ORIGINAL

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

POSTAL RATE AND FEE CHANGES, 1997) Docket No. R97-1

REPLY BRIEF

OF

VAL-PAK DIRECT MARKETING SYSTEMS, INC.,
VAL-PAK DEALERS' ASSOCIATION, INC., AND
CAROL WRIGHT PROMOTIONS, INC.

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ARGUMENT

I. THE VAL-PAK/CAROL WRIGHT PROPOSED ECR RATE DESIGN SUBMITTED BY DR. HALDI WOULD HELP THE POSTAL SERVICE BETTER DEAL WITH COMPETITION IN ECR MAIL

The Postal Service Initial Brief urges that Dr. Haldi's "bottom-up" approach to ECR rate design (VP/CW-T-1) not be adopted. Terming it a "novel" approach, which may have "some logical appeal," the Postal Service concludes it cannot be adopted at this time because the "record does not provide a firm basis upon which volume variable costs can be computed for individual rate categories...." (USPS Initial Brief, pp. V-143 to V-144.) The Postal Service explains that this docket's absence of record evidence required Dr. Haldi to make "numerous assumptions, as described by Mail Order Association of America ("MOAA") witness Prescott." *Id.*, V-144.[1] The

[1] Taken literally, the Postal Service's comments would mean that almost 30 years after Postal Reorganization, Postal Service data still cannot form the basis of valid estimates of volume-variable costs for individual rate categories. Fortunately, this is not true.

MOAA Initial Brief echoed this comment, quoting witness Prescott's (MOAA-RT-1) rebuttal testimony as follows: "[t]he data isn't available for him to do the bottom-up cost analysis" so Dr. Haldi was required to make "a series of assumptions." MOAA Initial Brief, p. 43.

In his rebuttal testimony, witness Prescott alleged that Dr. Haldi's testimony was based on all manner of assumptions, errors, and miscalculations. The fragility and insignificance of witness Prescott's charges were exposed during his cross-examination (Tr. 36/19547-79 and 19581-82), discussed fully in the VP/CW Initial Brief (pp. 32-55), which need not be reviewed again here. Should the Commission believe all of what witness Prescott alleges, then it would not be able to rely on Dr. Haldi's testimony. On the other hand, if the Commission were to agree that witness Prescott's analysis has been demonstrated to be overblown and his criticism fundamentally irrelevant with respect to the rates recommended by Dr. Haldi, then the principal argument which the Postal Service has left against use of the Haldi "bottom-up" rate design is the following:

> The Postal Service submits, moreover, that evaluation of the reasonableness and fairness of witness Haldi's rate design can best be evaluated if and when the Postal Service chooses to recognize factors other than mail processing and delivery in determining worksharing discounts for ECR. [USPS Initial Brief, p. V-144.]

The Postal Service appears to assert that it alone has the right to determine which types of costs may be considered in setting rates or developing worksharing discounts. Val-Pak/Carol Wright disagree. Once a rate category is established, it is the Commission which determines the amount of any rate discount and the costs on which that discount is based.

When a top-down costing approach is used, only those cost savings that are the subject of special study can be identified. For example, in Docket No. MC95-1, Standard A presort discounts were based solely on avoided delivery costs. In Docket No. R97-1, the Postal Service had also conducted studies and presented evidence identifying mail processing costs which are avoided by Standard A presorted mail. Since the source of all data and most new cost studies is the Postal Service, the Postal Service has often been able to "choose to recognize" which costs would determine worksharing discounts. This power, however, is not rooted in law. The bottom-up costing approach used by Dr. Haldi indeed reveals cost savings of workshared mail which the Postal Service has not "chosen to recognize," including "intrinsic" cost savings, and there is no reason to prevent the Commission from recognizing them.

