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Postal Rate and Fee Changes, 1997:

Docket No. R97-1

REPLY BRIEF OF THE NATIONAL FEDERATION OF NONPROFITS

NATIONAL FEDERATION OF NONPROFITS

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1. THE POSTAL SERVICE HAS NOT DEMONSTRATED THE VALIDITY OF ITS PROPOSED DOUBLE-DIGIT RATE INCREASES FOR STANDARD (A) MAIL IN THE NONPROFIT SUBCLASS

A. The Postal Service Hides Behind The Requirements Of RFRA As A Substitute For Valid, Verified Data.

Neither in its Initial Brief (V-179 - V-181) nor in the testimony of witness Moeller to which the Brief refers (USPS T-36 at 43-45) does the Postal Service demonstrate that the "modified rate design formula" is an appropriate basis for the proposed Nonprofit and Nonprofit ECR rates. The Postal Service simply states that the formula is appropriate, but does not demonstrate its appropriateness. Essentially, the Postal Service has said, *we came up with these numbers, genesis unstated, and then applied the requirements of the Revenue Forgone Reform Act; it's the fault of the Act that the proposed increase for nonprofit rates is so high.*

B. The Postal Service Claims That RFRA Is The Culprit, But That Theory Lacks Logic

The Postal Service notes (V-181) that "NFN witness Emigh's frustration with the rates which result from the application of the provisions of the RFRA leads to a misrepresentation of the actual impact on the rates." But the RFRA has been in effect since 1993, and 83 percent of the impact of the increases required by the Act (5 of 6 legislated annual increases) is already reflected in Step 5 Nonprofit and Nonprofit ECR rates, which are the rates applicable during the test year.

The only actual impact of the RFRA in the present Docket is on institutional charges. If the proposed attributable cost increase were small, as it is for commercial Standard (A) mail, the additional institutional charge would also be small. It makes no sense that the RFRA formula is what's driving the Postal Service's proposed double-digit rate increases for nonprofit Standard (A) mail. In fact, it appears the Postal Service is double-counting the effect of RFRA: once as a result of the five annual increases to date, and again as a result of this Docket.

C. The Postal Service In Effect Admits That The Methodology Used To Produce Rates For Nonprofit Standard (A) Mail Is Significantly Flawed

The Postal Service states that "witness Moeller attempts to mitigate the increases for individual rate cells", (V-180) and again (V-181) states that "the Commission is urged to recommend witness Moeller's proposed rates and the guidelines adopted to temper (i.e., mitigate) the increase for individual rate categories."

In effect, that statement is an admission by the Postal Service that their own economists judged as unreliable the methodology which produced attributable costs for nonprofit Standard (A) mail. They then apparently made subjective judgements in order to "mitigate" the size of the increase.

Yet the Postal Service also takes the opposite approach in stating (V-180-181) that the overall rate change for each of the nonprofit subclasses is a "function of the reported volume variable costs and the RFRA-prescribed markups. In the Nonprofit subclass, the costs and markup result in a significant increase overall for the subclass." The use of the italicized words indicates that the Postal Service simply added markups to reported costs and came up with proposed increases which are unmitigated...a statement entirely at odds with the previously-quoted statement about mitigation. (italics added)

D. The Postal Service's Arguments About Past Pricing Errors Are Out Of Order.

The Postal Service has tried to divert attention from its flawed costing methodology by asserting that the methodology used in Docket No. R 94-1, and the Classification Reform Docket, produced rate increases which weren't high enough.

That argument is outside the scope of this proceeding.

To analyze that argument, the Postal Service would have to unveil the methodology used in the prior proceedings, and demonstrate its unreliability. It has introduced no such testimony. This proceeding is about the test year data and the methodology used to produce those data.

E. The Postal Service Complains That Witness Emigh's Percentage-Differential Charts Are Not Volume Weighted, But Computes Essentially The Same Percentages.

The Postal Service states (V-181) that "witness Moeller notes that the overall increase is 15.1 percent on the second page of his testimony..." This, shortly after noting, apparently because of presumed import, that "witness Emigh admits that the percentage differences are not volume-weighted".

But if there is import to a comparison of the weighting of Moeller vs. the non-weighting of Emigh, it is neither apparent nor significant. Emigh's charts, rounding off most increases, showed the overall increase to be 15 percent. At that double-digit level of increase, the variation of one-tenth of a percent is a distinction without a difference.

