

OCA-T- 4
Docket No. R2006-1

DIRECT TESTIMONY
OF
PAMELA A.THOMPSON
ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

SEPTEMBER 6, 2006

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DIRECT TESTIMONY
OF
PAMELA A. THOMPSON

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Pamela A. Thompson. I am a senior Postal Rate and Classification
3 Specialist for the Office of the Consumer Advocate (OCA). I have been employed at
4 the Postal Rate Commission since March 1990. I have testified previously before this
5 Commission in Docket Nos. R2000-1, R97-1, R94-1, R90-1, MC96-3, MC95-1, and
6 MC93-1.

7 In Docket No. R2000-1, my testimony replicated the USPS costs as provided by
8 the USPS using the Commission's cost model. In Docket No. R97-1, my testimony
9 provided documentation on operating the Commission's cost model. In R94-1, I
10 proposed a new methodology for the recovery of prior years' losses. I also proposed a
11 change in the amount of, and the allocation methodology for, a contingency provision.
12 In Docket No. R90-1, my testimony proposed the adoption of two discounted single-
13 piece rate categories within First-Class Mail. A three-cent discount was proposed for
14 Courtesy Envelope Mail (CEM), an automation-compatible prebarcoded envelope. The
15 second category, Automation Compatible Envelope (ACE), consisted of mail pieces to
16 be produced and sold by the Postal Service as a specialized form of the stamped
17 envelope products currently offered by the Postal Service. In Docket No. MC96-3, my
18 testimony proposed to show that the Postal Service was attempting to misuse the
19 classification reform framework to target a few special services for price increases. In
20 Docket No. MC95-1, my testimony proposed a Courtesy Envelope Mail (CEM) rate

1 category and a 12-cent per piece discount for qualifying First-Class single piece
2 courtesy reply envelopes. In Docket No. MC93-1, my testimony reviewed the Postal
3 Service's cost coverage for the new BSPS classification proposal.

4 I received my MBA from Wright State University in Dayton, Ohio, in 1979, and a
5 BA, in 1975, from the Christopher Newport College of the College of William and Mary.
6 I have taken additional computer science courses from the University of Colorado.

7

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 My testimony proposes an alternative rate schedule for the First-Class letters
3 and sealed parcels subclass. I sponsor a rate design that recommends four-ounce
4 weight increments for First-Class letter-, flat-, and parcel-shaped mail pieces (0 to 4
5 ounces, 4 to 8 ounces, and 8 to 13 ounces). The virtue of the four-ounce rate proposal
6 is a dramatic simplification of the First-Class rate schedule. Yet, the OCA's rate
7 proposal yields Test Year After Rate revenues that are virtually the same as those
8 forecasted by the USPS. The current First-Class rate schedule has 144 rate cells.
9 The OCA's proposal has 28. Except for cards, Priority Mail, and the newly proposed
10 First-Class Mail Business Parcels rate category, the rates proposed for single-piece
11 First-Class Mail are, with one exception, multiples of 42 cents. For single-piece mailers,
12 this can mean that stocking only one type of stamp can satisfy almost all of their mailing
13 needs.

14 The OCA rate schedule incorporates the Postal Service's shape-based
15 categories; however, I use the Commission's approved First-Class worksharing
16 benchmark, the Bulk Metered Mail letter cost, when calculating the First-Class Presort
17 and Automation discounts. The OCA's Presort automation letter rates are higher than
18 those proposed by the Postal Service for the first-ounce. However, for the second, third
19 and fourth ounces, OCA automation letter rates are lower than those proposed by the
20 USPS.

21 The letter monopoly exists to hold down rates for the more costly pieces of mail
22 and provide mail service to all. If the monopoly did not exist, people would pay at least
23 what the mail piece costs to process and rates would be set to reflect those costs.

1 However, the monopoly's existence is such that one does not have to give large
2 discounts to those mailers of cleaner mail (automation compatible) and shift more of the
3 cost of the universal service to those mailers who are unable to provide discounted
4 mail. Under the monopoly, those mailers that might otherwise be eligible for large
5 discounts should not be given deeper discounts because First-Class mail exists to
6 provide a reasonably priced mail stream in support of universal service.

1 III. OCA ELIMINATES THE ADDITIONAL OUNCE RATE

2 My testimony proposes to eliminate the First-Class additional ounce rate. This
3 simplifies the First-Class rate schedule and minimizes the need to weigh each and
4 every First-Class mail piece. In addition, First-Class single-piece mailers only need to
5 maintain one type of First-Class stamp – a \$0.42 stamp. The \$0.42 stamp is valid
6 postage for all First-Class single piece letter-shaped mail weighing from 0 to 4 ounces.
7 That represents a reduction in the number of First-Class single-piece letter-shaped rate
8 cells from the current 13 to only 1.¹ Overall, the elimination of the additional ounce rate,
9 in all but the USPS's proposed First-Class Business Parcel rate category, reduces the
10 current number of USPS First-Class rate cells from 144 to 28.

11 The OCA proposal favorably impacts the majority of First-Class single-piece
12 letter mailers, because 99.8 percent² of all First-Class single-piece letters weigh
13 between 0 and 3 ounces. Again, the majority of First-Class single piece letter-shaped
14 mailers only need to maintain one type of stamp – the \$0.42 stamp. In addition, 95.6
15 percent³ of all First-Class single piece volume weighs between 0 and 3 ounces.⁴

¹ This excludes the non-machinable surcharge.

² BY 2005 First-Class letters = 39,233,432,000/ 39,317,031,000 = 99.8 percent. See also, USPS-LR-L-129, Rev. 8-24-06, worksheet "SP Shp&Addl Ozs."

³ First-Class single-piece volume = (41,484,241,000/43,375,988,000)*100 = 95.6 percent. See also, USPS-LR-L-129, Rev. 8-24-06, worksheet "SP Shp&Addl Ozs."

⁴ Docket No. R2006-1, USPS-LR-L-129, worksheet "SP & Shp&Addl Ozs."

1 A. OCA Adopts the USPS First-Class Single-Piece Letter Rate

2 The USPS proposes a First-Class single piece letter-shaped rate of \$0.42 for the
3 first-ounce; each ounce thereafter is charged \$0.20.⁵ In addition, the USPS proposes
4 that a single-piece First-Class letter-shaped mail piece heavier than 3.5 ounces be
5 treated as either a flat or a parcel for rate purposes.⁶

6 OCA recognizes the need for shaped-based rates so that costs are more nearly
7 aligned with the mail characteristics that cause them. Therefore, OCA adopts the \$0.42
8 First-Class single-piece letter-shaped rate. In addition, however, OCA proposes that
9 the \$0.42 rate be applicable to letter-shaped mail pieces in the weight increment from 0
10 to 4 ounces.⁷ OCA's proposal reduces the number of proposed rate cells for letter-
11 shaped machinable pieces from 4 to only 1 and further simplifies the USPS's First-
12 Class single-piece letter-shaped rate schedule.

13 The USPS is proposing First-Class single-piece rates that will effectively
14 increase the complexity of the First-Class single-piece rate schedule because
15 consumers will need to be better informed about USPS mailing requirements. More
16 than ever, consumers will need to understand the difference between a letter-, a flat-
17 and a parcel-shaped mail piece as well as what it weighs so that the appropriate
18 postage is applied. Under the OCA proposal, the consumer still needs to understand

⁵ Docket No. R2006-1, Request of the United States Postal Service for a Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Attachment A, at 4.

⁶ USPS-T-32 at 19.

⁷ Except for the Automation letter rate category, the USPS was unable to provide volumes for First-Class letters in the 0 to 3.5 ounce weight increment. See, USPS-T-32 at 19. In my testimony and for calculation purposes, I use the 4-ounce incremental volumes provided by the USPS in response to OCA/USPS-23 and OCA/USPS-91.

1 the difference between the three mail shapes, but the weight of the mail piece will be
2 less critical given that 99.8 percent of all First-Class letter-shaped single piece mail
3 weighs between 0 and 3 ounces and a \$0.42 stamp will be sufficient postage.

4 B. OCA Proposes Four-Ounce Shape-Based Incremental Rates

5 The OCA rate design analysis begins with the USPS rate design worksheets
6 provided in USPS-LR-L-129. Those worksheets are adjusted to accommodate four-
7 ounce incremental rates by using the USPS forecast volumes for both the Test Year
8 Before Rates (TYBR) and the Test Year After Rates (TYAR).⁸ Annual volumes are
9 allocated in four-ounce weight increments from 0 to 4 ounces, 4 to 8 ounces and 8 to
10 13 ounces using the revised USPS response to OCA/USPS-24, dated August 9, 2006.

