
**BEFORE THE
POSTAL RATE COMMISSION**

Docket No. R20061

POSTAL RATE AND FEE CHANGES, 2006

JOINT BRIEF

OF

DIRECT MARKETING ASSOCIATION, INC.

ALLIANCE OF NONPROFIT MAILERS

CONCERNING ALLOCATION OF INSTITUTIONAL COSTS

David M. Levy
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005-1401
(202) 736-8214
Counsel for Alliance of Nonprofit Mailers

Dana T. Ackerly II
COVINGTON & BURLING LLP
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2401
(202) 662-5296
*Counsel for Direct Marketing
Association, Inc.*

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TABLE OF CONTENTS

I. INTRODUCTION.....1

II. THE ALLOCATION OF INSTITUTIONAL COSTS BETWEEN FIRST CLASS AND STANDARD MAIL PROPOSED BY THE USPS IS WELL SUPPORTED.1

III. THE PRC SHOULD REJECT THE ALLOCATION OF INSTITUTIONAL COSTS PROPOSED BY GCA WITNESS CLIFTON.....3

IV. CONCLUSION6

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

**JOINT BRIEF
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DIRECT MARKETING ASSOCIATION, INC.
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CONCERNING ALLOCATION OF INSTITUTIONAL COSTS**

I. INTRODUCTION

Direct Marketing Association, Inc. (“DMA”) and the Alliance of Nonprofit Mailers (“ANM”) respectfully submit this brief on the allocation of institutional costs between First-Class and Standard Mail. DMA and ANM support, at least in broad outline, the relative rates proposed by the Postal Service for First-Class Mail and Standard Mail and strenuously oppose the shifting of large amounts of institutional cost burden from First-Class to Standard, as has been proposed by GCA witness James Clifton.

II. THE ALLOCATION OF INSTITUTIONAL COSTS BETWEEN FIRST CLASS AND STANDARD MAIL PROPOSED BY THE USPS IS WELL SUPPORTED.

USPS Witness O’Hara is the Postal Service’s rate level witness in this case; he presents the Service’s proposed cost coverages.¹ O’Hara has carefully considered rates for First-Class Mail

¹ O’Hara, USPS-T-31 at 1.

Letters and Sealed Parcels² and Standard Mail Regular and Nonprofit³ taking into account all nine of the pricing criteria of Section 3622 (b) of the Postal Reorganization Act.⁴

He proposes rate increases of 7.1 percent for First-Class Mail Letters and Sealed Parcels, 9.6 percent for Standard Mail Regular, and 8.9 percent for Standard Nonprofit.⁵ Thus, his proposal for First-Class Mail would result in rate increases well below the system-wide average of 8.5 percent⁶ while his proposal for Standard Mail Regular and Nonprofit would result in rate increases above the average.

O'Hara proposed coverage of 229 percent for First-Class Mail Letters and Sealed Parcels Letters⁷ and 176 percent for Standard Mail Regular (including Nonprofit).⁸ These coverages can be compared to the system wide average coverage of 189 percent for all mail and services.⁹

O'Hara also provided summaries of estimated long-run own-price elasticities of demand. They show that the demand for Single-Piece First-Class Letters, Flats and Parcels is extremely inelastic, with an own-price elasticity of -0.18, while workshared mail, at -0.13, is even more inelastic. While demand for Standard Mail Regular is also inelastic, it is more elastic than First-Class Letters, with Standard Mail Regular at -0.3 and Nonprofit at -0.31.¹⁰ Accordingly, while

² *Id.* at 17-19.

³ *Id.* at 27-28.

⁴ 39 U.S.C. §§3622(b)(1)-(9).

⁵ Exhibit USPS-31D (revised).

⁶ USPS-T-31 at 17.

⁷ *Id.*

⁸ *Id.*, at 27.

⁹ Exhibit USPS-31B (revised).

¹⁰ USPS-T-31 at 11.

witness O'Hara considered all the factors of the Act in his proposal, his proposal is also generally in accord with the elasticities estimated by the Postal Service.

III. THE PRC SHOULD REJECT THE ALLOCATION OF INSTITUTIONAL COSTS PROPOSED BY GCA WITNESS CLIFTON.

On behalf of the Greeting Card Association, witness James A. Clifton proposes a substantial shift in the institutional cost burden from First-Class Mail to Standard Mail, *i.e.*, that the Commission recommend rates for First-Class that are substantially lower than proposed by the Postal Service and that the Commission recommend rates for Standard that are substantially higher than proposed by the Postal Service.¹¹ Clifton opines:

“[T]he conclusion I draw is that the Commission should look last, not first, at single piece letter mail when it raises rates to cure a general revenue deficiency. At a minimum it should look to rates increases for Standard A (sic) Regular mail to solve general revenue deficiencies before it considers whether to raise First Class single piece rates at all.”¹²

Clifton actually presented two alternative rate levels for First-Class Mail Letters and for Standard Regular Mail. Under his first alternative, Clifton indicated that he would reduce rates for First-Class Single-Piece letters by one cent and make up the revenue loss from Standard Mail. Under his second alternative, Clifton indicated that he would reduce rates for all First-Class Letter mail by one cent and again make up this resulting revenue loss from Standard Mail.¹³ Apparently, Clifton's recommendations apply only to letter-shaped mail.¹⁴

Either version would result in very large rate increases for Standard Mail. USPS witness Robinson testified that witness Clifton's first proposal would result in an 11.8 percent increase for Standard Mail Regular and an 11.0 percent increase for Nonprofit Standard Mail. She also testified

¹¹ *See generally*, Clifton, GCA-T-1 (Revised).

