

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

INITIAL BRIEF OF THE AMERICAN POSTAL WORKERS UNION, AFL-CIO

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The American Postal Workers Union, AFL-CIO (APWU) hereby presents its initial brief in Docket No. R2006-1.

I. INTRODUCTION AND SUMMARY

The Postal Service's proposal to de-link the cost and rate development for Single Piece First Class letters from the cost and rate development for Presort First Class letters should be rejected by the Commission. If the Postal Service proposal were to be adopted, it would

result in a higher than necessary, and unfair, rate for First Class stamps because it would shift costs from presorted letters to single piece letters; contravene the Commission's decision rejecting separate subclass status for presort mail and violate the statutory requirement of uniform rates for First Class letter mail; undermine economic efficiency by allowing workshare discounts to exceed costs avoided; create a template for further cost-shifting to Single Piece letters; and change, and make non-uniform, the rate relationships between Single Piece First Class letters and Presort First Class letters resulting in unfair and inequitable rates for Single Piece First Class letters.

In recommending workshare discounts for First Class letter mail, the Commission must resolve the tension between the need to promote efficiency, as exemplified by the application of efficient component pricing, and the requirement that First Class letter mail be maintained as a universal service provided to the American public at a uniform rate. Through a series of carefully reasoned decisions, the Commission and the Postal Service have determined that the best, most valid means of resolving this tension is to use the Bulk Metered Mail (BMM) letter as a benchmark for determining the costs avoided through worksharing. This mechanism has permitted the Commission and the Postal Service to encourage efficiency while maintaining the value of universal postal service for the public.

The cost-shifting effect of departing from the BMM letter benchmark is apparent in this case, where it has resulted in a proposal to increase the rate for First Class stamps one cent more than is necessary. Moreover, the Postal Service's proposal to deaverage Single Piece First Class rates and Presort First Class rate would shift costs to Single Piece letters while providing deeper discounts to existing presort mailers unrelated to any additional work required for them to qualify for the discounts. As a consequence, leakage would occur and discounts would continue to exceed the mail processing costs avoided by the Postal Service. Under these circumstances, workshare discount rates would fail the "make or buy" test. The Postal Service could not be indifferent as to whether it should contract out through worksharing or do the work itself – worksharing would be more costly. Similarly, proposals by large mailers to return to a Single Piece First Class letter benchmark for workshare discounts is a

transparent effort to shift costs from Presort First Class letters to Single Piece First Class letters.

In sum, the dismantling of the cost averaging that is the keystone of the uniform rate policies of the Postal Reorganization Act can not be done lightly. The proponents of that approach have failed to provide any justifications for their proposals to abandon the BMM benchmark beyond those that have been rejected by the Commission in earlier cases. Likewise, the Commission must reject the de-linking of Single Piece and Presort First Class letter mail rates, and should recommend rates that adhere to the BMM letter benchmark to determine appropriate workshare discounts for First Class letter mail. The Commission should recommend the First Class letter rates proposed by Kathryn Kobe in her testimony because those rates would best serve the purposes of the Act in this case.

II. DE-LINKING SINGLE PIECE AND PRESORT RATES FOR FIRST CLASS LETTERS WOULD SHIFT COSTS TO SINGLE PIECE LETTERS AND RESULT IN EXCESSIVE PRESORT DISCOUNTS CONTRARY TO COMMISSION DECISIONS REJECTING A SEPARATE CLASS FOR PRESORT FIRST CLASS LETTERS, AND IN VIOLATION OF THE REQUIREMENT OF UNIFORM RATES FOR FIRST CLASS LETTERS.

A. The Proposed De-Linking of Single Piece and Presort Letter Rates Would Shift Costs To Single Piece Letters And Result In Excessive Presort Discounts

De-linking Single Piece and Presort rates would shift costs from Presort letters to Single Piece letters, with the further result of setting presort discounts that exceed the costs avoided by the Postal Service due to the presort activity. This would create economic inefficiency by incenting relatively inefficient presort work. It also would shift costs from presort letters to single piece letters with the result that single piece letters, such as BMM, that are very similar to presort letters would be required to make a

larger contribution to institutional costs. As explained by witness Kathryn Kobe

(APWU-T-1, at 4):

From the inception of First Class workshare discounts, there has been an understanding by both the Postal Service and the Commission that discounts must be justified by costs avoided so that similar letters being provided First Class service bear the same amount of the institutional costs of the Postal network. [Citing Opinion and Recommended Decision for MC73-1, at 16.]

