

DOCKET SECTION

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

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OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 1997

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Docket. No. R97-1

**REPLY BRIEF OF
THE MAIL ORDER ASSOCIATION OF AMERICA**

David C. Todd
PATTON BOGGS, L.L.P.
2550 M Street, N.W.
Washington, D.C. 20037-1350
(202) 457-6410
(202) 457-6315 (fax)

Counsel for the Mail Order
Association of America

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Introduction.

This reply brief of the Mail Order Association of America ("MOAA") will be limited principally to addressing the claims of certain parties that Standard A rates should be increased and First-Class rates decreased. Those parties fall into three categories: (1) competitors of the USPS whose only interest in mail rates is to have Standard A, and especially Standard A ECR, rates set at the highest possible level; (2) business First-Class users whose interest is in workshared letter mail and the rates for pieces weighing up to two or three ounces; and (3) greeting card manufacturers whose interests are limited to First-Class single piece rates.

The business First-Class mailers argue in favor economic efficiency in setting postal rates. In doing so, however, they effectively attempt to have the PRC treat workshared First-Class mail as a subclass. The pricing factors of the Act, however, do not apply to rate categories, such as workshared First-Class letters, but only to classes and subclasses. Other business parties, interested in fostering the growth of their greeting card businesses, argue against economic efficiency in establishing rate levels. The existence of these conflicting interests confirms the MOAA position that the fundamental issues for First-Class involve intra-not inter-class disputes.

The attempt to resolve contentions that workshared First-Class mail is overpriced by shifting huge amounts of costs to Standard A will not work. The rate relationships within First-Class mail, including the rates for mail pieces weighing two and three ounces, are intra-class issues. Economically efficient rates will be made are possible only by a reform of the First-Class rate structure. Further, business First-Class mailers persist in comparing the rate levels for First-Class mail with Standard A as a whole. Rate comparisons that ignore the Standard A subclasses have no validity.

The Newspaper Association of America argues that the PRC should adopt a new "metric," as presented in Witness Chown's testimony, which would have the effect of shifting large amounts of costs, particularly within the delivery function, to those classes of mail which are highly workshared. In doing so, NAA ignores the fact that the delivery function is structured to meet the needs of expedited mail; not deferrable Standard A mail. Thus, the Chown metric, far from identifying a form of incremental costs, represents an approach which would ignore true incremental costs.¹

A. The Issues Raised By The First-Class Business Mailers Are Intra-Class In Nature.

The briefs of the Major Mailers' Association and the American Bankers Association, *et. al.*,² ("ABA, *et al*") contend that First-Class mail, and in particular workshared First-Class mail, bears an excessive share of the total revenue burden of the Postal Service. In so doing, they

¹ MOAA also endorses the briefs of the Alliance of Nonprofit Mailers, *et al* and the Direct Marketing Association concerning the issues raised by the testimony of USPS Witnesses Bradley, USPS-T-14, and Degen, USPS-T-12.

² American Bankers Association, Edison Electric Institute, National Association of Presort Mailers. *See Also* separate briefs of the American Bankers Association and the National Association of Presort Mailers.

continue to ignore the fundamental issue which confronts business First-Class mailers, *i.e.*, the First-Class mail stream has not been divided into subclasses in order more accurately to reflect costs and to enable the pricing factors of the Act to be applied to workshared mail. Further, the First-Class rate design appears not to deal rationally with pieces weighing one, two or three ounces. Instead of addressing those structural and rate design issues, both briefs continue to contend that business First-Class mailers should be given lower rates by shifting the revenue burden to Standard A mail. As discussed in MOAA's initial brief, this represents a head-in-the-sand approach which will not resolve the issues. Although, the rates for workshared First-Class and heavier pieces may be faulty, the revenue burden on First-Class mail, as a whole, is not excessive.

The business First-Class mailers are essentially contending that the workshared mail category should be treated as a subclass. MOAA believes that there is considerable merit in the creation of First-Class subclasses. As of now, however, workshared First-Class mail is not a subclass. As stated by the PRC.

With respect to the first issue, we conclude that for the purposes of Section 3622 (b), presorted first-class mail is a rate category rather than a separate subclass and, therefore, neither separately developed attributable/assignable costs, nor a separately determined cost coverage are mandatory.

