

Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2005)

Docket No. R2005-1

REPLY BRIEF OF AMERICAN POSTAL WORKERS UNION, AFL-CIO

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The APWU submits this Reply Brief to make three points in response to arguments advanced by other interveners:

1. The Evidence In This Case Will Not Support A Redesign Of Rates, And Intervenors Have Not Provided Evidence To Support Redesign

We have pointed out elsewhere that the data in this case cannot support rate redesign. Initial Brief of the APWU in R2005-1 at 7-9. We return to this point only to emphasize that the data cited by other intervenors that wish to increase workshare discounts suffers from the same infirmities.¹ Merely applying different, arguably better, computation techniques to inadequate data cannot improve the result. Abdirahman testimony, Tr. Vol. 4 at 1146; Answer to POIR 1a at 1146. We acknowledge that, with the exceptions noted by the Postal Service, the data in this case demonstrate that rates for each class or type of mail exceed attributable costs for that class or type of mail. The Postal Service has acknowledged that the data it has submitted in this case are not adequate to serve as the basis for traditional rate design. New rate designs based on

¹For example, it is incorrect to assert that, “as a result of MMA’s efforts during discovery, the record now contains an independent evidentiary basis for measuring workshare savings.” Initial Brief of MMA, at 12.

these inadequate data would be illegal because they would not be in accordance with the policies of the Postal Reorganization Act or, in particular, Section 3622 of the Act.

We also wish to emphasize that, in the view of the APWU, accurate data concerning flats processing costs would reflect the fact that flat processing costs have been falling as a result of automation. An adequate examination of flats processing costs, however, must await the forthcoming traditional omnibus rate case.

2. The Commission Should Adhere To Its Position That Workshare Discounts Should Be Based On Average Costs And May Not Exceed Costs Avoided

In R2001-1, the Commission stated:

The Commission agrees with APWU that establishing worksharing discounts to pass through no greater than the level of costs that are avoided by the Postal Service is a very important policy consideration... .

* * * *

Passthroughs close to 100 percent of avoided costs provide an appropriate signal to mailers to perform worksharing activities only when they can do so at a cost lower than can be done by the Postal Service, promoting the policy of efficient component pricing.

PRC Op. R2001-1, ¶¶ 3059-3061. (Citing PRC Op. R2000-1, para. 5060.)²

The unassailability of the principle that workshare discounts should not exceed costs avoided (with very limited exceptions such as the need to avoid rate shock) has led large mailers to contend that rates should be de-averaged. Thus, MMA argues that , if First Class workshare discounts in this case were based on actual costs avoided, “First Class workshare mailers would be unfairly burdened... .” (Initial Brief of MMA at 12). Quite the

²As the Commission is aware, the APWU believes that workshare discounts are most effectively set in a range of 80 percent to 100 percent of costs avoided. The APWU is forgoing that argument in this case, however, because of the unique circumstances underlying the Postal Service’s request for an across-the-board rate increase in this case.

contrary, as this Commission has repeatedly observed, it is entirely appropriate for a piece of mail to make the same contribution to overhead whether or not it is workshared, even if this results in higher cost coverage for some mail. To do otherwise would be to undermine the financial base of the postal network.

The large mailers' arguments for de-averaging are inconsistent with maintaining universal service at uniform rates. As we have shown elsewhere, and as we will show in the next omnibus rate case, individuals and small businesses are already bearing too large a portion of network costs due to excessive workshare discounts. Large mailers benefit from the postal network, and they must bear an appropriate share of the costs of maintaining it.

3. Retained Earnings And Cumulative Net Income Are Appropriate And Necessary For A Viable Postal Service

Section 3621 of the Act provides, in part:

...Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service. ...

The Initial Brief of the Office of the Consumer Advocate (OCA) argues at length that Section 3621 permits deficits in rates but not surpluses. From this, the OCA argues that it is always required that any cumulative net income be erased by the end of a test year; “the books should be evened-up unless there is a very good policy reason consistent with the Postal Reorganization Act for not doing so.” OCA Initial Brief at 10.

Neither examination of the statutory language, logic, nor the policies of the Act support this contention. On its face, the statute does not distinguish between deficits and surpluses. The statutory requirement that revenues equal costs “as nearly as practicable”

expresses no preference for deficits instead of surpluses. While it would be inappropriate for the Postal Service to adopt a policy of continually increasing cumulative net earnings, the fact that there presently are cumulative net earnings is no more inappropriate than the fact that there have been cumulative deficits in the past.

We also fail to see how P.L. 108-18 supports the OCA's position. The Postal Service has obeyed the mandate of that law to hold rates constant and reduce postal debt for 2003 through 2005. If it cannot now make provision for the escrow requirement through this across-the-board increase, that desirable process will be reversed, Postal debt will climb and rates will become volatile.

The reasons for the present surplus illustrate the wisdom of rejecting the absolutist policy advocated by the OCA. The present positive net cumulative net income was achieved because the Postal Service had inadvertently been paying far too much toward civil service retirement for its employees. But for the relief provided by these circumstances over the most recent three fiscal years, postal rates would have been increased much sooner and much more. Likewise, if the escrow requirement established by P.L. 108-18 is not repealed, then it is necessary to build that requirement into rates. If that were not done, and this case were rejected by the Commission, then the consequence would most likely be a significantly larger rate increase as soon as the Postal Service could prepare and process another omnibus rate case. There is no sound policy reason to subject mailers to infrequent large rate increases rather than more frequent smaller increases. To the extent that retained earnings can be used to dampen and smooth out rate increases, that will benefit both mailers and the Postal Service. Testimony by PMG Potter; Tr. 2/78, lines 4-11.

Conclusion

For the reasons stated above and in the Initial Brief of the APWU, the Commission should promptly recommend to the Board of Governors an across-the-board rate increase commensurate with rates sought by the Postal Service in this case.

Respectfully submitted,

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