2. THE POSTAL SERVICE MISCONSTRUES WITNESS EMIGH'S SUGGESTION
THAT INCREASES IN NONPROFIT RATES ARE PROPOSED TO FUND A
ROLLBACK OF COMMERCIAL RATES.

A. Rollbacks Can Be From Current Rates Or Proposed Rates

The Postal Service (V-182) notes witness Emigh's contention that somehow increases in nonprofit rates are being used to fund decreases in commercial rates. It then makes the preposterous statement that "This is obviously impossible....". Assuming that the Postal Service actually needs the revenue it has requested (a "need" not demonstrated in the instant Docket), any increase in revenue from one class or subclass lowers the need for revenue from all other classes and subclasses. Similarly, any decrease in revenue from a class or subclass increases the requirement that the other classes and subclasses must generate additional revenue. (*italics added*)

More importantly, the Postal Service has taken a literal view of the word "rollback", apparently to demean witness Emigh's correct contention that when the Postal Service proposes higher rates for nonprofits, it can moderate its proposed increases for other classes of mail. What witness Emigh clearly intended is that the Postal Service did, and intended to do, just that. Her contention is an expression of regulatory economics in its most basic form.

B. Suppressing Commercial Rates Has Only a Partially
Beneficial Effect On Nonprofit Rates

The Postal Service, again hiding behind the Revenue Forgone Reform Act, states (V-182) that "A lower coverage for the commercial subclass would lead to a lower coverage for the nonprofit subclass by virtue of the RFRA. Any effort to suppress commercial rates would have a beneficial effect on nonprofit rates."

A more fatuous statement cannot be imagined.

The statement ignores two facts: First, that rates are not comprised of cost coverage, but of cost elements; second, that institutional costs are charged to nonprofits as a percentage of attributable costs; the cost coverage is a result, not a target or requirement.

The Postal Service measures attributable costs for commercial and nonprofit mail separately (and such is amply demonstrated in this Docket). If the Postal Service wishes to ameliorate increases (or magnify decreases) for commercial mail, it can simply determine, as it appears to have done in this Docket, that nonprofit attributable costs have increased (while commercial costs have decreased or the rate of increase is less than for nonprofits, an incredible determination on its face), apply the applicable institutional cost percentage, and come up with new rates which balance any shortfall from commercial rates.

C. Cost Coverages Are Used to Compute Rates, Not Revenue Requirements

The Postal Service, continuing to hide behind the RFRA, emphasizes the cost coverages the Act requires. In fact, the Act requires no such thing. The Revenue Forgone Reform Act calls for levels of institutional cost charges for nonprofits (at permanent, Step 6 rates) at one-half the level applied to commercial mail. The Postal Service can and does adjust cost coverages by adjusting both attributable costs, as it has in this Docket, and institutional charges.

Moreover, it is important to remember that cost coverages are only important when computing rates. The National Federation of Nonprofits notes that the Postal Service seeks to diminish the *revenue requirement* ascribed to commercial mail by ascribing too much of it to nonprofit mail. (*italics added*)

CONCLUSION

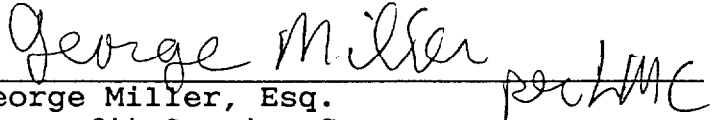
The Postal Service in this Docket has demonstrated that it uses unique and unproven methodology to attempt to reach pre-determined ends; that it makes errors in measuring and ascribing costs (see, generally, testimony of the Alliance of Nonprofit Mailers); that it places the blame for the increases it flawed methodology produces on the Revenue Forgone Reform Act; and that it can and will aggressively challenge - but not refute - arguments based on common sense. But it has not demonstrated, to the degree required by law, that the rates proposed for nonprofit Standard (A) and nonprofit Standard(A) ECR are justified.

The Commission should reject the Postal Service's proposal for nonprofit Standard (A) rate categories. As a substitute, the Commission should recommend increases for nonprofit rates categories that mirror the increases that the Postal Service proposes for comparable commercial Standard (A) categories.

Respectfully submitted,

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April 10, 1998

CERTIFICATE OF SERVICE

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

George Miller
George Miller per *LMC*

April 10, 1998