

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

Report on Universal Postal Service
and the Postal Monopoly

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Docket No. PI2008-3

**COMMENTS OF
NATIONAL ASSOCIATION OF PRESORT MAILERS
IN RESPONSE TO COMMISSION ORDER NO.71**

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National Association of Presort Mailers ("NAPM") respectfully submits these comments in response to Order No. 71 issued by the Commission on April 18, 2008, and published in the Federal Register at 73 Fed. Reg. 23507-23516 (April 30, 2008).

INTRODUCTION AND SUMMARY

The issue raised by these comments may not fit cleanly into the outline provided by the Commission in Order 71. Therefore, we will list a number of the issues we will raise here, then attempt to fit the discussion of these issues into the outline provided by the Commission as best we can. It should be noted, however, that many of the issues raised below may be relevant to the discussion of more than one of the topics suggested by the Commission, but repeating the discussion of each of the following issues in the discussion of each topic to which they might apply seems unacceptably redundant.

1. The Commission's consideration of what the USPS's "universal service obligation" (hereinafter sometimes "USO") should be unconstrained by existing law.
2. The USO should not simply incorporate all postal services currently provided. The USO should be the minimum postal services that the USPS is required to provide to all (or nearly all) communities in the United States not the maximum or even the norm. However, we are not advocating that the USPS reduce postal services to any community (unless the cost of service to that community is more than three standard deviations from the average). We believe that the USPS can and will continue to provide service well in excess of the USO to 99.7% (or more) of the communities in the United States because its customers (mailers, not mail recipients) want more service than the USO should mandate. In short, the Commission should allow and expect the USPS to provide services in excess of the USO.

3. There are dozens, if not hundreds, of possible definitions of the USO. We believe it would be helpful if the Commission would propose, after reviewing the comments submitted in public hearings and in response to Order 71, a limited number of possible definitions and allow interested parties and individuals to respond to those possibilities.
4. Neither “universal” nor “ubiquitous” actually means every address everyday or that everyone must receive essentially the same service.
5. If the USO exceeds the products and services provided today, then the USPS must be given the additional revenue needed to cover the additional cost outside the rate cap.
6. The USPS must be provided with the actual means to fund the USO whatever it may be and that cannot be done by simply asserting that the two current monopolies, the letter monopoly and the mail box monopoly, are sufficient. The revenue potential of the monopolies and the cost of the USO must both be accurately quantified and balanced.
7. The Commission needs to seriously consider if some communities and/or mail recipients are getting too much service, not just if some mail recipients or communities are receiving too little service.
8. The Commission should include an analysis of how much is spent providing various products and service to mail recipients and, if the cost of providing services to some communities and/or individuals is highly disproportionate, the Commission should explore ways to ensure that a more equal amount is spent per recipient providing service.
9. One simply can’t seriously ask someone how much of a free good or service they want.
10. Customers are those who pay for goods and services which means the mailer not the mail recipient.
11. Is it fair for the USPS to spend ten or twenty or more times the amount to provide “postal services” to one person (or community) as it spends to provide those same services to most people? Doesn’t “fairness” include the notion that the USPS should spend roughly the same amount providing products and service to every American not necessarily providing the same level of service to everyone regardless of cost?
12. If the USO requires the USPS to provide products or services to markets its "competitors" are unwilling to service, how should the costs of providing these products and services be covered?
13. “Community service” is not a “postal” product or service.

DISCUSSION BY COMMISSION SUGGESTED TOPICS

- I. Scope of “Universal Service” and the “Universal Service Obligation” - As Order 71 indicates, the term “universal postal service” (or, more simply, “universal service”) is not now and never has been defined in law. Thus, it has never been possible to determine if revenue from the postal monopoly (or monopolies) is (are) sufficient to cover the cost of universal service. It is vital that the “universal service obligation” be sufficiently defined to allow a determination of whether the current monopolies over the carriage of letters and access to the mailboxes of America are sufficient to fund the USO.