PRC Op. 77-1 at 242.

In Docket No. R94-1, the PRC found that the use of "implicit" markups was of little value in determining the proper rates for any particular type of mail not accorded subclass treatment.

The Commission, of course, does not set separate markups for the rate categories within BRR or any other subclass, it sets them for the subclass as a whole. Rates for discount categories such as

carrier route mail are generally developed from the cost studies underlying the discounts and the attributable costs of the subclass. Rates are then designed to generate an appropriate amount of subclass revenues. No attention is given to the implicit contribution of any individual piece in any of the subclasses of mail.

PRC Op. R-94-1 at V-94, 95.

It is ironic that ABA, *et. al.*, have relied upon the testimony of James A. Clifton in advancing their proposals in this proceeding. Witness Clifton's theories, as advanced in Docket No. MC95-1, are at the heart of the dilemma faced by business First-Class mailers. In that proceeding, the Commission discussed, and in a large part accepted, the position taken by witness Clifton.

Greeting Card Association, Inc. (GCA) sponsors the testimony of James A. Clifton who presents analyses and perspectives centered on citizen and small business mailers as the predominant users of single-piece First-Class letter mail. Witness Clifton concludes that the proposed reclassification of First-Class "will weaken the ability of citizen mailers to contest rate increases and will definitely lead to an escalation in costs and rate increases for this group in the short run and the long run."

* * *

Consequently, he testifies that citizen and small business mailers in the Retail subclass would have to shoulder disproportionate and burdensome rate increases in the future. In particular, he claims that this result will greatly reduce the use of holiday greeting cards, which have an important cultural value under §3622 (b)(8). (Citations omitted.)

PRC Op. MC-95-1 at V-8.

The PRC essentially accepted the position adopted by witness Clifton:

[T]he Commission agrees with the positions of GCA and OCA that a proposed reclassification cannot be responsibly recommended without anticipation of its probable implications for the rate-making process. One such foreseeable consequence is a potentially severe upward pressure on rates for the Retail subclass, as GCA, OCA and other parties have observed.

PRC Op. MC-95-1 at V-16.

It can be seen, therefore, that much of the dilemma that currently faces business First-Class mailers, such as those represented by ABA, *et. al.*, is the fruit of the very witness used by them in this proceeding.

Further, there continues to be a serious conflict about the proper approach to First-Class subclasses and rates. This is highlighted by the briefs submitted by Hallmark Cards, Inc., and the Greeting Card Association. Those parties, seeking to protect their business interests in the manufacture and sale of greeting cards, submit arguments that are in striking contrast with the arguments advanced by the business mailers. They argue that greeting cards, which as hand-addressed, irregularly shaped pieces, are unquestionably among the highest cost mail handled by the Postal Service, should be protected by the adoption of pricing policies which are directly contrary to the pricing policies advocated by the business First-Class users. Thus, they argue that economic factors and economically efficient rates should be given little, if any, significance in the pricing of postal products.

B. Regardless Of How Analyzed, The Proposed Rates For Standard A ECR Are Excessive.

In its opening brief, MOAA stated its support for the rate proposals made by the USPS, with minor exceptions. It reiterates that support in this reply brief. MOAA also noted, however, that the proposed rates for ECR are excessive, particularly when measured against economically efficient Ramsey Rates, and therefore that the rate relationships resulting from the USPS proposal should not be deemed to have any presumption of validity in future proceedings. The establishment of Standard A ECR rates that diverge so substantially from Ramsey Rates results in a large loss of consumer welfare and inevitably will serve to damage the entirety of the Postal

Service by driving out volumes which are now needed, and in the future will increasingly be needed, to ensure a viable USPS capable of performing its public service functions, *i.e.*, offering universal service at reasonable rates. MOAA's initial brief also demonstrated that the USPS rate design proposals for Standard Mail A more nearly reflect cost incurrence and should be adopted.