11 While the USPS's proposal limits the weight of First-Class single piece letters to
12 3.5 ounces, and given the information provided by the USPS, I propose a \$0.42 rate for
13 First-Class letter-shaped mail pieces weighing from 0 to 4 ounces.⁹ In addition, if a
14 letter is automatable there is no reason to charge additional ounce rates, because a
15 machinable mail piece is not processed one ounce at a time. It is either machinable or
16 it is not.¹⁰ The only reason for the USPS's charging additional ounce rates is to
17 generate additional revenue. USPS witness Taufique states that the revenue
18 generated by the additional ounce rate provides "a substantial and an important source

⁸ The Test Year After Rate revenues generated by my rate proposal are virtually the same as those forecasted by the USPS, therefore, the USPS estimated volumes are appropriate for use in the OCA rate design analysis.

⁹ See footnote, 7.

¹⁰ PRC Op. R97-1, para. 5035. "Notwithstanding the extensive supporting material the Service has filed, a glaring omission is information addressing the cost support for the First-Class Mail additional-ounce rate. The Service's failure to devote attention to this long-requested review has hindered the Commission's ability to review the additional-ounce issue."

1 in meeting the revenue requirements for the subclass and the Postal Service as a
2 whole.”¹¹

3 Flats and parcels are not confined to a maximum of 4 ounces. Flats and
4 parcels may weigh up to 13 ounces. Therefore, the rates I propose for single piece
5 flats and parcels are increments of four-ounces up to and including 13 ounces. For
6 example, if the weight of a flat or single-piece parcel is X and X does not exceed an
7 incremental ounce, then the proposed rate increments are as follows. $0 < X \leq 4$; $4 < X$
8 ≤ 8 ; and, $8 < X \leq 13$.¹² The OCA’s First-Class single piece Letters and Sealed Parcels
9 schedule follows.¹³

Table 1

**OCA RATE PROPOSAL
First-Class Mail
Rate Comparisons**

	<u>Current</u>	<u>OCA Proposal</u> 0 to 4 oz	<u>OCA Proposal</u> 4 to 8 oz	<u>OCA Proposal</u> 8 to 13 oz
Letters, Flats, and Parcels				
Single Piece				
Letters	\$ 0.390	\$ 0.42		
Flats	\$ 0.520	\$ 0.84	\$ 1.68	\$ 2.52
Parcels	\$ 0.520	\$ 1.68	\$ 2.52	\$ 2.79
Additional ounces				
Letters	\$ 0.240	-	-	-
Flats	\$ 0.240	-	-	-
Parcels	\$ 0.240	-	-	-
Nonmachinable surcharge	\$ 0.130	-	-	-
Qualified Business Reply Mail	\$ 0.358	\$0.395		

10

11

¹¹ Docket No. R2006-1, USPS-T-32 at 5.

¹² For simplicity, the three weight increments of 0 to 4, 4 to 8, and 8 to 13 ounces are referred to as 4-ounce weight increments.

¹³ OCA’s First-Class rate proposal does not alter the USPS First-Class card rates.

1 OCA’s proposed rates are easy to remember because the majority of First-Class
 2 single-piece mailers of letter-, flat- and parcel-shaped mail pieces require one type of
 3 stamp - a \$0.42 stamp.¹⁴

4 Table 2 is a sample comparison of OCA rates under various weight increments.

TABLE 2
OCA Rate Proposal
Comparison of OCA First-Class Single-Piece Proposed Rates w/ Existing Rates

	OCA Over/(Under) Current Rates					
	<u>0 to 4 ounces</u>		<u>4 to 8 ounces</u>		<u>8 to 13 ounces</u>	
	<u>0-1 oz</u>	<u>1-2 oz</u>	<u>4-5 oz</u>	<u>6-7 oz</u>	<u>8-9 oz</u>	<u>10-11 oz</u>
Letters, Flats, and Parcels						
Single-Piece						
Letters	7.7%	-33.3%				
Flats	61.5%	10.5%	13.5%	-14.3%	3.3%	-13.7%
Parcels	223.1%	121.1%	70.3%	28.6%	14.3%	-4.5%
Qualified Business Reply Mail	10.3%	-33.9%				

5
 6
 7 While some First-Class weight increment rates increase over existing rates,
 8 Table 2 shows that First-Class single piece letter-shaped mail over one ounce is less.
 9 For example, the \$0.42 rate for a single-piece letter weighing 0 to 1 ounce increases
 10 7.7 percent (rounded) when compared to the existing postal rate. However, the rate for
 11 a single-piece letter weighing 1 – 2 ounces actually declines 33 percent (rounded).

12

¹⁴ The only exception apart from the QBRM rate is the highest parcel rate increment of 8 to 13 ounces which increases only \$0.27 over the prior 4 to 8 ounce parcel rate cell.

1 IV. THE BULK METERED MAIL BENCHMARK CURRENTLY APPROVED BY THE
2 COMMISSION IS THE APPROPRIATE BENCHMARK TO USE IN SETTING
3 PRESORT RATES

4 In this docket, the USPS develops a “base rate” from which First-Class
5 automation discounts are deducted.¹⁵ In USPS-T-32,¹⁶ witness Taufique uses total
6 CRA costs for single-piece letters and total CRA costs for Presort letters. He
7 acknowledges that these cost differences may be unrelated to the worksharing activity.
8 Using his USPS “base rate” as the starting point from which First-Class discounts are
9 calculated, witness Taufique effectively “de-links” First-Class presort letter-, flat- and
10 parcel-shaped rates from the First-Class single piece letter rate. The impact of the
11 USPS base rate is to create First-Class presort rates that are lower than they would
12 have been had the Bulk Metered Mail (BMM) benchmark been used.

13 USPS witness Taufique claims that his base rate more closely represents the
14 average cost of a mail piece that is likely to convert to an automation mail piece. He
15 states: “... [W]e have seen in the data in terms of the mail heterogeneity, we feel that
16 the bulk meter mail is not the only candidate mail that is shifting from single piece to
17 presort.”¹⁷ “Because of that, we think the pieces that are moving from single piece to
18 presort are more like the average pieces than single piece.”¹⁸ Witness Taufique
19 acknowledges that there is no data to support his speculation other than anecdotal

¹⁵ Docket No. R2006-1, USPS-LR-L-129.

¹⁶ At 14, lines 6 to 17.

¹⁷ Docket No. R2006-1, Tr. 16/4936-7

¹⁸ *Id.*

1 evidence.¹⁹ Witness Taufique claims that “large presort bureaus are picking up office
2 mail which is not BMM mail, which is not trayed, which is not faced. Large presort
3 bureaus are picking up office mail and converting that into presort mail, which is not the
4 same thing as BMM mail which is metered, which is faced and which is trayed.”²⁰

5 The CRA data for First-Class single piece includes automation compatible
6 letters, hand addressed letters, non-machinable letters, the non-automation compatible
7 and more expensive to process pieces – flats and parcels. None of these pieces
8 represent a type of mail that is likely to convert to Presort automation compatible mail.

9 During cross-examination of witness Taufique, counsel for the American Postal
10 Workers Union – APWU, asked:

11 Assuming that there are going to be a lot of small businessmen like
12 myself who generate what I consider lots of mail, clean business mail, but
13 they’re all single piece letters and I don’t use a presort bureau to mail
14 them. I send them down to the post office with Wendell who works for us.
15 Now, small businessmen like myself who don’t use presort bureaus and
16 generating clean business mail, single piece, we’re going to have our
17 costs calculated together with what you [witness Taufique] described as
18 sort of the handwritten mail, the more difficult mail, isn’t that correct, as
19 opposed to being averaged together with the workshared mail?²¹
20

21 In response, witness Taufique states:

22 The deaveraging that we are doing is providing the right signals
23 to the mailers who are converting all kinds of mail from single piece into
24 presort, and those right signals would lead to higher institution costs of the
25 presort mail that helps the overall Postal Service, so I don’t think I’m
26 hurting the single piece mailers as a result of what I’m proposing.

¹⁹ Docket No. R2006-1, Tr. 16/4940.

²⁰ *Ibid.*, at 4938.

²¹ Docket No. R2006-1, Tr. 16/4941.

1 I think if you provide the right signals and folks react to the right
2 signals then they can do their job in the best fashion based on their own
3 circumstances and economics.”²²
4

5 Household mailers, home office mailers, small business mailers are not
6 candidates for converting their mail to presort, and I doubt large presort bureaus are
7 interested in going to each and every home office, small business and household mailer
8 to gain their business. It would not be cost effective.

