

Postal Rate Commission  
Submitted 10/3/2005 3:10 pm  
Filing ID: 46975  
Accepted 10/3/2005

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

**POSTAL RATE AND FEE CHANGES, 2005**

**Docket No. R2005-1**

**Reply Brief Of  
Major Mailers Association  
In Support Of Stipulation And Agreement**

Michael W. Hall  
35396 Millville Road  
Middleburg, Virginia 20117

Counsel For  
Major Mailers Association

Dated: Middleburg, Virginia  
October 3, 2005

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

**POSTAL RATE AND FEE CHANGES, 2005**

**Docket No. R2005-1**

**Reply Brief Of  
Major Mailers Association  
In Support Of Stipulation And Agreement**

Major Mailers Association (“MMA”) hereby submits its reply brief in support of the First-Class workshare rates contained in the Stipulation and Agreement (“S&A”) filed by the Postal Service.

MMA has received and reviewed initial briefs and comments filed by several parties in this proceeding.<sup>1</sup> With the exception of the OCA and ValPak, all parties either affirmatively support or do not oppose recommendation of the rates and fees set forth in the S&A as a final resolution of all issues in this proceeding.

For the most part, MMA anticipated and already responded to arguments raised by other parties. Accordingly, in the interests of brevity, we will refer the Commission to the relevant portions of MMA’s Initial Brief.

**APWU**

To understand the depth and breadth of support for the S&A, it is useful to compare and contrast the positions of MMA with those of APWU. As the Commission well knows, APWU opposed the R2001-1 S&A despite the exigent circumstances presented in that case. In this case, APWU explains (IB at 1) that it did not become a

---

<sup>4</sup> MMA has carefully reviewed initial briefs (“IB”) filed on behalf of the following parties: Advo, Inc. and Saturation Mailers Coalition, Alliance Of Nonprofit Mailers, American Bankers Association and National Association of Presort Mailers (ABA/NAPM), American Postal Workers Union (“APWU”), Douglas F. Carlson, Direct Marketing Association, Discover Financial Services, L.L.C., Greeting Card Association, Mail Order Association Of America (“MOAA”), Newspaper Association Of America, Parcel Shippers Association (“PSA”), Office Of The Consumer Advocate (“OCA”), the “Periodicals Coalition” (consisting of American Business Media, Dow Jones & Company, Inc., Magazine Publishers of America, Inc., the McGraw-Hill Companies, Inc., and Time Warner Inc.), Pitney Bowes, Inc. Time Warner Inc., United States Postal Service (Postal Service), and Valpak Direct Marketing Systems, Inc., and Valpak Dealers’ Association, Inc. (“Valpak”)

signatory to the R2005-1 S&A because of concern about what it characterizes as “excessive workshare discounts.” Nevertheless, even though APWU acknowledges (IB at 4) that the escrow obligation in this case “lacks [the] emotional impact and drama” present in R2001-1, APWU has elected not to oppose the S&A. MMA and other workshare mailers have joined and supported the S&A despite their concerns that the workshare discounts are too low.

There are other areas of common ground between APWU and MMA. MMA, like APWU (IB at 6), is “of the view that the Postal Service must address rate design issues, particularly workshare discount issues, on the basis of accurate updated financial and operations data.” The Postal Service’s continued reliance on unduly myopic, flawed mail processing and delivery cost analyses<sup>2</sup> has been a major impediment to establishment of a rate structure for First-Class workshare mailers that give mailers adequate credit for all the worksharing they perform. See MMA IB at 16-21, 25-36. The Postal Service’s unhelpful approach to workshare cost savings issues also serves to stir up controversy where none need exist. MMA IB at 8-9.

MMA and APWU also both take specific comfort in the prospect that workshare discount issues will be addressed in the near future when the Postal Service files a more traditional omnibus rate case.<sup>3</sup> The Postal Service’s undertaking to reexamine the workshare rate structure before filing the next omnibus rate case played a significant role in MMA’s decision to join and support the S&A.

Although MMA and APWU both agree that the Commission should approve the S&A now before it, MMA’s position on substantive issues is almost diametrically opposed to that of APWU. For example, APWU complains (IB at 10) that the costs of

---

<sup>2</sup> Pitney Bowes and ABA/NAPM (IB at 14-15) have done an excellent job of highlighting the harm done by the Postal Service’s gerrymandering of cost pools from workshare related to non-workshare related. MMA would only add that, when we asked USPS witness Abdirahman, *the Postal Service’s expert*, why certain cost pools have been **significantly** lower for automation letters than for metered mail letters in each of the last three omnibus rate cases, he answered without any further explanation “I do not know.” Tr 4/1038.

