

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

Postal Rate and Fee Changes, 2006)

Docket No. R2006-1

OFFICE OF THE CONSUMER ADVOCATE
RESPONSE TO NOTICE OF INQUIRY NO.3
August 17, 2006

The Office of the Consumer Advocate (OCA) hereby responds to the Commission's third Notice of Inquiry (NOI No. 3), which concerns First-Class worksharing discounts.¹ The primary issue raised by the NOI is the Postal Service's proposal to de-link presort rates from the single-piece rate.² The effect of the proposal is quasi-subclass treatment for presort rate categories³ and higher rates for single-piece mailers. Such treatment contradicts almost 30 years of practice. Discounts for presorted First-Class Mail have always reflected the savings accruing to the Postal Service *solely* from the reduction in piece handlings caused by mailer presortation. This reduction in Postal Service costs was historically known as "clearly capturable cost avoidance."⁴

The Postal Service explains the decision to adopt subclass pricing for First-Class presort as follows.⁵

Without conceding the numerous assertions about workshare cost differentials and rate design offered by intervenors in past dockets, the

¹ Notice of Inquiry No. 3, July 26, 2006.

² *Id.* at 2.

³ *Id.*

⁴ *Id.* at 3.

⁵ USPS-T-32 at 15.

Postal Service's approach to rate design in Docket No. R2006-1 puts aside past irreconcilable divisions and takes a fresh look at the recurring task of First-Class Mail workshare rate design. The Postal Service de-links the cost and rate development for Single-Piece Letters from the cost and rate development for Presort Letters. Accordingly, the Postal Service proposes that the rates for Single-Piece Letters and for Presort Letters be developed independently of each other. No longer should the rates for Presort Letters look to the cost base of Single-Piece Letters; the rates for Presort Letters should be developed with reference only to the CRA line item of "Presort Letters." No longer should there be debate regarding which cost pools from Single-Piece Letters should be used for comparison to Presort Letters. No longer should there be a need for debate regarding the degree to which the impact of the characteristics of the mail aside from the specific activities avoided by worksharing activities is reflected in the rates. And the debate over the appropriate benchmark of "dirty" versus "clean" mail can be silenced.

In other words, for the sake of silencing "debate," the Postal Service has proposed a change in rate design that has been rejected by the Commission on numerous occasions.⁶ The OCA opposes the Service's proposal. As part of its direct case the OCA intends to propose retention of the traditional approach to presort discounts in First Class.

The Commission has asked whether there is an overlap between single-piece and presorted First Class. That issue was addressed in Docket No. R2000-1⁷ and in discussions between the OCA, mailers, and the Postal Service concerning the possibility of more frequent rate increases for presort rate categories than for single-piece. The OCA proposed that single-piece rates be increased only every other rate case so as to reduce inconvenience to household and small business mailers. Mailers suggested, however, that presort volumes would fluctuate substantially whenever presort rates increased and single-piece rates did not.

⁶ NOI No. 3 at 3-4.

⁷ Docket No. R2000-1, OCA-T-6 at 36-48.

There is clearly a substitution effect for mailers who presort the mail of others. Such mailers earn their living by sharing presort discounts with their customers. If the discounts are too small, it becomes more difficult both to cover the costs of presorting and to pay a meaningful share to customers. The mail that is most costly to the presorter then reverts to single-piece. While this is unfortunate for the presorter, it nevertheless insures that the entity that can sort mail the most efficiently (*i.e.*, the Postal Service) receives the business.

The Postal Service's monopoly finances its universal service obligation. That obligation requires the Postal Service to provide delivery at reasonable rates. Such rates can exist solely because of intra-class cross-subsidization. When the Postal Service creates discounts that exceed clearly capturable avoided costs, it also reduces its ability to finance its universal service obligation. If the Postal Service continues to forfeit the funds needed to support universal service, it will ultimately lose its character as "a basic and fundamental" *public* service.

Respectfully submitted,

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