1. The shift of costs to Single Piece First Class letters

The Postal Service's proposal to de-link First Class rates would require that costs for all Single Piece First Class letter mail be averaged together but separately from the costs of presort First Class letter mail; and that costs for all First Class Presort Mail be averaged separately from single piece costs. The Postal Service also proposes to establish a "goal" of setting rates so that the two separate categories of mail, single piece and presort, would have the same unit contributions to overhead in the aggregate.¹ Taufique Testimony; USPS-T-32, at 16. The effect of the Postal Service proposal is described by Kathryn Kobe in her testimony (APWU-T-1, at 6):

On average, standard-sized, typed business mail is, and always has been, some of the cheapest for the Postal Service to handle because of its "cleaner" characteristics. Consequently, it tends to provide a larger contribution to overhead than does the average First Class piece. A very large percentage of business mail also has discounts associated with it that have been justified by cost savings due to the presorting and prebarcoding mailers do that reduce the number of mail processing steps the Postal Service must provide. However, there are equally clean pieces of Single-Piece mail that also provide a larger than average contribution to overhead. Those pieces pay the full Single Piece rates because their mailers do not or can not presort or prebarcode their mail. The First Class bulk metered mail letter is chosen as the benchmark because it is most like the workshared piece in its general characteristics. Thus, the Postal Service's cost savings due to the worksharing activities are more clearly

¹ We understand this to mean that the average unit contribution per piece, which includes differing mixes of parcels and flats in the two categories would be similar, not that the total contribution to overhead from each category would equal the contribution from the other category.

isolated because the comparison is being made between mail pieces that have very similar characteristics. The discounts based on those cost avoided savings mean that both mailers provide the same per piece contribution to overhead. Both of these mailers of “cleaner” mail also cover some of the costs of the First Class letters that have “less clean” characteristics.

As a result of the de-linking, or de-averaging, proposed by the Postal Service in this case, presort letters will no longer contribute the same amount to institutional costs as they would have made without worksharing. Clean single piece letters, such as Bulk Metered Mail (BMM), would no longer be averaged with presort first class letters to determine First Class letter costs. Id. at 13. Instead, they would be averaged only with other single piece First Class letters, many of which have characteristics that make them more expensive to process than either BMM or presort mail. The “average” cost of single piece letters, including BMM that is clean and inexpensive to process, would be higher than the average cost of processing presort letters. Accordingly, the average rate for single piece letters would have to cover the relatively high cost of dirty, hard to process letters as well as the cost of BMM. As a consequence clean, easy to process single piece letters would make a higher contribution to institutional costs. There would be no link between the cost of processing clean single piece letters, such as BMM, and processing similar letters that have been presorted. Because the presort letters would also be de-linked from the costs of processing “dirtier” single piece mail, rates for clean Single Piece business letters would rise relative to rates for similar presort letters; but that increasing disparity would be unconnected to any increase in cost as between clean business Single Piece letters and Presort letters. As Kobe explained (Id. at 6-7):

Differences in per unit costs for Presort mail and Single Piece mail may reflect a whole range of characteristics that do not relate to the cost avoidances for

workshare activities. Thus, the proposed methodology, which essentially applies equal contributions to the straight CRA costs, would result in the mailer of the Single Piece “clean” letter paying a larger contribution to overhead than the mailer of the Presort “clean” letter and would constitute a change in an important postal policy.

This consequence was acknowledged by Postal Service witness Taufique in his rebuttal testimony in this case (USPS-RT-18, at 5, lines 12-16):

... I do not dispute [Kobe’s] assertion that, under the Postal Service’s proposal for “de-linking” First-Class Mail presort letter rates from those for single-piece letters, “clean” (lower-cost generally) letters approximating the BMM benchmark will tend to make a higher contribution to institutional costs if they are single-piece rather than presorted... . See, APWU-T-1 at 7, lines 2-6.