Beyond that, the Postal Service still fails to comprehend the significance of Dr. Haldi's rate design approach. The Postal Service Initial Brief merely states that "adjustments to the initial target rates are...made 'through a conscious balancing' of the rate criteria of 39 U.S.C. section 3622(b)." USPS Initial Brief, p. V-144. Val-Pak/Carol Wright believe a change in control over the application of these "further adjustments" to be in the best interests of the Postal Service and the mailing community. The Postal Service seemingly would like to continue to set rates as though it enjoyed a natural monopoly in the delivery function, due to the existence of economies of scale and scope, and to extract with impunity the full amount of ECR's contribution to institutional costs as a monopoly rent imposed on delivery. To the extent that the Postal Service has enjoyed a natural monopoly over the delivery function, the Postal Service has been able to apply the efficient component pricing rule[2] as a justification in effect, to pass through processing and transportation costs at cost, while imposing a mark-up only on delivery. But to the extent that the Postal Service no longer enjoys such a monopoly, imposing the entire mark-up burden on the delivery component could backfire and encourage development of alternative hard copy delivery in direct competition with the Postal Service.

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[2] Efficient component pricing was relied on heavily by the Commission in its *Opinion & Recommended Decision* in Docket No. MC95-1. The Commission framed the issue as follows: "should worksharing categories pay unit or percentage coverages which are equal to their residual counterparts?" (Docket No. MC95-1, *Op. & Rec.* Dec., p. III-29.) (In this docket, the Postal Service's requested ECR rates actually impose both higher unit and higher percentage contributions on High-Density and Saturation mail than on Basic mail. *See* VP/CW-T-1, Table 4, Tr. 27/15066.) The Commission's analysis was based on its view of the efficient component pricing rule: "[f]or service that consists of a monopolized component (mail delivery) and a competitive component (such as sorting)...this principle requires that the service be produced at the lowest combined cost to society. To achieve this result...the competitive component must be priced at no more and no less than the Postal Service's cost." (*Id.*, p. IV-107.) The problem with applying this absolutist doctrine, as Dr. Haldi points out, is that the Postal Service does not have a complete monopoly in mail delivery. (VP/CW-T-1, pp. 43-44, Tr. 27/15082-83.) It has been wisely stated that "where the reason for the rule does not apply, so also should not the rule."

In Docket No. MC95-1, the Commission stated that the Postal Service "disclaims a need to demonstrate theoretical consistency in its approach to measuring cost differentials among rate categories." (*Id.*, p. IV-114.) Certainly, an *ad hoc* approach is superior to adopting the wrong absolutist approach, especially where that absolutist approach would actually stimulate the very type of competition that the Postal Service would least like to confront. (*See* VP/CW-T-1, p. 44, Tr. 27/15083.)

The Postal Service obviously cannot take comfort from the current scope of alternative delivery networks, as the record is replete with evidence that the Postal Service is already facing, and shortly could face increased, competition in the delivery function.

Postal Service witness Moeller (USPS-T-36) testified regarding the proposed ECR pound rate that:

> the Enhanced Carrier Route subclass is in a competitive market and is susceptible to diversion to alternative media. As such, the rate structure should be sensitive to, and priced competitively with, the alternatives. [USPS-T-36, p. 26, ll. 3-5 (footnote omitted).]

Also, in response to an interrogatory asking whether the Postal Service believes that it faces greater competition for ECR letters or ECR flats, witness Moeller stated that:

> The Postal Service views the higher-density advertising Standard Mail (A) subclass, Enhanced Carrier Route, as facing greater competition, regardless of shape. [Response to AAPS/USPS-T36-6, Tr. 6/2724.]

In addition, Postal Service witness O'Hara (USPS-T-30) testified regarding competition in the ECR subclass:

> The availability of alternatives (criterion 5) for users of ECR mail is relatively high; due to its geographic concentration, both alternate delivery firms and newspaper inserts may provide alternative ways of delivering the same advertising message. [USPS-T-30, p. 35, ll. 14-17.]