9 In a class with diverse costs, like First-Class, the benchmark must
10 be the cost of the mail more likely to convert to worksharing. The cost of
11 this mail is lower than the average cost of the non-workshared mail.
12 Using the cost of the average piece will result in price signals that will lead
13 to inefficient production.²³
14

15 USPS witness O’Hara states, during oral cross-examination by counsel for
16

17 VALPAK:
18

19 A. ... ECP is really aimed at getting the right person to do a particular
20 activity, right entity. I don’t think we are getting anybody to change
21 parcels into letters by keeping the contributions the same, having the
22 difference in rates the same. That’s something that involves what the
23 ECP is really aimed at. So I agree, you don’t want to apply equal percent
24 per piece contributions across the whole range of pieces within the sub-
25 class.
26

27 Q. So that would relate to shape-related costs in your comments, and
28 also really weight-related costs. Correct?
29

30 A. Yes.²⁴
31

²² *Ibid.*, at 4942.

²³ Progress toward liberalization of the Postal and Delivery sector, edited by Michael A. Crew, Paul R. Kleindorfer, New York, NY, Springer, 2006, “Worksharing: How Much Productive Efficiency, At What Cost and at What Price?”, Robert Cohen, Matthew Robinson, John Waller, and Spyros Xenakis, at 151.

²⁴ Docket No. R2006-1, Tr. 17/5261-62.

1 To date, the Commission has justified reduced rates for workshared mail due to
2 the “firm link between the rate differential and the costs avoided by the Postal Service
3 when worksharing is performed by mailers.”²⁵ Under the new USPS proposal, the link
4 is broken. OCA is opposed to the USPS efforts at de-linking the First-Class single-
5 piece letter rate from presort letter-, flat-, and parcel-shaped rates because the USPS’s
6 proposed discounts are in excess of the costs avoided. Therefore, OCA uses the
7 traditional Bulk Metered Mail (BMM) benchmark in developing First-Class Presort
8 automation and non-automation rates and, consequently, rates that are more closely
9 aligned to the costs presorting efforts avoid.

10 A. The USPS Abandons Using the BMM Benchmark When Developing First-
11 Class Presort Rates

12 The USPS “base rate” that witness Taufique develops is the foundation from
13 which all automation and non-automation First-Class Presort discounts are linked. The
14 USPS “base rate” is \$0.346 and is the rate proposed for Presort Automation Mixed
15 AADC letters. The \$0.346 USPS base rate is \$0.074 less than the Commission’s more
16 traditional BMM benchmark of \$0.42 and represents an 18 percent reduction.

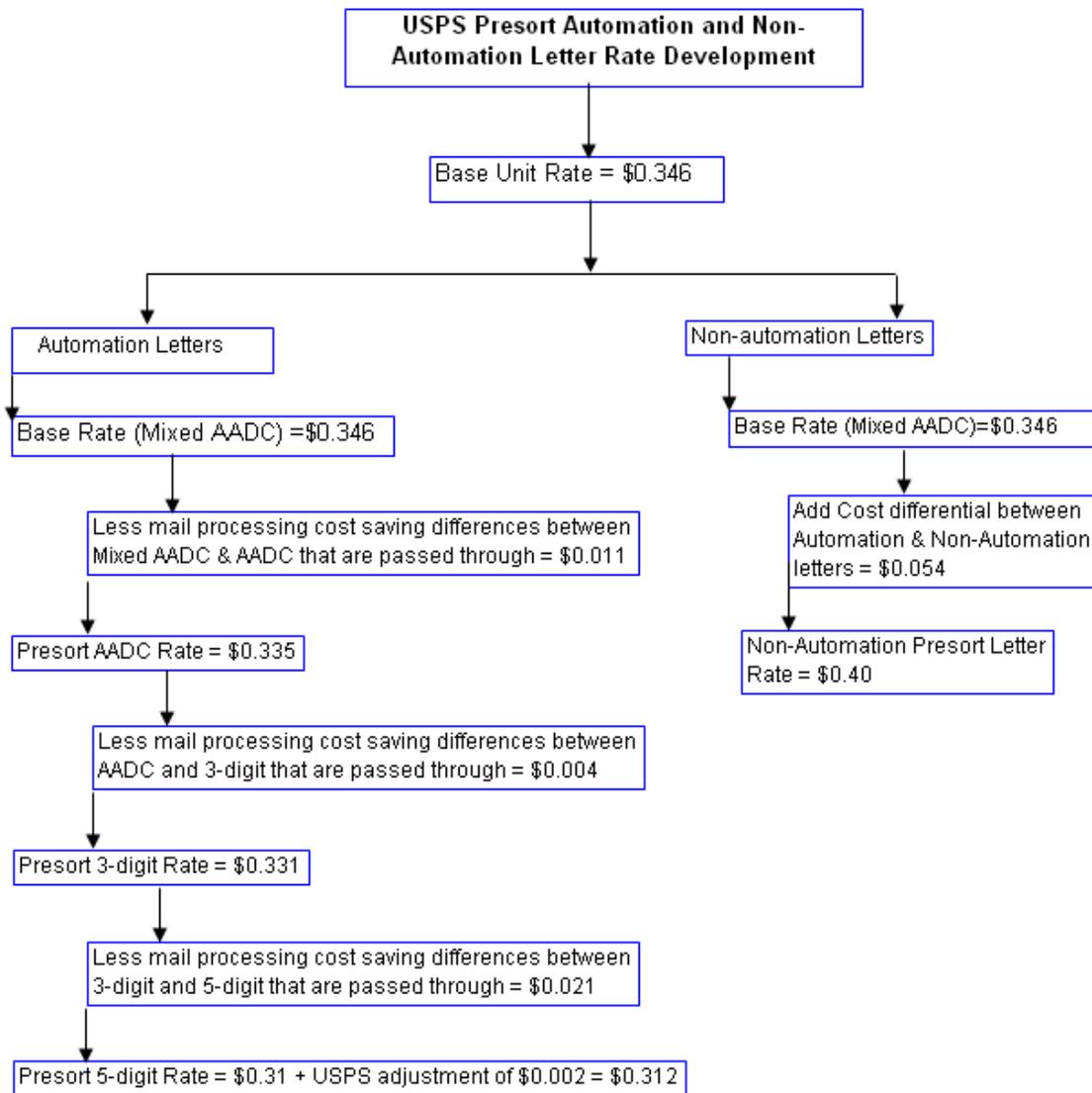
17 Witness Taufique’s initial step in developing his automation base rate involves
18 calculating a First-Class Mail Presort revenue requirement (USPS-LR-L-129, worksheet
19 “Revenue – SP&Presort). The First-Class total revenue requirement consists of the
20 targeted First-Class single-piece revenue plus revenue foregone as a result of offering
21 First-Class Presort and Automation rate discounts less any additional First-Class
22 Presort and Automation revenue sources, i.e. the non-machinable surcharge and rate

²⁵ Docket No. R2006-1, Notice of Inquiry No. 3, dated July 26, 2006, at 3.

1 differentials based upon mail shapes. The total is divided by the total forecasted Test
2 Year Before Rates First-Class volumes to arrive at the USPS base rate. The base rate
3 is also the USPS First-Class Presort Automation Mixed AADC letter rate (MAADC).

4 The MAADC letter rate is the rate from which the USPS deducts the unit mail
5 processing cost savings between an automation MAADC piece and an AADC mail
6 piece to determine the AADC Presort automation letter rate. The following chart is
7 provided to show the general process used in this docket by the Postal Service in
8 setting First-Class automation letter-shaped rates.

Figure 1



1

2

The USPS calculated a unit mail processing and delivery cost differential

3

between automation and non-automation Presort letters. The differential was multiplied

4

by a 290 percent pass through and resulted in \$0.054 (rounded) being added to the

5

Automation Mixed AADC letter rate (\$0.346) to arrive at a non-automation Presort letter

