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BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2017 **Docket No. ACR2017**

COMMENTS OF PITNEY BOWES INC.

Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments on the Annual Compliance Report for Fiscal Year 2017, filed by the United States Postal Service on December 29, 2017 (FY2017 ACR). These comments address (1) improvements in the First-Class and Marketing Mail Automation Letters rate design, (2) the cost coverage and unit contribution of First-Class Mail Single-Piece and Presort Letters / Cards, and (3) compliance with the competitive product pricing rules.

I. Improvements in the First-Class Mail and Marketing Mail Automation Letter Rate Design

Viewed in the context of the recently implemented price adjustments, the FY2017 ACR data demonstrate that the Postal Service has improved the Automation Letter rate design. Following implementation of the price adjustments noticed in Docket No. R2018-1, the passthrough for First-Class Mail Automation AADC Letters is now 94.1 percent, as compared to the FY2017 ACR data which show a passthrough above 100 percent. *See* ACR at 15; USPS-FY17-3, FY17 3 Worksharing Discount Tables.xls, "FCM Bulk Letters, Cards." Also positive, the FY2017 ACR data show the discount for First-Class Mail 5-Digit Automation Letters with a passthrough of 93.8 percent of the costs avoided. *See id*.

The Marketing Mail Automation Letters rate design show similar improvements. The FY2017 ACR shows a passthrough of 121.4 percent for Automation AADC Letters, however, following the recently implemented price adjustments, the passthrough is now 92.9 percent. *See* USPS-FY17-3, FY17 3 Worksharing Discount Tables.xls, "Marketing Mail Letters." The FY2017 ACR shows a passthrough of only 80 percent for Automation 5-Digit Letters, but that passthrough is now 92 percent following the price adjustment. *See id*.

Viewed in concert with the recently implemented price adjustment, all of the key presort workshare discounts for Automation Letters comply with the workshare limitations of 39 U.S.C. § 3622(e)(2). To its credit, the Postal Service has set workshare discounts for Automation Letters much closer to their modeled costs avoided. In First-Class Mail Automation Letters, the Postal Service maintained the 5-Digit Automation Letters discount at 3 cents. Maintaining this discount at a level closer to a full passthrough is critical because it is the most important price for the Postal Service's largest commercial mailers and because it accounts for the majority of all First-Class Mail Presort Letters volume. Stability in the discount for 5-Digit Automation Letters allows mailers and mail service providers to plan for and make investments in operational changes to prepare their mail at the most efficient level for the Postal Service. The Marketing Mail Automation Letters rate design is also improved. The recent improvements in the rate design will help lower the effective costs for mailers, and encourage the retention and growth of the Postal Service's most profitable market dominant products.

The Commission has long recognized the importance of setting workshare discounts equal to avoided costs to maximize pricing and operational efficiency as intended by the Postal Accountability and Enhancement Act.[1] In its pending review of the modern rate system the Commission has proposed revisions to require that workshare discounts be set closer to 100

[1] Pub. L. 109-435, 120 Stat. 3198 (2006); *see* Docket No. ACR2015, Annual Compliance Determination (Mar. 28, 2016) at 10; Docket No. ACR2014, Annual Compliance Determination (Mar. 27, 2015) at 76-77.

percent of the modeled costs avoided.[2] The Postal Service's most recent pricing adjustments move the First-Class Mail and Marketing Mail Automation Letters rate design toward the same goal.

II. FY2017 ACR Data Confirm a Disparity in the Unit Contribution and Cost Coverage of First-Class Single-Piece and Presort Letters

The ACR data confirm that First-Class Mail Presort Letters / Cards remain much more profitable than Single-Piece First-Class Mail Letters / Cards. In FY2017 the unit contribution for First-Class Mail Presort Letters / Cards was 25.7 cents, 7.2 cents greater than the 18.5 cent unit contribution of Single-Piece First-Class Mail Letters / Cards. *See* ACR at 8, Table 1; USPS-FY17-1. Public_FY17CRAReport, "Cost1." The data also confirm a disparity in the cost coverage between Presort Letters / Cards and Single-Piece Letters / Cards. For FY2017 the cost coverage for Presort Letters / Cards is 318.7 percent, as compared to the cost coverage for Single-Piece Letters / Cards of 162 percent. *See id*.

The data reflect recent changes in the reporting of attributable costs, in part, but the persistent disparity in unit contribution and cost coverage also reveals that the Postal Service could do more to encourage the growth and retention of the most profitable First-Class Mail products. This disparity should be considered as the Postal Service considers future price adjustments. Rebalancing the cost coverage and unit contributions among First-Class Mail products by lowering prices on more profitable and price sensitive Presort letters would help stimulate and maintain Presort letters volume, which would improve the Postal Service's financial position.

[2] *See* Docket No. RM2017-3, Notice of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products (Dec. 1, 2017) at 87-98.

III. FY2017 ACR Public Data Confirm that Competitive Products are in Compliance with the Competitive Product Pricing Standards

By law, competitive products are subject to certain statutory and regulatory pricing standards. Specifically, competitive products may not be cross-subsidized by market dominant products, prices for competitive products must cover the "costs attributable" to each product, and competitive products collectively must contribute an "appropriate share" to the Postal Service's institutional costs, as determined by the Commission. *See* ACR at 66-73; 39 U.S.C. § 3633; 39 C.F.R. § 3015.7.

The public FY2017 ACR data confirm that the total aggregate revenues from competitive products ($20.7 billion), *see* USPS-FY17-1, exceeded total aggregate costs of competitive products ($13.9 billion); therefore, competitive products were not cross-subsidized by market dominant products and were in compliance with 39 U.S.C. § 3633(a)(1). *See* ACR at 68, Table 18, "FY2017 Incremental Cost Calculation for Total Competitive Products."

The public FY2017 ACR data also confirm that, with a few minor exceptions, revenues for each competitive product exceed attributable costs as required by 39 U.S.C. § 3633(a)(2). *See* ACR at 69-72.

The public FY2017 ACR data further confirm that collectively all competitive products cover an appropriate share of institutional costs, as determined by the Commission. Total institutional costs for FY2017 were $30.9 billion. *See* USPS-FY17-1, at 3. The Commission has determined that an appropriate minimum share is 5.5 percent of total institutional costs,[3] approximately $1.7 billion in FY2017. *See id*. Competitive products contributed $7.2 billion to institutional costs (approximately 23 percent) in FY2017, more than four times the 5.5 percent

[3] *See* 39 C.F.R. § 3015.7(c). The Commission is conducting a review of the appropriate in Docket No. RM2017-1.

minimum contribution required; thus, competitive product were in compliance with 39 U.S.C. § 3633(a)(3). *See* ACR at 73.

Pitney Bowes appreciates the Commission's consideration of these comments.

Respectfully submitted:

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