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

Notice of Price Adjustment | **Docket No. R2008-1**

INITIAL COMMENTS OF AMERICAN POSTAL WORKERS UNION, AFL-CIO, ON NOTICE OF PRICE ADJUSTMENT
(March 3, 2008)

On February 11, 2008, the Postal Service filed a Notice of Price Adjustment for all market dominant products. Pursuant to Commission Order No. 59, the American Postal Workers Union, AFL-CIO submits these comments on the workshare discounts proposed in the rate adjustment.

On December 20, 2006, Congress enacted the Postal Accountability and Enhancement Act (PAEA) which replaced the Postal Reorganization Act (PRA) and created a new regulatory scheme for postal rate making. The instant docket represents the first rate adjustment proposed under the new law. Although the PAEA revised many provisions of the PRA, several policies and requirements of postal ratemaking were reaffirmed in the new law. For example, the PAEA maintained the mandate for universal service at uniform rates as a central tenet of postal policy. *See* 39 U.S.C. § 101.

In addition, the PAEA reaffirmed the requirement that workshare discounts not exceed the costs avoided by the worksharing activity. To ensure that workshare discounts properly reflected the costs avoided through worksharing, the Postal Service has been required to use the Bulk Meter Mail (BMM) letter as the benchmark for measuring costs avoided. The BMM benchmark maintains the link between single piece and presorted mail, thereby best isolating the costs avoided due to worksharing. In R2006-1, the Postal Service sought to jettison the BMM benchmark by proposing a rate design that effectively de-linked rates for single piece First Class letter mail from rates for workshared First Class letter mail. In its February 26, 2007, Recommended Decision, the new Postal Regulatory Commission rejected the proposed de-linking. As the Commission stated in its Recommended Decision in Docket No. R2006-1 (page 127-128 at ¶ 5089) requiring use of the BMM benchmark:

> 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.

Despite the Commission's decisive rejection of its de-linking proposal, the Postal Service has again de-linked workshare discounts from single piece First Class letter rates by using a workshared mail piece as its benchmark. Notwithstanding the fact that the proposed workshare discounts have been carefully calculated to skirt this issue, it is important that the Commission reiterate the fact that the BMM First Class letter rate remains the benchmark that must be used to calculate workshare discounts for First Class letter mail.

The APWU addresses this issue in its Comments on the Postal Service Annual Compliance Report, which is still under review by the Commission. In its Reply Comments, the Postal Service responds that "the language of section 3652(b), which directs the Postal Service to provide the specified workshare data 'with respect to each market-dominant product for which a workshare discount was in effect,' suggests that the proper analysis is to measure worksharing differences on an intra-product, rather than inter-product basis." (USPS ACR2007-1 Reply Comments at 19-20). This rationale is without merit. First, as acknowledged by the Postal Service, "[a] final, complete version of the [Mail Classification Schedule] has not yet been promulgated by the Commission, nor has a draft version been issued for public comment." (Notice of Price Adjustment at p. 37). Second, Section 3652 describes how workshare discount data should be provided to the Commission during the annual compliance review, it says nothing about how workshare discounts should be calculated. To calculate the costs affected by worksharing fairly and accurately, the PAEA, like its predecessor, requires a "comparison of pieces that are similar, except for worksharing." The proposed discounts violate this requirement.

Similarly, the proposed discounts for workshare flats and parcels are calculated from workshared mail pieces. The Postal Service did not discount workshare flats and parcels from savings calculated compared to single piece flats and parcels costs and so has not isolated the costs avoided from worksharing. Further, it provides no rationale for not making this comparison. Because discounts must be based on the costs avoided through worksharing, the Commission should require the Postal Service to implement flats and parcel workshare discounts based on the costs avoided solely by the workshare activity or else provide sufficient justification for the deviation in accordance with the exceptions of Section 3622(e).

Finally, in comments on the Annual Compliance Report, some interested parties discussed the existence of a "temporal mismatch" between discounts and costs.[1] They argue that the costs avoided calculations are based on outdated costs that do not take into account changes in costs over time.[2] Since the Postal Service used the costs avoided figures developed from the ACR in determining discounts, it is argued that the workshare related costs avoided are not accurate. The solution proposed is to increase all the costs avoided calculations in the ACR by the rate of inflation.[3] The proponents of this approach highlight its simplicity. Unacknowledged in this discussion is the fact that an across the board inflationary increase to costs avoided would automatically increase the discounts without regard to costs avoided. This is precluded by the requirement that discounts be based on costs avoided due to worksharing activities. Any proposal to make an inflationary adjustment to the costs avoided estimates in the Postal Service ACR must be rejected.

Respectfully submitted,

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[1] Pitney Bowes ACR2007-1 Reply Comments at 4; see also DMA/PSA Comments, MMA Comments, Valpak Comments, and Time Warner Comments.
[2] Id.
[3] DMA/PSA Initial Comments at p. 4; See also Pitney Bowes Reply Comments at 5.