The Postal Service apparently feels that it confronts a sufficiently significant threat from alternative delivery to commission a study on alternative delivery by Strategic Analysis, Inc. ("SAI"). *See* response to AAPS/USPS-6, Tr. 19-A/8400. The redacted SAI report was entered into the evidentiary record in this case as USPS

Library Reference H-302 on October 27, 1997 (*see* Presiding Officer's Ruling ("P.O. Ruling") Nos. R97-1/46 and R97-1/52).[3]

As indicated in P.O. Ruling No. R97-1/46, the Postal Service identified the SAI research on alternative delivery to include:

- Definition of alternative delivery and categorization of alternative delivery providers;
- Identification of alternative delivery providers by name, location, size, areas served, business practices and strategies, pricing, etc.;
- Methods of collection of information;
- A summary of changes in the alternative delivery industry, including failures, consolidations, mergers and acquisitions, and public offerings;
- Annual volume by market segment (*e.g.*, catalog or magazine) and by provider type from 1993 to 1996 and forecast of growth to 2005;
- Revenue trends and profitability potential of alternative delivery;
- Market delivery rates offered by alternative delivery;
- Analysis of factors influencing the success of alternative delivery;
- Researchers' recommendations to the Postal Service regarding alternative delivery; and
- Reaction to price change. [P.O. Ruling No. R97-1/46, pp. 1-2, fn. 2.]

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[3] If the Postal Service truly felt that it enjoys a natural monopoly on delivery, it would not have objected to releasing the SAI study, nor would it have had any need to redact any portion of that study.

Further, the "United States Postal Service 1998 Marketing Plans," which was entered into evidence after initial briefs were filed in this docket, also discussed the competition from alternate delivery systems.[4]

- **Publications**. The competitor analysis section of the Executive Summary regarding publications states:

> Several years ago, in reaction to what was perceived as poor service and rapidly increasing prices, publishers supported the establishment of an "Alternative Postal Delivery" network.
>
> The Postal Service has successfully responded to the challenge with improved service and stable prices, and most publishers returned. However, the Alternative Delivery Network remains, even though it is currently focused largely on Ad Mail.
>
> While the Postal Service has virtually the entire market for the delivery of subscription publications, it is clear that alternative [sic] do exist and can be expanded. [United States Postal Service 1998 Marketing Plans, PUB Page 2.]

- **Advertising Mail**. The competitive position section of the Executive Summary regarding advertising mail states:

> Newspapers have become heavily involved in alternative delivery, a sharp contrast to their previous (pre-1990) "hands off" position. Newspapers now account for about 70 percent of all alternative delivery companies operating in the U.S. While this is not a profitable business for them, they continue to invest in it as a means of protecting their ability to offer local advertisers a full product line. Aggressive promotion of their delivery capability could increase the level of **threat** to USPS. [*Id.*, AD Page 2 (emphasis added).]

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[4] On April 3, 1998, the Presiding Officer granted the Newspaper Association of America Motion to Place USPS Marketing Document into Evidence (which was filed on March 27, 1998), and entered the document, "United States Postal Service 1998 Marketing Plans," dated October 1997, into the evidentiary record as NAA/R97-1-LR-2 (P.O. Ruling No. R97-1/120).

Also, the alternate delivery subsection of the Competitor Analysis section regarding advertising mail states:

> One of the most significant newspaper initiatives to protect their revenue base is their sudden and pervasive involvement in alternative delivery in the early 1990s....
>
> There were approximately 370 alternate delivery firms operating in 1996, a slight decrease from 1995....
>
> [W]hile apparently dormant at this time, we cannot afford to dismiss the **potential threat of alternate delivery**. [*Id.*, AD Pages 12-13 (emphasis added).]