<sup>3</sup> See MMA IB at 7; APWU IB at 5-6, 10. MMA does take issue with the claim that “[n]o party is more determined than the APWU to revisit the issues of costs avoided and the appropriateness of workshare discounts.” APWU IB at 12. Workshare mailers are at least as determined to institute an efficient, cost-based rate structure that makes sense and will provide them with predictable workshare discounts, discounts they can rely on when planning their business affairs for the long term.

BMM, the benchmark from which mail processing cost savings are measured, is too high because single piece metered mail, the proxy for BMM, is “more expensive to process than BMM.” APWU is completely off base.

First, the only higher processing costs that APWU points to involve the mail prep and cancel operations that BMM arguably bypasses. APWU does not mention, and perhaps does not know, that the workshare cost savings resulting from application of the Commission’s R2000-1 methodology already incorporate a significant reduction in those costs for single piece metered mail pieces.<sup>4</sup> See MMA IB at 12-13, Table II; Tr 4/1014-17 (cost savings Column 2 of Table II reflect only one-third of costs in 1CANCEL and 1MTRPREP cost pools).

Second, by definition BMM is not prebarcoded whereas a significant percentage of metered mail letters consist of prebarcoded Courtesy Reply Mail (“CRM”) pieces that also have FIMs. Because the lower cost of processing CRM is factored into single piece metered mail costs, these lower processing costs could very well **offset** the costs associated with the mail prep and cancellation operations that APWU points to as the only reason why metered mail costs are too high. Indeed, in R97-1 MMA and the Postal Service both suggested that the increased number of FIM pieces in the single piece mailstream could account for the narrow cost difference between single piece mail and BMM. The Commission found “[t]his explanation may be plausible” but urged the Postal Service to review the methodology and underlying assumptions used in calculating BMM unit costs.<sup>5</sup>

Third, the Postal Service has used metered mail costs as a proxy for BMM costs since the mail flow models were first introduced in R97-1. Consistent with that approach, Mr. Abdirahman used the metered mail CRA costs **without adjustment** as a proxy for BMM costs. Tr 4/1020. Mr. Abdirahman’s unsupported “opinion” that metered mail costs overstate BMM costs simply is not credible. See e.g. Tr 4/1042, 1161. He

---

<sup>4</sup> *Postal Rate And Fee Increases, 2000-1*, Docket No. R2000-1, Opinion And Recommended Decision, issued November 13, 2000 (PRC Op. R2000-1) at 241.

<sup>5</sup> *Postal Rate And Fee Increases, 1997*, Docket No. R97-1, Opinion And Recommended Decision, issued May 11, 1998 (PRC Op. R97-1) at 294. Unfortunately, there is no indication that the Postal Service ever reviewed its methodology to ascertain the impact of including more prebarcoded Courtesy Reply Mail FIM pieces in the single piece mailstream. Mr. Abdirahman readily conceded that he had not studied the issue. Tr 4/966-67, 1154-56.

had more than ample opportunity to reduce CRA metered mail prep and cancellation costs, just as the Commission did in R2000-1 and Mr. Abdirahman himself did, but only in response to Interrogatory MMA/USPS-T21-41. Tr 4/1014-17. But Mr. Abdirahman made no such adjustment.<sup>6</sup> Instead, he agreed with USPS witness Miller's position in R2001-1 that no reduction was necessary.<sup>7</sup> Tr 4/958-59, 1020. Accordingly, the Commission should not rely on Mr. Abdirahman's unsupported opinion that CRA metered mail costs overstate BMM costs.

It is interesting to note that Mr. Abdirahman's unsupported opinion seriously impaired his judgment about how well his theoretical mail flow models simulated actual cost causation. Mr. Abdirahman's model-derived unit cost of BMM (4.454 cents) is significantly lower than the CRA-derived unit cost for metered letters (6.476 cents). Tr 4/986-7. When asked to explain this difference, Mr. Abdirahman's initial inclination was not that his model-derived unit cost for BMM was too low, but that the CRA-derived unit cost for metered mail was too high. Tr 4/1151. However, there simply is no basis whatsoever for Mr. Abdirahman to conclude that his model produces a more accurate estimate of BMM cost than the CRA does.

