

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

POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R 2006-1

Trial Brief

Of the

American Bankers Association

Concerning

3 Digit Passthroughs for Bulk First Class Mail

September 6, 2006

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The American Bankers Association hereby submits this trial brief on the appropriate passthrough for the First-Class presort 3-Digit automation letters, pursuant to Rule 30(e) of the Commission's Rules of Practice.

**I.
INTRODUCTION**

The purpose of this brief is to urge the Commission to recommend a 100 percent passthrough for First-Class presort 3-Digit automation letters. The ABA does not suggest a specific set of rates to achieve this goal, but instead focuses on the economic efficiency aspects of a 100 percent passthrough for this category of mail. In this brief, we demonstrate that the passthrough for this category of mail is about 80 percent using the Postal Service's recommended rates and the Commission's costing methods. We also emphasize that a passthrough of 100 percent is consistent with efficient component pricing, and note there are no compelling reasons (e.g., rate simplification, rational rate relationships, rate shock avoidance) to depart from this goal.

II. THE PASSTHROUGH FOR FIRST-CLASS PRESORT 3-DIGIT AUTOMATION LETTERS SHOULD BE 100 PERCENT

- A. The Passthrough for this Category of Mail Is 80 Percent Using the Commission's Methods and USPS-Recommended Rates

According to his direct testimony, witness Taufique proposed rates for First-Class Presort Mail that resulted in a 100 percent passthrough for 3-Digit automation letters (T-32 at 29-30). However, further discovery revealed that witness Taufique's rate design did not take into consideration the in-office delivery costs avoided by First-Class Letter Mail, which are normally reflected in the Commission's cost avoidance estimates along with mail processing costs. In the USPS response to ABA-NAPM/USPS-T32-9, a table is provided that shows the revised unit cost savings and passthroughs for the First-Class Presort automation letter categories, using PRC costing methods and USPS-proposed rates. That table shows a revised passthrough for 3-digit automation letters of 80.0 percent.¹

It should be noted that 3-Digit automation letters is a major market component within the First-Class business mailstream. Its test year after rates volume is projected to be 23 billion pieces, which makes it the largest single presort category, with 48 percent of First-Class Presort letter mail. For this reason, it is especially important that this mail be priced efficiently to reduce the overall cost of mail service to society.

¹ A similar table showing cost savings and passthroughs for the First-Class Presort automation letter categories using the USPS costing methodology and USPS-proposed rates is provided in the USPS response to ABA-NAPM/USPS-T22-2. That table also shows a passthrough of 80.0 percent for 3-Digit automation letters.

B. A 100 Percent Passthrough Is Consistent with Efficient Component Pricing

The Commission has frequently advocated the use of the economic principle of Efficient Component Pricing (ECP) when establishing discounts that are just based on cost avoidance. For example, in a discussion of worksharing discounts in its Opinion and Recommended Decision in Docket No. R2000-1, the Commission explained:

[5535] This approach to worksharing discounts is called “efficient component pricing” (ECP) in the economic literature. The theory requires the discount to be 100 percent of the cost savings. The Commission tries to achieve 100 percent passthrough of the worksharing savings, but again it may frequently depart from this standard for a variety of reasons. An important virtue of ECP is that the mailer will perform the worksharing activity (e.g., presort) when he can do so at a lower cost than the Postal Service. This leads to productive efficiency (i.e., the most efficient mailer does the work resulting in the lowest cost to society).

ECP applies in areas where “worksharing avoided costs” are the driving factor in the particular rate element being examined. That is, of course, not necessarily the case when comparing First Class Single Piece mail with First Class Automation mail, for some of the cost differences have nothing to do with worksharing.

Here, however, all the costs at issue are “avoided costs.” Hence, a 100 percent passthrough for First-Class Presort 3-digit automation letters is consistent with the principle of Efficient Component Pricing.

C. There Are No Compelling Reasons to Deviate from a 100 Percent Passthrough for this Category of Mail

As the Commission noted in its Notice of Inquiry No. 2 at 2, occasionally there are circumstances where strict adherence to the 100 percent passthrough policy is not appropriate:

Rates that fully reflect avoidable costs (rates that pass 100 percent of the differences in avoidable cost through to the mailer) satisfy the cost recovery and fairness policies of the Postal Reorganization Act. Occasionally, subordinate statutory policies have justified worksharing rate differences that fail to pass through

100 percent of avoidable cost. In such circumstances, the Commission has explained variations from 100 percent passthroughs with reference to the non-cost rate setting criteria of section 3622(b).

These exceptions to 100 percent passthroughs have typically been made to promote rate simplification, to allow for a more rational set of rate relationships, or to prevent rate shock.

The table below presents the current rates, USPS-proposed rates and percentage increases for the First-Class Presort automation letter categories.

First-Class Presort Automation Letter Rates			
<u>Category</u>	<u>Current Rate</u>	<u>Proposed Rate</u>	<u>Percent Change</u>
Mixed AADC	\$0.326	\$0.346	6.1%
AADC	\$0.317	\$0.335	5.7%
3-Digit	\$0.308	\$0.331 (\$0.330)	7.5% (7.1%)
5-Digit	\$0.293	\$0.312	6.5%

As shown in the USPS response to ABA-NAPM/USPS-T32-9, the total unit mail processing and delivery cost savings for 3-Digit mail is \$0.005, using the PRC costing methodology. In the above table, the first entry in the Proposed Rate column of the 3-Digit row is the unadjusted USPS-proposed rate, while the highlighted second entry is the (\$0.330) rate based on a 100 percent passthrough of the \$0.005 savings. Similarly, the highlighted percentage in the corresponding Percent Change column is based on the 100 percent passthrough rate.

As mentioned above, the purpose of this brief is not to advocate a particular set of rates, including those shown in the above table. The purpose of the table is rather to show the effect of using a 100 percent passthrough for 3-Digit mail on a typical set of rates that reflects a 3-Digit passthrough of less than 100 percent.

As can be seen from the table, introducing a 3-Digit rate based on a 100 percent passthrough does not cause any rate shock, nor does it cause any awkward rate relationships, nor does it result in any additional rate complexity. Thus, the non-cost factors of the Act do not justify a deviation from a 100 percent passthrough for 3-Digit mail.

III. CONCLUSION

For the reasons stated above, the Commission should include a passthrough of 100 percent for the 3 Digit Passthrough in any set of rates it recommends.

Respectfully submitted,

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