6

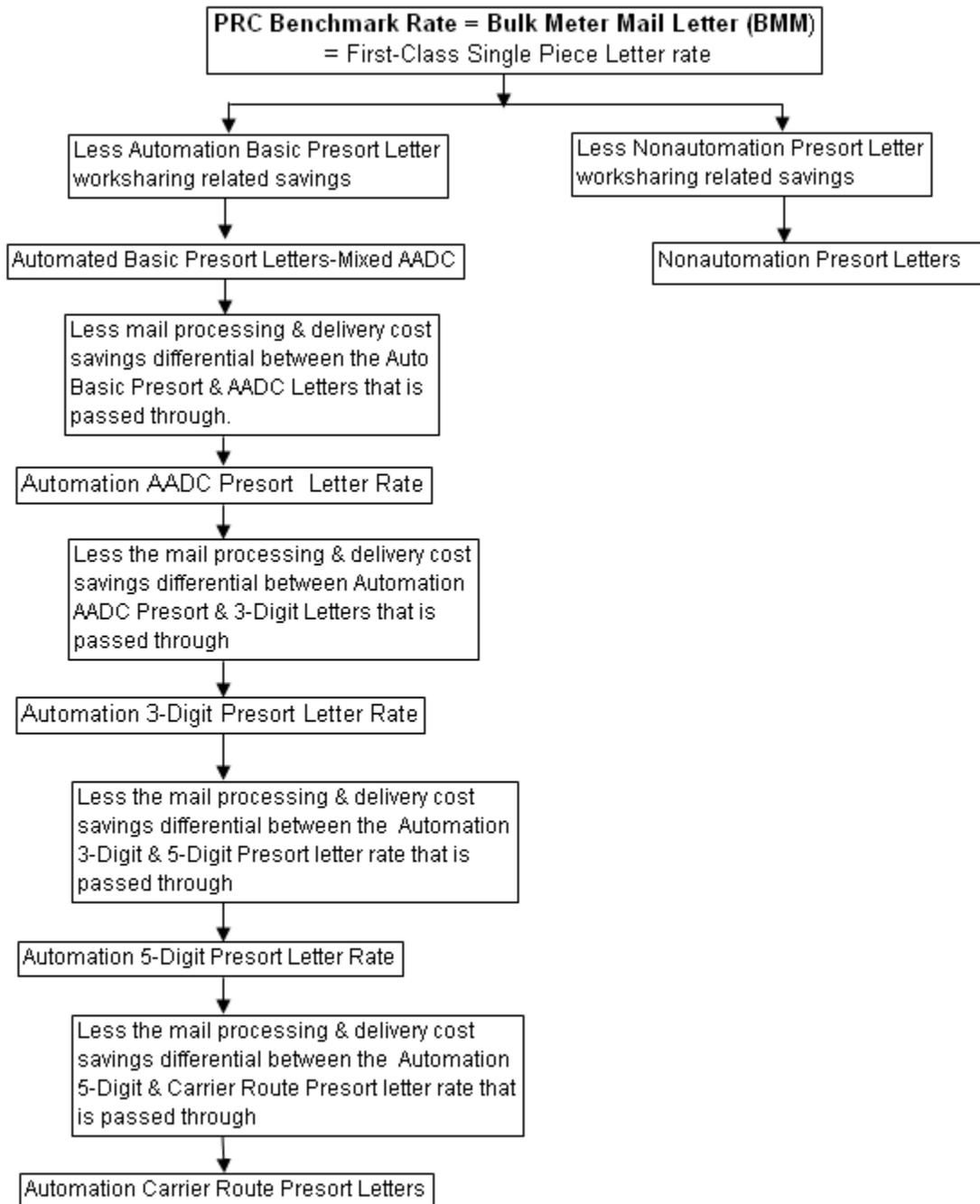
rate of \$0.40.

1 Appendix A of my testimony contains additional figures reflecting the USPS
2 development of First-Class Presort Automation flat and First Class Mail Business Parcel
3 (FCM) rates. For further information, refer to the testimony of USPS witness Taufique
4 and the library reference he sponsors – RevisedUSPS -LR-L-129, dated 8-24-06,
5 worksheet “Rate Design-Presort.”

6 B. The Commission’s Use of the BMM Benchmark Should Continue

7 The Commission recognizes mail processing and delivery worksharing related
8 unit cost savings based on a mail piece’s depth of sort. For example, assume that 100
9 percent of the mail processing and delivery worksharing related unit costs are passed
10 through and that the discount is for the automation Mixed AADC Presort letter rate.
11 The difference between the mail processing and delivery worksharing unit costs for a
12 BMM benchmark letter and a First-Class Presort automation Mixed AADC letter is the
13 worksharing unit cost savings. The unit cost savings are deducted from the BMM
14 benchmark to arrive at the rate for a First-Class Mixed AADC letter. Figure 2 provides a
15 general overview of the Commission’s existing process of calculating First-Class
16 automation discounts.

Figure 2



Source: Docket No. R2000-1, PRC-LR-12, Part B and Docket No. R2005-1,
PRC Opinion and Recommended Decision

1 Traditionally, the Commission describes its objective in developing First-Class
2 automation discounts as follows: “[t]o date, worksharing discounts have been to the
3 extent practicable, set equal to the costs avoided by worksharing.”²⁶ Additionally, the
4 Commission has used the BMM benchmark to “send price signals that encourage
5 worksharing by mailers only if the mailer’s cost of preparing mail to meet worksharing
6 specifications is less than or equal to the resulting reduction in USPS costs.”²⁷

7 The Commission’s approach to calculating discounts and ultimately rates has
8 been challenged in prior dockets, by large mailers.²⁸ Yet, the Commission has
9 continued to maintain that the BMM benchmark method is the appropriate method for
10 determining First-Class automation rates. The USPS’s proposal may encourage
11 worksharing, but does so at the expense of First-Class single piece mailers. Therefore,
12 OCA proposes that the Commission continue to use the BMM benchmark for
13 calculating First-Class rates.

14 C. OCA Proposes Rates That Are Based on the Commission’s BMM Benchmark

15 In developing OCA First-Class Presort rates, I adopt the USPS’s First-Class first-
16 ounce letter rate of \$0.42 as the BMM benchmark rate and pass through 100 percent of
17 the mail processing cost savings between the BMM benchmark cost and the Automated
18 Basic Presort unit cost which is \$0.058 (rounded)²⁹ to arrive at \$0.362 - the OCA’s

²⁶ *Ibid.*, at 2.

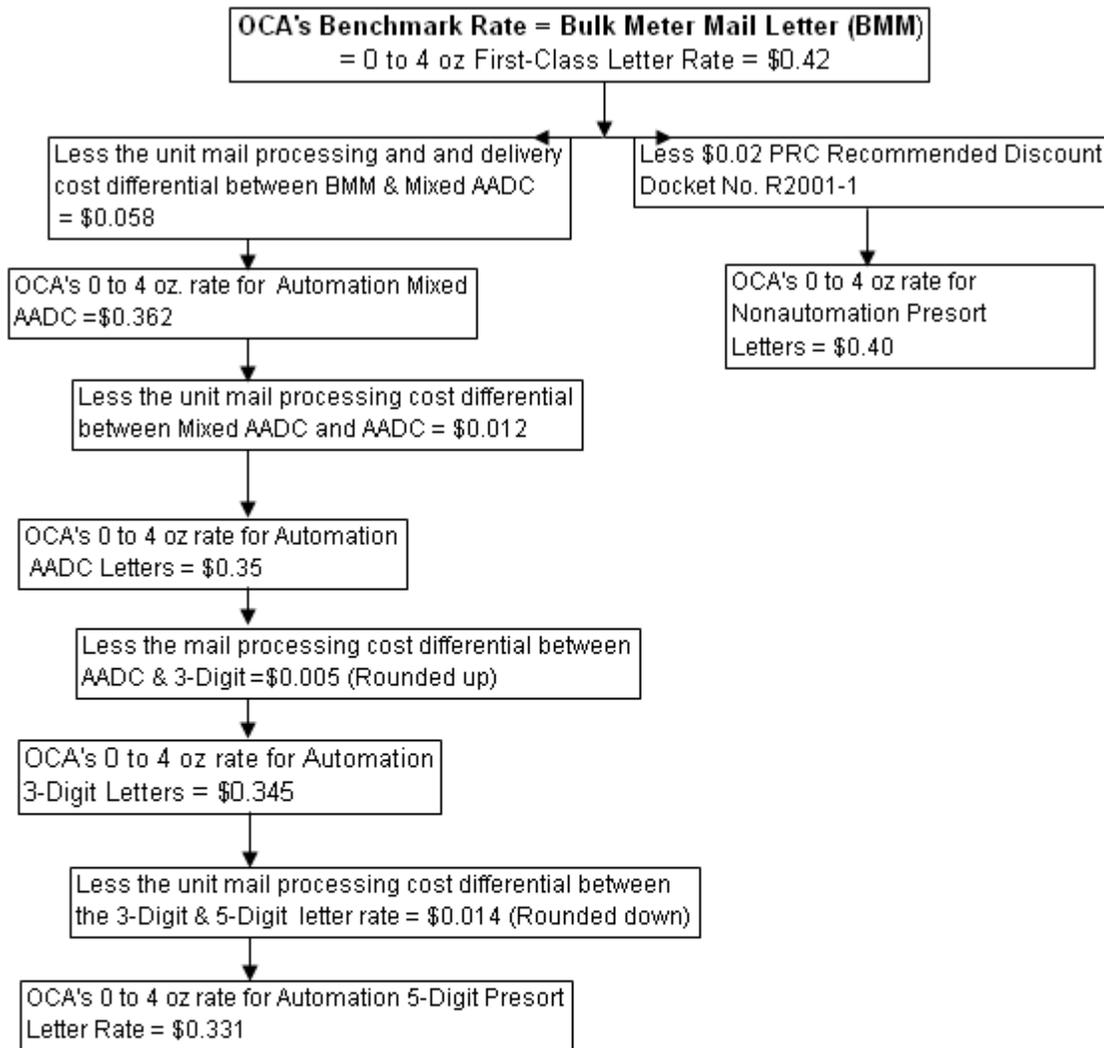
²⁷ *Id.*

²⁸ PRC Op. R2000-1, paras. 5071 and 5089.