Fourth, Mr. Abdirahman's flawed opinion focuses on the wrong issue. It is much more important to develop mail flow models that are accurate than to simply conclude, as Mr. Abdirahman seems to and without adequate basis, that the model costs are correct but that the CRA cost target is too high.

There is one other issue that APWU seems to imply is a very serious problem. APWU questions the accuracy of the cost savings for all First-Class workshare discounts because a misallocation between nonautomation and automation tallies resulted in an apparent overstatement of nonautomation costs and an understatement in automation costs. APWU I.B. at 7-8. APWU claims, without any citation that "Mr. Abdirahman also confirmed that this problem makes it *impossible* to use the cost data

---

<sup>6</sup> In fact, Mr. Abdirahman originally categorized mail prep and cancellation costs as non-workshare related rather than workshare related. When MMA pointed this error out, he filed revised testimony correcting that error but he still failed to incorporate the Commission's adjustment to cost pools 1CANCEL and 1MTRPREP. Tr 4/990-91.

<sup>7</sup> Obviously, Mr. Abdirahman could have disagreed with Mr. Miller on this issue. Indeed, he made a point of saying that he exercised his independent judgment by reversing Mr. Miller's treatment of SUPP\_F1 costs as non-workshare related. Tr 4/1017

to produce reliable results, regardless of the methodologies applied.” APWU IB at 8 (emphasis added).<sup>8</sup>

APWU is trying, unsuccessfully, to make a mountain out of a molehill. The impact of this “problem” is so small that there is no factual or logical basis to conclude that the underlying cost data, specifically for automation letters, are not accurate.

MMA (IB at 12, fn.20) and ABA/NAPM (IB at 4-8) addressed this alleged “problem” in their initial briefs. As ABA/NAPM succinctly pointed out, using a reasonable estimate of the overstatement in nonautomation costs results in an understatement of less than **one one hundredth** of a cent in unit costs for automation 3-digit and 5-digit letters. ABA/NAPM IB at 7. Clearly, there is no material impact on the automation letter costs, cost avoidance, or the automation discounts.

The obvious reason for this phenomenon is that the volume of nonautomation letters (1.1 billion pieces in TY 2006) is miniscule compared to the volume of automation letters (46.1 billion pieces). As USPS witness Abdirahman explained in his response to Part A of POIR No. 1:

Due to the large volume differences between the two categories, the nonautomation presort letters unit costs increased dramatically, while the automation presort letters unit costs decreased slightly. Consequently, the worksharing related savings estimates for the nonautomation presort letters rate category decreased, while those for the automation presort letters rate categories increased. The nonautomation presort letters volumes have also declined steadily over time. This trend appears to have magnified the effect of the BY 1999 methodology on nonautomation costs.

Tr 4/1075. In other words, a very small inaccuracy in the costs associated with the automation discount categories can magnify **apparent** unit cost results for the nonautomation presort letters. Since nonautomation letters will make up only 2.4% of total workshare letter volumes in TY 2006, **minor** inaccuracies associated with IOCS costs for automation letters constituting almost 97.6% of total volume can have a **“magnified”** impact on the IOCS costs for nonautomation letters. Tr 4/1166, 1175.

---

<sup>8</sup> Mr. Abdirahman did say, in effect, that the tally “problem” would not go away under the Commission’s methodology (Tr 4/1146) but MMA cannot find any statement that the existence of this “problem” made it “impossible” to rely on the results of the cost savings analyses under the USPS or PRC methods.

A simple sensitivity analysis using readily available record evidence is another way to reveal the fallacy in APWU's reliability argument. The results of this sensitivity analysis of the possible impact of an overstatement of nonautomation letter costs on the cost of automation letters are shown in Appendix A to this brief. As Appendix A shows in Column 7, in TY 2006 the average CRA workshare related unit costs for automation letters and nonautomation letters are 6.673 cents and 25.708 cents, respectively. Assuming for illustrative purposes that the unit cost of nonautomation letters are overstated by 1.652 cents or 9 percent as Chairman Omas posited in POIR No. 1,<sup>9</sup> the corresponding understatement of costs for the average automation letter would only be **0.04** cents, as shown in Column 5. Indeed, if nonautomation mail processing costs were overstated by as much as 15 percent, automation letter costs would increase by just **0.07** cents.

