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**POSTAL REGULATORY COMMISSION**
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**ANNUAL COMPLIANCE REPORT 2008 } Docket No. ACR2008**

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# COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION ON UNITED STATES POSTAL SERVICE FY 2008 ANNUAL COMPLIANCE REPORT

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Pursuant to Rule 3001.21(b) of the Postal Regulatory Commission's (Commission) Rules of Practice and Procedure, and in response to PRC Order No. 161, the Parcel Shippers Association (PSA) submits the following comments on the United States Postal Service's FY 2008 Annual Compliance Report issued December 29, 2008 (the Report).[1]

## INTRODUCTION

The FY 2008 Report is the first time the Postal Service has presented attributable costs and coverages by product. This new cost information should be used with caution. We believe the Postal Service should exercise restraint when increasing prices based on these costs, particularly with respect to Standard Mail Not Flat Machinables (NFMs)/Parcels and Bound Printed Matter (BPM) products.

[1] Commission Order No. 161 (issued December 31, 2008) solicited public comments on the Postal Service Report on or before January 30, 2009.

## I. Standard Mail Not Flat Machinables/Parcels

In its FY 2008 Annual Compliance Report, the Postal Service estimates, for the first time, attributable costs and cost coverages by product (as opposed to subclass). In particular, the report estimates that the FY 2008 cost coverage of Standard Mail NFMs and parcels was approximately eighty percent. Report at 22. While presenting these cost coverages as required by law, the Postal Service provides an important caveat about how this information should be used in pricing, stating:

> Since this is the first time the Postal Service has had CRA-level detail for these products, there is no prior data for comparison. As such, pricing and/or other changes to the Flats and NFMs/Parcels products must be mindful of these data, but also recognize that this is the first year for reporting attributable costs for the various product groupings. As the Postal Service moves forward, it will endeavor to ensure that it is measuring costs consistent with the new groupings. Furthermore, the Postal Service does not want to diminish the importance of each product making a positive contribution, and will work to achieve that result. At the same time, however, the Postal Service must be careful to move with discretion as experience is gained with the new structure and its measured costs.

*Id.* at 23.

PSA agrees that the new cost information should be used with caution. This is particularly appropriate for the Standard Mail NFM/parcel product given the historical complications in properly estimating Standard Mail parcel costs and the newness of the NFM shape categorization. The Postal Service should thus exercise restraint and limit the average Standard Mail NFM/parcel price increase that will be implemented in May. The objective should be to constrain the increases close to the increase in inflation, with full coverage being a longer term objective.

Additionally, as PSA explained in Docket No. R2008-1, price increases that substantially exceed inflation are contrary to the Postal Accountability and Enhancement Act's objective to "create predictability and stability in rates." *See* 39 U.S.C. §3622(b)(2). Docket No. R2008-1, PSA Comments (March 3, 2008) at 3-8. Large price increases for Standard Mail NFMs/parcels would be particularly problematic given the huge price increases this product has received since May 2007.[2]

Furthermore, when designing the next price adjustment, the Postal Service should be mindful that cost coverages can be improved not only by increasing prices, but also by reducing costs. Regarding the latter, the Postal Service's filing has, for the first time, included estimates of the costs avoided when customers enter Standard Mail NFMs/parcels at destination facilities. *See* USPS-FY08-13. These data show what the Postal Service and PSA have long maintained – that the costs avoided by entering Standard Mail parcels at destination facilities are much larger than for Standard Mail letters and flats and thus the average cost avoidance across all shapes that has traditionally been used in Standard Mail rate design. Docket No. R2006-1, PSA Initial Brief (December 12, 2008) at 29; Direct Testimony of James Kiefer (USPS-T-36) at 18-19.

These NFM/parcel-specific cost avoidance estimates should also be used with caution for the same reasons as discussed above with respect to Standard Mail NFM/parcel costs. These cost avoidance estimates, however, clearly show that Standard Mail NFM/parcel cost avoidances are well in excess of the current Standard Mail NFM/parcel destination entry discounts. In fact, the current passthroughs (calculated using NFM/parcel-specific cost avoidances) only range from 16-25%, well below the 100 percent passthrough that would be appropriate.

[2] PSA estimates that the average May 2007 price increase for Standard Mail parcels was approximately thirty percent with much higher increases for Standard Mail NFMs. This was followed by a 9.66 percent rate increase in May 2008. Order No. 66 (Review of Postal Service Notice of Market Dominant Rate Adjustment) at 31.

Clearly, the Postal Service should substantially increase these discounts when it next changes prices. Doing so would encourage more efficient entry practices and provide an opportunity for Standard Mail NFM/parcel shippers to mitigate the overall impact of the next price increase by adopting these efficient practices.

## II. Bound Printed Matter Flats and Parcels

PSA is pleased that revenue for both Bound Printed Matter (BPM) products – parcels and flats – covered their attributable costs in FY 2008. Report at 36. Because the coverage for each of these products exceeds the average for the Package Services class, PSA sees no reason for either product to receive an average price increase in excess of inflation when the Postal Service adjusts prices in May.

## CONCLUSION

PSA is well aware that the Postal Service has considerable discretion in establishing product prices within a class. Nevertheless, the Postal Service should bear in mind that a number of its product cost and revenue estimates are being produced for the first time and certainly should be subject to caution in their use, particularly if their use could lead to very large price increases. While perhaps legal, under the PAEA's standards, as PSA explained in Docket No. R2008-1, rate increases that substantially exceed inflation we believe are contrary to the Postal Accountability and Enactment Act's objective to "create predictability and stability in rates." 39 U.S.C. §3622(b)(2). Bearing that caution in mind, we urge the Postal Service to reduce unnecessary costs, not just increase prices, in order to increase coverages. The new data clearly show that Standard Mail NFM/parcel cost avoidances are well in excess of the current destination entry discounts. A substantial increase in those discounts would encourage more efficient entry practices, reducing the costs for these products, and improving cost coverage.

Respectfully submitted,

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