¹² *Id.* at 3.

¹³ *Id.* at 59.

¹⁴ Tr. 29/9786.

that witness Clifton's second proposal would result in a 14.8 percent increase for Standard Regular and a 14.0 percent increase for Standard Nonprofit.¹⁵ Moreover, witness Robinson has actually underestimated the rate increases for letter-shaped Standard Mail, since her estimates spread Clifton's revenue differential over all Standard Regular and Nonprofit Mail, whereas witness Clifton's recommendation applies only to the letter-shaped mail.

Clifton's proposal is simply inadequate and should be given no weight by the Commission.¹⁶

In the first place, Clifton wholly fails to support this proposal in terms of the pricing factors that Section 3622(b) of the Act requires be considered when establishing postal rates.¹⁷ That failure, in itself, compels its rejection.

The Commission has underscored the importance of satisfying the statutory ratemaking criteria repeatedly in its previous decisions. For example, in Docket No. R87-1, the Commission extensively discussed the ratemaking process, including how the various non-cost criteria are incorporated in its recommended rates.¹⁸ The Commission's intent in doing so has been twofold; first to provide sufficient detail so that participants may discern the Commission's interpretation of

¹⁵ Robinson at Tr. 32/10713, 10724.

¹⁶ NAA witness Sidak has presented rebuttal testimony, NAA-RT-1, that is directed primarily to rebutting testimony by witnesses Mitchell and Prescott relating to Standard ECR rates. In the course of his testimony, witness Sidak states that his testimony supports the testimony of GCA witness Clifton, Tr. 32/10824, but it is unclear to what extent Sidak would support a broad-based attack on Standard rate levels generally. In any event, he has failed to make a case applicable to Standard rates as a whole, and his conclusions focus solely on rebutting witnesses Mitchell and Prescott. Tr. 32/10845-46.

¹⁷ 39 U.S.C. §§3622(b)(1)-(9). *National Ass'n of Greeting Card Publishers v. U.S.P.S.*, 462 U.S. 810, 834 (1983) (It is the Commission's responsibility to assign institutional costs "reasonably on the basis on the . . . eight factors [in addition to subsection (b)(3)] set forth by §3622(b)."); *Direct Marketing Ass'n, Inc. v. U.S.P.S.*, 778 F.2d 96, 102 (2d Cir. 1985) ("Title 39, U.S. Code section 3622(b), sets out nine factors, in addition to the 'policies of this title,' that must be considered in setting postal rates.").

¹⁸ See PRC Op. R87-1, para. 4022 et seq.; see also PRC Op. R90-1, para. 4000 et seq. and PRC Op. R97-1, para. 4001 et seq.

the criteria, and second, to serve as benchmarks for evaluating whether the new evidence warrants a departure from prior allocations.¹⁹

Clifton completely ignores most of these factors and certainly provides no evidence for evaluating whether any new evidence warrants a departure from the basic rate relationships recommended by the Commission in recent cases. Instead, he has attempted to justify his proposals primarily on the basis on his estimates of demand elasticities for First-Class Single-Piece Mail and for Standard Mail. The Commission precedent cited above make clear that this showing would be insufficient as a matter of law even if Dr. Clifton's elasticity estimates were indisputably correct.

In fact, Dr. Clifton's elasticity analysis is wholly inadequate. Postal Service witness Thress enumerates the numerous flaws in Dr. Clifton's econometric analysis.²⁰ DMA/ANM will not burden the record by repeating the points witness Thress has made. Suffice it to say that his presentation is both thorough and convincing.

Also, in evaluating his Clifton's econometric claims, the Commission should give considerable weight to Clifton's utter lack of understanding of mailers' practices and the decision-making processes they employ when deciding the portion of their marketing resources to devote to mail.²¹

Finally, even if Dr. Clifton had made a sufficient showing under Section 3622(b) to justify a reallocation of institutional cost between First-Class and Standard Mail—and he has not—his proposed remedy of reducing the institutional costs borne by all Single-Piece First-Class Mail (or,

¹⁹ PRC Op. R2000-1 at 4006.

²⁰ Thress, USPS-RT-2, Tr. 38/13010 *et seq.*

²¹ This subject has been addressed by numerous witnesses in this and prior proceedings before this Commission. *See, e.g.*, testimony of DMA rebuttal witness Lawrence G. Buc, DMA-RT-1. Tr. 35/11688 *et seq.*

indeed, all First-Class letter mail) is grossly overbroad. Dr. Clifton's demonstration of the supposedly growing elasticity of demand for Single-Piece First-Class Mail focused almost entirely on its use for paying bills. He did not even attempt such a showing for other components of single-piece mailstream, most notably greeting cards and other personal correspondence. The demand for such mail is clearly inelastic, however. Personal correspondence exemplified by greeting cards has a high value to both the sender and the recipient.²² Moreover, the cost of postage is a relatively small component of the delivered cost of a greeting card, which commonly cost \$2 to \$4 for the card and envelope alone.²³

IV. CONCLUSION

For all of these reasons, the Commission should reject witness Clifton's pricing proposal.

Respectfully submitted,

David M. Levy
SIDLEY AUSTIN LLP
1501 K Street, NW
Washington, DC 20005-1401
(202) 736-8214
Counsel for Alliance of Nonprofit Mailers

Dana T. Ackerly II
COVINGTON & BURLING LLP
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2401
(202) 662-5296
*Counsel for Direct Marketing
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²² See Tr. 29/9949-9954, 9991.

²³ Tr. 29/9991 (Greeting Card Association web page).