

DOCKET SECTION

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

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FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

REPLY BRIEF

April 10, 1998

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REPLY BRIEF
OF
FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION

Florida Gift Fruit Shippers Association submits this Reply Brief in reply to the initial brief of United States Postal Service.

VARIABILITY OF PURCHASED HIGHWAY TRANSPORTATION

This is discussed in the USPS Initial Brief at pages III-159-168.

Dr. Bradley (USPS-T-13) makes the determination as to the volume variability of purchased highway transportation - 97.43% for Intra-BMC and 94.88% for Inter-BMC. Those percentages of costs were treated as "attributable" cost, for distribution pursuant to the distribution keys developed by TRACS.

The USPS brief, at III-160, refers to Bradley's estimates as being "volume variable costs". This is incorrect! Bradley did not consider mail volumes or any changes in volumes. He did not even consider the changes, if any, in the purchased capacity .

The USPS brief, at III-162, states that Dr. Merewitz' criticism of the variabilities is "wrong" because it is founded on the assumption that actual mail volume and cubic foot-miles of capacity of directly related. The USPS then says that the estimation of variability "in no way depends upon this assumption." USPS then states the assumption to be that "if there is a small sustained increase in volume, the cubic foot-miles of capacity increase accordingly." If increases in mail volume result in increases in purchased capacity, there must

be a direct relationship between volume and capacity. There is no difference between the two assumptions, and Dr. Merewitz' criticism is valid. The USPS stated assumption - that if there is a small sustained increase in volume, the cubic foot-miles of capacity increase accordingly - is without any support, since Witness Bradley did not review changes in volume or changes in capacity.

A finding that costs are attributable, requires some analysis of the changes in costs to changes in mail volume. In the absence of any analysis of mail volume, or volume changes, or changes in capacity purchased, there can be no legitimate basis for a finding of the extent to which purchased highway transportation costs are properly classified as attributable costs.

Since there is no basis for determining that the costs are attributable, the only alternative is for the costs to be institutional.

As noted in our initial brief, even if all of the purchased highway transportation costs are not institutional, at a very minimum the costs of the continuous empty space is not related to any class of mail, and must be treated as institutional.

TRACA DISTRIBUTION KEYS

TRACS has never been the subject of testing or examination in any prior rate case before this commission. Although there were a number of questions presented to USPS witnesses concerning TRACS, there has not been available to the intervenors the data for all four quarters in any prior rate case, and this is the first opportunity to evaluate the entire record that TRACS presents.

A careful review of the sampling procedure demonstrates great deficiencies. There is an imbalance of volume inbound and outbound, which is not reflected in the sampling process. In fact, the sampling gives 70% to the lower volume inbound trips. Since there is a difference in the mix of the mail on the inbound and outbound trips (see, TR 7/3486), this results in a bias in the results. The "weighting" procedures, which only equalize inbound and outbound, do not overcome the bias.

The TRACS data clearly show that there is an ever increasing use of the INTRA-BMC transportation for preferential mail that is moving between subordinate P&DCs (see, USPS brief III-184) This is closely analagous to inter-SCF transportation. The fact the TRACS reflects increased sampling of first class, express mail and priority mail on Intra-BMC transportation, and thus clearly shows that this is not purely a deferred transportation network. The USPS BRIEF (III-184) points out that service criteria are paramount in the operation of the transportation system.

In explaining the increase in transportation costs, the USPS brief claims that the reason is that "the Postal Service is purchaseng much more

transportation capacity than it has in the past” (Brief, III-178) However, this record is completely devoid of any testimony showing any increase in purchased capacity for Intra-BMC transportation. The discussion in the brief about additional facilities and changes in distribution schemes relate to inter and intra SCF transportation, and are not involved with Intra-BMC transportation.

The Postal Service ascribes a portion of the increase in transportation costs to the increased use of containerization, which “make less efficient use of vehicle space”. (Brief, III-178) This is the result of the efforts to improve service and reduce labor costs. However, the costs of the less efficient use of vehicle space should be allocated in the same manner as the saved labor costs would have been distributed, and not added to the burden of the transportation costs distribution. This cost of less efficient use of space due to increased use of containerization has not been shown to be attributable to any class of mail, and, in any event, would require a different distribution key.

TRACS does not measure mail volume, but merely samples mail which is unloaded. The samples are not weighted to reflect the actual mail volume.

The fact that the TRACS data does not reflect the relative volume of Standard A and Standard B mail in Intra-BMC transportation is clear evidence that TRACS is deficient and lacks probative value for the determination of the distribution keys. Further evidence is that the relative volumes, as shown by TRACS, of parcel post and DBMC mail, clearly shows that the distribution keys are not realistic and fail to follow the actual mail volumes.

It is clear from the record in this case that TRACS does not properly develop reasonable distribution keys for Intra-BMC and Inter-BMC mail volumes, and should not be used by the Commission for that purpose.

REASONABLE ASSIGNMENT OF INSTITUTIONAL COSTS

In section IV of the Postal Service brief, there is discussion of the various alternatives to be applied in the assignment of institutional costs.

We concur with the evaluation, at IV-47, that Parcel Post exhibits a low intrinsic value of service, has low priority of delivery, relies on surface transportation, does not have access to the collection system and has an own-price elasticity indicating a low economic value of service. All of the evaluation fully justifies a low cost coverage of 103 per cent.

However, it remains that, even with the relatively low cost coverage, stated as a percentage of attributable cost, the per unit contribution is very high. This conflicts with the factors which justify and require a low cost coverage.

As witness Ball, FGSA-T-2, proposed, an appropriate starting point for the reasonable assignment of institutional costs is a uniform amount for each piece of mail, with adjustments to reflect the relative benefits from participating in the Postal system, the value of service and the ratemaking criteria of the Act.

The per unit contribution, although not the sole factor, should receive the paramount consideration, since there is no rational relationship between the amount of attributable cost and the appropriate contribution to institutional cost for any piece of mail.

A fair and equitable assignment of institutional cost requires a reduction of the per unit contribution by Parcel Post, especially at the different weight levels, so that each parcel, regardless of weight, will contribute only a fair share, and there will be no discrimination in the assignment.

PARCEL POST RATE LEVEL

In section V of the brief, the Postal Service describes the rate levels for each class and sub-class as being "fair and equitable".

The proposed 10.2% increase for Parcel Post cannot be classified as "fair and equitable". Rather than a 10.2% increase, for most rate cells the increase is in the range of 30%!

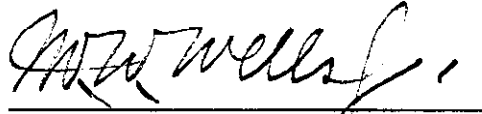
The increase for Parcel Post is unnecessary, and the recognition of the Commission's adjustment for the Alaska by-pass costs, amounting to some 75 million dollars, is essential. The Postal Service pursues, without explanation, a steadfast refusal to acknowledge the prior Commission ruling in this matter. There have been no changes in the circumstances to justify a change in the prior decision, and this adjustment of attributable cost must be made.

With the adjustment, the extraordinary increase for Parcel Post can, and should, be eliminated.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding on this date in accordance with Section 12 of the Rules of Practice and Procedure.

Dated : April 10, 1998.



M. W. Wells, Jr., Attorney