Thus, the central consequence of the Postal Service proposal to de-link Single Piece and Presort letter rates would be the creation of different and unrelated rates for identical First Class letters that differ only due to worksharing. The Postal Service has never even attempted to explain how this can satisfy the requirement for a uniform rate for letter mail and has never provided a good explanation for how it comports with its past policies related to workshare discounts.

The Commission has consistently emphasized that, by establishing presort discounts, it was not establishing a new independent subclass; it was establishing a rate category within a subclass. As a rate category within a subclass, presort discounts are calculated to equal the costs avoided by the Postal Service due to the presort activity. Thus, as the Commission explained (Opinion and Recommended Decision for R77-1, at 240-242):

... [T]he OCC maintains that the Postal Service has followed legally sound ratemaking concepts. These consist of calculating “clearly capturable cost avoidance” per piece...due to presorting and, then, **offering a per piece discount from the regular first-class rate equal to that cost avoidance so that the per piece and overall contribution to residual costs for first-class mail would remain unchanged.** [Emphasis added here.]

In MC95-1 the Postal Service proposed the establishment of a separate subclass for presort mail within First Class. The Postal Service argued that the creation of this separate subclass would deaverage the costs of Single Piece First Class mail from those of presort mail, thus enabling rates to more closely reflect costs. (See Docket No. MC95-1 USPS-T-1). The Commission resoundingly rejected that proposal. The Commission explained its decision in terms that apply as well to this case:

If taken to the subclass extreme proposed, [the proposal] could lead to a substantial shift in responsibility for paying the ... overhead costs of the nation's mail system. [Id. at ii]

... [T]he proposal appears likely to do substantial harm by promoting a potentially substantial shift of institutional costs ... from the large to the small mailer. [Id. at ¶ 1012]

[T]here is no reason to shift institutional burdens from mailers who already benefit from a financially advantageous discount rate to other mailers, many of whom may not be able to take advantage of the discount. [Id. at ¶ 3072]

The Commission does not consider it wise to design rates which penalize small volume mailers because other mailers engage in worksharing. [Id. at ¶ 3078]

In its current proposal to de-link Single Piece and Presort First Class letters the Postal Service claims that it will maintain a relationship between the cost contributions of single piece and presort mail. Yet the Postal Service cannot avoid the fact that its proposal leaves no direct cost or rate relationship between single pieces and presort mail. Given that these two types of letters are within the single rate subclass of First Class Mail, this outcome is not only bad pricing policy, it is unlawful. With its proposal in this docket the Postal Service seeks to circumvent the Commission's decision in

MC-95-1 and wholly disregards the policy consideration enumerated by the Commission in that case

2. The proposal would result in excessive presort discounts

Kathryn Kobe's testimony in this case (APWU-T-1) presents the calculations necessary for determining the appropriate, cost-related, discounts for Presort First Class Mail using the current Bulk Metered Mail (BMM) letter benchmark. In Table 1 of her testimony (APWU-T-1 at 8), she presents the results of those calculations.² Table 1 shows that the Postal Service's proposal would result in workshare discounts that exceed costs avoided by more than three cents per piece. Id. Because the Postal Service proposal de-links single piece and presort costs, the Postal Service failed even to present evidence of this effect of its proposal.

Worksharing is often presented as a "make or buy" decision by the Postal Service.³ When the discount is set equal to the per unit costs avoided by the Postal Service, it is indifferent between doing the work itself or "buying" the service from the mailer. If the discount is set higher than costs avoided then the Postal Service is "buying" the work from the worksharer at a price that is higher than what it would cost the Postal Service to do the work itself. This is a relatively easy way to understand the logic of discounts equaling the costs avoided by the Postal Service; the point where the Postal Service is indifferent between doing the work itself or hiring a worksharer to do the work.