Standard A mailers support the USPS proposal, with minor exceptions. In contrast, parties representing competitors contend that proposed Standard A ECR rates are too low or that the proposed rate design changes, including the pound rates, should not be adopted. They fall into two groups: (1) competitors of the Postal Service whose only interest in postal rates is to achieve the highest possible levels of Standard A rates, and (2) parties representing business mailers of First-Class Mail who seek to resolve intra-class First-Class issues by transferring costs to Standard A.³

Neither the First-Class mail users, with a legitimate and obvious interest in achieving the best possible rate levels for the types of First-Class mail which are used by them, nor NAA in jointly sponsoring a witness on these issues, but with far different motives, have recognized that the PRC in Docket MC95-1 approved a new subclass, namely, Enhanced Carrier Route. Because ECR is a subclass, the pricing factors of the Act must be applied to that subclass. To do otherwise, which is what has been attempted by these parties, especially on brief, would be to deny to Enhanced Carrier Route the very purpose of its creation. As stated by the Commission in Docket MC95-1:

Only the proposed Enhanced Carrier Route subclass within Standard Mail has shown to exhibit distinct attributes which

³ Competitive group: Newspaper Association of America and Association of Alternate Postal Systems. First class group: Major Mailers Association, American Bankers Association, Edison Electric Institute, National Association of Presort Mailers; Hallmark Cards, Inc., and Greeting Card Association.

warrant separate application of the non-cost factors of 39 U.S.C. §3622 (b).

PRC Op. MC95-1 at III-21.

Regardless of the cost comparisons used, and regardless of whether comparisons are made on the basis of the costing methodologies proposed by the USPS or on the basis of the costing methodologies used previously by the PRC, it is evident that the proposed rates for Standard A ECR are excessive, even without consideration of the extent to which ECR rates exceed Ramsey prices. This is shown by Table A below showing the relative cost coverages, and markups for First-Class letters and Standard A ECR.

TABLE A

Rate Comparisons Under USPS Proposed Methodologies

	<u>Coverages</u> ⁴	<u>Markups</u> ⁵
First Class Letters	200%	99.65
Standard A ECR	228%	144.12

Rate Comparisons Under Prior PRC Cost Methodologies⁶

	<u>Coverages</u>	<u>Markups</u>
First Class Letters	166%	66
Standard A ECR	211%	111

The PRC, in its R90-1 decision, expressed its desire to move the coverages for First- and what was then Third-Class mail closer together. PRC Op. R90-1 at IV-18. The proposed USPS Standard A ECR rates not only meet that standard, they are over the top. Table A speaks for itself. It can be seen at a glance that the proposed Standard A ECR rates, which are twice as high as they would be under Ramsey prices, are excessive. It is therefore obvious that proposals

⁴ Exh. USPS-30B.

⁵ USPS-T-31 at 58.

⁶ Tr. 21/11185.

which would result in any increase in Standard A ECR rates have no merit and should not be given serious consideration. No conceivable application of the assignment factors of the Act could lead to a conclusion that Standard A ECR rates are too low. Indeed, application of those pricing criteria must inevitably lead to the conclusion that the proposed rates for Standard A ECR are excessive and should therefore not be deemed to establish permanent rate relationships.

Both MMA and ABA, *et al.*, make coverage comparisons with Standard A as a whole. Relative markups or cost coverages or any other comparison between First-Class mail and Standard A are misleading unless they include a comparison to the ECR subclass as shown by Table A above. The comparisons made by these business First-Class mail users serve to denigrate the economic arguments they make with respect to those First-Class mail rates which are of particular interest to them. Ultimately, the arguments can only serve to damage, not help, the goals which they seek to achieve. It will not be possible to achieve more economically efficient rates in First-Class mail by advocating, as they do, that the PRC move further away from economically efficient rates within Standard A.

Also, the DMA brief has presented a persuasive argument that the overall rates for Standard A mail are too high in relationship to First-Class mail rates. DMA Brief at 36-46. That brief also explains that any rate comparison using unit contributions does not support any increase in Standard A's share of institutional costs. *Id.* at 46-48.

