

ABA-NAPM/PB-T1-1 In your testimony (PB-T-1), you include a discussion of the application of Efficient Component Pricing Rule (ECPR) to postal ratemaking. At page 18, you affirm the familiar efficiency properties of the ECPR:

Fortunately, the efficient "make or buy" negotiations described above can be decentralized using ECPR-based worksharing discounts set equal to the per unit avoided costs of the Postal Service.

Under the ECPR, is the correct measure of avoided costs the full cost difference (due to both worksharing and non-worksharing factors) rather than the cost avoidance due exclusively due to worksharing factors? Please explain.

RESPONSE

As I explain in my testimony on pages 45-47, the principles supporting ECPR apply not only to cost avoidances but to cost differences as well. As I show, if there are cost differences that are not reflected in rate differences, a "rate rebalancing" that aligns Postal service rates with Postal Service volume variable costs can induce efficient changes in mailer behaviour. These changes both benefit the mailer and increase the institutional cost coverage of the Postal Service.

ABA-NAPM/PB-T1-2 At pages 35-39 of your testimony (PB-T-1), you describe some issues related to the calculation of cost avoidance due to the heterogeneity of workshared mail.

At the end of this section, you state that:

From this perspective, the current Postal Service proposal to de-link single piece and workshared First-Class letters should be viewed as a means of decreasing the heterogeneity discussed above.

Please explain further how the de-linking proposal would decrease the heterogeneity of First-Class Mail, and what effect that would have on efficient pricing.

RESPONSE

Workshared mail appears to be more homogeneous than Single-Piece First-Class Mail.

Workshared mail must be barcoded, is largely machinable and is entered trayed and faced with printed addresses. Single-Piece First-Class Mail is far more varied with respect to these characteristics. Thus, workshared mail is more homogeneous than the mixture of Single-Piece and all workshared mail. I understand that over the years there have been numerous discussions concerning the proper benchmark for workshared mail. With delinking, this argument no longer is necessary and the discussions pertaining to cost differences, cost avoidances, and benchmarks would have less consequence for Single-Piece Mail. This would certainly facilitate more efficient pricing in workshared mail.