

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

RECEIVED
JAN 12 11 51 AM '01
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE

The Association for Postal Commerce offers these comments on one of the issues raised in the Memorandum of the United States Postal Service on reconsideration and request for expedition (the "Reconsideration Memorandum"). These comments address an asserted error in the computation of the revenues calculated by the Rate Commission to result from its recommended rates for Bound Printed Matter (BPM).

The Postal Service appears to be right in its assertion that a computational error led the Commission to overstate the revenues that would be accomplished by recommended BPM rates by approximately \$30,000,000. See Reconsideration Memorandum at 29. This mistake does not warrant any adjustment to the BPM rates recommended by the Commission.

This is so because the methodology employed by the Postal Service in setting BPM rates, (which is largely mirrored in the Commission's analysis) failed to account for substantial test year economies that will result from the proposed modifications in the BPM rate design.

The Postal Service has proposed a new rate structure for BPM that, according to its own costing witness, will reduce Test Year costs:

This new structure [which provides incentives for DBMC, DSCF, and DDU entry] will allow mailers a variety of new options of where and how to enter their mail. The new structure should also lower USPS costs by discouraging more expensive behavior and providing the proper incentives consistent with Postal Service operations. Dropship discounts have proven to be popular and appropriate in Periodicals, Standard Mail (A), and Standard Mail (B) Parcel Post.

USPS-T-27 at 13-14. (Witness Crum).

Despite the fact that the new structure will reduce Test Year costs for the BPM subclass, the Postal Service did not include any cost reduction programs when it estimated Test Year costs for Bound Printed Matter. This was clearly a mistake. The Postal Service implicitly recognized as much by making a comparable adjustment for another service:

PARCEL DROPSHIP VOLUME SHIFT – The parcel dropship shift reflects the change in the mix of parcel post resulting from the growth of the drop shift portion of the volume. The mail volume effect in the rollforward model does not take this shift into account; therefore, it is handled as a cost reduction.

USPS-LR-I-126 at 32. (revised 4-6-2000).¹ For the Parcel Post subclass, the Postal Service and the Commission appropriately made two adjustments to reflect this “PARCEL DROPSHIP VOLUME SHIFT.” In the rollforward, both the Postal Service and the Commission reduced costs to reflect the increased drop shipping. Then TYAR billing determinants reflecting increased drop shipping were used to calculate TYAR Parcel Post revenue. In the Parcel Post subclass, the Postal Service evaluated cost and revenue based upon Test Year drop ship patterns.

In sharp contrast, in the Bound Printed Matter subclass, the Postal Service and the Commission evaluated Test Year cost and revenue based on Base Year drop ship patterns. AAP/USPS-T37-22, Tr. 13/5297. The Postal Service has conceded that there is no compelling reason to treat BPM differently than Parcel Post. AAP\USPS-T37-9, Tr. 13/5280.

Although a fair amount of Bound Printed Matter mail is drop entered at present, it is almost certain that more will be drop entered now that there are explicit economic incentives to do so and even under the Commission rates, it is very likely that mail that is

¹ This cost reduction program was subsequently replaced by a Final Adjustment when the Postal Service updated Test Year costs based upon actual FY 1999 data. While the Postal Service changed the way in which it implemented the cost reduction, it did not change the fact that the volume consequences of changes in rate design were reflected in Test Year Parcel Post volumes but not Test Year BPM volumes. OCA/USPS-ST44-12. Tr. 46C\20929-30.

now drop entered will be entered closer to its destination. We know, for example, that over 44% of the mail that was mailed at the Local Rate (which is eliminated in the new rate structure) is entered at the destination SCF. AAP/USPS-T37-7(b), Tr. 13\5278. Under the new rates, there will be substantial incentives to enter that mail at the destination delivery unit. AAP\USPS-T37-10(b), Tr. 13\5283.

Developments of this kind will result in a greater than projected contribution per piece for BPM, precisely because the recommended rates do not pass through the full costs savings. Opinion and Recommended Decision at 508 (Paragraph 5896). The new regime of BPM rates will produce for the Postal Service BPM mail substantially more “profitable” to it than is reflected in the cost\rate analysis employed by the Postal Service and the Commission. Accordingly, no correction for the computational mistake made by the Commission is required; the economies that will result from the new rate structure provide an internal correction for this error.

There is a further reason to decline to place additional price burdens on BPM mailers. The Postal Service has conceded that the BPM rates it proposed will result in “rate shock” for at least some mailers. Tr. 13/5322 lines 1-6. The Commission has properly taken steps that ameliorate that result; the recommended rates should remain in place.

Respectfully submitted,



Ian D. Volner
N. Frank Wiggins
Venable, Baetjer, Howard & Civiletti, LLP
1201 New York Avenue, N.W.
Suite 1000
Washington, DC 20005-3917

Counsel for Association for Postal Commerce

January 12, 2001

CERTIFICATION

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the rules of practice.

Ian Volner fw
Ian D. Volner