This exercise supports two important conclusions. First, under any reasonable assumption about the extent to which nonautomation letter costs are overstated, there is no material impact on the unit costs for automation letters. Second, since the S&A discounts for automation letter categories result in passthroughs that are substantially less than the costs avoided,<sup>10</sup> the "problem" raised by APWU provides no factual or logical basis for changing the S&A workshare discounts.

In sum, contrary to what APWU may believe, workshare mailers like MMA do not want a handout from the Postal Service or the Commission.<sup>11</sup> All they demand is a fair shake, something the Postal Service's current outmoded rate structure does not provide, especially to high volume workshare mailers. MMA IB at 16-20.

### **OCA's 0.8% Solution**

OCA (IB at 28-29) effectively asks the Commission to disregard the broad consensus of all the mailers who have signed the S&A and agreed to pay the 5.4%

---

<sup>9</sup> Appendix A uses the PRC R2001-1 methodology.

<sup>10</sup> See MMA IB at 13, Table II.

<sup>11</sup> MMA and APWU are in fundamental agreement that workshare discounts should not exceed cost savings

across-the-board rate and fee increases and, instead, recommend OCA's preferred alternative – a much lower 0.8% across-the-board increase.<sup>12</sup>

OCA does not explain how its 0.8% solution would be implemented. There is no valid excuse for OCA's silence on this vitally important issue. It is mathematically obvious that, if OCA's proposal were to be adopted, the basic rate for First-Class single piece would remain unchanged at 37 cents due to the integer constraint.<sup>13</sup> In other words, First-Class single piece would make no contribution whatsoever to the escrow payment. While that may be a good outcome in OCA's view, it hardly seems equitable that First-Class single piece mailers would contribute nothing towards the Postal Service's deficit while the burden of funding the escrow requirement falls on other mailers.

Also unexplained by the OCA is how its 0.8% increase proposal would affect First-Class workshare discounts, a matter of vital importance to workshare mailers. As ABA/NAPM cogently points out (Reply Brief at 3), leaving the basic rate at 37 cents and increasing workshare rates by 0.8% would disrupt the existing rate relationships and send entirely the wrong signals to workshare mailers who purchase what is by far the Postal Service's most profitable product. As shown in Table I, discounts would be lowered by as much as 0.7 cents. Such disruptions can have long term adverse impacts not only on workshare mailers but Postal Service finances as well. The OCA's failure to offer any, much less substantial, record evidence in support its 0.8% solution is a fatal flaw.

---

<sup>12</sup> In the alternative, OCA suggests that the Commission recommend an across-the-board increase of 5.4% but only if the implementation date is moved back until August 15, 2006. *Id.* Since both OCA alternatives employ an across-the-board approach it appears that, at least in theory, the OCA does not have any problem with the *concept* of an across-the-board rate increase.

<sup>13</sup> An increase of 0.8% results in a First-Class single piece rate of 37.3 cents. Due to the integer constraint, after rounding, the basic rate would remain at 37 cents. Mathematically, it would require an across-the-board increase of 2.7% for the single piece rate to rise from 37 to 38 cents.

**Table I**  
**Comparison of S&A and OCA Proposed First-Class Workshare Discounts**  
**(Cents)**

	(1)	(2)	(3)
<b>First-Class Rate Category</b>	<b>S&amp;A Proposed Discounts</b>	<b>OCA "0.8%" Proposed Discounts</b>	<b>OCA "0.8%" Proposed Discount Reduction (2) - (1)</b>
Nonautomation	1.9	1.5	-0.4
Mixed AADC	6.4	5.9	-0.5
AADC	7.3	6.7	-0.6
3 Digit	8.2	7.6	-0.6
5 Digit	9.7	9.0	-0.7
Carrier Route	10.0	9.3	-0.7

Sources: Column (1): S&A, Attachment A, p.5  
Column (2): Current Discounts x 1.008

At the end of the day, MMA agreed to and is willing to abide by the bargain reflected in the S&A. Elementary fairness, the cornerstone of the 5.4% across-the-board increase embodied in the S&A, simply is lacking in OCA's ill-conceived and unexplained 0.8% solution. For all these reasons, the Commission should reject the OCA's 0.8% rate design proposal.

