

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON DC 20268-0001

ANNUAL COMPLIANCE REPORT, 2007

Docket No. ACR2007-1

INITIAL COMMENTS OF THE NATIONAL ASSOCIATION OF  
PRESORT MAILERS ON THE 2007 ANNUAL COMPLIANCE REPORT  
OF THE UNITED STATES POSTAL SERVICE

On December 28, 2007 the United States Postal Service submitted its FY 2007 Annual Compliance Report (ACR) to the Postal Regulatory Commission (Commission) pursuant to section 3652 of Title 39 of the United States Code. The Commission published notice of this filing three days later, on December 31, 2007. In its notice, the Commission solicited public comments as required under section 3653. The National Association of Presort Mailers appreciates this opportunity to comment on the United States Postal Service's FY 2007 Annual Compliance Report (the Report).

NAPM congratulates the Postal Service for accomplishing the daunting task of assembling this first annual compliance report. As the Report itself appropriately recognizes, however, the transition into the new regulatory system presents many unique challenges.

The Commission's Compliance Determination Requires Accurate Costing Information

One particular challenge that has endured is the need for accurate costing information for purposes of developing workshare discounts that send economically efficient pricing signals and reward mailers and consolidators for the full value of the work that they have performed.

In that regard NAPM is concerned about Footnote 9 on page 20 wherein the Postal Service states that the data provided with the 2007 ACR “will also be used when the Postal Service files a notice of rate adjustment that includes the workshared discounts.” In NAPM’s view the relationship between workshare discounts and costs avoided has not been adequately presented in the Report. NAPM is further concerned that the schedule of rate adjustment under the new law will not allow for a more complete investigation of these issues prior to Postal Service’s next rate adjustment.

For example, in its Report the Postal Service presents an incremental analysis of workshare passthroughs, as measured at the margin between rates. This approach may be theoretically superior to a cumulative passthrough, but it suffers from significant practical limitations, none of which are addressed in the Report. Specifically, the use of an incremental approach presupposes that mailers have a choice at the margin whether to work a piece of mail to reach the next higher presort level. But that is not the case for all rate levels. The USPS rules governing presort (workshare) mail require mailers to sort their mail to the 3-digit level before they can enter mail at the Mixed AADC rate or at the AADC rate. In other words mailer cannot receive a discount for Mixed AADC mail or AADC mail unless they sort out all of the 3-digit mail. So, the starting point is not the Mixed AADC rate or even the AADC rate, it is the 3-digit rate. An incremental approach calculating the rates (or discount) would only be appropriate if mailers were free to enter mail sorted to any of the rate categories, but they are not. So setting discounts based on the incremental differences in costs avoided by mail sorted to each of these rate levels is simply inappropriate.

An important aspect of “compliance” under the PAEA ought to be a requirement that the Postal Service adopt a more accurate methodology for calculating avoided costs and a more robust data collection and reporting requirements. A full and complete understanding of the relationship between workshare discounts and costs avoided is necessary to allow the Commission to satisfy itself that workshare discounts are limited to the “costs avoided.” See 39 U.S.C. § 3622(e).

### The Commission Should Provide for Advanced Review of Any Proposed Data Change in the Workshare Cost Models

NAPM concerns regarding data quality and cost measurement issues are further compounded by the changes in the calculated avoided costs since the last rate case. The Postal Service's decision to use revised read and accept rates in this Report is a case in point. The read and accept rates presented in the Report differ significantly from the read and accept rates presented in the last omnibus rate case, R2006-1. The problem lies not in the accuracy of the read and accept updates, but rather, that other important data updates related to the calculation of avoided costs were not made. The cost avoidance models are dynamic, thus, changes to one set of data inputs will have ramifications on other relationships. Without a full examination of all of related data inputs, the accuracy of the calculation of avoided costs is potentially degraded.

Partial data input changes without the opportunity for review and comment also raise questions of procedural fairness. A number of the revised data inputs (including the read and accept rates) that the Postal Service has relied on in this Report are based on data that was not even known, at least outside the Postal Service, to exist during R2006-1. Thus, mailers who depend on workshare discounts have never had an opportunity to investigate how the quality of the data. Nor does the current Report afford interested parties an opportunity to thoroughly examine updates to the data now. The workpapers filed with the Report, simply don't allow that. The workpapers submitted with the Report were not, in fact, workpapers at all, they were data summaries pasted into spread sheets that do not have interactive cells.

The use of untested, partial data updates inhibits the transparency of the rate system and frustrates rate predictability and stability by disturbing existing rate relationships. In short an instruction to provide specific workshare data "with respect to each market-dominant product for which a workshare discount was in effect" is not an instruction to employ a piece meal approach in which only part of

the methodology or part of the data are updated. Rather, the language of section 3652(b) should be read to require all relevant data to be, to the maximum extent possible, collected at or about the same time.

The anticipated filing of an immediate notice of rate adjustment, likely before the Commission even has the opportunity to weigh in on these issues, further compounds these problems. Worse, absent a change in the anticipated schedule of rate adjustments, the problems associated with the overlap in timing between the Commission's compliance review and the next notice of rate adjustment will become a permanent condition. The Commission should adopt rules to ensure that interested parties are afforded the opportunity for meaningful, advanced review of any significant data input changes to the workshare cost calculations.

The Commission Should Encourage Expanded Workshare Opportunities As a Means of Improving Efficiency

First-Class workshared mail is the most profitable product that the USPS has as measured by aggregate contribution. Arguably the most important piece of information conveyed in the Report is the data that shows that the per piece contribution of First-Class Mail presort letters is 21.1 cents, whereas the per piece contribution of First-Class Mail single-piece letters is only 17.7 cents.

From a compliance perspective, this statistic alone demonstrates that First-Class Mail presort letters, as a group are contributing more than their fair share of the costs of the Postal Service.

This statistic is also important from a rate design perspective. NAPM has long maintained that a healthy and robust Postal Service is essential for the mailing community and the economy at large. Given the profitability of First-Class Mail presort letters, the Commission, through its regulatory oversight and implementing regulations, should continue to encourage the Postal Service to expand workshare opportunities as a means of improving the overall efficiency of the mailing system. Expanded workshare opportunities can reduce costs for the

Postal Service and the mailing public while stimulating innovation and investment in the mailstream.

Respectfully submitted,

A handwritten signature in black ink that reads "Joel T. Thomas". The signature is written in a cursive style with a large, stylized initial "J".

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