

**Before the
Postal Regulatory Commission
Washington, DC 20268-0001**

Postal Rate and Fee Changes, 2006 : Docket No. R2006-1

**INITIAL COMMENTS OF GREETING CARD ASSOCIATION ON
RESUBMISSION**

The Greeting Card Association (GCA), a full intervenor before the Commission throughout this proceeding, hereby submits comments in response to the Commission's Order No. 8 (Notice of Request for Reconsideration and Order Establishing Procedures, March 29, 2007). GCA addresses one of the three issues raised by the Postal Service in resubmitting the case: whether the nonmachinable surcharge should apply to First-Class letters weighing more than one ounce. As explained below, GCA believes the Commission's original decision to apply the surcharge only to nonmachinable First-Class Letters of one ounce or less is correct, and urges the Commission to adhere to it in its further Recommended Decision.

I. INTRODUCTION

The Commission's recommended rates for single-piece¹ First-Class Letters differ from both the Postal Service proposal and GCA's proposed modifica-

¹ GCA's presentation to the Commission (Docket R2006-1, GCA-T-3 and -T-4; Initial Post-Hearing Brief of the Greeting Card Association, December 21, 2006, pp. 65 ff.) concentrated on nonmachinable single-piece letters, with which GCA members are particularly familiar and which represent a significant fraction of the greeting cards mailed. The Commission's disposition of this issue covered nonautomation presort letters as well. PRC Op. R2006-1, ¶ 5211. As before, GCA will address the question as it relates to single-piece mail – recognizing that the arguments in question may relate to nonautomation presort pieces as well.

tion of it. While increasing the Letter/Flat differential to reflect cost differences more fully, and concomitantly recommending a 41-cent first-ounce rate, the Commission both reduced the Service's proposed extra-ounce rate (from \$0.20 to \$0.17) and retained a nonmachinable surcharge, which the Service had proposed to abolish. GCA had asked that, for low-aspect ratio Letters only, the nonmachinable surcharge (then 13 cents) be retained, rather than requiring these pieces to pay the corresponding Flats rate. The Commission retained the surcharge for all nonmachinable letters, and set it at \$0.17 – i.e., the same figure as the recommended extra-ounce charge. Neither GCA nor the Commission, in its Opinion, explicitly discussed the possible application of the nonmachinable surcharge to pieces heavier than one ounce.

The Governors, however, observed that nonmachinable pieces over one ounce would pay rates that included no additional element for nonmachinability ($\$0.41 + 0.17 = \0.58 for a two-ounce Letter, regardless of machinability; $\$0.41 + (\$0.17 * 2) = \$0.75$ for a three-ounce Letter, regardless of machinability). It is this feature that they challenge on resubmission.

II. HISTORY SUPPORTS THE COMMISSION'S NONMACHINABLE SURCHARGE DESIGN

From its beginnings in Docket MC73-1, the nonmachinable (then called “nonstandard”) surcharge has applied to First-Class pieces weighing one ounce or less.² The first actual surcharge, put into effect in 1979, was \$0.07, and applied only to these pieces. The same principle has been observed ever since.

It is significant that in this case the Commission *retained* the nonmachinable surcharge³; it did not invent a new rate element resting on a different ra-

² The history is summarized in PRC Op. R78-1, pp. 3-4.

³ PRC Op. R2006-1, ¶ 5211 (“scaled-back retention of the nonmachinable surcharge”).

tionale. It did so, in large measure, because the Postal Service's proposed rate design failed to distinguish between shape and machinability as cost factors. The Commission focused, as had GCA⁴, on the distinction between shape (i.e., Letter, Flat or Parcel configuration) and machinability. PRC Op. R2006-1, ¶ 5210. It agreed that the surcharge was "not consistent" with a shape-based rate structure; but distinguished shape from nonmachinability and concluded that, at its recommended rates, the Service's proposal to rate nonmachinable Letters as Flats would "trippl[e] the surcharge in one rate cycle with no warning," which would be "excessive."⁵ Id., ¶ 5211. It is clear from the Opinion that the Commission intended this "scaled-back retention" of the surcharge to apply only to one-ounce pieces. This limit was not simply an "omission"⁶ but an explicit choice; and it is consistent with the entire history of the nonmachinable surcharge.