However, the Commission should not promulgate a permanent, once and forever, definition of the USO. The USO should be allowed to evolve over time. However, if the USO is defined to be virtually everything the USPS does now, then there is little room left for evolution. If the USO is greater than the products and services currently offered then, some means not be limited by the rate cap must be found to pay for these additional products and services.

The USO should be defined as less, probably considerably less, than the products and services currently offered by the Postal Service. For example, the USO may require only 3-day a week delivery. But that does not mean that the USPS should provide only 3-day a week delivery. We believe that the USPS could, would and should continue to provide 6-day a week delivery to the overwhelming majority of businesses and households, which is what both mailers (customers) and mail recipients appear to want.

The consideration of what should be the nature and extent of the Postal Service's "universal service obligation" should be unconstrained by existing law. Once defined, the lawyers can look and see if that obligation, whatever it may be, is or is not consistent with current law and if it is not propose amendment that would make the law consistent with the obligation.

- II. Historical Development - Understanding the history of the still undefined concept of universal service may inform us about how we have gotten to where we are, but it will say little about what the USO should be. So, while history may inform us as to expectations that it has engendered; it is more important to know those expectations in order to manage them rather than to simply meet them whatever they may be.
- III. Geographic Scope – Basically, the whole nation, but that means communities, not each and every individual including those who chose to live in remote or difficult to service areas. There is not now, has not been, and should not be any obligation to follow a few mavericks to the top remote mountains or the bottom of deep valleys, etc. to provide them with postal services. In an era of satellite relay communications, it may be folly to assume that people living in remote areas have no access to the outside world other than hard-copy mail.

While the USPS should provide services to all or nearly all communities, this should not be taken to mean that every community is entitled to the same level of service but rather to some minimal level. The fact that some people may get more than the minimum does not mean that everyone is entitled to more than the minimum—i.e., that everyone is entitled to same level of service so that the maximum becomes, in effect, the minimum.

- IV. Range of Product Offerings. Not every postal service is an essential postal service. However, if the USPS must offer one or more products in competition with other entities who are free to pick and choose the products and services they will provide and the places they will provide them, the USPS must be given the same right to choose or the other provider(s) should be required to contribute fairly to the cost to the USPS to provide the service or services its competitors are unwilling to provide to everyone to whom the USPS is required to provide them.

The cost of providing services with respect to which there is competition must be covered by the competitors, not others—i.e., First-Class Mail which can no longer bear this burden.

- V. Access to Postal Facilities. Unless every third building is a full service postal facility, not everyone will have same access. That's fine. Some reasonable minimum is all that should be mandated.

Contract post offices in other commercial establishments such as a "general stores" may be as good as and possibly better than a stand alone Post Office at providing community service.

- VI. Frequency of Delivery. It seems curious that this issue is receiving so much attention, especially since there is no agreement among the USPS's customers as to which day of the week, if any, should be dropped. What seems to make this issue so important is the presumption that the USO is all or nothing—either everyone loses a delivery day or no one does—and that at least one day of delivery is "on the line." That is ridiculous! Not everyone gets the same number of deliveries each week now and there is no reason they should in the future. Nor, in our view, is there any reason that the USO should determine the number of delivery days for most mail recipients. What the Commission should do is simply set a floor well below the current level of service.

Just over fifty years ago, at least some customers received more than one mail delivery per day. So far as I know, Congress never objected to that or declared that if anyone got more one than one delivery per day, everyone must. What every community, not individual, is entitled to is some minimal amount of service, but that should not mean that no one, especially, the majority of mail recipients, cannot be given service six days a week instead of three, or four, or five even if some American only get three, four or five day delivery.

We recommend that the USPS identify, by District, the most expensive locations (possibly routes or portions of routes) to service or most expensive products to offer—i.e., those which have cost more than three standard deviations form the norm) and reduce or eliminate the product or reduce delivery to those locations to five or four or even three days per week. We are not suggesting that five or ten percent of households and business have delivery reduced. What we are suggesting is that a reduction in the frequency of delivery (and other services) is warranted when the cost of providing such services is more than three standard deviations from the norm, which means we are talking about a fraction of one percent.