C. The Weighted Attributable Costs "Metric" Proposed By The Newspaper Association Of America Lacks Validity.

MOAA's initial brief demonstrates why the weighted attributable costs "metric" proposed by NAA Witness Chown has no economic or any other validity and should not be used in

applying the pricing criteria of the Act. MOAA Brief at 6-16. This opposition by MOAA is mirrored by every other party representing mailers, rather than competitors, including the National Newspaper Association, which unlike NAA, is interested in preserving reasonable rates for the newspapers it represents.⁷ Additionally, the USPS opposes the Chown methodology (Initial brief of United States Postal Service at IV-50-64.) and, by implication, so does the Office of the Consumer Advocate (Office of the Consumer Advocate Initial Brief, Second Section at 166-170- discussing Dr. Sherman's Ramsey pricing testimony).

It is evident that NAA's principal concern is with Standard A ECR at the saturation level. This is the mail for which the newspapers actively compete by offering a lower cost alternative. Unfortunately, NAA fails to acknowledge that most Standard A ECR does not consist of saturation mail. Specifically, over sixty percent of the total of Standard A ECR is entered at the "basic" level. Notwithstanding the impression left by the NAA evidence and arguments, the Standard A ECR subclass is far broader than saturation mail and includes a large number of catalogs, such as those used by MOAA members, as well as others types of advertising media.

The NAA brief raises no issues which have not been addressed in the initial briefs of MOAA and others. Accordingly, MOAA does not here offer extensive additional arguments on the issue. The NAA brief, however, serves to highlight the fatal flaw in the Chown "metric." NAA describes the Chown "metric" as "a sound measure of how the different subclasses benefit from institutional effort and identifiable institutional costs." NAA Initial Brief at 13. In fact, the Chown "metric" does no such thing. Contrary to basic principles of incremental costing, the

⁷ Brief of the Direct Marketing Association, Inc. at 48-55; Initial Brief of Val-Pak Direct Marketing Systems, Inc., *et. al.* at 63-70; Initial Brief of the Saturation Mail Coalition at 11-14; Initial Brief of the National Newspaper Association at 7, 34-35; AMMA Brief at 2-6.

approach fails to address the fundamental issue of which classes of mail are responsible for the *configuration* of the Postal Service, and in particular the configuration of the delivery function. Instead, the metric consists of a simplistic manipulation of the costs of various postal functions. The fact is that delivery and the six-day-a-week delivery schedule are clearly structured to meet the needs of the expedited classes of mail. Were delivery to be structured to meet only the needs of Standard A, the Postal Service would not provide delivery to every address in this country six days a week. Other functions would also be changed but for the needs of First-Class and other expedited mail. As stated by witness Panzar, "cost savings resulting from removing this volume of mail from the system are the incremental costs of that subclass." USPS-T-11 at 4. Thus, on an incremental basis, an enormous portion of the cost of delivery and other functions is the "incremental" responsibility of the expedited mail classes.

In sum, the Chown "metric" is nothing more than a device, empty of economic or any other meaning, designed to serve the competitive needs of the newspapers. As discussed in MOAA's initial brief, properly assigning the institutional costs of the Postal Service under the criteria of the Postal Reorganization Act is a difficult task, subject to much controversy. The adoption, or any consideration, of the Chown metric in the performance of the task would not be helpful. It would ill serve the needs of all mailers. The PRC should again reject the Chown approach.

Notably, this case also reveals the gulf of difference between newspaper interests whose sole purpose is to drive up Standard A mail rates as *competitors* and newspaper interests concerned about postal rates as *mailers*. Thus, NAA, seeking only to preserve a competitive advantage vis-a-vis Standard A mail, has said not one word about the types of mail which may be

used by its members. This is in sharp contrast with the National Newspaper Association. Because its members are mailers, NNA has stated its opposition to the methodology that has been supported by NAA in its testimony, *i.e.*, the Chown "metric". NNA "seeks the Commission's rejection of . . . Chown's testimony on methods for assessing the degree of cost coverage deemed appropriate for subclasses." NNA Initial Brief at 7. This is because of what NNA explains is a fear of a risk of applying the methodology despite NAA's assertion that the provisions of the Revenue Forgone Reform Act protect NNA's interests. NNA Initial Brief at 35.

