

DOCKET SECTION

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

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Postal Rate and Fee Changes, 1997

Docket No. R97-1

REPLY BRIEF OF THE NEWSPAPER ASSOCIATION OF AMERICA

April 10, 1998

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The Newspaper Association of America ("NAA"), by its attorneys, respectfully submits its reply brief in this proceeding. NAA has already explained the need for the Commission to recommend rates that begin to restore the Postal Service's public service mission as defined by Congress. In this Reply, NAA will address only matters not adequately addressed in its prior submissions.

Perhaps the most striking feature of the initial briefs is the identity of interest between the Postal Service and its saturation mailer "partners."¹ This is evident not only from the USPS's stout defense of its proposed reduction in the Standard (A) mail pound rate, but also from the united front of the saturation mailers.² This provides

¹ The term is the Postal Service's. See NAA R97-1 LR 2 at AD Page 3.

² AISOP's comparison of NAA to "the wolf giv[ing] architectural advice to the farmer building the chicken coop" (AISOP Br. at 9), while presumably meant to be witty, actually illustrates the problem. NAA members are not "outsiders" to the postal community; they are substantial mailers of Standard (A) and Periodicals mail, and depend heavily upon First Class mail for their subscription and advertising payments. The notion that an agency of the federal government would or should align with one group of mailers, or view newspapers as somehow less a part of the postal system than, say, saturation mailers, is offensive. It is not the USPS's role to take sides, although it unfortunately appears to have done so. *E.g.* NAA R97-1 LR 2 at AD Page 40 (stating USPS intent to create a "platform for moving substantial revenues from pre-printed newspaper inserts to mail").

further grounds for believing that the Postal Service has forsaken its public service role to take sides in the market battle between saturation mailers and their competitors.

I. THE PROPOSED REDUCTION IN THE STANDARD (A) POUND RATE SHOULD BE REJECTED

NAA's Pound Rate Memorandum demonstrated that the Postal Service has failed to prove its case. The USPS's proposal is based on a cost allocation that is seriously flawed, most notably from an excessively thin number of cost tallies at the weight increments proposed to be reduced. It also is both inconsistent with the Postal Service's public service mission and unreasonably discriminatory to the detriment of First Class mailers. Accordingly, the Commission should reject the Postal Service's proposal to reduce the pound rate.

Both the Postal Service and the Saturation Mail Coalition ("SMC") defend the USPS's proposed steep reduction in the ECR pound rate. Their contentions fail to rectify the fundamental defects of insufficient data and discrimination that warrant rejection of the proposal.

SMC and the USPS defend the cost allocation filed in this record as Library Reference LR-H-182, relying in particular on the testimony of SMC witness Crowder. The principal problem with Ms. Crowder's testimony is that, although she adjusts for some of Mr. McGrane's flaws,³ her testimony cannot add a single tally to cure the thinness of the underlying data used in LR-H-182.

³ In so doing, of course, SMC in effect concedes that LR-H-182 was deficient as filed. The USPS argues that the IOCS system provides a reasonable tool for analyzing the effect of weight on costs. USPS Br. at V-153. The point is that the IOCS tallies are quite thin in the above-breakpoint ranges targeted for the large rate decreases. Also, it
(Continued...)

Interestingly, the Postal Service for its part characterizes LR-H-182 as providing only the overall relationship of the effects of weight on costs. USPS Br. at V-154. In so doing, however, the USPS implicitly concedes that it has continued to ignore the Commission's request for a comprehensive analysis of third-class/Standard mail costs.

In addition, as shown in NAA's Pound Rate Memorandum, the USPS's selective reduction in the pound rate for Standard (A) flats – while raising rates for heavy First Class pieces -- constitutes an unjustified discrimination against First Class mailers in violation of Section 403(c) of the Act. 39 U.S.C. § 403(c).

Rather than defending the serious discrimination arising from the Postal Service's disparate treatment of Standard (A) and First Class mailers, supporters of the pound rate reduction try to brush it aside. The USPS labels this comparison of the inequitable treatment of First Class and Standard (A) mail as "an attempt to rekindle the old First-Class versus third-class battle."⁴ USPS Br. V-158. For its part, SMC

(...Continued)

is flatly incorrect for the USPS to say that NAA ignored the USPS's "alternative means of studying the weight-cost relationship." USPS Br. at V-154. See NAA Pound Rate Memorandum at n.22.

