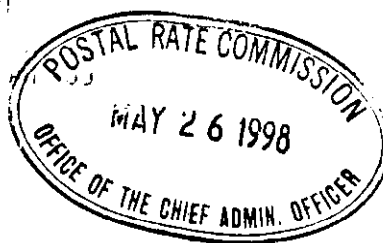


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May 20, 1998

Mr. Thomas J. Koerber, Secretary  
United States Postal Service Board of Governors  
475 L'Enfant Plaza, S.W.  
Washington, DC 20260-1000

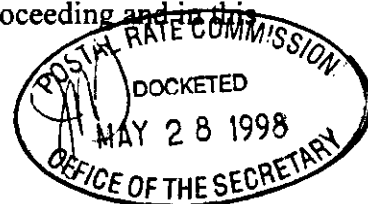
Re: PRC Opinion and Recommended Decision, Docket No. R97-1.

Dear Mr. Koerber:

Pursuant to 39 CFR § 9.2, these comments on the Postal Rate Commission's Recommended Decision in Docket R97-1 are submitted on behalf of the Mail Order Association of America (MOAA). MOAA members mail large volumes of First-Class, Standard Mail A and Bound Printed Matter. As major users of Standard A catalogs, they are particularly concerned with the rates for Standard Mail A Enhanced Carrier Route, especially the pound rate.

Although the overall rate increases recommended by the PRC are relatively modest, MOAA is nevertheless concerned about the PRC's reasoning and is particularly distressed at the refusal to recommend the USPS proposed pound rates for commercial Standard Mail A. More generally, in this first decision subsequent to the reclassification decision creating a subclass for Standard Mail A ECR, the PRC has expressed views on the proper rate for ECR which are troublesome.

This decision marks the second time that the PRC has refused to approve the USPS proposed pound rates for commercial Standard Mail A. In the MC95-1 proceeding and in this



R97-1 proceeding, the USPS submitted testimony showing that the current rate design for that portion of Standard A entered at the pound rate fails to reflect actual cost incurrence. That testimony made it clear that the current schedule, which is premised upon the proposition that the costs of Standard A increase in nearly direct proportion to weight, does not reflect reality. This doubling of rates with a doubling in weight defies all known cost behavior, as is shown by the relationship of weight, costs and rates for other types of materials, both within the Postal Service and within the private sector.

Costs are primarily piece driven. Although costs increase with weight to some extent, the current rate design overcharges heavier pieces drastically. This is shown by examining the rate designs for every other class of mail, in which increases in weight result in either no or only modest increases in rates.<sup>14</sup> In particular, the Governors' attention is invited to the rate schedules for Bound Printed Matter and parcel post in which increased weight results in only small increases in rates. Another example is Priority Mail in which there is no rate difference for pieces weighing up to two pounds. Similarly, Express Mail rates for one and two pound pieces are identical, and increase by only small amounts with increased weight for higher weight pieces.

In its MC95-1 decision, the PRC explained its rejection of the USPS pound rate by stating that it had adopted an algebraic formula in which the pound rate was an output of the

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<sup>14</sup> See Express Mail Schedules 121, 122 and 123; Letters and Sealed Parcels Schedule 221; Priority Mail Schedule 223; Parcel Post Schedules 322. 1A - 322.1E; Bound Printed Matter Schedules 322.3 A and B; and Special and Library Rate Schedules 323.1-323.2.

formula. PRC Op. MC95-1 at V-254,55. That decision made no attempt to justify the resulting pound rate, which is contrary to known relationships between weight and costs.

In its R97-1 decision, the PRC again rejected the USPS proposed pound rate. This decision is premised upon the alleged unreliability of the cost study used in part by the Postal Service to support its rate design. PRC Op. R97-1 at 401-402. In fact, however, this cost study, which is consistent with all prior studies of the weight/cost relationship, would have supported pound rates far lower than those proposed. The PRC also appears to justify the excessive pound rate on the grounds that pound-rated materials are in competition with newspapers and other alternate deliverers. *Id.* at 402-403. This is despite the fact that no competitor of the Postal Service even attempted to demonstrate that the rates proposed would have serious adverse competitive effects. Further, competitors were conspicuous in their failure to provide data showing the effect of weight upon the rates charged to their customers. As a matter of fact, it is clear that competitors give little effect to weight in establishing the rates to be charged for their services.<sup>21</sup>

The PRC also ignores the glaring inconsistency between its recommended rates for Standard A nonprofit Enhanced Carrier Route and commercial Enhanced Carrier Route. For nonprofit ECR the PRC decreased the USPS proposed pound rate from 35 cents to 29 cents. This was justified on the basis that, because of other PRC changes in the USPS rate proposed

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<sup>21</sup> See e.g. Tr. 32/17274.

rate design, the USPS proposed pound rate would have produced a "piece rate for pound-rated saturation mail of -0.4 cents." *Id.* at 399. The PRC apparently is unconcerned with a piece rate of only 0.3 cents for pound-rated commercial saturation mail, a rate that is obviously far lower than piece-related costs. The 0.3 cents PRC recommended piece rate for commercial ECR is only slightly less ridiculous than the -0.4 cents piece rate addressed by the PRC.