This dispute between associations representing newspapers as mailers and newspapers as competitors reveals the full extent to which the Chown metric represents situational economics. The answers that have been given by NAA in response to NNA interrogatories reveal that the Chown metric is empty of content. TR25/13343, 13345. Chown has claimed that her "weighted attributable costs" represent incremental costs, *i.e.*, represent costs which should be borne by the class of mail which in her view has caused the cost to be incurred. If in fact it is determined that the Chown metric has any real economic basis, and in particular, that the Chown metric identifies "incremental costs", NNA has every right to be concerned. If the "metric" provides information of real economic value, it should obviously affect the rates to be established for *all* subclasses of mail. It is simply intellectually unacceptable to contend that it has economic value and identifies a pool of costs which should act as a rate floor, and thereafter contend that it does not apply to all the subclasses. The Chown metric either has value or it does not have value. The dancing around that is engaged in by Chown as a result of the NNA's concern proves that her metric is not an economic approach but a mere political device to drive up the costs of the mail with which newspapers compete.

D. NAA'S Other Attempts To Increase Standard A Rates Lack Validity.

The NAA, both in its initial brief and in its March 26, 1998 Memorandum of Law on the Pound Rate for Standard A Enhanced Carrier Route Mail, continues to support every possible stratagem for increasing the rates for that type of mail for which its members compete, Standard A ECR. NAA supports a wide range of proposals, seizing upon each and every possible means of achieving its goal. In this case, NAA has even made an alliance with mailers who have a genuine interest in First-Class mail rates, ABA, *et. al*, in order to achieve NAA's sole objective which is to drive up Standard A rates to the maximum extent possible.

NAA has not attempted to address the fact that current Standard A pound rates make no sense on their face and result in charges for heavier weight pieces that cannot possibly be justified. NAA also invites the Commission to ignore competitive realities, by contending that the USPS and the PRC, rather than recognizing that Standard A ECR is already not competitively priced, should continue to drive up those rates in order to meet the needs of the newspapers. NAA's position is nothing less than an invitation for the Postal Service to abandon a portion of the mail stream which is essential for the continued well-being of the Postal Service.

As a participant that has no interest in the mail, NAA is able to take a single-minded position of ensuring that the rates of the types of mail with which its members compete are set at the highest possible level. This produces the spectacle of First-Class mailers, with a real interest in the rates for First-Class mail, arguing on the basis of witness Clifton's testimony that rates ought to be set at economically efficient levels, while at the same time, NAA using and sponsoring the same witness is arguing that rates ought to be set at inefficient economic levels.

NAA contends that since the Postal Service gives mailers the choice of buying mail

processing and transportation from either the Postal Service or a private alternative, the Postal Service is selling functions. NAA Brief at 17. From this, NAA argues that it is fair and equitable to use the Chown metric in the assignment of institutional costs. What NAA ignores, however, is that mailers can also choose to buy or not buy the *delivery* function of the Postal Service. The fact of the matter is that much of the material that is entered into the ECR subclass is not protected by the monopoly and a large additional portion could be delivered outside the mail by the simple expedient of not using an address. Indeed, the very presence of NAA and AAPS in this proceedings demonstrates that this is a real and distinct possibility. For the Postal Service to ignore this competitive reality would be foolish.

In effect, NAA asks the PRC to elevate one part of factor 4, "the effect of rate increases upon ... enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters" to the level of controlling significance with respect to both costing and pricing. NAA takes the position that the Postal Service has become too concerned about its competitive position vis a vis the newspapers, but provides to the PRC no evidentiary or policy basis for adopting that position. If in fact the proposed rates threatened any serious, credible harm to the newspapers, it must be presumed that the newspapers would have come forward with such evidence. It is entirely appropriate, and indeed, MOAA would contend, required, that the PRC draw the proper inferences from the newspaper's failure to come forward with evidence of competitive harm. By simply mouthing concerns about potential harm to newspapers, without any attempt to present hard facts and figures, the newspapers seek to enjoy the advantage of creating the impression that there is a risk of competitive harm, without giving the parties an opportunity to challenge such claims on the record.

Another conspicuous failure is that NAA fails to show the effects upon the rate design of either Standard A Regular or ECR which would result from the adoption of the various proposals which it has made. This, again, is in sharp contrast to the proposals made by *mailers* with respect to proposed changes in the USPS proposed rates, all of which have included proposed rate redesigns which show the revenue and other consequences of the adoption of an alternative design. One can only assume that the NAA's silence was studied. The overall rate design, as applied to Standard A Regular and Standard A ECR, Standard A letters and Standard A non-letters, Standard A mail entered below the break point and Standard A mail entered above the break point, is complex and necessarily interrelated. No single element of the rate design can be changed without assessing the effects on every other element.