SMC also argues that, notwithstanding the thinness of data, the Commission should take comfort in Ms. Crowder's results after her adjustments for the erratic patterns in the data. This amounts to inviting the Commission to conclude that the costs of handling heavy, unbound, floppy, and loose pieces do not increase with weight in Standard (A) mail; but that the costs of sealed, envelope-shaped pieces rise steeply higher when they bear First Class indicia. This illustrates why the Commission has long wanted a comprehensive study of the effect of weight on costs.

⁴ This is particularly strange. As long as the breakeven requirement remains in effect, First Class and Standard mail, as the two largest classes, will have divergent rate interests. Indeed, the battle is very much alive, as shown by the positions of the MMA, ABA, and EEI compared to those of the DMA, AMMA, and SMC.

downplays the discrimination point as "absurd."⁵ Calling the issue names cannot cause either Section 403(c) or this issue to disappear.

The fact remains that while stoutly defending a drastic rate decrease for heavy saturation mailers, neither SMC nor the USPS even attempts to defend the effective First Class pound rate of **\$3.78** under the USPS proposal, or to justify it in comparison to the ECR pound rate of **\$0.53**. Nor do they justify the USPS's discrimination in citing a rationale⁶ to support a rate change that it wants in Standard (A), while denying that the same rationale applies to First Class mail.

The USPS baldly asserts that the "determination of the pound rate in ECR has no effect on the rates for First-Class Mail" given the Postal Service's proposed cost coverages. USPS Br. at V-158. But that is true only if one accepts the USPS's own cost coverages. Similarly, SMC in effect maintains that the Commission should be blind to the USPS's unbalanced treatment of First and Standard (A) mail, arguing that the excessive extra ounce charges in First Class rates are due to a policy desire to protect the first ounce of single-piece mail, a concern absent in Standard mail. SMC Br. at 24. What this argument really suggests is that far too many institutional costs are assigned to First Class mail to allow the competing interests of first ounce and extra ounce mailers to be balanced. In this case, an obvious solution is to reassign some of First Class mail's excessive institutional cost burden. Dr. Clifton has proposed to do just that.

⁵ SMC Br. at 24.

⁶ See USPS-T-36 at 9 & 24 (Moeller) (the notion that it is "illogical" that rates double with weight).

NAA's Pound Rate Memorandum (at 23) also pointed out the USPS's failure to offer any current evidence in support of its contention that the pound rate was priced above the market and that intervenor witnesses had not provided "any significant additional information." SMC uses that as a pretext (SMC Br. at 39-40) for reciting Mr. Buckel's testimony regarding his prices, as well as that of Mr. Otuteye. These anecdotal testimonies do not amount to "significant" evidence and do not provide a complete picture of the market.

SMC's contentions that the pound rate should be reduced in order to reverse the Postal Service's alleged loss of "market share" in the saturation market confuses this sub-issue still further. NAA does not believe that "market share" is a proper or meaningful concept in the case of a governmentally-provided public service. The relevant market is that in which private firms – such as ADVO, Mr. Buckel's, Mr. Otuteye's, newspapers, and the AAPS companies – compete. The USPS should not be favoring one group of these competitors over others through selective rate decreases supported by thin cost evidence and discriminatory rationales.

SMC is also incorrect when it argues that a reduced pound rate would mostly result in new *net* revenues for the USPS. SMC Br. at 42. First, the reduction in the pound rate by up to 18 percent would result in fewer revenues from existing pound-rated ECR mail. SMC is not taking into account the loss of revenues from these current pieces. The proposed rate reduction could produce net positive revenues only if enough existing pieces paid a higher rate or enough new pieces were mailed in order to exceed the loss of revenue from existing pieces. However, given the USPS's own

estimates that ECR mail has a price elasticity of less than 1⁷ – meaning that a rate decrease would lead to a net loss of revenue – reducing the pound rate would more likely decrease, rather than increase, USPS revenues from pound-rated ECR mail.⁸

In conclusion, the Postal Service's proposed discriminatory reduction in the pound rate should be rejected because the USPS has not proven its case.

