

POSTAL RATE COMMISSION
Washington, D.C. 20268-0001

Office of the
Consumer Advocate

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May 17, 2001

Mr. David G. Hunter
Secretary, Board of Governors
United States Postal Service
Room 10-300
475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1000

Re: Governors' Decision,
Docket No. R2000-1

Dear Mr. Hunter:

Enclosed please find the original and nine copies of the "Motion of the Office of the Consumer Advocate for Reconsideration of the Domestic Money Order Fee Increase" in Docket No. R2000-1.

I would appreciate it if you would provide this motion to the Governors and, pursuant to 39 CFR §9.3, make a copy available for public inspection in the Office of the Board of Governors.

Very truly yours,



Ted P. Gerarden
Director

Enclosure

UNITED STATES OF AMERICA
BEFORE THE
GOVERNORS OF THE UNITED STATES POSTAL SERVICE
WASHINGTON, D.C. 20260-1000

Postal Rate and Fee Changes, 2000)
)

Postal Rate Commission
Docket No. R2000-1

**MOTION OF
THE OFFICE OF THE CONSUMER ADVOCATE
FOR RECONSIDERATION OF
DOMESTIC MONEY ORDER FEE INCREASE**

The Office of the Consumer Advocate (“OCA”) hereby requests that the Governors of the United States Postal Service reconsider one aspect of the “Decision of the Governors of the United States Postal Service on the Recommended Decision on Further Reconsideration of the Postal Rate Commission on Postal Rate and Fee Changes,” issued May 8, 2001 (“Governors’ Decision”). The OCA requests that the Governors maintain the domestic money order fee at 75 cents.

The OCA is charged by statute to “represent the interests of the general public” in rate and classification cases before the Commission. 39 U.S.C. §3624(a). In keeping with that mandate, the OCA submitted evidence that the Postal Service’s revenue from money order fees, interest, and uncashed money

orders was adequate to permit a decrease in the rate from 80 cents to 75 cents.¹ The Commission agreed and recommended a 75 cent fee.² This fee became effective on January 7, 2001. Because an increase now to 90 cents is a disservice to low income individuals who rely on the Postal Service in lieu of banking services, the OCA urges the Governors to reconsider this aspect of the Governors' Decision and to retain the current 75 cent fee.

THE MONEY ORDER FEE SHOULD REMAIN AT 75 CENTS

On May 8, the Governors' Decision overrode many of the recommendations of the Postal Rate Commission and ordered a variety of higher rates to become effective on July 1. The largest single such increase was to the fee for domestic money orders, which is going from 75 cents to 90 cents.³

The only specific justification given for this sharp increase is that "the money order market is expanding to Internet users." Governors' Decision at 102. While this may be true, it ignores the fact that "money orders [are] a vehicle for people of modest means or limited access to financial alternatives to pay for

¹ Tr. 29/14187-196 and related exhibits.

² PRC Op. R2000-1, ¶¶ 6147-6153.

³ Governors' Decision, Attachment Four, column headed "Governors Modification."

necessary goods and services.”⁴ This reflects the long-time concern of the Commission and the Postal Service for low income individuals who rely on money orders to fulfill their banking needs. This concern caused the Commission to comment that “[r]ates should not be raised, and in fact should be lowered, for this service when attributable costs are more than adequately covered.” *Id.*

It is important to note that the sole reason for the increased rates ordered in the Governors’ Decision is the greater contingency funds sought by the Postal Service. As the Governors recognized, the Commission recommended rates to recover all of the operating costs documented by the Postal Service during the recent rate case, including increasing certain costs—over the Postal Service’s objection—through the update process. In addition, the Commission granted the Postal Service \$1 billion for unforeseeable events. The July 1st round of increases is solely the result of the Postal Service’s desire to increase the total of contingency funds to \$1.9 billion.⁵

The increase in the money order fee should be troubling to the Governors as, indeed, it should be troubling to anyone concerned with fairness to low income individuals who rely on this service. Many of the Postal Service’s money order

⁴ PRC Op. R2000-1, ¶ 6152.

customers do not have regular banking services. These individuals need a secure, reliable, and inexpensive method of paying bills and of sending money home or to relatives. Historically, the Postal Service has kept the interests of these consumers in mind when setting the money order fee. The increase in the Governors' Decision, however, breaks faith with these consumers.

The Postal Service sells and cashes nearly \$30 billion in money orders annually. While some sales may now be due to internet auctions and the like, there is still a large core of consumers who need money order service because they have no financial alternative. It is the interests of these consumers which should drive the decision on the appropriate fee.

The Governors should recognize that domestic money orders are a profitable business at the recommended 75 cent fee. The Postal Service collects \$178 million in fees, earns \$50 million each year in "float," and takes in another \$45 million annually from money orders that are never cashed. The combined money order revenues exceed the cost of providing the service by \$98 million.⁶ The 75 cent fee generates a cost coverage near the system average (153.4 percent), more than adequate for this essential service to lower income individuals.

⁵ The \$1.9 billion consists of the contingency at 2.5 percent, or \$1.7 billion, plus the \$200 million field reserve. Governors' Decision at 4-5.

The money order fee increase will generate another \$23 million for the Postal Service's \$1.9 billion in contingency funds.⁷ But the amount of the contingency is flexible and can be related to policy goals, as the Governors showed in Docket No. R97-1 by requesting a more modest contingency of \$600 million. The circumstances of this case are such that the Governors could and should exercise their discretion to slightly reduce the \$1.9 billion for contingencies and to restrain the money order fee.

The Governors acknowledge that the increase to 90 cents results in a higher than average increase.⁸ Importantly, the Governors do not have any evidence that the increase will not adversely affect low income customers. On this critical point, the Governors merely opine that "[w]e believe that the impact . . . on money order customers will not be severe." *Id.* The fact is that the Postal Service is overpricing money orders compared to the cost of providing this essential service, and that the impact on low income individuals who rely on the Postal Service's money orders will be significant. The Governors should think long and hard—and act on solid evidence rather than conjecture—before raising the money order fee.

⁶ PRC Op. R2000-1, App. G, p. 25.

⁷ Compare Governors' Decision Attachment One (Appendix G Revenue) with Attachment Two (Modification Revenue).

⁸ Governors' Decision at 102.

The Governors should also consider the fact that, at the higher fee, the cost coverage for money orders (173.1 percent) would exceed that of Priority Mail (161.4 percent), Express Mail (151.3 percent) and virtually all subclasses of Standard Mail and Package Services Mail. A return to the more customary cost coverage near the system average would be appropriate under these circumstances, and can be accomplished by retaining the 75 cent fee.

CONCLUSION

The OCA urges the Governors to reconsider the domestic money order fee and retain the current 75 cent fee.

Respectfully submitted,

THE OFFICE OF THE CONSUMER ADVOCATE

A handwritten signature in dark ink, appearing to read "Ted P. Gerarden", is written over a horizontal line.

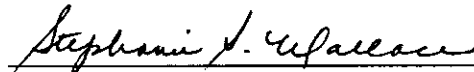
Ted P. Gerarden
Director, Office of the Consumer Advocate

Postal Rate Commission
1333 H Street, N.W.
Washington, D.C. 20268-0001
202-789-6830

May 17, 2001

Certificate of Service

Pursuant to 39 CFR §9.2(b), I hereby certify that I have this date served a copy of the foregoing document by United States Mail, postage prepaid, upon each participant in *Postal Rate and Fee Changes, 2000*, Postal Rate Commission Docket No. R2000-1.

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Washington, D.C. 20268-0001
May 17, 2001