

November 9, 2005

The Governors of the United States
Postal Service
475 L'Enfant Plaza, S.W.
Washington, DC 20260

Re: Docket R2005-1: The Governors Must Rectify the PRC's
Irrational and Inequitable Adjustment of Media Services Rates

Ladies and Gentlemen:

The Association for Postal Commerce (“PostCom”) urges the Governors in the strongest possible terms to instruct Postal Service Management to immediately initiate corrective action that will rectify the Postal Rate Commission’s misguided and unfortunate decision in application to a Media Service/Library Rate subclass. The Commission rejected the across-the-board settlement rates and has, instead, recommended a 12.7% increase for Media Services/Library Rates. This has dire consequences to the Postal Service, as well as the members of PostCom that have used Media Services to deliver their educational and instructional products to consumers and educational institutions.

We do not ask that the case be remanded to the Commission; we recognize that other considerations make this outcome impractical. We do believe that it is both necessary and proper for the Governors to accept the proposed increase under protest in order to make clear that something is seriously amiss with the Commission’s decision, as we discuss below. But that is not enough. The Governors must also recognize that responsibility for this disproportionate and irrational rate increase does not entirely lie with the Rate Commission: for

more than 30 years, the Postal Service has simply ignored the needs and concerns of Media Services/Library Rate mailers and has made no effort to modernize this service. That indifference to a small but important subclass cannot be permitted to continue.

We cannot overestimate the consequences which this 12.7% increase – more than double the increase for any other major mail category – will have on mailers and the Postal Service. The R2005-1 Decision's description of what type of mail qualifies for Media Services and which mailers use it is nothing more than a bare bones summary of the formal legal conditions contained in the Domestic Mail Classification Schedule. The fact is that Media Services is used to ship a broad variety of educational, cultural and informational products to consumers and educational institutions. The products shipped at those rates include sound recordings (CDs, tapes, etc.), video recordings (VHS and DVD), books (most particularly, children's books), mixed media, instructional products (book and companion computer disk or diskette or CDs or DVDs), as well as shipments of these materials to and between eligible educational institutions. Mailers that use Media Services/Library Rates often compete with brick-and-mortar discounters, and, in some case, online download services. The rate increase recommended by the Commission will put direct-to-consumer sellers at a competitive disadvantage and will harm consumers whether or not they have access to these alternative sources. Volumes also will be lost to alternative service providers.

Further, the volume effects of the Commission's 12.7% increase on Media Services cannot be viewed in isolation. Many of the users of Media Services also make extensive use of Standard Mail to solicit new customers, or to inform existing customers of new purchase opportunities. These mailers use First-Class mail for billing and other transactional communications with their customers. Mailers will have little choice, in the face of this recommended increase, but to seek alternative means of getting their product to purchasers and, to the extent that their sales decline, there will be concomitant declines in volumes of First-Class Mail and Standard Mail that the Postal Service so urgently needs to maintain financial stability. In reaching its decision, the Commission simply ignored these considerations. The Governors of the Postal Service should not do so.

Therefore, the Postal Service can no longer continue to treat Media Services as the stepchild of its modernization and transformation efforts. Worksharing and other innovations designed to enable the Postal Service and its customers to meet the competitive challenges that it faces have been introduced over the past decade or so in every one of the parcel classes -- except Media Services/Library rate. The basic rate design for this subclass has not been changed or even seriously examined since the subclass was first established in the 1930's. This is so despite the fact that products now shipped at Media Services and Library rates bear little physical resemblance to the types of products that Congress had in mind when it created this service. Further, some workshare discounts were introduced -- during the 1970's -- but they are

encumbered with mail preparation rules that bear little or no resemblance to the way in which mail is prepared now. And, there are no drop entry discounts because the Postal Service is insistent upon an overly broad reading of the statutory requirement that Media Services rates must be uniform regardless of distance. In these circumstances, it is not surprising that, however measured, the unit attributable cost of Media Services/Library rate fluctuates inexplicably from year to year, as the Commission itself observed. See Decision in R2005-1 at Table 6-9.

Simply put, if the Postal Service is to remain in the business of transporting educational, cultural and informational materials of the type that qualify for Media Services/Library subclass, the entirety of the anachronistic costing and pricing methodology for the subclass must be overhauled. That must be done in connection with the next rate case, at the very latest.

In the meantime, the Governors have abundant grounds for protesting the Commission's recommendation to more than double the proposed rate increase to the grave detriment of mailers, consumers and the Postal Service itself. It is certainly true that, under the statute, each subclass of mail must bear its attributable cost. However, ratemaking in the postal context (as in any other context) is not now – and never has been – an exact science. Particularly in the context of this unique case, which was initiated solely to deal with an institutional financial burden imposed on the Postal Service by Congress, there is no justification for the

Commission's rigid insistence that its and only its cost methodology produces results that comport with the statute.

Indeed, the Commission's doubling of the rate increases for the Media Services/Library Rate is not even the product of a scientific or quasi-scientific costing analysis. The inexplicable fluctuations in unit attributable cost that the Commission lays out at Table 6-9 itself contradicts the Commission's unqualified conclusion that, at the rates proposed by the Postal Service, Media Services/Library Rate would not cover its attributable costs in the test year. Further doubt as to the inevitability of that outcome is raised because the Commission simply accepted the use of cost data on a "consolidated basis" without seeking to inquire behind the consequences of consolidating Media Services/Library rate for costing purposes. The legally correct result in these circumstances was not to mechanically adjust the proposed rates, but to press for better and more complete data. At the very least, the Commission could have used one of its available tools to call for additional information and comment on the facts underlying Media Services/Library Rate before deciding to depart dramatically to settlement rates that were not contested by any party to the proceeding.

There is thus no analytic justification for the result the Commission has reached in application to Media Service/Library Rate. However, there is equally no justification for the Governors to ignore the consequences of this untoward decision and to continue to ignore the needs and interests of Media Services mailers. The Media Services rates recommended by the

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Rate Commission should be accepted under protest. Management should be instructed to turn its immediate attention to an overhaul of the rate structure and the costing of this concededly small but nonetheless very important subclass. PostCom will cooperate in that latter endeavor to the fullest extent of its abilities.

Very truly yours,

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