²⁹ The OCA passes through approximately 100 percent of the USPS’s mail processing automation presort letter-, flat- and parcel-shaped discounts. The USPS did not provide the delivery cost savings at the rate category level, thus I am unable to include those in anything other than the difference between a letter and a flat and a letter and a parcel. See *also*, OCA-LR-L-5 worksheet Rate Design –Presort.

- 1 proposed rate for the Automation Basic Presort letter-shaped mail for the weight
- 2 increment from 0 to 4 ounces. Figure 3 provides an overview of how I developed the
- 3 OCA's Presort automation letter-shaped rates.

Figure 3



Source: Docket No. R2000-1, PRC-LR-12, Part B
 PRC Op., R2001-1, Table 3-2 at 77.
 PRC Op., R2000-1 Table 5-3 at 243.
 Docket No. R2006-1, USPS-LR-L-141, page 1, column 5, revised 7/14/06.
 \$0.058 = Automation AADC Letters
 \$0.012 (rounded) = \$0.01195 = \$0.07026 - \$0.05831
 \$0.005 (rounded) = \$0.0043 = \$0.07456 - \$0.07026
 \$0.014 (rounded) = \$0.0146 = \$0.08916 - \$0.07456

- 1
- 2 In general, OCA's 0 to 4 ounce automation rates are higher than those proposed
- 3 by the USPS for 0 to one ounce. As stated earlier, the rates are higher because OCA's

1 rates are based on a BMM benchmark of \$0.42, instead of the USPS's proposed "base
 2 rate" of \$0.346.³⁰ However, as the weight of an automation letter-shaped mail piece
 3 increases above one ounce, OCA's rates are less than those proposed by the USPS.
 4 For example, under the USPS' First-Class rate proposal, the First-Class Automation
 5 letter-shaped Mixed AADC letter weighing 2 ounces would pay \$0.501 (\$0.346
 6 +\$0.155). Under the OCA's proposal, that same mail piece rate is \$0.362. Table 3
 7 provides OCA's proposed Presort Automation letter-shaped rates.

8 Table 3 – OCA Proposed Automation Letter-Shaped Rates

	Total MP & Del. Unit Costs Saving	Cost Savings Differential	Amount Pass- Through	OCA Proposed Rate
Mixed AADC	\$0.05831		-	\$0.362
AADC	\$0.07026	\$0.012	\$0.012	\$0.350
3-Digit	\$0.07456	\$0.004	\$0.004	\$0.345 ³¹
5-Digit	\$0.08916	\$0.015	\$0.015	\$0.331

9

10 The USPS states that automation letter-shaped volumes are limited to the 0 to
 11 3.5 ounce weight increment; thus, there are no other rates proposed for heavier weight
 12 letter-shaped pieces.³²

13 The First-Class automation flat rates proposed by the OCA reflect the mail
 14 processing and delivery unit cost difference between processing an automation letter

³⁰ See also, Docket No. R2006-1, USPS-LR-L-129, worksheet "Rate Design-Presort."

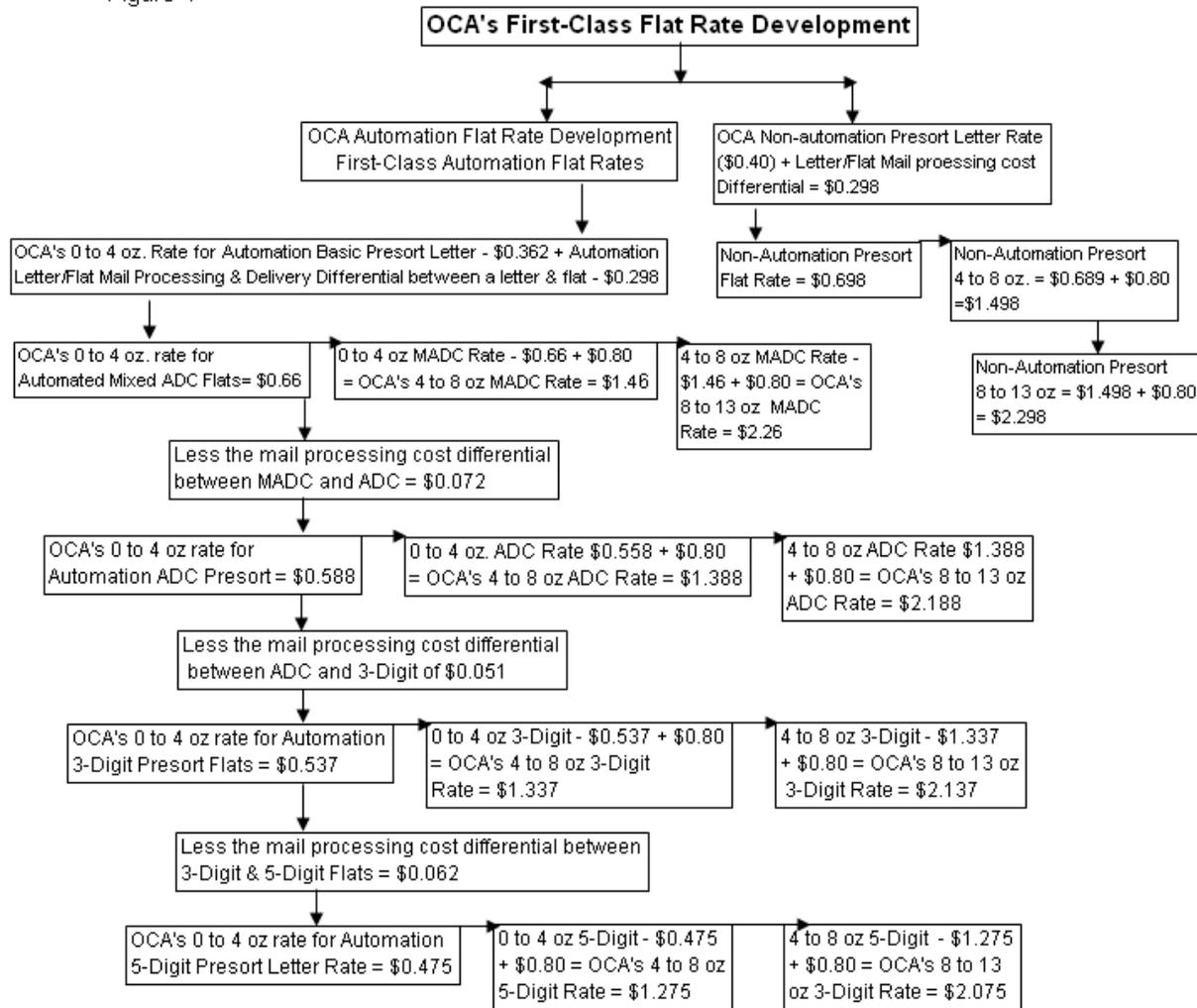
³¹ Rounding, see OCA-LR-L-5, worksheet "Rate Design".

³² The Postal Service's response to OCA/USPS-90.

1 and a flat.³³ That cost difference is added to the cost of the automation First-Class
2 Mixed AADC letter rate to determine the automation Mixed ADC flat rate (\$0.66) for the
3 weight increment from 0 to 4 ounces. For the weight increments 4 to 8, I add \$0.80 to
4 the 0 to 4 ounce rate to arrive at the 4 to 8 ounce rate of \$1.46. Then, I add \$0.80 to
5 the 4 to 8 ounce rate (\$1.46) to arrive at the 8 to 13 ounce rate of \$2.26 for an
6 automation Mixed ADC flat-shaped mail piece weighing between 8 and 13 ounces.
7 Figure 4 provides information on the OCA's First-Class automation flat rate
8 development.

³³ Approximately \$0.298 rounded. OCA-LR-L-5, worksheet "Rate Design – Presort."

Figure 4



1

2

The First-Class Mail Business Parcel Presort rate category is new. OCA rates

3

for the first two ounces are higher than those proposed by the Postal Service because

4

OCA uses the BMM benchmark rate as the starting point for First-Class rate

5

development. USPS-LR-L-129 shows that the unit mail processing and delivery cost

6

differential between a Presort parcel (\$3.396) and a Presort letter (\$0.0875) is \$3.308

7

rounded down. Had the USPS chosen to pass through 100 percent of the cost

8

difference, FCM Business Parcel rates for a Mixed ADC would have been \$3.537.