In addition to Dr. Haldi's discussion of the competitive environment for Standard A ECR Mail in his direct testimony (VP/CW-T-1, pp. 43-46, Tr. 27/15082-85), Association of Alternative Postal Systems ("AAPS") witness Bradstreet (AAPS-T-1) has commented that:

> ECR **saturation** and **high density** mail are the only significant part of the Standard Mail mailstream open to competition. [AAPS-T-1, p. 9, ll. 8-9, Tr. 23/11985 (emphasis added).]

In the absence of a strong natural monopoly, the Postal Service should begin now to reevaluate its application of the efficient component pricing rule and consider its replacement.[5] Dr. Haldi has provided an alternative approach, one that could be viewed as a competitive paradigm which begins with bottom-up costs, and then adds to

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[5] Alternative delivery companies also enjoy economies of scale and scope with respect to delivery of (the equivalent of) ECR saturation mail. Just as a Postal Service carrier can handle three bundles on the street, so also can a private carrier. A private carrier could thus go on a route with up to three saturation walk-sequenced carrier route mailings with virtually no in-office time required for sortation and preparation. Elimination of such in-office time is a substantial offset to economies enjoyed by the Postal Service.

those costs some combination of a mark-up, and margin, in proportions based on an analysis of competitive market considerations as they exist when the rates are developed. VP/CW-T-1, pp. 40-46, Tr. 27/15079-85.

Once bottom-up costs are developed, one end of the spectrum is represented by the exclusive use of a constant cents-per-piece margin to develop rates, effectively marking up only the delivery function under the efficient component pricing rule.[6] At the other extreme, exclusive use of a constant percentage mark-up would relieve the delivery function from much of the mark-up burden, and share it with other functions such as processing and transportation. On the record of this case, the evidence that the Postal Service faces significant current and prospective competition in the delivery function is persuasive. Institutional costs should not all be recovered based on a 100 percent margin/0 percent mark-up approach. Accordingly, Dr. Haldi has made one small step for the Postal Service toward recognition of that delivery competition by utilizing a 90 percent margin/10 percent mark-up approach. It is a conservative approach, designed to establish a principle which in the future will be flexible enough to allow the Postal Service to respond to competition wherever it exists.

It is true that use of the efficient component pricing paradigm could, to some extent, reach the same result as would be achieved under the Haldi competitive paradigm. This requires passing through costs at over 100 percent, which reduces the

[6] Dr. Haldi's competitive paradigm can thus be seen to include the efficient component pricing rule as a special limiting case.

burden of institutional cost recovery on delivery.[7] Passing through more than 100 percent of costs is at variance with the logic that underlies the efficient component pricing rule, however. The better approach is for the Postal Service to face directly the challenge of competition, use the Haldi competitive paradigm based on bottom-up

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[7] It is not unprecedented for the Postal Service to request, or for the Commission to recommend, worksharing passthroughs exceeding 100 percent:

- In Docket No. R80-1, the Postal Service requested a fourth-class Special Rate DBMC discount of 7 cents, even though the supporting data only identified avoided costs of 6.5 cents. (The Commission recommended a 5 cent discount.) [*Op. & Rec. Dec.*, pp. 542-43.]

- In Docket No. R84-1, the Postal Service requested a 2 cent discount (beyond 5-digit discount) for a two-ounce First-Class carrier route letter; its testimony identified a 1 cent cost differential between the two rate categories. (The Commission rejected the proposal.) [*Op. & Rec. Dec.*, pp. 329-30.]

- In Docket No. R87-1, the Postal Service requested a 2.0 cent ZIP+4 discount for nonpresort, although the cost avoidance estimate was 1.3 cents. (The Commission recommended retention of the existing 0.8 cent discount.) [*Op. & Rec. Dec.*, pp. 485-94.]