For example, it is NAA's position that the Standard A ECR pound rate should be left at its current level of 66.3 cents per pound, but, apparently, that the proposed pound rate reductions for Standard A Regular should be adopted. That would produce nonsensical results. More important, NAA makes no attempt to calculate the piece rates that would result from keeping the Standard A pound rates at current levels and the changed rate relationships that would occur with respect to the piece and pound rates of all of Standard A mail, both below and above the break point. By adopting this approach, NAA has avoided hard questions of how to deal with the interrelationship among the various rate elements of Standard A.

There are a few other criticisms made by NAA which deserve brief mention. NAA contends that the Standard A rate design fails to reflect the fact that all ECR mail must be prepared in line-of-travel sequence. NAA Brief at 31-32. The data may ultimately reflect the fact that there is merit in this contention, which could lead to a reduction in the price differences

in the tiers of ECR mail, but NAA neglects to acknowledge that the result would also be to show a reduction in the *overall* costs for ECR mail.

NAA addresses comments to cost differences which it contends are overstated solely for ECR letters. NAA Brief at 32-35. NAA fails to address the effects of adopting its suggestion that the current discounts be maintained upon the overall rate relationships within Standard A.

NAA opposes the recognition of 100% pass through for destination entry, Standard A mail. NAA Brief 35-39. This is simply another example of the fact that NAA's fundamental position is that costs do not matter. NAA's only rationale for refusing to recognize 100% of the cost savings is to make charges, wholly unproven, about the behavior of costs below the break point. The issue of a flat rate for Standard A lighter-weight pieces has been the subject of controversy for decades. Every time the issue has been examined, the flat rate has survived. That issue cannot serve as a rationale for a refusal to pass through 100% of cost savings of destination entry mail. The NAA position is without merit and should be rejected.

Finally, the NAA recommends that there should be a greater pass through of the cost differences between letters and flats, at least at the high density and saturation levels. NAA Brief at 39-41. Here, as an example of situational economics, the NAA's concern about the reliability of cost data completely disappears.

In sum, the USPS has proposed an overall rate design for all of Standard A which is coherent, cost based and enjoys the unanimous support of Standard A mailers. The scatter-gun attacks of NAA as a competitor of the Postal Service, have been shown to be without merit and provide no basis for a rejection of the USPS proposal.

E. The Association Of Alternate Postal Systems Has Provided No Basis For A Rejection Of The USPS Rate Design Proposal.

In common with the newspapers, the Association of Alternate Postal Systems has presented neither testimony nor argument which supports the proposition that the rates that have been proposed by the Postal Service will result in competitive harm. Instead, the evidentiary presentations, Bradstreet and Green, merely contend that it would be to their benefit to continue to maintain the current noncost-based pound rates for Standard A ECR. In the absence of any evidence showing competitive effect, the PRC is left with no record basis for giving the competitive effect portion of factor 4 any weight in its assignment of costs. Additionally, the alternate deliverers have established by their own testimony that the proposed rate design would bring Postal Service practices closer into line with the practices of the newspapers and alternate deliverers, *i.e.*, would bring them closer into the line with the fact that small increases in weight have little effect on costs.

An examination of prior PRC decisions demonstrates that the position taken in this proceeding by the Association of Alternate Postal Systems is not new. It further shows that the PRC has rejected the radical contentions that are made by these competitors, *i.e.*, that the Postal Service and the PRC should simply blind themselves to competitive realities and ensure that rates will offer maximum comfort to Postal Service competitors. As stated by the PRC in Docket R84-1:

By ascertaining that the rates we recommend for a third-class bulk mail (including the types specifically competed with by private carriers) recover their attributable costs and make an appropriate contribution to institutional costs, we ensure that they meet the competition-related standard as well.