² Although the Postal Service and several interveners presented "rebuttal" testimony in response to Ms. Kobe's testimony, no one disputed the accuracy of her calculations.

³ Dr. Panzar presents such a discussion in PB-T-1 page 16.

However, this also points out the difficulties of evaluating the piece of mail at the margin for being workshared as the benchmark for measuring avoided costs when that mail may be very different from the average piece that is workshared. By increasing the size of the discount the Postal Service theoretically would induce worksharers to sort and barcode some of the more difficult business mail that currently gets all its processing in the Postal Services' network. And the Postal Service will be indifferent about paying a worksharer to do the processing on that marginal piece or doing the work itself because it costs the Postal Service the same amount either way. However, that larger discount will not apply just to the newly converted piece. That discount will apply to all workshared pieces that are sorted to a particular depth of sort. The vast majority of those pieces would have been workshared without the discount being increased. Since pieces with those characteristics were already being workshared, the mailers' cost of processing them was clearly covered at the old level of the discount or the pieces with those characteristics would not have been workshared. Consequently, for those pieces with that lower processing cost, the Postal Service is no longer indifferent about "buying" the work from the worksharer or doing the work itself. The Postal Service clearly would prefer to do the work itself for all the pieces that are cheaper to process than that marginal piece, because it would be cheaper for them to do that than to pay the higher discount to buy the processing services from the mailer. However, once the discount is set based on the new marginal piece the Postal Service has to "buy" all the pieces at a higher price, not just the marginal piece. This reduces the contribution to overhead costs being made by the pieces that were already in the workshare stream and leaves the Postal Service in

the position of having to cover the cost of that part of the network from the mailers not receiving the discount.⁴

B. De-linking Single Piece and Presort First Class Rates Would Violate The Requirement That First Class Rates Be Uniform

Section 3623(d) of the Postal Reorganization Act provides, in part:

§ 3623. Mail Classification

* * * *

(d) The Postal Service shall maintain one or more classes of mail for the transmission of letters sealed against inspection. The rate for each such class shall be uniform throughout the United States, its territories, and possessions.

As the Commission observed in MC95-1, ¶ 2048, "...the first and most enduring objective of postal policy has been to bind the nation together. " Central to this purpose is the requirement of uniform First Class rates to serve every area of the country. "A class such as First Class is necessary to comply with the statutory command [of Section 3623(d)] that ...[t]he rate for [First Class] shall be uniform throughout the United States, its territories, and possessions." Id., at ¶ 3005.

As postal reorganization was discussed in the Congress during 1969 and 1970, considerable attention was paid to the question how to provide "universal" service at a uniform rate, how to ensure that all parts of the country, regardless of mail volume or distance and no matter how rural, would be able to send and receive letters at a

⁴ In interrogatory responses to the Postal Service and Val Pak, Dr. Panzar clarifies that his testimony primarily dealt with the case where the Postal Service's unit avoided costs of the workshared activity were the same for all workshared mail (Tr. 9178) and agrees that, in the case where the unit costs are not equal, that the Postal Service would lose a portion of the contribution being made by workshare mailers that receive the larger discount without doing any additional work and in order to maintain the network that amount would have to be recovered from non-workshare mailers in the same subclass (Tr. 9158-9159).

uniform rate. See, e.g., H.R. Comm. On Postal Service, *Postal Reorganization Act of 1970: Hearings on Various Proposals to Reform the Postal Establishment*, 91st Cong. (hereinafter “House Hearings”) at 823 (Former Postmaster General John A. Grounouski); 901, 904 (Retired Senator from Kansas, Frank Carlson, Commissioner of Direct Mail Practices for Direct Mail Advertising Association, Inc.); 1201 (Postmaster General Winton M. Blount).

