

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

---

**Regulations Establishing System  
Of Ratemaking**

---

**Docket No. RM2007-1**

**COMMENTS OF THE  
AMERICAN POSTAL WORKERS UNION, AFL-CIO  
ON UNITED STATES POSTAL SERVICE PROPOSED MAIL CLASSIFICATION  
SCHEDULE  
(October 9, 2007)**

On August 15, 2007, the Postal Regulatory Commission (“PRC” or “the Commission”) published Order No. 26 requiring the Postal Service to submit a draft Mail Classification Schedule. On September 24, 2007 the Postal Service provided its draft Mail Classification Schedule. This schedule sets forth the list of market dominant and competitive products. Pursuant to Orders No. 26 and 30 the American Postal Workers Union, AFL-CIO (“APWU”) respectfully submits these comments to address the Postal Service’s proposed product listing for First Class mail.

The APWU opposes the Postal Service proposal to separate single piece First Class letters and postcards and bulk letters and postcards into separate products. This proposal poses profound questions about the future direction and utility of the Postal Service. It raises again for the second time in less than one year the question whether the Commission will permit the Postal Service to de-link single piece First Class mail from workshared First Class mail and thus shift costs from large business mailers to individuals and small businesses. The Postal Rate Commission, in MC95-

1, and the Postal Regulatory Commission, in R2006-1, for reasons that apply as well to this case, disagreed with the Postal Service's proposals to make this change.

We observe, first, that the Postal Service's proposal to establish single piece First Class letters and cards as a product distinct from First Class workshared mail is functionally equivalent to the Postal Service's proposal, rejected by the Commission last year, to de-link single piece and workshared rates. As the Commission observed in MC95-1 (IV-7, n.5): "Since mail classification is performed for the purpose of setting rates and the rates themselves must reflect consistency with classification standards, it seems clear that the Commission's classification jurisdiction encompasses the language of the rate schedules." With reference to the Rate Commission's decision in MC95-1, the Regulatory Commission observed in R2006-1 that, "the Commission could not ignore the reasonable foreseeable consequence of rate impact on the Retail subclass in future rate cases." R2006-1, ¶ 5082.

Likewise, in this case, the Postal Service proposal to de-link the single piece and workshared mail into separate product categories speaks directly to the question of the rate relationship between single piece and workshared First Class mail. On that subject, the Postal Regulatory Commission spoke as follows in R2006-1 (at ¶ 5086): "The de-linking methodology allows many costs that are not worksharing related to be avoided by worksharing mailers. The full burden of these costs are shifted to the single-piece mailers. The Commission believes that these non-worksharing-related costs should be shared by all mailers within the subclass."

The proposed dichotomy between single piece and workshared mail also presages a challenge to the application of Efficient Component Pricing. As the

Commission observed in R2006-1, “[l]etters make up the large majority of the subclass, and the price signals sent by letter worksharing discounts are very important drivers of efficiency in the postal sector.... A comparison of pieces that are similar, except for worksharing, is the approach most likely to accurately isolate the savings due to worksharing, and therefore allow for the development of discounts that encourage efficient mailer behavior and minimize costs to society.” R2006-1, ¶ 5089.

In summarizing its reasons for rejecting the Postal Service proposal to delink single piece and workshared First Class mail in R2006-1, the Commission stated:

De-linking the rate design does not fairly and equitably balance the interests of all First-Class mailers within the subclass, does not follow established principles of rate design including Efficient Component Pricing and does not fairly allocate costs unaffected by worksharing. The Commission does not accept the Postal Service’s de-linking proposal.

R2006-1, ¶ 5090.

Furthermore, the enactment of the PAEA has given even stronger force to these principles. In the PAEA, Congress reconfirmed the Commission’s commitment to universal service at fair and equitable rates, principles that require that the link between single piece and workshared mail be maintained. In Section 1010 of the PAEA, Congress expressly reconfirmed that the Postal Service’s authority to establish “reasonable and equitable classes of mail and reasonable and equitable rates” and provided that the rate for letter mail sealed against inspection “shall be uniform throughout the United States, its territories, and possessions.”

In addition, the PAEA expressly requires that workshare discounts be justified by costs avoided by the Postal Service due to the worksharing activity performed by the mailer. The Postal Service proposal to separate single piece and bulk First Class

mail cannot be reconciled with this requirement. For all the reasons provided by the Commission in R2006-1 for rejecting de-linking, the workshare provisions of the PAEA require that First Class letters remain in a single rate class. To make separate single piece and bulk First Class letters as the Postal Service proposes would nullify the detailed new requirement in the law, adopted by Congress from a long series of Commission decisions, that workshare discounts not exceed the costs avoided by the Postal Service.

We anticipate that the Postal Service, and perhaps other parties, will seek to justify de-linking single piece and workshared letter First Class letter mail by pointing to the fact that a “product” as defined by Section 101 of the PAEA means “a postal service with a distinct cost or market characteristic... .” But this argument would prove too much; it would nullify, by facile definition, the specific statutory requirements of uniformity in class and rates for First Class letters, fairness and equity as long-defined by the Commission, and efficiency as determined by efficient component pricing

The Postal Service asserts, in its Submission at page 12, that “the nature of the communication and its purpose differ between bulk and single piece letters/postcards... .” This is a substantial oversimplification of the pertinent comparative factors, and it cannot withstand analysis for several reasons. First, bulk mail and single piece mail are very frequently two sides of the same transaction. Large business mailers mail bills or solicitations, and individuals return individual letters. The Postal Service contention also ignores the fact that small businesses send the same types of business mail as do large business mailers, but they

necessarily send it as single piece mail because they cannot qualify for the large mailers' discounts. Furthermore, single piece mail includes much mail that, on a cost basis, is quite similar to bulk mail, except that it is not presorted or prebarcoded.

The same sort of analysis attempted by the Postal Service in this case was rejected by the Commission in MC95-1 and R2006-1. The Commission in R2006-1 rejected the de-linking of single piece and workshared mail both on the ground of mail classification logic and because of the rate impact on individual and small business mailers. In MC95-1, the Commission stated (§ 5031), that "'Automation' and 'Retail' are not naturally disjunctive classifications or mutually exclusive categories of mail. The empirical demonstration of this observation is the existence of Courtesy Envelope Mail and other examples of single-piece letter mail which [is] fully compatible with automated processing.... It also raises grave concerns about the fairness and equity of the proposed subclasses by denying entry into the Automation subclass to less than bulk quantities of mail that could, in fact, be equally compatible with automated processing." Thus, The Commission has long recognized the necessary connection between classifications and rates. The Commission should reject the proposed de-linking of single piece and bulk First Class letters as inconsistent with the ratemaking requirements of the Act.

Finally, we observe that, in its comments accompanying the proposed Mail Classification Schedule (at 3), the Postal Service stated that "no substantive change is intended in eligibility for and availability of rates, fees and services; mail preparation and entry requirements or the like." Consequently, it would seem to be an oversight

that the definition for nonmachinable letters in the First Class bulk and standard descriptions do not state that they must meet presorting requirements.

Respectfully submitted,

Darryl J. Anderson

Jennifer L. Wood

Counsel for the American Postal Workers Union, AFL-CIO