1 However, instead of passing through 100 percent of the mail processing and delivery
 2 cost differential between a letter and a parcel, the USPS passed through
 3 approximately 14.8 percent or \$0.49.

4 OCA does not rely on the USPS \$3.308 mail processing and delivery cost
 5 differential between a First-Class automation parcel and a letter. Instead, OCA passes
 6 through 80 percent of the mail processing and delivery cost differential between a
 7 First-Class single-piece parcel-shaped mail piece and a letter-shaped mail piece,
 8 which is \$0.94.³⁴

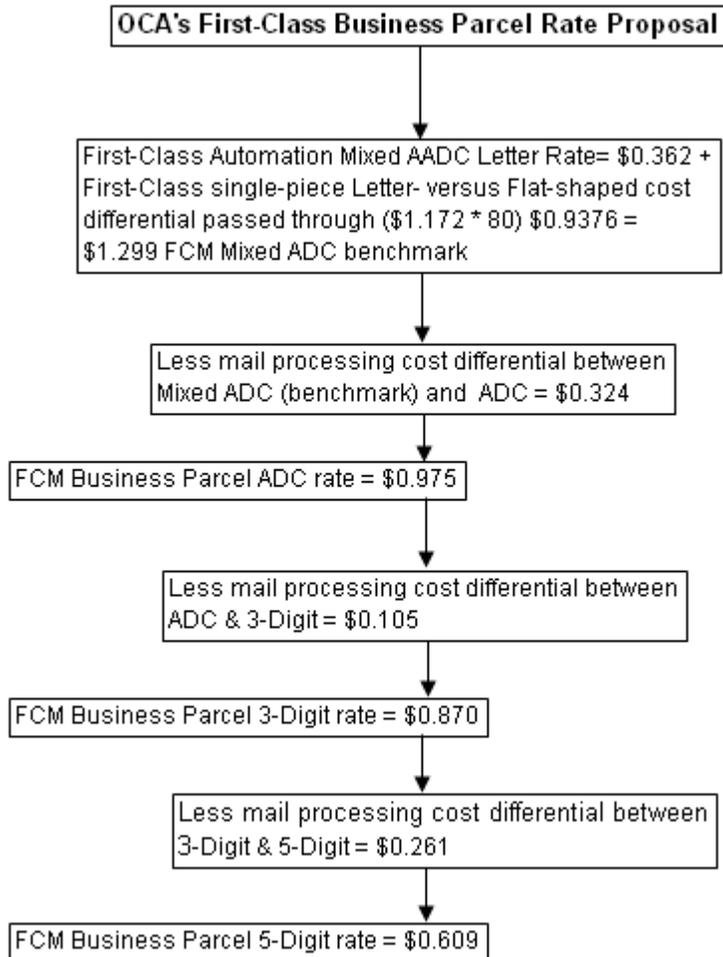
9 This is the first time the USPS has proposed a First-Class Mail Business Parcel
 10 rate category. Given that this is a new rate category and there is no volume history, I
 11 consider it similar in nature to an experimental classification. Therefore, I do not
 12 propose four-ounce incremental rates for the new rate category and thus do not
 13 suggest eliminating the USPS proposal for an additional ounce rate. However, OCA
 14 proposes a lower additional ounce rate of \$0.10 instead of the USPS' proposed rate of
 15 \$0.20. Table 4 provides the OCA FCM Business Parcel Rates. The steps taken in
 16 developing OCA's First-Class Business Parcel Rates are shown in Figure 5.

17 Table 4. First-Class Mail Business Parcel Rates

	Total MP Unit Cost Savings	Amount Passed- Through	OCA Proposed Rates
ADC	\$0.324	\$0.324	\$0.975
3-Digit	\$0.105	\$0.105	\$0.870
5-Digit	\$0.261	\$0.261	\$0.609
Additional Ounce			\$0.10

³⁴ USPS-LR-L-129, revised 8-24-06, worksheet "Rate Design SP Flts & Parcels," line 21, column E. (\$0.94 = \$1.172 * .80).

Figure 5



1

2

1 V. OCA's Rate Proposal Has a Negligible Impact on the Revenue Requirement

2 Each First-Class single-piece shaped-based rate under the OCA proposal is a
3 multiple of \$0.42. The one exception is the First-Class single piece parcel-shaped 8 to
4 13 ounce increment which is \$2.79 – six \$0.42 stamps and one USPS proposed \$0.27
5 card stamp.

6 The impact of my proposal is an increase in First-Class revenues of \$2.8
7 million,³⁵ which is a virtually negligible variance to that proposed by the Postal Service.
8 Exhibit 1 provides the Test Year After Rates revenues, costs and revenue per piece for
9 the Letters and Sealed Parcels subclass.

³⁵ The OCA's First-Class letter, flat and parcel proposal is \$2.8 million higher than that of the USPS.
(\$35,548,298 (OCA) less \$35,545,505 (USPS) = \$2.8 million rounded)

Exhibit 1

First-Class Mail
Subclass By Rate Category
Test Year After Rates
(\$000)

<u>Rate Category</u>	<u>TYAR Revenue</u>	<u>Test * Cost</u>	<u>Revenue/ Cost</u>	<u>AVG/Cost Per Piece</u>
Letters and Sealed Parcels Subclass				
Single Piece	\$ 18,579,376	\$ 10,423,261		
Fees *	\$ 213,324			
Total Single Piece	\$ 18,792,700	\$ 10,423,261	180%	\$ 0.505
Workshared				
Negotiated Service Agreement (NSA) *	\$ 37,803			
Fees *	\$ 26,547			
Total Workshare	\$ 17,033,272	\$ 5,265,124	324%	0.351
Total	\$ 35,825,972	\$ 15,688,385	228%	
Total Letters Volume (TYAR)	85,749,198 **			
Letters Revenue / Piece at TYAR Volumes	\$ 0.418			

Note: * Using USPS-T-32 Exhibit A Cost, Volumes and NSA and Fee Revenue

See also, USPS-LR-129, worksheet "Revenue - SP&Presort".

** Includes NSA Volumes of 115,559 thousand pieces per USPS-T-32 at 48.
revised 8/25/06

1 VI. CLASSIFICATION CRITERIA

2 Section 3623(c) of the Postal Reorganization Act requires the Commission to
3 reach its decision on establishing new classifications in accordance with the following
4 factors:

- 5 1. the establishment and maintenance of a fair and equitable classification
6 system for all mail;
- 7 2. the relative value to the people of the kinds of mail matter entered into the
8 postal system and the desirability and justification for special
9 classifications and services of mail;
- 10 3. the importance of providing classifications with extremely high degrees of
11 reliability and speed of delivery;
- 12 4. the importance of providing classifications which do not require an
13 extremely high degree of reliability and speed of delivery;
- 14 5. the desirability of special classifications from the point of view of both the
15 user and of the Postal Service; and
- 16 6. such other factors as the Commission may deem appropriate;

17 The establishment of separate classifications for letter-, flat-, and parcel-shaped
18 single-piece First-Class Mail, and the establishment of First-Class Mail Business
19 Parcels rate categories satisfies criterion one – fairness and equity. OCA agrees with
20 the Postal Service that the shape of a mail piece impacts the cost of processing and
21 delivering that mail piece. Both flat- and parcel-shaped mail pieces are more expensive
22 to process and deliver than letters.

23 In addition, the OCA proposes to eliminate the additional ounce rate because the
24 USPS has again failed to provide sufficient justification for the rate. In PRC Op R97-1,
25 paragraph 5035, the Commission noted the deficiency as follows:

1 Notwithstanding the extensive supporting material the Service has
2 filed, a glaring omission is information addressing the cost support for the
3 First-Class Mail additional-ounce rate. The Service's failure to devote
4 attention to this long-requested review has hindered the Commission's
5 ability to review the additional-ounce rate.
6

7 The OCA proposes a First-Class rate structure that in most instances reflects 4-
8 ounce incremental rates. The result of the OCA proposal is to dramatically simplify the
9 First-Class rate structure.

10 The establishment, of new classifications within First-Class Mail more precisely
11 recognizes the impact shape has upon costs. OCA's Presort automation and non-
12 automation rate schedule relies on the Commission's BMM benchmark to set presort
13 rates; thus, rates reflect their costs and provide the appropriate contribution to
14 institutional costs and are therefore fair and equitable. Business mailers benefit from
15 OCA's Presort automation and non-automation flat shape-based rate proposal in those
16 instances where the mail piece weighs more than one ounce, but is less than or equal
17 to the 4-ounce rate increment.

18 OCA's First-Class rate proposal ensures that the General Public and Business
19 Mail users pay rates that are appropriate for their given mail piece. And, OCA's First-
20 Class rate proposal provides virtually the same revenue as that generated by the
21 USPS's, thus satisfying criteria one and two.

