers to pick up the slack?[5]

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[2] *E.g.*, Valpak Br. II-8. In fact, of course, the ATB rates are cost-based; they are based on the costs used in the R2000-1 case. The ATB rates are not cost-based only in the sense that they were not actually computed starting from a foundation of all the most recent costing data available. That alleged flaw is not serious. The Commission has on many occasions based its rate recommendations on cost data that was either dated or failed to measure certain aspects of USPS operations.

[3] *E.g.*, Valpak Br. II-11. At one point, the Valpak brief seems to imply that the Commission would be violating its statutory responsibilities if it failed to go through the traditional, detailed costing and pricing process: ". . . it is submitted that the Commission must nevertheless fulfill its statutory duty to recommend proper rates." Valpak Br. II-15. Based on the rest of its brief, however, and the fact that the brief contains no significant analysis of the legal requirements of rate-making provisions of the Act, The DMA understands Valpak's position to be that the Commission <u>should</u> go through a full-blown costing and pricing process, not that it <u>must</u> go such a process. *See, e.g.*, Valpak Br. VIII-9 (". . . witness Mitchell argues that . . . the Commission **should not** recommend [the ATB proposal], not that the Commission **cannot** recommend it.) (emphasis in original). *See also id.* at VIII-2 ("Nowhere did Mr. Mitchell say that the Postal Service cannot legally . . . consider an ATB case.); *id.* at VIII-3 ("if the Commission finds the ATB proposal to be supported by the record and relevant considerations, . . . it can recommend the proposal.").

[4] The DMA notes that, while the record contains ample evidence to support the USPS-proposed ATB rates, it does not contain evidence adequate to support any alternative set of rates that a full-blown analysis might produce.

[5] The DMA strenuously objects to Valpak's suggestion (for which the evidentiary support is totally inadequate) that Standard Regular bear the burden of a rate reduction for Standard ECR. *See* Valpak Br. V-20.

The question answers itself.

For this reason, and for the reasons explained in the initial briefs of The DMA, the USPS and other parties, The DMA respectfully urges the Commission to reject the Valpak arguments and recommend favorably the USPS-proposed ATB rates.

Respectfully submitted,

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