

**UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001**

Periodic Reporting }

Docket No. RM2008-2

**REPLY COMMENTS OF PARCEL SHIPPERS ASSOCIATION, THE ASSOCIATION
FOR POSTAL COMMERCE, DIRECT MARKETING ASSOCIATION, MAIL ORDER
ASSOCIATION OF AMERICA, MAGAZINE PUBLISHERS OF AMERICA, INC., AND
THE ALLIANCE OF NONPROFIT MAILERS
TO PRC NOTICE AND ORDER NO. 99
(Supplemented by Order No. 102)
(September 15, 2008)**

The Parcel Shippers Association, the Association for Postal Commerce, the Direct Marketing Association, the Mail Order Association of America, the Magazine Publishers of America, Inc., and the Alliance of Nonprofit Mailers (PSA, et al.) hereby submit their reply comments in the above captioned proceeding. PSA initially commented on Request of the United States Postal Service for Commission Order Amending the Established Costing Methodologies for Purposes of Preparing the FY 2008 Annual Compliance Report (Request) on September 8, 2008. See PSA Comments. These comments reply to those of Robert W. Mitchell and Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. See Mitchell Comments, Valpak Comments.

The Mitchell and Valpak Comments address, among other points, the concept of “group-specific costs.” With respect to “group-specific costs” the Valpak and Mitchell comments are complicated, and, given the brief time allotted to consider them, at times confounding. Their comments increase, however, the concern expressed in PSA’s initial comments that the Postal Service proposals related to “group-specific costs” are not “grounded in sound economic principles and applied consistently and comprehensively.”¹ See PSA Comments at 2; *cf.* Mitchell Comments *seriatim*; Valpak Comments at 2-14. They reinforce PSA’s conclusions that the “Postal Service should be directed to implement proposals related to group-specific costs in a comprehensive, rather than a piece meal manner” and that “the changes are not relatively minor” as claimed by the Postal Service. PSA Comments at 12-13. Valpak points out, with respect to Proposal 1, that “the Postal Service apparently would exclude group-specific costs from institutional costs.” Valpak Comments at 5. Mitchell discusses the possible magnitude of this change. Mitchell Comments at 15 (pointing out that the proposals which address only competitive products costs could result in “a massive change.”)

¹ By using the terms consistently and comprehensively, PSA simply means that a consistent decision rule should be used to identify all group-specific costs. PSA is not advocating that the Postal Service perform a massive, and inherently subjective, study of how postal operations would be reconfigured in response to the elimination of either competitive or market-dominant products in their entirety, as ValPak and Mitchell appear to suggest. Valpak Comments at 9-10; Mitchell Comments at 7-9. Rather, PSA agrees with the U.S. Treasury that “such modeling would likely be very costly and take many years for the USPS to develop with little-to-no corresponding benefits.” *Report of the U.S. Department of the Treasury on Accounting Principles and Practices for the Operation of the United States Postal Service’s Competitive Products Fund*, December 19, 2007 at 6-7. The Commission also appears to agree on this point, referring to the “sophisticated cost modeling of a true stand-alone enterprise” as “an undertaking that would be costly and necessitate numerous assumptions that would be difficult to validate.” Order No. 106 at 11. Should the sophisticated cost modeling approach nonetheless be chosen, the appropriate share requirement would need to be substantially altered.

This, in turn, increases the importance for a clearly stated “decision rule” for how group-specific costs would be identified. See PSA Comments at 4; Mitchell Comments at 4 (footnote 6).² This record is devoid of any such rule or indication of what other costs may be considered for “conversion” from institutional to “group-specific” and when they might be considered. Answers to these questions are essential for determining whether shares of institutional costs are distributed appropriately in order to promote a level playing field. Valpak discusses some of the issues in complying with an appropriate share requirement under Proposals 1 and 2, issues the Postal Service has not addressed. Valpak Comments at 10-12.

Economic experts need to explore these proposals and the issues raised by Valpak and Mitchell (and others) and the seven days provided for reply comments are simply an inadequate time period to do so. In its Request, the Postal Service is proposing to move too far, too fast, while providing too little information. As Valpak suggests, further explanation is needed from the Postal Service. See Valpak at 12. More work needs to be done; more consideration to these issues afforded.

Accordingly, PSA, et al. support PSA’s request that the Commission “direct the Postal Service that it has not made a sufficient case for the assignment of those costs, and that they should not be included in the Postal Service’s Annual Compliance Report.” PSA Comments at 13.

² As explained in PSA’s initial comments, exclusive causality is the correct decision rule. PSA Comments at 3-5. This decision rule is equally appropriate for the identification of product-specific costs.

Respectfully submitted,

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