**Advo and Saturation Mailers Coalition**

Advo and Saturation Mailers Coalition ("Advo") (IB at 36-47) urge the Commission to adopt the Postal Service's new city delivery cost study in this case. MMA (IB at 36-37) has asked the PRC not to endorse it because, among other things, late in the proceeding, the Postal Service "discovered" that collection costs, which the new method treats as attributable, had quadrupled to \$910 million. There has been no opportunity in this case to understand why collection costs that did not vary with volume for 30 years can now, all of a sudden, vary with volume. In addition, OCA (IB at 55-90) addresses several other technical problems with the Postal Service

study. These are all good reasons not to embrace the new delivery cost study in this case.

Finally, the Postal Service has acknowledged that this and other special cost studies were used only for a very limited purpose in this case: “to estimate final adjustments to the rollforward model.” MMA IB at 11; Tr 4/1077. If the Postal Service itself does not rely on such studies to support the S&A rates and fees, there is no sound rationale for the Commission to place any greater reliance upon them *in this proceeding*.

### **Periodicals Coalition and PSA**

Periodicals Coalition and PSA ask the Commission to rely on the USPS cost attribution methodology to support the S&A rates. Since the Commission has never waived from the cost attribution methodology it has used for over 30 years, which is based on the principle that labor costs vary 100% with volume, there is no good reason for it to make an exception in this case. Moreover, there is no need for the Commission to take such a drastic step. No one has challenged the S&A rates applicable to these parties.

### **Conclusion**

For the foregoing reasons, and those set forth in MMA’s Initial Brief, the Commission should recommend the S&A without modification.

Respectfully submitted,

**Major Mailers Association**

By: \_\_\_\_\_

Michael W. Hall  
35396 Millville Road  
Middleburg, Virginia 20117  
540-687-3151

Counsel for  
**Major Mailers Association**

Dated: Middleburg, Virginia  
October 3, 2005

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Workshare Category	TY 06 Workshare Related MP Unit Cost	TY 06 AR Volume	Total Workshare Related MP Costs (\$000)	TY 06 Revised Workshare Related MP Unit Cost (Cents)	Workshare Related MP Unit Cost Change (Cents)	TY 06 Workshare Related Del Unit Cost	Total Workshare Related Unit Cost	Relative Change in Workshare Related Unit Cost
Formula	(Cents)	(000)	(1) * (2) * .01	(3) / (1) * 100	(4) - (1)	(Cents)	(1) + (6)	(5) / (7)
Non-Auto	19.222	1,123,189	215,898	19.222	-	6.486	25.708	0.0%
Non-Auto less 5%		1,123,189	205,103	18.261	<b>(0.961)</b>			<b>-3.7%</b>
Non-Auto less 9%*		1,123,189	197,343	17.570	<b>(1.652)</b>			<b>-6.4%</b>
Non-Auto less 10%		1,123,189	194,308	17.300	<b>(1.922)</b>			<b>-7.5%</b>
Non-Auto less 15%		1,123,189	183,513	16.339	<b>(2.883)</b>			<b>-11.2%</b>
Mixed AADC	4.917	2,846,518	139,970			4.155	9.073	
AADC	3.992	2,574,212	102,774			3.981	7.974	
3-Digit	3.659	22,743,156	832,190			3.903	7.562	
5-Digit (Auto)	2.467	13,517,467	333,462			2.973	5.440	
5-Digit (Manual)	2.811	3,774,930	106,104			6.280	9.090	
Carrier Route	1.898	629,387	11,948			6.136	8.034	
Total Auto	3.312	46,085,671	1,526,448	3.312	-	3.361	6.673	0.0%
Total Auto plus 5%		46,085,671	1,537,243	3.336	<b>0.023</b>			<b>0.4%</b>
Total Auto plus 9%		46,085,671	1,545,003	3.352	<b>0.040</b>			<b>0.6%</b>
Total Auto plus 10%		46,085,671	1,548,038	3.359	<b>0.047</b>			<b>0.7%</b>
Total Auto plus 15%		46,085,671	1,558,832	3.382	<b>0.070</b>			<b>1.1%</b>
Total Auto + Non-Auto	3.691	47,208,860	1,742,346	3.691	-			

Sources: Column (1): Tr 4/1016  
Column (2): USPS-LR-K-115 (FCM-3)  
Column (6): Tr 4/1016

\*USPS-LR-K-110, p. 1, referred to by POIR #1 (TR 4/1074)