Postal Rate Commission
Submitted 1/20/2006 2:29 pm
Filing ID: 47725
Accepted 1/20/2006

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

Parcel Return Service } **Docket No. MC2006-1**

INITIAL BRIEF AND COMMENTS ON PROPOSED SETTLEMENT OF PARCEL SHIPPERS ASSOCIATION

Timothy J. May
Patton Boggs. LLP
2550 M Street, NW
Washington, DC 20037
Tel: 202 457 6050
Fax: 202 457 6315
tmay@pattonboggs.com

Dated this 20th day of January, 2006

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

Parcel Return Service } Docket No. MC2006-1

INITIAL BRIEF AND COMMENTS ON PROPOSED SETTLEMENT OF PARCEL SHIPPERS ASSOCIATION

The Parcel Shippers Association ("PSA") is a signatory to the Stipulation and Agreement ("Settlement Agreement") submitted by the Postal Service in the above-captioned proceeding on January 17, 2005. As such, PSA supports the Postal Service's proposal to make the Parcel Select Return Service a permanent classification, which will be entitled Parcel Return Services (PRS), and to make the Certificate of Mailing service available to consumers that use PRS. The evidence in the record and the representations of the signatory parties provide an adequate basis for the Commission to make an independent assessment that the rate and classification proposals set forth in the Settlement Agreement are supported by the record and are consistent with the Act. For these reasons, we urge the Commission to recommend to the Governors the adoption of the rates and classifications set forth in the Settlement Agreement.

We support the proposal to make PRS permanent because it benefits consumers, PRS users, and the Postal Service. In addition to showing that PRS is operationally feasible, the experiment demonstrates that the market has embraced PRS and that PRS increases the contribution of returns to Postal Service institutional costs.

The Parcel Return Service is an obvious instance where both the Postal Service and the mailers/consolidators can reap significant advantage. The mailers can deposit their outgoing

mail at the DBMC and DDU and, at the same time, pick up returns at the same postal installations.

Postal Service witness Daniel (USPS-T-1) reviewed the experimental phase of the Parcel Return Service and, based upon that experience, projected FY2006 volumes. USPS witness Miller (USPS-T-2) developed the Test Year 2006 costs for the Parcel Return Service. USPS witness Koroma (USPS-T-3) designed rates and calculated the financial impact of PRS.

Witness Daniel described the success of the experiment, stating, "[t]he two current participants in the experiment represent scores of merchants and have handled over 13 million PRS returns for their clients" with PRS volume growing from 4.4 million parcels (generating $13 million in revenue) in FY 2004 to 8.8 million parcels (generating $25 million in revenue) in 2005 and a projected 12.8 million parcels in FY 2006. USPS-T-1 at 3, 7.

Witness Miller (USPS-T-2) analyzed six categories of cost estimates for returned parcels, and based on that, estimated the cost avoidances for the Parcel Return Service, utilizing a cost avoidance methodology, not bottom-up costs. USPS-T-2 at 1. The benchmark for cost avoidance was intra-BMC Parcel Post costs. His analysis shows that it costs the Postal Service much less to handle PRS than the intra-BMC Parcel Post benchmark ($1.42 less for RBMC and $2.27 less for RDU machinable parcels, with much more substantial savings for non-machinable and oversize parcels). USPS-T-2 at 6.[1]

USPS witness Koroma (USPS-T-3) estimated the revenue differences from the intra-BMC benchmark, showing more than $4 million for RDU and almost $9 million for RBMC, contrasted with cost differences from the benchmark of almost $9 million and $17 million. Together, Koroma projects that the FY 2006 contribution of PRS parcels will be approximately

[1] In response to Presiding Officer's Information Request No. 1 and Office of the Consumer Advocate (OCA) interrogatories, the Postal Service provided alternate versions of its cost avoidance models and updated its cost avoidance and revenue reduction estimates. These adjustments, however, do not materially alter the financial impact of PRS or the conclusion that PRS parcels make a much larger contribution than if mailed as intra-BMC parcels. Thus, for simplicity, this brief refers to the financial calculations in the direct testimony of Postal Service witnesses.

$13 million ($26 million cost savings minus $13 million revenue differential) more than if these returns were mailed as intra-BMC parcels. USPS-T-3 at 9.

With the recent approval of an "across-the-board" rate increase for PRS and most other postal rates and the expectation that the Postal Service will soon be filing another omnibus rate case, PSA believes that it is appropriate, as included in the Settlement Agreement, to maintain the PRS rates/discounts that were approved in Docket No. R2005-1 in this case.

While supporting this approach in the instant case, PSA notes that the passthroughs (calculated as the revenue differential divided by cost savings) underlying the PRS rates are only about 50 percent. USPS-T-3 at 9. Consistent with the longstanding practice of steadily increasing passthroughs as new worksharing discounts mature, and efficient component pricing, PSA believes that these passthroughs should be increased in the next omnibus rate case.

Respectfully submitted,

_____

Timothy J. May
Patton Boggs, LLP
2550 M Street, NW
Washington, DC 20037
Tel: 202 457 6050
Fax: 202 457 6315
tmay@pattonboggs.com

Dated this 20th day of January, 2006