Congress recognized that distant areas, or areas with low mail volume, could not sustain mail service without provision for the inevitable higher cost per mailed letter in such areas. Former Postmaster Granouski observed that “in some rural areas where volume is low, pricing of mail service at a level that covers cost would result in rates prohibitively expensive. The same is true where distances are great... .” Former Senator Carlson urged that, to make it possible to provide “the identical service or product at one national price, regardless of distance” the Congress should make provision for “certain costs to be paid for out of public funds.” House Hearings, supra (July 25, 1969), at 901. Carlson continued (id. at 904):

... Government must guarantee a service which enables every citizen of this country to have the privilege of sending mail to, or receiving it from, on a daily basis, any other citizen, regardless of his location – for the same price. **It is in the national interest for part of the cost of this monopoly to be borne by all citizens as taxpayers.** [Emphasis added here.]

The matter was put succinctly by the then incumbent Postmaster General, Winton M. Blount:

...[T]here is no requirement that rural mail service be self-sustaining. A higher rate for rural users, or for mail addressed to rural areas, would in my view be unthinkable.

House Hearings, supra (August 12, 1969), at 1201.

Of course the Congress did not provide taxpayer subsidies for First Class Mail service to rural and distant areas. Instead, Congress chose to support universal service at uniform rates by requiring that rates be kept uniform within each class of letter mail sealed against inspection. This provision has been described by one Court as follows:

[T]he only policy concern clearly implicated in the quest for the proper scope of the monopoly [is] the need to shield operations from competition so the Postal Service can adopt nonmarket solutions in its effort to further various national goals (fn 9 For example, the cross subsidization inherent in establishment of uniform rates regardless of distance for each class of sealed mail pursuant to 39 USC 3623(d) (1976) is inconsistent with a fully competitive market, as is the decision to locate post offices in some out-of-the-way places)... . [Footnote original.]

Associated Third Class Mailers v. U.S. Postal Service, 600 F.2d 824, 826 n. 9 (D.C. Cir. 1979).

Thus, Section 3623(d) mandates the type of cross-subsidization within rates categories that the advocates of larger presort discounts are seeking so assiduously to avoid.

The Postal Service's proposal to de-link single piece rates from presort rates, with the effect of permitting cost-shifting from large volume presort mailers to individuals and small businesses would violate this requirement of uniform rates within First Class Mail service. Individuals and small businesses in rural or distant areas – those who are protected by Section 3623(d) – are least able to avail themselves of volume presort discounts.

It is no answer to this point to argue that the rates paid by presort mailers will be uniform regardless of the rural or distant nature of the mail's recipient. Discussion of this point during deliberations concerning the Postal Reorganization

Act make it very clear that the right to mail from rural or distant areas is at least equally as protected as the right to receive mail from other areas. As Postmaster Blount said House Hearings at 1201:

“...[T]here is no requirement that rural mail service be self-sustaining. **A higher rate for rural users, or for mail addressed to rural areas**, would in my view be unthinkable.

In addition, When assessing proposals and recommending rates, the Postal Rate Commission is required to assure that the rates are both fair and equitable. This requirement was confirmed by the D.C. Circuit Court in Mail Order Association of America v. U.S. Postal Service, 2 F.3d 408 (1993). The Court stated that “the Commission has the authority, and *indeed the duty*, to assess the fairness and equity both of the proposals before it and of its own recommended decision to the Governors. Id. at 423-423 (emphasis added).

III. THE COMMISSION SHOULD CONTINUE THE PRACTICE OF USING BMM AS THE BENCHMARK, AND SHOULD RECOMMEND THE FIRST CLASS LETTER RATES PROPOSED BY WITNESS KOBE IN HER TESTIMONY

A. Neither de-linking nor any other alternative in this record provides a viable alternative to using BMM as the benchmark for presort discounts.

1. Delinking must be rejected

For three reasons explained above, the Postal Service’s proposal to de-link single piece and presort First Class letters in this proceeding must be rejected. The de-linking proposal is unfair, uneconomical and unlawful. It is unfair because it would shift costs from presort mailers to individuals and small businesses without justification by reference to increases in the cost of processing their mail, and require clean

business mail such as BMM to make a greater contribution to overhead than very similar letters that are presorted; it is uneconomical because it would result in presort discounts that would exceed costs avoided by the Postal Service, which would encourage inefficient presorting and decrease the overall efficiency of the postal system; and it is unlawful because it would create separate rates within a class of letters sealed against inspection, in violation of 39 U.S.C. ¶ 3623(d).