II. THE COMMISSION SHOULD ADOPT THE CHOWN PROPOSAL FOR ASSESSING APPROPRIATE INSTITUTIONAL COST CONTRIBUTIONS

In its initial brief, NAA demonstrated that the Commission should revisit its approach to allocating institutional costs in recognition of the fact that, with the widespread use of worksharing in today's postal system, the traditional approach has become outmoded. To better reflect today's highly workshared postal environment, the Commission should use NAA witness Chown's proposal as a better basis for judging the appropriate institutional cost contributions for the various subclasses. As NAA's Initial Brief explained, a large portion of institutional costs are directly associated with the provision of the different functions offered by the Postal Service and should be paid by the subclasses that use those functions.

⁷ The USPS does not calculate demand elasticities separately for pound-rated mail, but it is unlikely that above-breakpoint mail has an elasticity greater than 1; there is no evidence that competition between saturation mailers and non-postal alternatives (such as AAPS members and newspapers) is greater above the breakpoint than below.

⁸ Most of the other contentions of the USPS and SMC have largely been addressed in previous filings by either NAA or AAPS. In particular, SMC's response to Mr. Bradstreet's hypotheticals about the effect of additional weight on carrier costs (see SMC Br. at 36) is adequately addressed in AAPS's initial brief (at 3-5).

Witness Chown's proposal was opposed by a variety of parties. Their criticisms are addressed here to the extent that they were not addressed in NAA's previous filings.

A. The Chown Proposal Is Consistent With The Act

Several parties contend that Ms. Chown's proposal is inconsistent with the Postal Reorganization Act. These criticisms entirely lack merit.

First, Ms. Chown does not propose to add a "new criterion" to Section 3622(b) of the Act.⁹ Her proposal merely gives the Commission a better starting point for assessing relative institutional cost assignments by weighting the functions used by the various subclasses so that they are more "fully (or fairly) comparable with other classes." Tr. 25/13319 (Chown), *quoting R90-1 Op.* at IV-17, ¶ 4051. Nor does she exalt the "fairness and equity" criterion to a higher status than the other criteria;¹⁰ weighting the use of various postal functions through weighting the attributable costs merely provides the Commission with the ability to compare the fairness of the contributions made by the different classes and subclasses on a common basis.

Second, Ms. Chown does not propose to return to service-related costing or to attribute any institutional costs (Tr. 25/13339), and she certainly does not indulge in the fantasy-like exercise of imagining the costs of a system that delivers mail only three days a week. There is no "middle tier" of costs: her weighted attributable costs sum to the same total as the unweighted attributable costs. Her proposal to use the

⁹ See VP Br. at 67-70.

¹⁰ See USPS Br. at IV-64.

institutional costs associated with particular functions in developing her weighting factors merely puts to good use data that the USPS collects. These institutional costs are not attributed to the subclasses by the Chown method; rather, they remain in the pool of institutional costs and are assigned on the basis of the judgmental evaluation of the non-cost factors.

B. The Chown Proposal Is An Improved Basis For Assessing Relative Institutional Cost Contributions

Several parties criticize the premises of the Chown proposal. SMC, for example, argues that the Chown method “simplistically assumes that each class ‘benefits’ from institutional costs in some proportional way according to its attributable costs, weighted in some manner by postal cost function.” This is inaccurate on several counts.

First, the proportionality which concerns SMC arises solely from the illustrative example provided in Ms. Chown, which used a constant cost coverage across subclasses for expository purposes only. Ms. Chown’s proposal fully contemplates that the Commission would exercise its judgment and assign different cost coverages to the various subclasses.

Second, SMC overlooks that the traditional method of applying institutional costs to unweighted attributable costs *a/so* assumes that each class benefits from institutional costs according to its attributable costs, and would do so proportionally if the same cost coverage applied to each subclass. SMC ignores the fact that the Commission has already found that “total attributable costs are not a completely accurate measure of how much various subclasses benefit from institutional effort.” *R90-1 Op.* at IV-16, ¶ 4049.

As Ms. Chown testifies, if all subclasses used the same mix of postal functions, then attributable costs would be an accurate measure of how much institutional effort was expended on behalf of the subclasses. Tr. 25/13265; see also *R90-1 Op.* at IV-15,

¶ 4048. But all subclasses do not use the postal system equally:

“the root of the problem is that when a subclass uses categories of attributable costs in an uncommon way – either by using mostly a function whose costs are only very incompletely attributed, or by using mostly a function whose costs are completely attributed – it is not fully (or fairly) comparable with other classes.”

R90-1 Op. at IV-17, ¶ 4051. What Ms. Chown’s proposal does, in effect, is “normalize” the comparison of attributable costs to make them fully and fairly comparable across the classes.

