

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0111**

Before Commissioners:

George Omas, Chairman  
Dawn A. Tisdale, Vice Chairman  
Ruth Goldway; and  
Tony Hammond

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**POSTAL RATE AND FEES CHANGES, 2006**

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**Docket No. R2006-1**

**PARCEL SHIPPERS ASSOCIATION (PSA)  
RESPONSE TO PRC's NOTICE OF INQUIRY NO. 3  
(August 7, 2006)**

The Parcel Shippers Association (PSA) responds herein to the Commission's Notice of Inquiry No. 3, issued on July 26, 2006.

Respectfully submitted,

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Dated: August 7, 2006

### **RESPONSE OF PARCEL SHIPPERS ASSOCIATION TO NOTICE OF INQUIRY NO. 3**

The Parcel Shippers Association (PSA) appreciates the opportunity to comment on Notice of Inquiry No. 3, which solicits comments on the appropriate method for designing First-Class Mail rates. PSA's response to this Notice of Inquiry (NOI) serves as an addendum to our response to NOI No.2.

Just as for Standard Mail, PSA respectfully submits that the appropriate framework for analyzing First-Class Mail shape-based rate differentials is comparing the *entire* revenue difference between shapes with the respective *entire* cost differences.

This approach, which ensures that weight-based revenue is included in the passthrough calculation, may be even more important in First-Class Mail than in Standard Mail since the proposed additional-ounce rate translates into \$3.20 per pound, more than three times the proposed Standard Mail pound rate. Further, as PSA noted in its response to NOI No. 2, USPS witness Taufique has been quite clear that the additional-ounce rate was designed to recover shape-based costs. USPS-T-32 at 17. A proposed four-cent reduction in this rate does not change this fact.

As shown in Table 1 below, under this framework, the Postal Service's proposal passes through the entire cost difference between First-Class Mail single-piece letters (the major shape in this subclass) and single-piece parcels and substantially more than 100% of the mail processing and delivery cost difference between letters and parcels.<sup>1</sup>

Either of these figures is significantly higher than the 50% passthrough that witness Taufique calculates. USPS-T-32 at 23. The reason is that Taufique makes the mistake of completely ignoring the significantly higher additional-ounce revenue that First-Class Mail single-piece parcels

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<sup>1</sup> Just as PSA noted for Standard Mail parcels, a passthrough of less than 100% is appropriate in this case. The average rate increase for First-Class Mail single-piece parcels is 30% and the rate increase for one-ounce and two-ounce parcels is nearly 100%. Response to PSA/USPS-T32-1, 4. Further, "[t]he Postal Service has not performed [any] studies or analyses to evaluate the reliability of CRA costs by shape" data. Institutional response to POSTCOM/USPS-1.

**RESPONSE OF PARCEL SHIPPERS ASSOCIATION TO NOTICE OF INQUIRY NO. 3**

generate. At the proposed rates, the average single-piece parcel will generate 88 cents in additional-ounce revenue while the average single-piece letter produces only an additional penny.<sup>2</sup>

**Table 1. Calculation of Shape-Based Passthroughs for  
First-Class Mail Single-Piece Parcels**

Shape	Unit Cost		Unit TYAR Revenue	Passthrough	
	Total	MP+D		Total	MP+D
	[1]	[2]	[3]	[4]	[5]
Letters	\$0.22	\$0.20	\$0.43	n/a	n/a
Parcels	\$1.68	\$1.37	\$1.88	n/a	n/a
Difference	\$1.46	\$1.17	\$1.45	100%	124%

MP+ D = Mail Processing + Delivery

[1],[3] Attachment to Revised Response to PSA/USPS-T32-4.

[2] USPS-T-32 at 23.

[4]=[3]/[1]

[5]=[3]/[2]

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<sup>2</sup> Calculated from the attachment to USPS witness Taufique's revised response to PSA/USPS-T32-4. Also, while we have not focused on the letter-flat passthrough, the cost and revenue data provided in this response shows that, most likely for the same reason, the Postal Service is proposing an even higher passthrough of the letter-flat cost differential.