

**BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268**

Regulations Establishing System of Ratemaking)
_____) Docket No. RM2007-1
_____)

RESPONSE OF THE MAIL ORDER ASSOCIATION OF AMERICA
TO
SECOND ADVANCE NOTICE OF PROPOSED RULEMAKING
ON REGULATIONS ESTABLISHING A SYSTEM OF RATEMAKING
(Issued May 17, 2007)

Pursuant to the above-referenced Notice, the Mail Order Association of America (MOAA) submits the following.

The provisions of the Postal Accountability and Enhancement Act (PAEA) are sufficiently broad that either the “averaging” approach or the “point-to-point” approach could be used for the purpose of calculating the CPI cap limitation as set forth in § 3622 (b), (c) and (d). Generally, the “moving average” approach would appear to provide a more representative result, but assuming that the date chosen for the implementation of rate cap increases remains constant, the differences between the two approaches would even out over time. MOAA recommends the moving average approach but at the same time recommends that the views of the Postal Service be given careful consideration.

Similarly, MOAA’s view is that there are a variety of methodologies that could be used that would be in compliance with the pertinent sections of § 3622 in determining the extent to which the Postal Service’s rates are in conformance with the CPI cap. Generally, the method chosen should be simple and one which conforms most closely to past practices by the Postal Service in determining revenues. To the extent that

altered rate designs present a problem, MOAA urges that, at least initially, those issues be addressed as they arise and be resolved in a manner which is as simple as possible.

In conformance with the views expressed by MOAA in its earlier comments, MOAA continues strongly to recommend that the Commission give considerable deference to the Postal Service in determining how the workshare discounts section of provisions of § 3622 (e) should be interpreted. In particular, MOAA is vitally concerned that the workshare discount provisions not be interpreted in a way that would effectively destroy the Postal Service pricing flexibility, flexibility which is essential if the purposes of the PAEA are to be fulfilled. Specifically, the Commission's initial approach to the issue should be to defer to the Postal Service's views. The provisions should not be interpreted in a way that would preclude the Postal Service from pricing its products within a particular class with the freedom clearly envisioned by the overall structure and purposes of the PAEA, *i.e.* to allow the Postal Service to set prices that will maximize volumes and revenues.

With respect to competitive products, MOAA again urges that the overall regulatory scheme adopted by the Commission be kept as simple as possible to ensure that a regulatory overlay not be so burdensome that it would be difficult, or impossible, for the Postal Service to actually compete for competitive products.

In particular, MOAA recommends that the Commission not adopt an approach to the "appropriate share" of institutional costs for competitive products that would preclude competition. MOAA is concerned primarily with the market-dominant products, but competitive products have been, and must continue to be, a vital part of the mail if the Postal Service is to survive in the harsh environment that it faces: structural cost increases (increasing numbers of delivery points) and volume decreases (diversion to the internet and other alternatives). The institutional costs contribution must be set at a level low enough to enable the Postal Service to actually compete. As discussed in MOAA's earlier comments, the Postal Service has been given no increased control over its labor costs and it is essential that the competitive products not

be burdened with a share of institutional costs that will prevent competition. The danger to the market-dominant products is not setting the share of institutional costs for competitive products too low, but rather driving competitive products out of the system by setting a share that is too high.

Generally, particularly during this initial period under the PAEA, regulatory restraint is essential and Commission's regulations should ensure that the Postal Service is given the maximum possible flexibility to use new approaches to establishing postal rates and classifications of market-dominant and competitive products, an approach that is essential to the future of the Postal Service.

Respectfully submitted

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