22 Mailers who prepare non-letter shaped-pieces (flats, parcels, or some other
23 shape) in some cases may have the ability and may find it economically feasible to
24 convert these pieces to shapes that qualify for lower postal rates. Both the Postal
25 Service and those customers will benefit from such conversions. It is expected that
26 many mailers will continue to send flat- or parcel-shaped First-Class Mail pieces. The

1 establishment of distinct classifications for this mail reflects the value of this mail to the
2 Postal Service and is consistent with consideration of criterion two, the value of different
3 kinds of mail matter to the people.

4 The proposed classification changes further satisfy criterion five – the desirability
5 of special classifications from the user's and the Postal Service's point of view. Greater
6 recognition of the cost impact of shape on mail flows and mail processing and delivery
7 provides more accurate signals to the mailers and provides an opportunity for them to
8 evaluate their mail preparation in light of such information.

9 Elimination of the heavy piece discount for workshare mail pieces weighing more
10 than two ounces and the nonmachinable surcharge for non-letter shaped pieces
11 weighing one ounce or less, both in Single-Piece and workshare rate categories, are
12 classification changes that follow from the four-ounce incremental rate proposal. The
13 introduction of shape-based rates automatically eliminated the need for the
14 nonmachinable surcharge, except in the case of First-Class Mail Business Parcels.
15 The proposed changes give greater recognition to shape, automation compatibility and
16 mailer's work, in preparing mail for lower cost processing.

17 The OCA's proposal for eliminating the additional ounce rate and proposing 4-
18 ounce incremental rates, reduces the total number of First-Class rate cells from 144 to
19 28 and eliminates the need for consumers to purchase and maintain an inventory of
20 additional ounce stamps for those letters, flats and parcels exceeding one ounce. First
21 Class mailers need not weigh each and every mail piece to avoid underpayment of
22 postage and the Postal Service may have fewer letters to return due to insufficient
23 postage. For example see the following article titled: "13 Cents Overdue Postage Snags

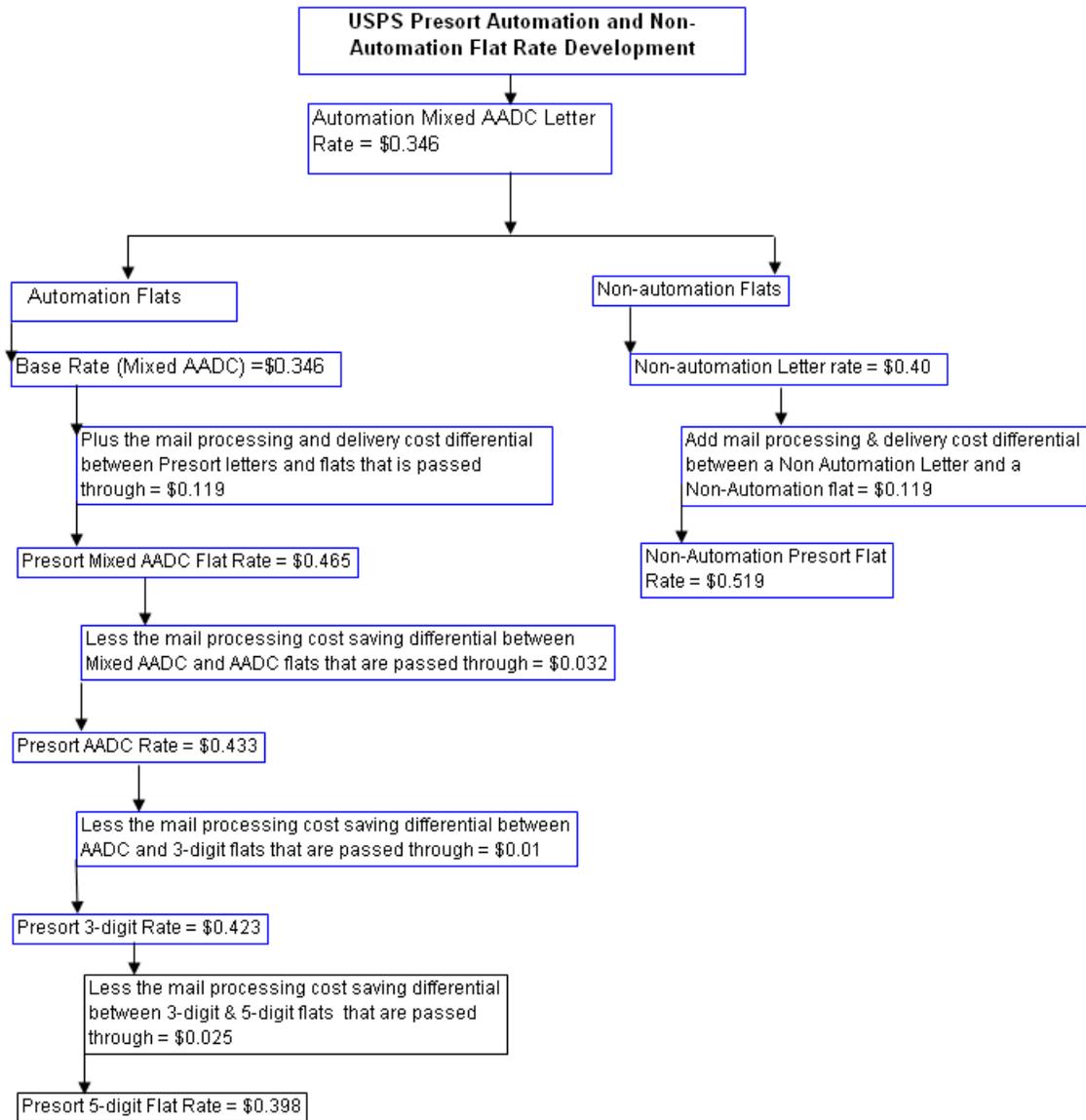
1 Ballots.”³⁶ Under OCA’s four-ounce incremental rate proposal, First-Class Presort
2 automation and non-automation mailers of letters, flats or parcel-shaped mail pieces in
3 the 0 to 4 ounce weight increment pay the same rate, within their rate category, and do
4 not need to be concerned about additional ounce postage. However, if a mail piece
5 weighs more than 4 ounces and is either a flat or a parcel, then the 4 to 8 ounce or 8 to
6 13 ounce weight increment is available. The OCA’s proposed shape-based four-ounce
7 incremental weight classification schedule recognizes mailer’s worksharing and greatly
8 simplifies the current First-Class Letters and Sealed Parcels rate schedule by reducing
9 the number of rate cells from 144 to 28, all of which satisfies criteria two, value to the
10 people, and five, desirability of special classifications.

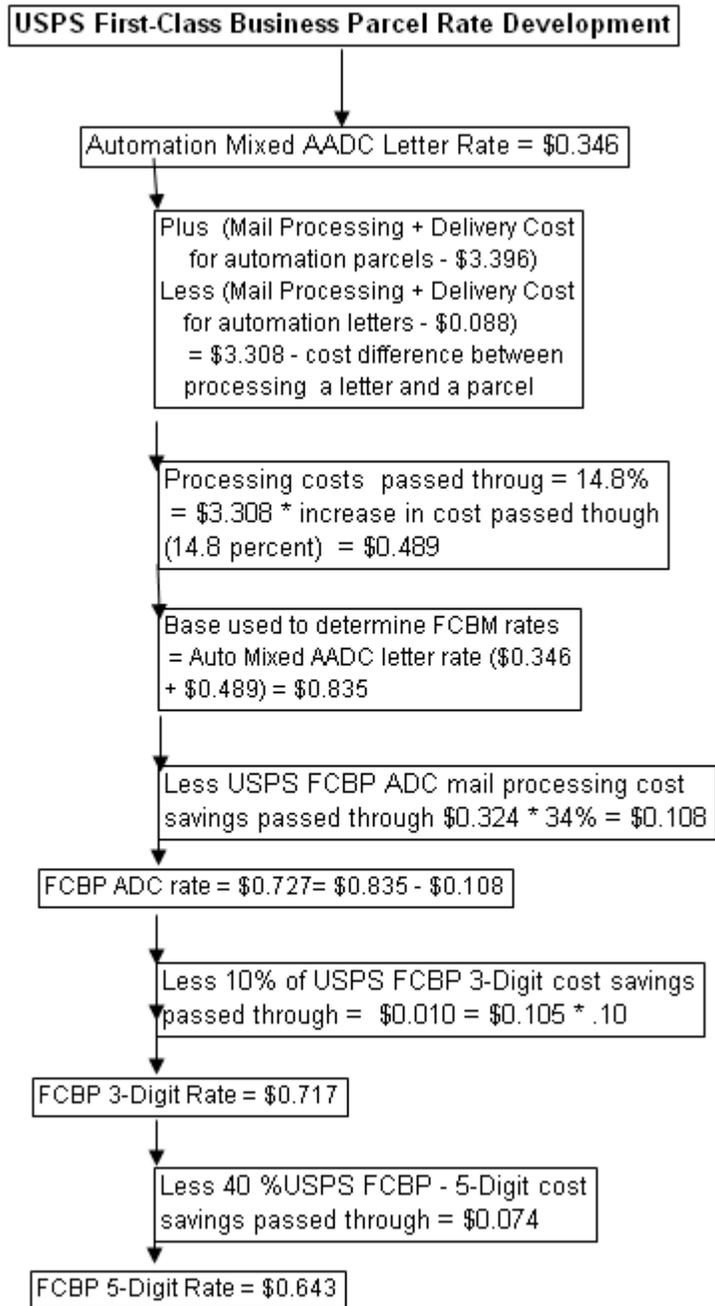
11 Elimination of the Automation Carrier Route Letter rate category reflects
12 consideration of criterion 5. Automation of letters has been a success for both mailers
13 and the Postal Service. Technology has evolved to permit delivery point sequencing
14 further upstream at destinating mail processing centers. Currently, the only letter-
15 shaped mail that is processed at the delivery units is Automation Carrier Route Letters.
16 Moving this mail upstream to larger Processing and Distribution Centers is desirable
17 from the perspective of the Postal Service and the mailers.³⁷