- VII. Rates and Affordability - In an era when many, if not most, Americans are having difficulty paying for the gas they need to get to work and the food they need to feed their families, declaring that a few people are entitled to have provided to them at the expense of the vast majority of Americans the same level of service as everyone else even if providing that service may cost many times as much for these few people as for the average American seems very hard to justify.

As we noted earlier, the Postal Service should pay special attention to the cost of providing any service when the cost of providing that service within any District falls outside three standard deviations from the norm in that District. (Proceeding by District avoids having all the high cost services fall in a few high cost Districts.) In a normal population distribution, 99.7% of the population will fall within three standard deviations of the norm. When the cost of service falls outside three standard deviations the USPS and the Commission should consider very, very hard what postal services, if any, should be provided.

Affordability is a critical issue. If it costs a \$100 to send a letter, then access is not equal.

Not everyone has \$100 to send a letter, but some people do. The same is true, though less obvious, if the cost to send a letter is \$10 or even \$1. The point is, costs are going to have to be paid by someone, so requiring the USPS to provide products or services it would not otherwise provide is going to adversely impact the products and services that are available to the vast majority. As always, there is no free lunch.

- VIII. Quality of Service - The Commission needs to be highly skeptical of assertions by or about people that receive mail only once or twice a week, that they need 6-day a week delivery.

It appears from the discussions we have participated in that the, reliability and consistency of delivery may be as or even more important than speed. This is not to say that USPS can take all the time it wants to deliver mail, but it does mean that it may be far less important to have large overnight service areas than to have smaller overnight service areas in which mail can be reliably delivered overnight and smaller one day service areas in which mail can be reliably delivered in one day, etc. Another way to put this is to note that driving up the EXFC scores, month after month and quarter after quarter may not be as important as consistency. Mailers need to know that if they enter mail at X on Y day it will be delivered in A overnight, in B in one day, and in C in two days, etc. consistently and reliably. Put another way, predictability may be more important than absolute speed. Do people in Frederick, Maryland actually expect mail to Fredericksburg, VA to be delivery overnight? Right now, we believe, that these two cities are in each others overnight delivery area. A few years ago we noted that mail delivery from Hartford, CT to Boston, MA (a distance of 101.1 mi. with an estimated driving time of 1 hr. 34 min.) was two days, while the delivery from Bozeman, MT to Missoula, MT (a distance of 204.4 mi. miles with an estimated driving time of 2 hr. 55 min.) was overnight. This does not make a lot of sense. Why wasn't service between both Missoula and Bozeman and Hart ford and Boston one day?

The quality of service may not be directly proportional to the number of hours a postal facility is open. In some cases, having a retail location open for just 6 hours a day, from noon to 6:30 p.m. on weekdays and 10 to 4:30 on Saturdays (36 hours per week) might provide 90 or 95% of the service that the same facility might provide if it were open from 8 am to 6 pm. on weekdays and 8 am to noon on Saturdays. (54 hours per week)

A more common experience of unequal service is that experienced by Americans who live in new housing developments who are required to use cluster boxes. Americans living in older neighborhoods get service to the front door. Clearly, not all Americans are treated the same or get the same service now. So, the USPS and history have already determined that it is fair to provide a significantly higher service to one group of American than to another.

- IX. Calculating Costs – First, calculating revenue can be as important as calculating costs. In determining the cost of the USO, the Commission should consider all reasonable costs incurred by the USPS that it would not incur if it were completely free to discontinue any product or service at any location. In short, the cost of universal service is the cost of everything the USPS must do that it would not do if the USO were removed. To the extent that the USPS is required by Congressional action to maintain any service or facility, the Commission should recommend that if the cost is covered by an appropriation then it can and should be ignored.
- X. Implications of the USO for the Postal Monopoly - The USO, whatever it is determined to be, has clear implications for the monopoly as the costs of the USO must be met by the surplus that the monopoly(ies) can generate. While it is unfortunate, a dying monopoly cannot fund

an expanded USO. The monopoly must be real and must generate a surplus, excess revenue, sufficient to cover the cost of meeting the USO—i.e., sufficient revenue to cover the costs reasonably incurred by the USPS to provide products or service it would not provide in the absence of a mandate.