What the Service is proposing on resubmission, therefore, is the substantial redesigning of a rate element which has, in its present form, a rational basis and a structure consistently maintained for 27 years.

The Postal Service appears to present two arguments:⁷

1. The Service's proposed rate design "applied a letter/flat initial-ounce rate differential to account for the cost of nonmachinability at all letter weight increments" but the Commission's applies it only to the first ounce – yet

⁴ See GCA-T-3, p. 7-9, received in evidence TR. 21/7643; and GCA Initial Brief, pp. 65-71.

⁵ The Commission chose to retain a surcharge in large part because of the rate shock a 39-cent effective surcharge would cause; it cautioned that the structure arrived at in this case "might not be consistent with the way the Postal Service will be processing mail in the future given a shape-based mailstream" and "might not be justified in the future." Id., ¶ 5212.

⁶ Initial Statement of the United States Postal Service on Reconsideration (March 28, 2007), p. 2.

⁷ Id., pp. 3-4.

the logic applied to the first ounce “seems applicable” to higher weights as well; and

2. The nonmachinable surcharge is needed at higher weights because (or especially because) of the Commission’s reduction (to \$0.17 from the proposed \$0.20, itself reduced from the existing \$0.24) of the extra-ounce rate.

The first argument does not recognize the Commission’s well-founded distinction between shape and (non)machinability. By distinguishing shape from machinability, the Commission implied that a “letter/flat initial-ounce rate differential” was not the appropriate way to reflect nonmachinability even in the one-ounce Letter weight increment.⁸ The Service’s approach fails to acknowledge the valid distinction between nonmachinability *within* a given shape’s own processing environment – which may justify a nonmachinability surcharge – and the non-machinability of, e.g., a 9 by 12-inch Flat on Letter mail processing equipment, which instead supports a generally shape-based approach to rate design. This argument, therefore, cannot support the basic restructuring of the surcharge which the Service proposes.

III. THE RECORD DOES NOT SUPPORT A CHANGE IN THE COMMISSION’S ORIGINAL RECOMMENDATION

The Postal Service’s second argument rests less on a theory of rate design than on a quantitative estimate: that the now-reduced extra-ounce charge is, or may be, insufficient to compensate for the additional cost of nonmachinable Letters over one ounce. The evidentiary record does not support this contention.

⁸ This conclusion was well supported. GCA, for instance, pointed out that the Letter shape costs used by Postal Service witness Taufique to develop the Letter/Flat differential already reflected the additional costs imposed by nonmachinable pieces. GCA-T-3, pp. 7-8. See also GCA Initial Brief, pp. 68-70.

In the principal proceeding, neither the Postal Service nor GCA addressed this issue: the Service, presumably because it was proposing to drop the non-machinable surcharge altogether, and GCA, because it was proposing to retain the *existing* surcharge for certain pieces. Neither party, therefore, had occasion to consider whether the surcharge should be redesigned to apply at higher weights. The Service's present request for a change in the Commission's recommended design, therefore, must rest on an extrapolation from the evidence presented in the main proceeding.⁹

Historically, the absence of a nonmachinable surcharge in the higher weight increments has been compensated for by the extra-ounce charge. The Postal Service now appears to suggest that, at its reduced level, the extra-ounce charge may not fully perform this function.¹⁰ But it points to nothing in the evidentiary record which indicates or implies that at \$0.17 the extra-ounce charge would contribute inadequately to meeting the nonmachinability-related cost of the (estimated¹¹) 3.8 million single-piece Letters in question. Certainly nothing in the Commission's Opinion suggests that the \$0.17 figure precisely equals the costs imposed by weight and weight alone.¹²

⁹ The Service explicitly states that its issues can be addressed without reopening the record. Initial Statement, p. 1.