- In Docket No. R90-1, the Postal Service requested a 3.0 cent discount for First-Class prebarcoded nonpresort mail (its estimated cost savings were 2.7 cents), a 4.0 cent discount for 3/5 Basic presort (its estimated cost savings were 2.7 cents), a 4.7 cent discount for ZIP+4 presort (its estimated cost savings were 3.3 cents), a 5.2 cent discount for 3-digit prebarcoded presort (its estimated cost savings were 3.6 cents), and a 5.7 cent discount for 3-digit prebarcoded presort (its estimated cost savings were 4.0 cents). The Commission recommended a 2.0 cent discount for First-Class prebarcoded nonpresort mail, although its estimated cost savings were only 1.64 cents. Discounts for ZIP+4 nonpresort and 5-digit prebarcoded presort were also "rounded up" to the next cent from estimated costs avoided. [*Op. & Rec. Dec.*, pp. V-20, V-47.]

costing, and begin to spread, even minimally as Dr. Haldi has proposed, the burden of institutional cost recovery across the various mail functions.

II. NAA'S INITIAL BRIEF MISCONSTRUES RECORD EVIDENCE TO SUPPORT ITS FREEZE ON PRESORT DISCOUNTS FOR STANDARD A ECR MAIL

In its Initial Brief, the Newspaper Association of America ("NAA") argues that the Commission should reject the Postal Service's requested presort discounts for Standard A ECR letters and non-letters because they are based upon inadequate and stale data. Instead, NAA urges the Commission to retain the existing discounts.[8] Among arguments advanced by NAA are the following: (i) base year costs reflect 10½ accounting periods under pre-reclassification entry requirements and only 2½ accounting periods under post-reclassification entry requirements; (ii) the in-office delivery cost savings for non-letters and letters fail to reflect the requirement imposed by reclassification (July 1, 1996) that all ECR mail be, at a minimum, line-of-travel sequenced; and (iii) the in-office delivery cost differences for letters are overstated due to the delivery point sequencing of many ECR basic letters. As discussed below, each of these arguments is without merit and should be rejected.

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[8] Witness Donlan's proposal in this docket is reminiscent of OCA's proposal in Docket No. R94-1 to freeze, *inter alia*, third-class worksharing discounts at Docket No. R90-1 levels due to inadequacies in the Postal Service's filing. The Commission criticized OCA's proposal, which "penalizes mailers for the shortcomings of the Postal Service's filing [and] also fails to give adequate recognition to section 3622(b)(6), which directs that rates reflect the degree of preparation performed by the mailer, and its effect on reducing costs to the Postal Service." *Op. & Rec. Dec.*, Docket No. R94-1, para. 5051. The Commission went on to state that: "increasing the subclass rates...while leaving the discounts at the current level would yield large rate increases for those mailers who do the most worksharing and small increases for those who do the least. In the absence of a supporting cost study, such a result would be unfair and inequitable, and contrary to sections 3622(b)(1) and (6)." *Id.*, para. 5305.

A. The Commission Should Use the Best Data Available In This Docket — Complete Base Year 1996 Data — To Determine Recommended Discounts

The essence of NAA's argument is that, because reclassification occurred on July 1, 1996, 10½ accounting periods into the Base Year, the data are "inadequate and unreliable" and the Commission cannot recommend any changes in discounts that rely on base year data. NAA Initial Brief, p. 29. Evidently, in NAA's view, the Postal Service's requested ECR rate increases (also predicated on Base Year data) do not suffer from the same infirmity. Citing Advo, Inc. ("Advo") witness Crowder (Advo-RT-1), NAA states that "if FY97 data had been presented in this proceeding such data could have provided the Commission better cost information on which to base presort discount levels." *Id.* Within the context of the case before the Commission, this argument has no merit and must be rejected. Yes, **all** costs for **all** classes of mail would be improved if more recent FY 1997 data had been presented in this proceeding. More recent data would always provide the Commission with better cost information. However, this bridge was crossed before NAA ever wrote its Initial Brief. The Board of Governors, in response to a letter from the Commission proposing a delay in the case to incorporate FY 1997 cost data, rejected the idea. The Board of Governors asked the Commission to issue a timely opinion and recommended decision utilizing FY 1996 Base Year data. These are the only data available, hence they are the latest and best data available. Moreover, as discussed below, they establish the reasonableness of the Postal Service's proposed presort discounts.

