

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

_____)	
Annual Compliance Report, 2012)	Docket No. ACR2012
_____)	

**SURREPLY COMMENTS OF THE
AMERICAN CATALOG MAILERS ASSOCIATION (ACMA)**
(February 20, 2013)

To clarify the record, ACMA provides these observations on the Public Representative's comments on ACMA's cost index, made in his Reply Comments, filed February 18, 2013, in the instant docket.

On page 29, the Representative shows three equations represented to be for a postal service with "a single product, with a single cost function, with a single rate element." Since no mix changes can occur in this specification, no index numbers are needed. Equations can still be written, of course.

For this specification, the left-hand side (LHS) of Eq. 1 is purported to be ACMA's cost index, but is not. The numerator of the LHS is a rate index for period 2, indexed to period 1 (meaning that period 1 is the *base period* and that the index in it equals 1.0). The denominator of the LHS is the cost coverage in period 2, expressed as a proportion (e.g., 0.84). There are two ways to *make* the LHS equal to ACMA's cost index.

(1) Calculate the LHS for all periods, including period 1, and index it to period 1. This was done in ACMA's 2011 spreadsheet (cited by the Representative, tab 3, column M).

(2) Replace the denominator with an *index* of the cost coverage in period 2, indexed to period 1. With either of these changes accommodated, the LHS *will* equal the right-hand side, the latter represented correctly as a "Laspeyres index of unit costs," indexed to period 1.

Because the statement that the LHS of Eq. 1 *is* ACMA's cost index is incorrect, Eqs. 2 and 3 accordingly become incorrect, as do any conclusions drawn therefrom.

On page 30, the Representative observes that "[t]he formulas in Mr. Mitchell's Appendix differ from those used in his spreadsheets." In order to address the Appendix formulas, the Representative (at 30) presents Eq. 4, which is two terms: $\frac{V_2 * UC_2}{V_1 * UC_1} * \frac{V_1 * P_2}{V_2 * P_2}$, referable to in order as term A and term B. As the Representative states, the product of these two terms equals ACMA's cost index. It is correct that term A is "the ratio of total costs in period 2 to period 1," which is an index of total costs indexed to period 1. It is also correct that term B is a "Paasche volume index," indexed to period 1. More specifically, it is, when inverted, a Paasche volume index for period 2.

With this inversion, Eq. 4 becomes an index of total costs divided by a Paasche volume index, which is a fundamental formulation of a cost index. But the Representative identifies it as a "volume index." No explanation is provided of how to reach this conclusion. This omission should be viewed by any reader as critical. On its face, it should give some pause that the ACMA cost index increases substantially and the volume of Standard Flats has decreased substantially.

When the Eq. 4 expression is set equal to the ACMA cost index, term B can be solved for, which yields the Paasche volume index that is implicit in the cost index. To provide perspective on this implicit index, ACMA calculated it in its Comments in Docket No. R2013-1 and showed that it is approximately equal to a directly-derived volume index, derived in the same comments.¹

Respectfully submitted,

The American Catalog Mailers Association, Inc.

Hamilton Davison
President & Executive Director
PO Box 11173
Hauppauge, NY 11788-0941
Ph: 800-509-9514
hdavison@catalogmailers.org

Robert W. Mitchell
Consultant to ACMA
13 Turnham Court
Gaithersburg, MD 20878-2619
Ph: 301-340-1254
rmitxx@gmail.com

¹ See discussion in ACMA Comments, Docket No. R2013-1, November 1, 2012, at 8-10. In the spreadsheet that accompanied those comments, the implicit Paasche volume index is shown in Column A of tab 10, the direct quantity index is developed on tab 14, and the comparison of the two is shown in tab 3.