Seeking to direct attention away from the consequences of heavy worksharing in particular functions, some parties argue that weighted attributable costs would prevent the Commission from taking into account appropriate interrelationships across postal functions. In this vein, SMC contends on brief that weighted attributable costs would disregard such phenomena as the fact that DPS sequencing may reduce delivery costs (SMC Br. at 12). Such a reduction in delivery costs, of course, should be reflected in the attributable costs of particular subclasses in the particular functions affected.¹¹ Both the traditional and Chown proposals would provide this information to the Commission, which it could then use in determining appropriate contributions.

¹¹ But see NAA Br. at 32-35 (discussing flaw in USPS estimate of carrier costs).

C. The Chown Proposal Leads To Rational Results

Opponents of the Chown approach argue colorfully that it is “arbitrary,” “irrational,” and based on incoherent notions of cost causation. Ms. Chown’s proposal provides the Commission with an improved way of comparing the use of postal functions across subclasses, thus providing a more illuminating basis for assessing relative institutional cost assignments than the traditional approach.

Some parties contend that weighted attributable costs would provide an “arbitrary” or “irrational” basis for assigning institutional costs. On the contrary, such a measure would *improve* rationality by more closely conforming the basis for comparing institutional cost allocations to the highly discounted rate schedule now in place. Indeed, this would provide a more reasonable basis for assigning institutional costs than the volume variable cost figure preferred by the Postal Service (which freely ignores other costs caused by subclasses). Finally, the superiority of weighted attributable costs over unweighted was addressed in NAA’s Initial Brief.¹²

D. The Chown Proposal Is Not Too “Confusing” To Adopt

The National Newspaper Association states that it does not “support” adoption of the Chown proposal solely because it fears that Ms. Chown’s proposal would be “misread” widely and could, if misapplied, somehow suppress worksharing. NNA Br. at 34-35. However, that concern disappears if the methodology is correctly applied. NAA

¹² See NAA Br. at 6-13. Both weighted and unweighted attributable costs should include all costs attributed using the Commission’s methodologies, not merely volume variable costs. See NAA Br. at 52-56.

believes that the Commission is fully capable of correctly applying the Chown methodology, and has faith that it would do so.

III. THE COMMISSION SHOULD SHIFT INSTITUTIONAL COSTS FROM FIRST CLASS TO STANDARD (A) MAIL

As shown in NAA's Initial Brief, the Commission should reduce the institutional cost burden on First Class mail and assign a greater share of the institutional cost burden to Standard (A) mail. In this Reply, NAA responds to arguments from Standard (A) mailers for a lower institutional cost contribution.

A. Contrary To DMA, The Commission Should Compare Unit Cost Contributions

Despite acknowledging the changes in the mailstream wrought by reclassification, DMA urges (Br. at 46-48) the Commission to **ignore** the relative unit contributions between First Class mail and Standard (A) mail, asserting: "It is quite apparent that the relative level of unit contribution says nothing about whether the non-cost pricing factors of the Act demand that a class of mail bear a greater or lesser institutional cost burden than another class." DMA Br. at 47.

DMA unduly diminishes both the Commission's past use of unit contributions and their importance in today's ratesetting environment. NAA's Initial Brief cited previous Commission decisions noting that unit contributions are a "useful comparative measure" used to "track relative changes in contribution between letter classes (first and third)." *R87-1 Op.* at 370, ¶ 4038. See also NAA Br. at 19-21.

DMA's desire for the Commission to ignore relative unit contributions is understandable. As NAA's Initial Brief discussed, Standard (A) mailers have

consistently made a smaller unit contribution than First Class mailers, and the USPS proposes to widen this gap still further:

	First Class Letters	Third Class Regular Rate	Difference
R84-1	8.79	3.32	5.47
R87-1	10.07	3.81	6.25
R90-1	12.12	5.29	6.84
R94-1	14.74	5.95	8.79
Proposed R97-1	17.55	7.91	9.64

DMA's claim on brief (DMA Br. at 48) that Standard (A) unit contributions are higher and First Class lower than in previous cases is not correct. DMA's comparison is not to actual contributions in cents per piece, but to the *percentages* by which the unit contributions of First Class mail *exceeded* that of third-class bulk regular rate mail in Dockets Nos. R97-1, R94-1 and R90-1. See Tr. 21/11270 (Bentley). This comparison is meaningless. The fact of the matter is that the absolute difference between the two continues to widen – and has grown by 50 percent since Docket No. R87-1.