The fact that the letter monopoly is dying as more and more correspondence switches to electronic (email) alternatives, does not mean the Commission or Congress should hasten its demise by rescinding the letter monopoly. In the short term, it is quite possible that one or more alternative delivery system would arise in areas where delivery could be accomplished inexpensively per piece. However, in the not very distant future a lot of letter mail may migrate to alternatives (primarily email). Thus, it is possible that even in the short run the realization that hard copy delivery of mail may not be able to compete for long with electronic delivery may suppress short term efforts to develop alternative delivery networks even in low cost/high revenue areas. In short, it seems likely that if alternative delivery systems did not emerge with the abolition (or possibly just the loosening) of the letter monopoly, it would be because those who might establish alternative delivery system realize that hard copy delivery is unlikely to survive long enough for them to recover their investment. This is not good news for the USPS, however.

The point is, eliminating or even loosening the letter monopoly will hasten the demise of the U.S. Postal Service as we know it, and whatever survives will almost certainly require a substantial government subsidy. In all probability what may be needed is an expansion of the monopoly(ies) not a reduction.

The essential point is, however, that the letter monopoly no longer really exists. While thirty million American families may not have a home computer, over 115 million do. If all the correspondence that could switch to an electronic delivery system did, the 25% of households would not be sufficient to allow the maintenance of anything like the postal system we have now. Moreover, the numbers are likely to be deceptive. It is highly likely that the homes that receive the most mail, including letter mail subject to the monopoly, already have Internet access. Thus, the households that could abandon hard-copy letters may account for much more than 75% of the mail.

Mailbox security (we're not sure just what "sanctity" means) is, also critical. If an alternative delivery system were viable, the need for home owners and/or business who wished to receive "mail" from an alternative system to install a separate receptacle would be a minimal hindrance. Indeed, many newspapers already provide customers with their own sleeve and would probably be happy to upgrade that "sleeve" if they could sell access to other delivery system, assuming that they were not the operator of the alternative delivery system.

Since the monopolies (on the carriage of "letters" and access to the mailbox) are already insufficient and declining, it (or they) cannot provide the funds needed for any required increase in postal services.

XI. USO and the monopoly in other countries

XII. Other Issues

The Voice of the Customer. "A customer is an individual, household, or business that purchases goods and services generated within the economy." (From Wikipedia) So, he who receives a birthday present is not a customer; she who bought it is. Thus, individuals

and businesses are “customers” when they are sending mail, not when they are receiving it.

Charging postal customers more than they would otherwise have to pay to pay for the USO, discriminates against the low income customers and customers who must lose service so that the USPS can continue to provide a few customers with the same level of service despite the much greater cost.

Community Service. Community service is not a “postal service” and should not be included in the USO. To the extent that the Postal Service is required to provide “community services,” the cost must be covered by something other than the already overburdened and dying monopoly over the carriage of letters and access to mailboxes.

Value of Postal Products and Services. One cannot simply ask someone what the value of a free good or service is. The rational response is: “All you can provide and a bit more.” While the Commission and/or the USPS might attempt to place a value on various products and services via contingent valuation surveys, these studies are costly and possibly not particularly relevant. What is the relevance of someone’s assertion that the value to them of 6-day a week delivery (versus 5-day a week delivery?) is x dollars when they don’t pay for delivery and no one is proposing that they do. The important question is: What is 6-day a week delivery worth to mailers, the Postal service’s customers, the people who are paying for postal products and services.

Real “Auctions” versus “Contingent Value Surveys.” Rather than undertake contingent valuation studies, the Postal Service could engage in a real “auction” by asking high cost mail recipients how much they would accept to foregoing a day or two or three of delivery each week. If it costs \$5 a day to provide service to X, 6-day a week the weekly cost of delivery is \$30. However, if the household or business would accept say \$5 per week in free postage to forego delivery three days a week then the USPS would save \$10 by curtailing delivery and providing \$5 in free postage. Now that’s a win/win.

Respectfully submitted,

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