³⁶ http://www.sptimes.com/2006/08/31/Pasco/13_cents_overdue_post.shtml

³⁷ See USPS witness Taufique’s testimony, USPS-T-32 at pages 44-46.

APPENDIX A





APPENDIX B
FIRST-CLASS MAIL
RATE SCHEDULE 222
Letters and Sealed Parcels

	<u>Current</u>	<u>OCA Proposal</u> 0 to 4 oz	<u>OCA Proposal</u> 4 to 8 oz	<u>OCA Proposal</u> 8 to 13 oz
Single-Piece				
[First Ounce]	\$ 0.390	N/A	N/A	N/A
<u>Letters</u>	N/A	\$ 0.42	N/A	N/A
<u>Flats</u>	N/A	0.84	\$ 1.68	\$ 2.52
<u>Parcels</u>	N/A	1.68	2.52	2.79
[Additional ounces]	0.240	N/A	N/A	N/A
[Nonmachinable surcharge]	0.130	N/A	N/A	N/A
Qualified Business Reply Mail	0.358	0.395	N/A	N/A
Presorted				
[First ounce]	0.371	N/A	N/A	N/A
<u>Letters</u>	N/A	0.400	N/A	N/A
<u>Flats</u>	N/A	0.698	1.498	2.298
[Additional ounces]	0.237	N/A	N/A	N/A
[Nonmachinable surcharge]	0.058	N/A	N/A	N/A
[Heavy piece discount, per piece]	0.043	N/A	N/A	N/A
Automation Letters				
Mixed AADC	0.326	0.362	N/A	N/A
AADC	0.317	0.350	N/A	N/A
3-digit	0.308	0.345	N/A	N/A
5-digit	0.293	0.331	N/A	N/A
[Carrier route]	0.290	N/A	N/A	N/A
[Additional ounces]	0.237	N/A	N/A	N/A
[Heavy piece discount, per piece]	0.043	N/A	N/A	N/A
Automation Flats				
Mixed ADC	0.359	0.660	1.460	2.260
ADC	0.351	0.588	1.388	2.188
3-digit	0.339	0.537	1.337	2.137
5-digit	0.318	0.475	1.275	2.075
[Additional ounces]	0.237	N/A	N/A	N/A
[Nonmachinable surcharge]	0.058	N/A	N/A	N/A
[Heavy piece discount, per piece]	0.043	N/A	N/A	N/A
Business Parcels				
<u>ADC</u>	N/A	0.975		
<u>3-digit</u>	N/A	0.870		
<u>5-digit</u>	N/A	0.609		
<u>Additional ounces</u>	N/A	0.100		

SCHEDULE 222 NOTES

1. A mailing fee of [\$160.00] \$175.00 must be paid once each year at each office of mailing by any person who mails at presorted or automation rates. Payment of the fee allows the mailer to mail at any First-Class Mail Rate. [For presorted or automation pieces weighing more than 2 ounces, subtract 4.3 cents per piece.]
2. First-Class Mail rates apply through 13 ounces. Heavier pieces are subject to Priority Mail rates.
3. Add \$0.005 per piece for Presorted, Automation Letters and Automation Flats pieces bearing a Repositionable Note as defined in Classification Schedule 221.22[1]3, 221.32[6]5, and 221.33[6]5.
4. For nonmachinable or non-barcoded Business Parcels (ADC and 3-digit) add 5.0 cents per piece.

FIRST-CLASS MAIL CLASSIFICATION SCHEDULE

221 Letters and Sealed Parcels Subclass

221.2 Regular Rate Categories. The regular rate categories consist of Letters and Sealed Parcels subclass mail not mailed under section 221.3 or 221.4.

221.21 Single-Piece Rate Category The single-piece rate category applies to regular rate Letters and Sealed Parcels subclass mail not mailed under section 221.22 or 221.24.

221.211 Letters. The letter rates apply to pieces that are letter-shaped as specified by the Postal Service and are not nonmachinable as defined in 232.

221.212 Flats. The flat rates apply to pieces that are flat-shaped as specified by the Postal Service. Letter-shape pieces that are nonmachinable as defined in 232 are subject to the flat rates.

221.213 Parcels. The parcel rates apply to Single Piece Rate Category pieces that are not eligible for letter or flat rates as defined in 221.211 and 221.212.

221.22 Presort Rate Category. ***

221.221 Letter. The letter rates apply to pieces that are letter-shaped as specified by the Postal Service and weighing between 0 to 4 ounces, and are not nonmachinable as defined in 232.

221.222 Flat. The flat rates apply to pieces that are flat-shaped as specified by the Postal Service. Letter-size pieces that are nonmachinable as defined in 232 are subject to the flat rates.

221.22[1]3 Repositionable Notes. ***

- b. If the Postal Service determines not to file such request, this provision expires on such date as specified [specifiefd] by the Postal Service, but no later than April 3, 2007.

[221.26 Nonmachinable Surcharge. Regular rate category Letters and Sealed Parcels subclass mail is subject to a surcharge if it is nonmachinable mail, as defined in section 232.]

[221.27 Presort Discount for Pieces Weighing More Than Two Ounces. Presort rate category Letters and Sealed Parcels subclass mail is eligible for an additional presort discount on each piece weighing more than two ounces.]

221.32 Letter Categories

221.321 Mixed AADC Rate Category. The Mixed AADC rate category applies to letter-sized automation rate category mail not mailed under section 221.322, 221.323, 221.324, [, or 221.325.]

[221.325 Carrier Route Rate Category. The carrier route rate category applies to letter-size automation rate category mail presorted to carrier routes. It is available only for those carrier routes specified by the Postal Service.]

221.33 Flats Categories

[221.335 Nonmachinable Surcharge. Flat-size automation rate category pieces are subject to a surcharge if they are nonmachinable mail, as defined in section 232.]

221.336 Repositionable Notes. ***

a. If a request to continue to test or make Repositionable Notes permanent is filed, this provision expires on the implementation date for the replacement service, or if no replacement is implemented, three months after the Commission takes action under section 3624 of title 39, on such [request] request.

[221.34 Presort Discount for Pieces Weighing More Than Two Ounces. Presorted automation rate category mail is eligible for an additional presort discount on each piece weighing more than two ounces.]

221.4 Business Parcels Categories

221.41 General. The Business Parcels Categories apply to the Letters and Sealed Parcels subclass mail that:

- a. Is prepared in a mailing of at least 500 pieces;
- b. Is presorted, marked and presented as specified by the Postal Service; and
- c. Meets the addressing and other preparation requirements specified by the Postal Service.

221.42 Single Piece Rate. The single-piece rate category as defined in 221.213 applies to pieces not qualifying under 221.43, 221.44 or 221.45.

221.43 ADC Parcels Rate Category. The ADC parcels rate category applies to parcel rate category mail presorted to area distribution center destinations as specified by the Postal Service.

221.44 Three-Digit Parcels Rate Category. The three-digit parcels rate category applies to parcel rate category mail presorted to single or multiple three-digit ZIP Code destinations as specified by the Postal Service.

221.45 Five-Digit Parcels Rate Category. The five-digit parcels rate category applies to parcel rate category mail presorted to single or multiple five-digit ZIP Code destinations as specified by the Postal Service.

221.46 Nonbarcoded and Nonmachinable Surcharge. Parcels rate category pieces qualifying for 221.43 and 221.44 are subject to a surcharge if not barcoded and machinable as specified by the Postal Service.