The Commission should give greater weight to unit cost contributions precisely because they provide a simple, straightforward way of comparing the relative contribution of mail pieces with similar characteristics. The need for such comparisons is even greater in light of the worksharing encouraged by the current rate structure. See NAA Br. at 20 & n.23.

B. Dr. Clifton's Proposal To Shift Costs To Standard (A) Mail Should Be Adopted

By *any* standard of measure First Class mailers pay a grossly disproportionate share of system institutional costs. Dr. Clifton's proposal to reduce the extra-ounce rate for the second and third ounces of workshared First Class mail from 23 cents to 12

cents, and to offset this reduction by raising the Standard (A) cost coverage by a modest 2.8 percent, is conservative and deserves adoption. NAA Br. at 22-24.

The USPS argues that Dr. Clifton's extra ounce cost analysis is unpersuasive because it relies on Library Reference F-177, an analysis that the Commission "has declined to rely upon." USPS Br. at V-57. Dr. Clifton's testimony acknowledges that data may be suspect for single piece mail, but neither the USPS nor the Commission have challenged the accuracy of F-177 for workshared mail in the lower ounce ranges. Tr. 21/10821 & 10841 (Clifton). Thus, this criticism is without merit.

The USPS also opposes Dr. Clifton's proposal because "there are [sic] still not definitive or precise evidence of the costs associated with additional ounces of First Class Mail" USPS Br. at V-58. This concedes that the USPS has no data with which to dispute Dr. Clifton's analysis. Of course, the USPS displays no such qualms when proposing in this very proceeding to hike rates for heavy workshared First Class mail even higher by eliminating the heavy-piece discount of 4.6 cents, while at the same time proposing to reduce the ECR pound rate by proffering a highly flawed study. Moreover, the USPS lack of evidence argument is wrong.¹³

In fact, Dr. Clifton has provided the Commission with good cost data that establish one reason why "a universal, uniform additional [ounce] rate structure for all First-Class Mail pieces" (USPS Br. at V-55) should no longer be maintained. Specifically, they show that the USPS proposed rate of 23 cents carries a confiscatory

¹³ The evidence as to the First Class first and second extra ounce costs and rates is far more compelling than for above-breakpoint Standard (A) mail. For instance, the First Class evidence does not suffer from the extreme thinness of tallies that afflict Mr. McGrane's allocation of Standard (A) mail costs. Tr. 21/10936 (Clifton).

920 percent cost coverage. While NAA is pleased that the USPS agrees that the Commission need not "undertake the practice of implying a distinct cost coverage for every rate cell in every subclass. . ." (USPS Br. at V-57 n.53), the Commission should not be blind to rate provisions that are obviously discriminatory on their face -- such as the 920 percent cost coverage charged to the first two extra ounces of First Class mail.

Dr. Clifton's equity argument is also strong. He points out that the comparable Standard (A) mailstream carriers a much lower rate for up to 3.3 ounces with a much lower cost coverage. Neither the USPS nor its advertising mailer allies choose to defend the gaping disparity between First and Standard (A) rates for 2 and 3 ounce mail.

Rather, these parties quibble about Dr. Clifton's definition of cross-subsidy and whether Dr. Clifton had "technical" evidence of their definition of cross-subsidy. VP Br. at 59; USPS Br. at V-56; AMMA Br. at 7-8; and MOAA Br. at 40. These arguments miss the point. Dr. Clifton is suggesting that the 920 percent cost coverage for the first two ounces of First Class extra ounce mail, compared with the far lower cost coverage of Standard (A) mail of equal weight, could constitute a cross-subsidy given the large amount of unattributed costs. Cross subsidies could exist, as Dr. Clifton indicated, in mis-measurements of incremental costs for Standard (A) mail or in very low institutional cost contributions, or both. The point is that the huge disparity in cost coverages signals a problem.

Where gross institutional cost burden disparities exist between similar classes, the Commission should analyze which rate provisions should be altered to reduce the overall class disparity. While any averaging necessarily creates a range of cost

coverages, a cost coverage of the magnitude of 920 percent -- where a similar subclass pays an extra ounce charge of effectively zero, is discriminatory on its face.