The rates recommended by the PRC for nonprofit ECR in themselves demonstrate the illogical and non-cost approach of the PRC to the pound rates recommended for the commercial ECR subclasses. The rates recommended by the PRC for nonprofit ECR and commercial ECR are wholly inconsistent and indefensible.

**PRC Rates For  
Pound-Rated ECR  
(cents)**

<b><u>Piece Rates</u></b>	<b><u>Nonprofit</u></b>	<b><u>Commercial</u></b>
Basic	3.9	2.5
High Density	3.2	1.4
Saturation	2.4	0.3
 <b><u>Pound Rates</u></b>		
	29	66.3

It is the unjustifiably low and noncost-based piece rates recommended by the PRC for commercial ECR which resulted in the unjustifiably high and noncost-based pound rates.<sup>3/</sup>

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<sup>3/</sup> The inconsistency between the PRC's commercial and nonprofit ECR rates is also shown by the fact that the destination entry discounts are identical: BMC-7.9; SCF-10.0 and DDU-12.6

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The current pound rate is unfair. It also prevents the Postal Service from competing on a level playing field with its competitors, whose rates give little effect to weight. Therefore, reducing the inequitable and self-defeating commercial Standard A pound rates should be made a matter of high priority by the Postal Service. Although MOAA believes that the Postal Service provided ample evidence to support the pound rate which had been proposed, (and which was accepted by the PRC for nonprofit Standard A) it is now clear that it will be necessary for the Postal Service to develop more elaborate cost data in order to convince the PRC to remedy the current inequitable pound rate for the commercial subclasses. MOAA requests the Governors to ensure that such data is developed.

MOAA also expresses its concern about the overall rate levels for Standard A ECR. Under the rates recommended by the PRC, Standard A ECR has a cost coverage of 203.0 percent. PRC Op. R97-1, App. G, Schedule 1 at 1. With the exception of Mailgrams, this is by far the highest cost coverage of any of the subclasses of mail. For example, it is far higher than the cost coverage of 172.4 percent for First-Class mail, despite the fact that virtually every factor found in the Postal Reorganization Act would support a lower cost coverage for Standard A ECR than for First-Class mail. Cost coverage this high is both unfair and unreasonable for a subclass of mail which is heavily threatened by competition.

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cents per pound. Thus, for SCF mail, which represents large volumes, the nonprofit ECR pound rate is 19 cents and for commercial 56.3 cents, or nearly three times higher. This further exacerbates the discriminatory rate schedules recommended by the PRC.

The Standard A ECR subclass has existed only since the PRC's decision in MC95-1. MOAA in common with other mailers principally interested in the ECR subclass have recognized that there must be a reasoned gradualism in achieving fair and equitable rate levels for Standard A ECR. Among other things, this is necessary to avoid rate shock for other subclasses. Thus, the Postal Service itself proposed a high cost coverage for Standard A ECR. The Postal Service, however, at least proposed rate increases for Standard A ECR which were less than the rate increases proposed for Regular, 4.1 percent for ECR and 3.2 percent for Regular. The PRC's recommended decision turns these rate increases around with a rate increase for Regular of 1.2 percent and a rate increase for ECR of 2.2 percent.<sup>4/</sup> Thus, the PRC's decision moves in the opposite direction from more economically sound and fair rates.

In general summary, MOAA requests that the Governors continue to pursue rates for Standard A ECR which make economic sense and which will produce schedules which are

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<sup>4/</sup> Compare USPS Witness O'Hara's testimony concerning ECR rate levels (USPS-T-30 at 34-36) with the PRC's opinion. PRC Op. R97-1 at 447-48. O'Hara proposed a rate increase below the proposed system-wide increase "reflecting a desire to lower the very high cost coverage of the subclass." USPS-T-30 at 34. He recognized that "most of the factors . . . would indicate a cost coverage lower than that actually proposed." *Id.* at 36. Ultimately, the high cost coverage was justified only because a lower cost coverage would impose "greater rate increases on other subclasses, thereby widening the range of increases around the modest overall average." *Id.* In contrast, the PRC appears to conclude that the extraordinarily high cost coverage is justified without taking those factors into account. In fact, the PRC concludes that ECR's higher price elasticity serves to "justify the high coverage the Postal Service suggests for Standard A ECR." PRC Op. R97-1 at 447. In sum, the PRC's approval of the high ECR cost coverage is premised upon reasoning which is faulty and if continued will be destructive of ECR and the value that ECR mail brings to the Postal Service.

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cost-based and fair. It is vital for the Governors and Postal management not to abandon the goal of cost-based, equitable and economically sensible rates for this important subclass of mail, the future health of which is vital to the ability of the Postal Service to provide reasonably-priced services for all mailers.

MOAA also expresses its concern about the PRC recommended rates for Bound Printed Matter. The overall increase recommended by the PRC, 5 percent, is the same as proposed by the USPS. Unfortunately, however, the PRC's rate design differs significantly and illogically from that proposed by the USPS, to the detriment of BPM entered at the local zone level. The PRC has offered no explanation for this substantially changed rate design, despite the fact that the USPS proposed rate design was endorsed by all parties using the subclass and opposed by no one. *See* PRC Op. R97-1 at 498-502.

We appreciate your consideration of these views.

Sincerely yours,



Edwin Stadelman  
Executive Vice President  
Mail Order Association of America

cc: All parties, Docket No. R97-1