The NAA argument also suffers from a certain inconsistency with respect to the data. NAA's Initial Brief states "Mr. Donlan [NAA-T-2] demonstrates that the reported cost difference between walk-sequenced (high-density and saturation) and non walk-sequenced (basic presort) **non-letters** has **decreased** dramatically following reclassification." (NAA Initial Brief, p. 28, n. 26, emphasis added.) In making this argument, NAA and witness Donlan rely exclusively on the very same data that NAA now claims are inadequate, inconsistent and unreliable. NAA cannot have it both ways. If the data are as characterized, then clearly they could not be used by witness Donlan to support or demonstrate any argument, such as his allegations of a dramatic cost decrease.

Using data for ECR **letters** which correspond to the data used by witness Donlan for non-letters, and which witness Donlan prefers to ignore, witness Crowder demonstrated that the reported cost difference between walk-sequenced and non-walk-sequenced letters actually **increased** dramatically following reclassification. Advo-RT-1, pp. 31-33, Tr. 34/18339-41. Under witness Donlan's approach, the Commission would view the more recent post-reclassification data as more accurate, presumably to increase the High-Density and Saturation presort discounts for letter mail. Of course, such a result is the opposite of that sought by witness Donlan.

Obviously, 70-day data segments cannot be isolated and relied upon to set rates, irrespective of whose interests are benefited. The best approach, under the circumstances, is to use data for the full year, as witness Crowder advocates.

B. NAA's Argument that the Postal Service Failed to Recognize Delivery Cost Savings from Line-of-Travel Sequencing of Basic Nonletters Is Not Well-Founded

With respect to ECR Basic **non-letters**, all of which must be cased manually, the Postal Service Initial Brief has already thoroughly refuted NAA's contention that its in-office delivery cost savings fail to reflect the requirement imposed by reclassification that all ECR mail be at least line-of-travel-sequenced.

With respect to ECR Basic **letters**, NAA notes that line-of-travel sequencing should increase the rate at which such letters can be cased manually, but asserts that witness Hume failed to reflect any increased productivity in his delivery cost model. Elsewhere, citing Postal Service witness Moden (USPS-T-4), NAA asserts that "the USPS has made a concerted effort to capture bundles of ECR basic letters, and barcode these letters for incorporation into the carriers' DPS mail, thereby eliminating the in-office carrier delivery costs associated with manual casing of ECR basic letters." (NAA Initial Brief, pp. 32-33.) As DPS becomes more universal, line-of-travel sequencing within bundles of ECR Basic letters loses value for the Postal Service. Since barcodes are not required for ECR Basic letters, before being DPS'd on a BCS, such letters must first be run through an OCR, where they receive a barcode.[9] Moreover, if Basic ECR letters are entered at a DDU, they must also be backhauled to

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[9] The added expense of these operations could possibly account for the higher cost differential between walk-sequenced and non-walk-sequenced letters following reclassification, as documented by witness Crowder and discussed above. As noted previously, though, little weight can be given to data that span only 2½ Accounting Periods.

the P&DC. The reduction in the volume of ECR Basic **letters** that were cased manually during Base Year, in favor of DPS, largely moots NAA's argument concerning the effect of higher manual productivity rates occasioned by line-of-travel sequencing. Finally, to the extent that ECR Basic letters were cased manually during Base Year, they had to be integrated with other letters that were DPS'd at the P&DC. This extra step largely negates any increased productivity occasioned by line-of-travel sequencing.