Other interveners in this case have suggested that the Commission recommend replacing the BMM benchmark with a different benchmark that would seek to incent the presorting of additional mail more difficult to process than BMM. These suggestions are sometimes accompanied by assertions, not supported by probative evidence, that BMM is no longer available for conversion to presort, or that mail now being converted to presort is more like collection mail than like BMM. There are a number of problems that make these suggestions impossible to accept.

2. There is insufficient record evidence to support an alternative to BMM

We observe first that there is no record basis in this case for the Commission to adopt any benchmark other than the BMM benchmark. As witness Abdirahman testified on behalf of the Postal Service (USPS-RT-7, at 5):

...[W]itnesses Panzar (PB-T-1) and Buc (PB-T-3) both reject BMM from a theoretical perspective. Neither witness Panzar's nor witness Buc's positions, however, have been substantiated by an current field observations.... Even if the Commission does not adopt the delinking methodology, these unsubstantiated views should not warrant departure from the Commission findings in past cases supporting BMM benchmark. [Footnotes omitted.]

Mr. Abdirahman reiterated these views twice on oral cross-examination, first in response to questions from APWU counsel Wood (TR. 11968-69), and then again in response to Pitney Bowes counsel Scanlon:

BY MR. SCANLON:

* * * *

Q Okay. Is it your testimony that the Commission should accept the BMM benchmark even if it rejects the Postal Service's delinking proposal?

A No. My testimony is that we're presenting a delinking proposal, and that's what is the proposal, and I'm a member of the Postal Service. But I'm saying that if the Commission rejects delinking, BMM has already been litigated, discussed, and agreed by the Commission in R2000-1 as the proper benchmark.

Q Okay. So you're supporting the Postal Service's proposal to delink in this case?

A Right.

Q But if the Commission rejects delinking, you would support reverting back to a BMM benchmark?

A Because there is no other alternative benchmark that was litigated that I am aware of.

TR. 12050-12051.

As a factual matter, it is simply not true that BMM does not continue to exist as a real comparator to the costs of presort mail. The Commission has used BMM as the appropriate benchmark for presort in each of the last three litigated dockets (PRC Op. R2000-1 at ¶ 5089; PRC Op. R97-1 at ¶ 5027; and PRC Op. MC95-1 at ¶ 4302). In the most recent litigated omnibus rate case, R2000-1, the Commission observed that the Postal Service had provided evidence that at least some BMM continues to be processed. PRC Op. R20001- at ¶ 5089. In this case, Postal Service witness Abdirahman testified that he "personally observed hundreds of trays of BMM at the Southern Maryland processing plant" in September 2006. USPS-RT-7.

Nor is there evidence to support the contention that anything like collection mail is being converted to presort mail in significant numbers. Presort mailers, like were amply represented in the current docket, yet none produced any evidence of the makeup of the mail they presort. See MMA-RT-1; MMA-RT-2; NAPM-RT-1; and ABA-RT-1. The National Association of Presort Mailers produced testimony by the operator of a presort company who testified that she had once been a letter carrier and that the mail she collected from drop boxes looked a lot like the mail she processes in her business. NAPM-RT-1 at 3. Apart from the vagueness of this testimony, we observe that Ms. Bell also acknowledged on cross-examination that her experience as a carrier took place before presort discounts existed. Tr. 38/12990. The mail mix that long ago has little or nothing to say about what may be found in collection boxes today.

3. An alternative benchmark would be unfair and would exacerbate the problem of excessive workshare discounts

The impracticability of using an alternative to BMM as the benchmark for calculating discounts is clear from discussions the bench had with Dr. Panzar. Dr. Panzar is a proponent of Efficient Component Pricing but hypothesizes that a benchmark other than BMM could be more economically efficient. However, in his responses to Postal Service interrogatories he admits that moving from the current benchmark to a different one has the effect of shifting costs onto non workshare mailers in the same sub-class. Furthermore in discussions with the bench Dr. Panzar stated that he could not provide any guidance for identifying and measuring the cost of his theoretically more efficient benchmark (Tr. 26/9308). In his testimony Dr. Panzar

states that once heterogeneity in unit cost avoidances is introduced it invariably leads to some sorting inefficiencies. While his argument would err on the side of encouraging mailers more inefficient than the Postal Service entering into worksharing, the Commission in its previous analyses has rightly concluded that the correct balance is to not burden the non-workshare mailer with costs shifted from the workshare mailer but rather to use as the benchmark piece one that is most like the average workshare piece, not most like the average piece that remains in single piece.