Further, in its R87-1 decision, the PRC rejected the testimony of witness Bradstreet as a basis for increasing the rate levels for Standard A mail. Witness Bradstreet gave testimony in that proceeding similar to the testimony which has been given in this proceeding. PRC Op. R87-1 at 677-78. After considering that testimony and the testimony of mailers, the Commission concluded that "the mailers' position on this issue is more correct" than the position advanced by Witness Bradstreet. *Id.* at 678. Ultimately, the PRC concluded:

As a general proposition, we have recognized that overpricing a service, in terms of the relative demand for it, can send misleading price signals and adversely affect overall efficiency.

Id. at 679.

In Docket No. R90-1, the PRC once again rejected the claims of competitors and in particular claims of AAPS similar to the claims made in this proceeding.

Our favorable view on the extent to which walk-sequencing and other work sharing efforts or discounts should be reflected in the third-class rate structure reflects, among other things, our rejection of AAPS's claim that these amount to 'gifts' to favored mailers. We find AAPS's characterization distorts reality; we are confident that third-class mailers in general -- and saturation mailers in particular -- are not gaining unfair competitive advantage by virtue of our recommendations.

PRC Op. R90-1 at V-305.

F. Val-Pak Fails To Rehabilitate Witness Haldi's Testimony In Support Of Lower Rates For High Density And Saturation Mail.

In its initial brief, Val-Pak devotes considerable attention to attempting to establish that Witness Haldi's purported development of "bottom-up" costs support rates different from those proposed by the USPS. Val-Pak Initial Brief at 32-55. Although the brief contains a long discussion of the evidentiary presentations, it fails to come to grips with the fundamental problem. Witness Haldi simply did not have the data required to perform bottom-up costing.

Therefore, as stated by MOAA in its initial brief, the PRC need not address the issue of the possible superiority of that approach over that used by the USPS. MOAA Brief at 23.⁸

Val-Pak turns this fatal flaw in Witness Haldi's testimony on its head by contending that it was the obligation of Witness Prescott to offer a "logical explanation of [his] criticism, coupled with an alternative..." Val-Pak Initial Brief at 46. The point of Witness Prescott's testimony, however, is that Witness Haldi attempted to do that which could not be done because of a lack of data. Nothing in the Val-Pak brief has impeached that fundamental fact. The reason that Witness Prescott presented the detailed discussion of those instances where Witness Haldi was forced to rely upon arbitrary assumptions is to demonstrate the impossibility of performing bottom-up costing with existing data. Witness Haldi's attempt to do so produces "costs" that have no validity.

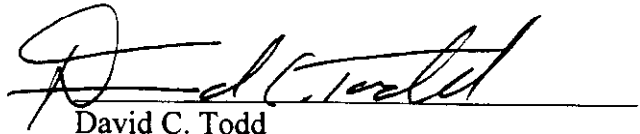
Generally, throughout its brief, Val-Pak focuses not upon the principal issues addressed in Witness Prescott's testimony, but rather on Appendix B. Appendix B sets out the calculations necessary to test Witness Haldi's testimony and it was included as an appendix for the sake of completeness. The body of Witness Prescott's testimony demonstrates that Witness Haldi was unable to calculate actual bottom-up costs.

Conclusion.

For the above reasons, and the reasons discussed in MOAA's initial brief and those of the USPS and other parties, the USPS proposed rates should be approved, subject to 100 percent pass throughs for destination entry mail.

⁸ See also USPS Initial Brief at V-143-44.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "D. C. Todd", written over a horizontal line.

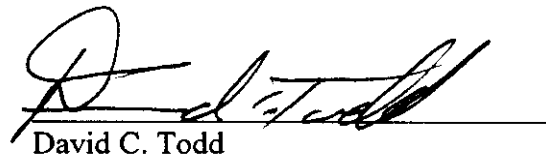
David C. Todd
PATTON BOGGS, L.L.P.
2550 M Street, N.W.
Washington, D.C. 20037-1350
(202) 457-6410
(202) 457-6315 (Fax)

Counsel for the Mail Order
Association of America

April 10, 1998

CERTIFICATE OF SERVICE

This is to certify that I have caused the Reply Brief of the Mail Order Association of America to be served upon the Postal Service and all parties of record, in accordance with Section 12 of the rules of practice, this 10th day of April, 1998.

A handwritten signature in black ink, appearing to read "D. C. Todd", written over a horizontal line.

David C. Todd