C. NAA's Hypothetical Mailing Comparison Where Saturation Letters Are Inefficiently Processed and Basic Letters Are Efficiently Processed Contributes Nothing To An Understanding of Real World Costs

To support its argument that the Postal Service overstated the proposed presort discounts for ECR Saturation letters, the NAA Initial Brief contrasts two hypothetical mailings to compare the cost of an ECR Basic letter mailing that is DPS processed with the cost of an ECR Saturation mailing that is not DPS processed, but instead is manually processed, thereby incurring in-office delivery costs. (NAA Initial Brief, p. 34). It claims that its "example illustrates that the in-office delivery cost differences between Basic letters and Saturation letters could indeed be less than zero." (*Id.* at 34, footnote omitted.) Even if it were true that two hypothetical mailings could exist where ECR Saturation letters were inefficiently processed and ECR Basic letters were efficiently processed, this tells nothing about the costs of handling Basic and Saturation letters generally. To demonstrate this point, the Commission has previously recognized that ECR Saturation letter mailings are regularly handled as a third bundle, where the

Postal Service incurs no in-office delivery cost whatsoever. (*Op. & Rec. Dec.*, Docket No. MC95-1, pp. V-247-248.) When this happens, the Saturation letters have an **infinitely** lower in-office delivery cost than manually-cased Basic letters. Aggregate and average unit cost data demonstrate that the Postal Service's processing choices in the third bundle comparison occur far more frequently in the real world. NAA's hypothetical but unrealistic example should be accorded no weight.

D. NAA's Position With Respect To Saturation ECR Letters Is Inconsistent and Self-Contradictory

It is important to note that no NAA witness has proffered any suggested rates for Standard A ECR mail. This may not have been an oversight. With respect to Saturation ECR letters, NAA supports the following results: (i) adopt witness Moeller's (USPS-T-36) proposal that the ECR Basic letter rate equal or barely exceed the Standard A Regular 5-digit automation letter rate (NAA Initial Brief, pp. 39-40); (ii) maintain the existing presort discounts (*id.*, pp. 27-35); and (iii) pass through a greater amount of the difference between letters and flats (*id.*, p. 41).

The effect of recommendation (i) above, obviously, is to increase the ECR Basic letter rate, which NAA realizes and acknowledges. Pushing up the Basic letter rate and then maintaining the current presort differentials (recommendation (ii), above) has the immediate and direct effect of increasing the rate for High-Density and Saturation letters. At this point, rates for letters would exceed the minimum per-piece rates for non-letters, an anomalous result which is pointed out in the Postal Service Initial Brief.

Concurrently, however, NAA feels that more of the letter-flat cost differential should be reflected in the rate design; *i.e.*, the rate for High-Density and Saturation letters should be **less than** the corresponding piece rate for non-letters. Curiously, this third recommendation calls for a reduction in the High-Density and Saturation letter rate, just the opposite of what NAA is otherwise recommending. Had NAA proposed Standard A ECR rates designed to meet the revenue target, the contradictions inherent in its various recommendations would have been even more readily apparent. By posing a set of inconsistent recommendations that cannot be satisfied concurrently, NAA's position is seen to be fatally flawed.

NAA's arguments concerning present discounts for ECR letters lack merit and should be rejected. The ECR Basic letter rate should be set equal to or slightly above the Standard A Regular 5-digit letter automation rate, which meets with NAA's approval. The presort discounts should reflect the rates recommended by Dr. Haldi in VP/CW-T-1, for reasons stated there and covered by the Initial Brief of Val-Pak/Carol Wright, and at a very minimum should be at least as large as those proposed by the Postal Service. Finally, rates for ECR High-Density and Saturation letters should be less than the corresponding minimum per-piece rates for ECR non-letters.

CONCLUSION

For the reasons set out above, and set forth in Val-Pak/Carol Wright's Initial Brief herein, the rates proposed for Standard A ECR by Dr. Haldi on behalf of Val-Pak/Carol Wright should be recommended.

Respectfully submitted,

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CERTIFICATE OF SERVICE

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

William J. Olson

April 10, 1998