One problem that is frequently cited about using BMM letters as the benchmark piece for calculating the costs avoidances for First Class letter rates is that a proxy must be used to estimate the unit costs of such mail. The proxy does have some weaknesses, while it is possible to remedy some of them by taking out cost pools that clearly do not pertain to the processing of bulk metered mail letters, some of the cost pools that are included in the calculation undoubtedly overstate the true cost of the benchmark piece because of the other types of metered mail being included in the cost pool calculations.⁵ Any error in this calculation accrues to the benefit of the presort mailer in that it tends to widen the differential between the benchmark piece and the presort pieces. A fact confirmed by Mr. Abdirahman on cross-examination, Tr.12055-12056.

As we show below, Kathryn Kobe's proposed rate schedule would best satisfy the criteria of the Act

B. Kobe's Recommended Rates Are Consistent With The Decisions Of The Commission And Are Supported By The Policies Of The Act; The

⁵ The Commission itself noted this in R97-1 when it stated in its Opinion and Recommended Decision "the Commission notes some concern over the narrow difference in the mail processing unit cost of single-piece and BMM." [¶ 5098]

Commission Should Recommend That They Be Adopted By The Postal Service.

In her testimony (APWU-T-1), Kathryn Kobe presents First Class rates that are calculated using the BMM letter benchmark as it has been used by the Commission since 1997.⁶ As the Commission has long accepted, this methodology permits the Commission to recognize and provide incentives for worksharing that equal, as nearly as practicable, the costs avoided by the Postal Service. Use of this methodology permits the Commission to avoid setting rates that would penalize mailers who do not or cannot use presort discounts. This methodology also reveals whether or not workshare rates result in identical letters being required to make different contribution to overhead depending on whether or not they are workshared, and it provides the Commission a means of addressing that problem when it emerges. Thus, an important reason for accepting Ms. Kobe's recommendations is that they emerge from the application of a long-accepted, effective and predictable methodology.

Application of this existing methodology also will permit the Commission to take two other significant steps. It will hold the price increase for First Class stamps to two cents, increasing postage to 41 cents instead of 42 cents. This will preserve and enhance the value of postal services for individuals and small businesses. At the same time, the Commission can take an initial step toward reducing presort discounts that cannot be justified by costs avoided. This will also be a step taken toward greater economic efficiency, where discounts are priced most economically, and toward

⁶ Her calculations of the rates presented are unquestionably correct, inasmuch as none of the several witnesses who responded to Ms. Kobe's testimony at the policy level questioned her calculations.

greater fairness because fewer costs will be shifted to those unable to take advantage of presort discounts.

This methodology, and the requirement that workshare discounts be tied to costs avoided by the Postal Service, have just been reaffirmed by Congress in enacting the Postal Accountability and Enhancement Act. Under the Postal Reorganization Act, as amended, Section 3622(e) will specifically require that workshare discounts be justified by costs avoided. The new law also provides for certain exceptions to this requirement, one of which is to avoid “rate shock.” In this case, Ms. Kobe has precisely followed the Commission’s methodology that has now been made a part of the law, including her recommendation that excessive discounts be phased out rather than eliminated immediately in order to avoid rate shock.

III. CONCLUSION

The Postal Service’s proposal to de-link Single Piece First Class letter rates from Presort First Class rates must be rejected for the reasons stated above. The Commission should recommend First Class letter rates that use the costs of processing Bulk Metered Letter Mail as the benchmark for setting presort discounts based on costs avoided. The Commission should recommend the First Class letter rates proposed by Kathryn Kobe in her testimony in this case.

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