Finally, Val-Pak argues that Dr. Clifton should have shown "why implicit cost coverage relief is not available from other First-Class Mail rate categories." VP Br. at 60. It should be obvious that raising still other already overburdened First Class rates is not the answer.

C. DMA's Arguments For A Reduced Contribution For Standard (A) Mail Lack Merit

DMA argues that the institutional costs assigned to Standard (A) mail should be *reduced*, based principally upon its belief that "a significant expansion in the availability of alternatives for First Class and other mailers" is eroding (or has eroded) the need to protect First Class mailers from rate increases. DMA Br. at 45. In particular, DMA believes that a "dramatic increase in electronic media to communicate written material" now provides "First Class mailers with readily, and increasingly, available means to escape the Postal monopoly." DMA Br. at 45.¹⁴ As a result, DMA argues that the Commission is more free than in the past to raise First Class rates.

This is a classic example of a "heads-I-win-tails-you-lose" argument. DMA notably does not argue that the availability of alternatives to Standard (A) mail warrants increasing *its* cost coverage. When Standard (A) mail is the issue, DMA argues that increased alternatives justify a *lower* cost coverage. DMA cannot have it both ways.

¹⁴ DMA does not offer evidence regarding how widely available such alternatives are to the general public. The most that can be said is that these electronic alternatives are far from ubiquitous and are of use to only a subset of the population.

DMA further argues that the entry and operational changes introduced by reclassification, and the USPS's proposed new costing methodologies, also have "resulted in a fundamental shift in the foundation upon which the Commission must apply its pricing judgment." DMA Br. at 46. NAA could not agree more – indeed, this is precisely the reason that NAA sponsored the testimony of Ms. Chown pointing out that the traditional basis on which the Commission has assigned institutional costs has changed. The difference is that NAA believes the Commission should address the problem at its roots by revising the base upon which it evaluates relative cost assignments; DMA believes that the Commission should simply tinker with the "markup index."

DMA also argues that Standard (A) mail has a "significantly lower intrinsic value of service" relative to First Class mail. DMA Br. at 39. However, there is no way to compare the level of service actually received by the classes, and DMA ignores evidence that Standard (A) mail -- especially locally entered saturation or DPS sequenced mail -- can receive at least the same level of service as First Class mail.¹⁵ For example, saturation mail and newspaper TMC advertising mail often receive day-certain delivery. *See generally* NAA R97-1 LR 2 at AD Page 40.

¹⁵ Tr. 2/268 (O'Hara) (Standard (A) mail may receive the same service as First Class mail when combined during DPS sequencing). The USPS has no nationally representative delivery performance data for Standard (A) Mail, no data on relative delivery performance for First Class and Standard (A) mail entered at destination offices, and no data on how often ECR mail is in fact deferred. Tr. 2/199, 200, & 236 (O'Hara).

IV. PRESORT DISCOUNTS IN THE STANDARD (A) ENHANCED CARRIER ROUTE SUBCLASS SHOULD NOT BE INCREASED

Only the USPS and SMC addressed NAA witness Donlan's testimony that commercial ECR discounts should not be increased due to the lack of reliable record evidence. For the most part, these parties simply rehash many of witness Crowder's arguments which were addressed on pages 27-35 of NAA's initial brief.¹⁶

Mr. Donlan's testimony points out that the differences in the USPS's own unit costs between pre- and post-reclassification render the data unreliable for setting discounts. The USPS faults Mr. Donlan's testimony for not speculating on the causes of the USPS's own cost differences, claiming that he "simply cannot establish a nexus between classification reform and a narrowing of the mail processing cost differential for nonletter carrier route categories" and "has no explanation as to how classification reform could have affected the mail processing cost differential." USPS Br. at V-137-138. But it is not necessary for Mr. Donlan to speculate as to why the USPS's own data show cost differences between pre- and post-reclassification mail in order to show that the data are too unreliable to support the USPS's proposal. The burden is on the Postal Service, not intervenor witnesses, to explain why its own data can support its proposals.

