

THOMAS G. DAY
SENIOR VICE PRESIDENT
GOVERNMENT RELATIONS



November 14, 2005

The Honorable Susan M. Collins
United States Senate
Washington, DC 20510-6250

Dear Chairman Collins:

The Senate may soon consider S. 662, the Postal Accountability and Enhancement Act. An amendment is likely to be offered to S. 662 which purports to require the U.S. Postal Service to offer "fair and equitable" rates. While this amendment sounds reasonable, it will negate the other pricing provisions contained in the bill. The Postal Service is strongly opposed to this amendment.

An amendment elevating fair and equitable to an objective of S. 662 subverts the entire reform bill. Fair and equitable is a term of art intended to preserve the current system of postal pricing. By retaining the status quo, the amendment would not allow, as the bill's price cap intends, the Postal Service to encourage more efficiently prepared mail volume. The success of a price cap depends on the Postal Service's ability to encourage more efficient mail and achieve the needed productivity gains to comply with the price cap. In the short term, this harms the more efficient mailers by failing to recognize their efficiency. In the long term, a less efficient Postal Service imperils the financial viability of the Postal Service. The proposed language would not protect mailers, but instead inevitably lead to higher rates for all mailers.

S. 662 requires the Postal Service to ensure prices cover costs attributable to specific products and comply with the Consumer Price Index (CPI) price cap. Within those constraints, the Postal Service must have all the requisite pricing flexibility. The CPI price cap, in and of itself, is designed to ensure fairness for all parties. The price cap is designed to compel the Postal Service to provide the most efficient, cost effective service possible. By preserving the status quo, the amendment locks in existing rate relationships and ignores changes in postal operations and the market place. Requiring the Postal Service to maintain existing rate relationships subject to a CPI price cap would eliminate or significantly reduce any benefit of the new system for a large proportion of mailers and deprive the Postal Service of pricing flexibility, the very reason for reform.

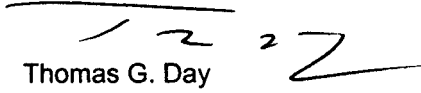
It is not necessary to elevate fair and equitable to an objective. S. 662 retains the fair and equitable standard contained in current law as a factor which must be considered by the Postal Service and its regulator, the Postal Rate Commission, during the development of the new price cap system. S. 662 also retains provisions from current law which ensures the Postal Service cannot unreasonably discriminate between mailers.

Opposing the amendment means you believe the Postal Service should be constrained by a tight price cap that forces the Postal Service to be efficient, while holding down rates for all mailers.

The fair and equitable amendment attempts to benefit some mailers at the expense of the entire postal system and its future economic viability. For those reasons, the Postal Service urges you to oppose the amendment or any amendment that attempts to achieve this goal.

If you have any questions, please contact me at 202-268-2505.

Sincerely,


Thomas G. Day