

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

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

**AMERICAN POSTAL WORKERS UNION, AFL-CIO
RESPONSE TO NOTICE OF INQUIRY NO. 3
(August 17, 2006)**

The American Postal Workers Union, AFL-CIO, hereby responds to the Postal Rate Commission's Notice of Inquiry No. 3, regarding the proposed rate methodology for establishing workshare discounts for First Class Mail.

The Postal Service's proposed rate methodology is not consistent with the principle that rates within classes of letter mail "shall be uniform throughout the United States." 39 U.S.C. 3623(d). As the Commission acknowledged in its Notice of Inquiry No. 3, the Postal Service proposal to "de-link" the design of single-piece mail and workshared mail within the First-Class Letters subclass "implicitly treats single-piece mail and workshared mail as separate subclasses." In MC95-1, the Commission correctly refused to sanction the Postal Service proposal to divide First Class Letter mail into such subclasses. In the instant case, the Postal Service has not provided any convincing support for moving away from the prior methodology and it should be rejected.

In MC95-1, the Commission relied on, as a basic premise, “that everyone should benefit from worksharing.”¹ Utilizing the efficient component pricing methodology along with the Bulk Metered Mail letter as a benchmark for discounts from worksharing ensured that two pieces of identical mail would contribute the same cents per piece toward the institutional costs of the Postal Service regardless of whether or not they were workshared. In MC95-1 the Commission provided the following example in support of this practice of offering cost-based worksharing discounts:

[3070] If two pieces of mail with attributable costs of 10 cents each are charged a rate of 15 cents, both pieces make a unit contribution to institutional costs of 5 cents and have an implicit cost coverage of 150 percents. If one of those pieces is barcoded, thereby allowing the Service to avoid 5 cents of attributable costs, and that piece is given a 5 cent worksharing discount, its new implicit cost coverage is 200 percent. (footnote omitted) In this example, because 100 percent of the cost savings is passed on to the mailer, both pieces will continue to contribute 5 cents toward institutional costs. Presumably the worksharing piece is better off, because its total costs decline (otherwise the mailer would not go through the trouble of worksharing) and neither the Postal Service nor other mailers are worse off.

Once the single piece and workshared mail is de-linked, as the Postal Service is now proposing, that will no longer be the case. The Pareto Optimal solution will be lost and non-workshare mailers and the Postal Service will be worse off. Identical pieces of mail should not pay different overhead costs depending solely on whether the piece is workshared. This contravenes a fundamental policy of the Postal Reorganization Act that “the costs of establishing and maintaining the Postal Service shall not be

¹ MC95-1 at [3069].

apportioned to impair the overall value of [prompt, reliable and efficient] services to the people.”²

In addition, the proposed methodology would produce inefficient results. In their paper, *Worksharing: How Much Productive Efficiency, at What Cost and at What Price?*, Robert H. Cohen³, Matthew H. Robinson⁴, John D. Waller⁵, and Spyros S. Xenakis⁶ state that “[u]sing the raw differences between the average cost of single-piece and workshared mail as the basis for worksharing discounts would send the wrong price signal to mailers by encouraging worksharing even if the mailer's cost exceeds the actual savings to the Postal Service.”⁷ To illustrate this point, the authors offered the following example:

Assume that non-workshared mail costs an average of 23 cents for the Postal Service to sort, transport and deliver, while a subset of non-workshared mail with characteristics similar to workshared mail (non-workshared bulk) costs 20 cents to handle and workshared mail costs 15 cents. A discount equal to 8-cent cost difference between non-workshared and workshared mail would result in upstream revenues equal to upstream costs, but it would not encourage the most efficient behavior.

Consider a hypothetical mailer of bulk non-workshared mail who must spend 7 cents to do the work needed to qualify for the 8-cent discount. This rate design encourages the mailer to do so and pocket the 1-cent difference. When this happens, the Service's costs are reduced by 5 cents, but its revenues are reduced by 8 cents. This is clearly an inefficient result. Not only will the lost contribution need to be recovered from other mailers, but also the total cost to

² 39 U.S.C. § 101(a).

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⁷ Robert H. Cohen, et al., *Worksharing: How Much Productive Efficiency, at What Cost and at What Price?* in *Progress Toward Liberalization of the Postal and Delivery Sector* 141, 149 (Michael A. Crew & Paul R Kleindorfer, eds., Springer Science and Business Media, Inc. 2006).

society is increased from 20 cents (all work done by Postal Service) to 22 cents (15 cents by Postal Service plus 7 cents by mailer).⁸

The rate methodology previously used by the Postal Service, efficient component pricing using the Bulk Metered Mail letter as a benchmark, avoided this inefficiency by “encourage[ing] mailers to make the most efficient decisions.”⁹ Yet the Postal Service now proposes to move from that methodology to one that will induce mailers to make less efficient decisions without providing a legitimate rationale for the change.

In conclusion, the current proposal contains no reasonable rationale for shifting the institutional cost burden and would in fact send the wrong pricing signals to mailers. Therefore, the Postal Service’s proposed rate methodology should be rejected as inefficient and inconsistent with the policies of the Postal Reorganization Act.

Respectfully submitted,

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⁸ *Id.*

⁹ *Id.*