The USPS similarly distorts witness Donlan's testimony with regard to his recommendation that the Commission maintain the current presort discounts for ECR

¹⁶ The USPS also echoes witness Crowder's arguments that the reported nonletter delivery cost difference of 2.35 cents alone supports the ECR saturation discount of 2.3 cents (USPS Br. at V-139) and that witness Hume's delivery costs implicitly include savings from automated delivery point sequencing. *Id.* at V-141. These arguments fail for the same reasons as do witness Crowder's. See NAA Br. at 30-34.

high density and saturation letters and non-letters (Tr. 27/14669), by asserting that Mr. Donlan contradicted himself and "retreat[ed] in written cross-examination from his recommendation that the old discounts be maintained." USPS Br. at V-142-143. A review of the interrogatory (USPS/NAA-T2-5(d)) suffices to rebut this allegation:

"My testimony concludes that [the proposed increases in the discounts for ECR high density and saturation mail] are not justified and recommends maintaining the current discounts. I do not recommended [*sic*] a particular rate structure for Standard A ECR mail in my testimony. The ECR rate structure is likely to be affected by many other issues outside the scope of my testimony."

Tr. 27/14693-94. That Mr. Donlan does not purport to design rates for an entire subclass certainly does not contradict his testimony that the only data upon which the USPS relies to support changing the discount is insufficient for that purpose.

Further, NAA finds it remarkable that the Postal Service on brief states that "it is wrong to suggest that the Postal Service has not accounted for any offsetting savings in delivery for DPS for nonautomation ECR letters."¹⁷ USPS Br. at V-141. This statement directly contradicts the evidence of the USPS's own witness who admits that he was "unaware of any Postal Service witness whose testimony addresses city carrier in-office cost savings due to delivery point sequencing of ECR basic mail." Tr. 15/7681 (McGrane).

¹⁷ Here, too, the USPS relies on witness Crowder. However, NAA has explained that while the cost savings may be implicitly captured in the average costs for ECR letter mail, these savings are not included in the cost differentials for the different tiers of ECR letter mail. NAA Br. at 33-34. Since discounts are based upon cost differentials, not upon average costs, the proposed discounts do not reflect these savings.

V. THE COMMISSION SHOULD USE THE SINGLE SUBCLASS STOP METHODOLOGY TO ATTRIBUTE CITY CARRIER COSTS

The Postal Service (Br. at III-156-57) urges the Commission to adopt Mr. Hume's estimates of test-year delivery costs. However, as NAA's Initial Brief explains, these costs are not calculated using the Commission's single subclass stop methodology for access and coverage-related load time costs. NAA Br. at 42-45. The correct attribution figures are, instead, provided in the testimony of USPS witness Takis, who presents the appropriate single subclass stops ratios.¹⁸

The Postal Service states that Mr. Hume's approach was "used by the Commission in Docket No. MC95-1" and is a refinement of "principles previously endorsed by the Commission." USPS Br. at III-156-57. In fact, the Commission used the Hume approach in Docket No. MC95-1 only because data were not available as to the single subclass stop ratios for the new subclasses. In that case, the Commission, after a lengthy discussion, stated expressly:

"The acceptance of this [USPS sponsored volume variability] approach, for this case only, as a means of accounting for single subclass stop costs is in no way an abandonment of the Commission's recommended approach to calculating access costs. ***The Commission continues to hold that the single subclass stop access cost approach is the proper methodology to trace cost causation for certain delivery functions.***"

¹⁸ Thus, the USPS is simply wrong in asserting that the record has an "absence of credible alternatives." USPS Br. at III-157. The credible alternative is in its very own testimony. The difference is that the Hume approach is consistent with the USPS's narrow view that only volume variable costs should be attributed, while the Takis testimony is consistent with the Commission's principled attribution of costs on the basis of causation.

Docket No. MC95-1 Op. at IV-60, ¶ 4144 (emphasis added). This is an unequivocal rejection -- not an "endorsement" -- of the Hume approach in favor of the single subclass stop methodology.

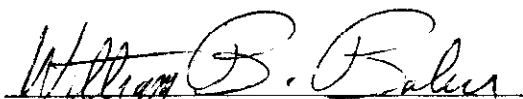
Mr. Takis's testimony provides the single subclass stop ratios absent from the Docket No. MC95-1 record. See LR H-183 & LR-H-184, adopted by Mr. Takis at Tr. 9/4779, and his Workpapers at Section IV.A.200 (revised October 9, 1997). The Commission can and should now apply its single subclass stop approach to attributing delivery costs.

VI. CONCLUSION

For the foregoing reasons, the Newspaper Association of America respectfully urges the Postal Rate Commission to recommend rates in a manner consistent with this Reply Brief and its previous filings and testimony.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

April 10, 1998



William B. Baker