

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

REGULATIONS ESTABLISHING SYSTEM)
OF RATEMAKING)

Docket No. RM2007-1

ASSOCIATION OF PRIORITY MAIL USERS, INC.
REPLY COMMENTS ON REGULATIONS ESTABLISHING A SYSTEM OF
RATEMAKING IN RESPONSE TO COMMISSION ORDER NO. 26
(October 9, 2007)

One PAEA provision, 39 U.S.C. section 3633(a)(3), requires that competitive products collectively cover what the Commission determines to be an “appropriate share” of Postal Service institutional costs. The Commission “proposes to set the initial contribution at 5.5 percent of the Postal Service’s institutional costs.” PRC Order No. 26, p. 71, ¶ 3052. Parcel Shippers Association (“PSA”) argues that this share be set at 4.5 percent. PSA Initial Comments, p. 6. United Parcel Service (“UPS”) is “dissatisfied” with the 5.5 percent level, but “does not object at this time....” UPS Initial Comments, p. 1.

The Association of Priority Mail Users (“APMU”) is extremely concerned that a 5.5 percent contribution, measured over a one-year period, is too high for a transitional period. Indeed, APMU is concerned about the consequences of imposing any such a percentage burden on competitive products. APMU believes that the 4.5 percent level proposed by PSA also may prove too high to compete in the marketplace, but certainly is the absolutely highest level that can be imposed on all competitive products during a transitional period.

As a result of price increases in recent years, and aggressive pricing by competitors, most non-retail Priority Mail has fled to private carriers. The remaining volume is largely

either retail or Small office/Home office (“SoHo”) volume not particularly sought by competitors. This residual volume may well be more expensive to handle than commercial Priority Mail. In FY 2005 and 2006, unit cost for Priority Mail jumped by 14.5 and 7.0 percent, respectively, well in excess of changes in the CPI. Therefore, further Priority Mail volume losses by the Postal Service likely would come from the last remaining low-cost Priority Mail volume, driving up average prices to remaining users even further.

Especially when competitive products enjoy only a small market share, and compete with dominant firms like UPS and FedEx, it would be possible for those competitors to cut their margins, and adjust their pricing in the short term so as to drive down Postal Service volume. With the Postal Service unable to respond to this form of price competition in order to meet an artificial “appropriate share burden,” it could lose virtually all of the desirable commercial Priority Mail volume remaining in the system.

The realities of competitive products are that the lion’s share of contribution by competitive products to institutional costs comes from Priority Mail. In FY 2006, Priority Mail contributed \$1,012.1 million, while Express Mail contributed \$335.7 million, and Package Services (including both market dominant and competitive products) only \$116.5 million.¹ Therefore, any “appropriate share” burden imposed on competitive products,

¹ Cost and Revenue Analysis, PRC Version, Draft, Fiscal Year 2006, as filed with the Commission, March 15, 2007, pp. 1-2. Contribution from International Mail in FY 2006 was 318.5 million, including both competitive and market dominant components.

collectively, is likely to be born disproportionately by Priority Mail. *See* APMU Comments in Response to PRC Order No. 2.²

PAEA also did little to give the Postal Service new tools to control costs, particularly labor costs. By any standard, the Postal Service is a high cost provider of services, employing a high-cost workforce, due to provisions of federal law which virtually guarantee that above-market wages are paid to its employees. It also should be noted that PAEA has imposed substantial costs on the Postal Service, at least in the short run. At the September 26, 2007 open meeting of the Postal Service Board of Governors, Chief Financial Officer H. Glen Walker reported that PAEA alone imposed additional costs on the Postal Service of \$6.9 billion in FY 2007, and \$1.0 billion in FY 2008. Now, PAEA imposes on competitive products an “appropriate share” of the burden of Postal Service overhead, to be defined by the Commission. It is incumbent on the Commission not to allow PAEA to inadvertently result in destruction of the Postal Service’s competitive products by setting a minimum contribution standard that cannot be met in the real world of high postal costs and aggressive private sector pricing.

² APMU also previously filed Initial Comments in Response to PRC Order No. 15 (June 18, 2005) and Reply Comments in Response to PRC Order No. 15 (July 3, 2007). Additionally, APMU filed comments with the Federal Trade Commission on its USPS Study, Project No. PO71200 (August 6, 2007).

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