¹⁰ Initial Statement, pp. 3-4.

¹¹ The Service explains this estimate, which GCA would accept as reasonable, at pp. 4-5 of its Initial Statement.

¹² At ¶ 5196, the Commission states that “[l]owering the additional ounce rates *in the direction of* actual costs imposed on the system is fair and equitable and will send a clearer price signal to mailers.” (Italics added.) And see ¶ 5198:

. . . Although the Commission strives to recommend additional-ounce rates to reflect costs, these rates continue to be a significant source of revenue for the Postal Service and are employed as a tool in meeting the First-Class Mail revenue requirement.

In short, the record would not support a departure from either the Commission's considered treatment of the nonmachinable surcharge issue or the concept of the nonmachinable surcharge as it has developed since Docket MC73-1.

IV. THE POSTAL SERVICE PROPOSAL RISKS DRIVING MAIL OUT OF THE SYSTEM RATHER THAN RECOVERING ITS SUPPOSED EXTRA COST

In the main proceeding, GCA sponsored the testimony of Andrea Sue Liss to support its proposal for a limited retention of the nonmachinable surcharge. Ms. Liss drew on her experience as a designer, publisher, and bulk mailer of greeting cards to testify, inter alia, that price has a substantial effect on the willingness or ability of customers to send cards in the volume desired.¹³ It is the only testimony of record on the volume effect of the nonmachinable surcharge.

There is no reason to think that greeting cards weighing more than one ounce are less price-sensitive than lighter ones. The Service's proposal, therefore, entails the risk of losing high-contribution First-Class volume in pursuit of a

These observations strongly suggest that nonmachinability costs in the over-one-ounce weight range will not go unrecovered, even if they are (still) recovered through the extra-ounce charge.

¹³ GCA-T-4, pp. 13-14, received in evidence TR. 28/9490. The Commission did not consider that Ms. Liss had established "that low aspect ratio mailpieces should be treated differently because of their alleged aesthetic value." PRC Op. R2006-1, ¶ 5208. This issue is clearly distinguishable from the question whether a drastically increased surcharge would depress volume. The Postal Service emphasized on brief that she had not conducted a *quantitative* study, but produced no rebuttal to her conclusions drawn from her professional experience. Postal Service Initial Brief, p. 249.

superficial symmetry in rate design and a revenue gain (assuming no volume loss) which the Service itself describes as “*de minimis*”.¹⁴

The additional postage cost is not the only risk to volume which the Service’s proposed change presents. As the general acceptance of the Forever Stamp indicates, convenience is a recognized selling point for the consumer mail user. Under the Commission’s recommended rates, only one extra stamp is needed for *either* a “standard” shape piece between one and two ounces *or* a nonmachinable piece up to two ounces. The legend “Extra Postage Required” on a greeting card envelope, for example, will almost always mean just one 17-cent stamp. The simplicity of the Commission’s recommended rates, by encouraging single-piece First-Class volume, should ultimately benefit both consumers and the Postal Service and thereby more than compensate for the minimal revenue forgone through not applying the surcharge to extra-ounce pieces.

V. SUMMARY AND CONCLUSION

In summary: the Postal Service’s proposal on resubmission is based on a failure to appreciate the distinction between shape and machinability as determinants of both cost and rate design – a distinction explored on the evidentiary record, recognized by the Commission in its Opinion, and not refuted by the Service’s Initial Statement. Largely on this basis, the Service would have the Commission overturn the quarter-century history of the nonmachinable surcharge. Neither the necessity to do this as a matter of ratemaking principle nor the inadequacy of the recommended extra-ounce rate to compensate for nonmachinability costs as well has been shown on the record. Finally, a foreseeable effect of the

¹⁴ Initial Statement, pp. 4-5. The Service estimates the revenue effect of its proposal as \$643,000 in Single Piece and \$5,000 in Nonautomation Presort.

Service's proposal would be to drive away high-contribution mail, at a time when First Class is already in decline. The Commission should adhere to its original decision and to the rate structure recommended therein.

Respectfully submitted,

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