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The American Consumer Institute
Center for Citizen Research

Comments of American Consumer Institute
Center for Citizen Research
Regarding Docket No. RM2017-1
Submitted to the Postal Regulatory Commission, April 16, 2018

Pursuant to Order No. 3624, the American Consumer Institute Center for Citizen Research (ACI) submits these comments regarding the proposed rulemaking to evaluate the institutional cost contribution requirement for competitive products.

Since the enactment of The Postal Accountability and Enhancement Act (PAEA) in 2006, the Postal Service's product mix has shifted dramatically, such that parcels have taken on increasingly larger shares of overall volumes. These trends must be more closely observed and accounted for by the PRC as they face their responsibilities (outlined in PAEA statutes) to determine the "appropriate" share of USPS's institutional costs that its competitive products must bear.

In previous comments submitted the Commission ACI has emphasized the following information that is pertinent to this discussion:

Gross Inequity: 8 cents vs. 58 cents Contribution to Fixed Costs

Competitive services account for 30% of the USPS' revenue, but these services are only required to cover only 5.5% of fixed and institutional overheads. In terms of sharing these overheads, competitive services pay 8 cents on every dollar of revenue toward these fixed overheads, or $1.7 billion divided by $20.7 billion. On the other hand, market dominant services pay 58 cents on every dollar of revenue, or about $29 billion divided by $50 billion. To emphasize, market dominant services pay 58 cents per dollar of revenue toward fixed and institutional costs, while competitive services pay only 8 cents per dollar of revenue.

This divergence represents a gross inequity and an excess burden placed on market dominant services for the financial benefit of non-mission services. This also suggests a high degree of revenue shifting and profit shifting from market dominant services to competitive services. It also suggests a high degree of risk shifting and cost shifting from competitive services facing market rivalry to monopoly services now subject to financial collapse.

If the mission of the USPS is to deliver letter mail, why should it be carrying an additional cost burden for the benefit of competitive services? The only rational reason to allow the USPS to offer competitive services in the first place is so that it can carry an equal or larger share of overheads for the benefit of its monopoly services. In other words, the objective of the Commission should be to protect market dominant services, not competitive services. To do otherwise undermines the mission of the Postal Service and violates the intent of the Act.

If the USPS were required to stop providing all of its competitive services, while continuing its provision of monopoly services, consumers could still buy these competitive services from other rivals. If the USPS stopped writing money orders, existing financial institutions would still provide them; if the USPS stopped delivering food, Giant's Peapod, Instacart and Fresh Direct could still provide them; if USPS stopped package delivery, others would deliver these packages, including FedEx, DHL and UPS; and if USPS stopped same day delivery, small business couriers could still deliver them.

On the other hand, there are no substitutes for market dominant services, and this fact serves as the prime reason that the Commission must protect these services and not expose them any financial manipulations that serve to prop up competitive services.

In fact, not only should competitive services pay a full share for fixed and institutional costs, they should pay more. For example, a service like Sunday delivery should pay its fair share of overheads plus additional overheads because many other dominant service activities are idle on Sunday. Most importantly, competitive services should pay more because these services are only possible because of the existence of the USPS letter mail services.

In addition, these competitive services use the USPS logo and brand, its website, its employees, its trucks and so on – all of which are inextricably tied to its fixed costs. These competitive activities are receiving a financial benefit that a structurally separate entity would not receive.

One frequent argument supporting why package delivery should not pick up as much fixed cost is that these packages help fill a mail truck to its capacity, thereby increasing efficiency. However, many mail trucks hold only or mostly competitive products and services. In fact, packages now account for 45% of USPS' weight for delivered products and likely more than half the volume of a mail delivery truck, compared to market dominant services. Moreover, the USPS is currently shopping for delivery trucks specifically designed for package delivery at a cost of $6.3 billion over the next seven years. It would seem that competitive services should share the brunt of these costs, not market dominant services, like First Class Mail.

> This also means that the USPS is buying more fixed costs, and more trucks and equipment, and then shifting these fixed costs to market dominant services for cost recovery. This freeloading of market dominant resources does not make the USPS more efficient, nor does it make the USPS more financially stable – but just the opposite.
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> A competently managed competitive firm should want to know its total costs for providing all of its products and services. How else could a firm know where to increase prices and what competitive services need to be discontinued or expanded?
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> *(ACI Comments Regarding Docket No. RM2017-3, Submitted February 23, 2018)*

Considering ACI's previously outlined discussion points on the 5.5 percent contribution level, which the PRC has previously elected to maintain, the Commission should now significantly increase the share that competitive products must make towards institutional costs. Raising the contribution level is key to limiting dangers of potential cross subsidization that ultimately leaves larger segments of postal customers to bear the brunt of costs for services they do not use.

Respectfully submitted,

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