

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Market-Dominant Price Change

Docket No. R2019-1

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COMMENTS IN OPPOSITION TO A 55-CENT PRICE
FOR ONE-OUNCE, MACHINABLE, STAMPED, FIRST-CLASS LETTERS
[ERRATUM #2]

October 31, 2018

On October 10, 2018, the Postal Service proposed to raise the price for a one-ounce, machinable, stamped, First-Class letter from 50 cents to 55 cents. The Postal Service devoted just one paragraph to its attempt to justify the largest increase in history for the postage rate that affects nearly every American. The Postal Service is wrong on the facts and the law. The Commission should find that this unprecedented price increase does not meet the requirements of 39 U.S.C. § 3622.

I. INTRODUCTION

The Postal Service attempts to justify a five-cent increase in the price for stamped one-ounce letters as follows:

The Postal Service is deliberately setting the Stamped Letters, additional ounce, and nonmachinable surcharge prices at round numbers divisible by five, to better achieve the “simplicity of structure” called for by Section 3622(c)(6). This should facilitate convenience for retail customers, for whom a straightforward, understandable pricing structure is more important than it is for commercial customers, who do not rely on stamps. Of course, moving to this structure (while still raising prices) requires that the Postal Service apply a substantial amount of this year’s pricing authority to Stamped Letters. The impact of this increase should be mitigated by the fact that the Postal Service is effectively reducing the

prices for pieces heavier than one ounce and for nonstandard shaped pieces. [Footnote 10: Thus, for example, many holiday cards and invitations will be sent at a less expensive overall rate than before.] In addition, the Single-Piece Postcard price will remain the same at 35 cents. Importantly, the Postal Service intends to maintain this simplicity of structure for retail customers into future years, meaning that Stamped Letters may not see an increase in every price case (subject to the business conditions that obtain in coming years).¹

The Postal Service appears to be asserting the following claims:

- Prices for one-ounce stamped letters, additional ounces, and the nonmachinable surcharge that are divisible by five would achieve the “simplicity of structure” described in 39 U.S.C. § 3622(c);
- Retail customers would find a pricing structure more convenient, straightforward, and understandable if the prices were divisible by five;
- Retail customers’ reliance on stamps is a factor in the belief attributed to them that prices divisible by five would be more convenient, straightforward, and understandable than prices that are not divisible by five;
- The proposed reduction in the price for additional ounces and “nonstandard shaped pieces” would mitigate a five-cent increase in the price for one-ounce stamped letters.

The Postal Service does not define “retail customers.” Retail customers could be customers who show up at a Postal Service facility to purchase stamps or send mail. Or they may comprise all customers who are not commercial and do not use postage meters. I will assume that this description applies to individuals and small businesses who use stamps to pay postage.

¹ United States Postal Service Notice of Market-Dominant Price Change (“Notice”) at 6–7, filed October 10, 2018.

II. POSTAL SERVICE CLAIM OF SIMPLICITY OF STRUCTURE

The Postal Service completely fails to support its assertion that retail customers would find prices divisible by five more convenient, straightforward, and understandable than prices that are not divisible by five. Indeed, these assertions defy logic and common sense and insult the intelligence of the American public. Moreover, a review of history and the current classification structure for letters, flats (large envelopes), and parcels will demonstrate that prices that are divisible by five neither constitute nor promote the “simplicity of structure” for the schedule of rates and classifications to which section 3622(c)(6) refers.

A. Understandable

The price for one-ounce, stamped, First-Class letters is the one postage rate that the public is most likely to know. Throughout history, most members of the public have sent letters at this rate several times a year. The proven ability of the public to understand this price provides important insights about the Postal Service’s current proposal.

For most of history, the price for one-ounce stamped letters has not been divisible by five cents. Until the price reached 50 cents in January 2018, this price was divisible by five cents only from January 1963 to January 1968 (5 cents), March 1974 to December 1975 (10 cents), May 1978 to March 1981 (15 cents), November 1981 to February 1985 (20 cents), April 1988 to February 1991 (25 cents), and January 2012 to January 2013 (45 cents). For the vast majority of these years, including 21 consecutive years from 1991 to 2012, the price was not divisible by five cents. Yet the public never had difficulty understanding the concept of 22, 34, or 42 cents to mail a letter. The same is true for the price for additional ounces or the nonmachinable surcharge. When friends or relatives asked me for the rate to mail a two-ounce letter, nobody ever said “What?” or “Huh?” when I responded that the rate for the additional ounce was 17 cents or 21 cents. Contrary to the Postal Service’s belief, the American public is perfectly capable of understanding prices that are not divisible by five. The public would

understand 52 cents for the price of a stamp just as easily as the public would understand 55 cents.

B. Straightforward

The Postal Service's claim that prices divisible by five would be more "straightforward" than prices that are not divisible by five is unclear. The online Merriam-Webster dictionary defines "straightforward" as "free from evasiveness or obscurity," "clear-cut," or "precise." A price of 52 cents would be quite clear-cut and very precise — in fact, just as clear-cut and precise as 55 cents.

C. Convenient

The Postal Service's claim that prices divisible by five would be more convenient than prices that are not divisible by five could strike some readers as plausible at first glance. However, even this claim crumbles under scrutiny, particularly when the Postal Service reminds us that retail customers use postage stamps.

Over my many years of observing transactions at Postal Service retail counters, I occasionally have seen customers approach the window clerk with a one-ounce, machinable letter, purchase nothing else, and pay for the postage for this one letter with cash. And I have seen a few customers approach the window clerk to purchase a single stamp. The Postal Service apparently contends that paying 55 cents would be more convenient for a customer than paying, say, 52 cents. Perhaps customers who dislike pennies would prefer the higher price, but the suggestion that customers as a whole would prefer a stamp price of 55 cents instead of 52 cents seems dubious even for these examples.

In any event, the transactions described above do not represent the typical customer's use of the mail or interaction with the Postal Service. First, most customers do not approach a retail counter to mail one-ounce, machinable letters or to purchase a single stamp. Instead, they simply place a stamp on their envelope and deposit it in the mail. Second, most customers buy stamps in

convenient multiples, such as booklets of 20 or coils of 100. Any suggestion that paying \$11.00 for a booklet of 10 stamps or \$55.00 for a coil of 100 stamps would be more convenient than paying \$10.40 or \$52.00 for these same quantities would strain credulity. Third, when customers pay by debit or credit card, as they can at every post office, they do not care whether prices are divisible by five. Fourth, the only Postal Service equipment in use today that resembles a vending machine is a Self-Service Kiosk. These machines do not sell single stamps; the minimum purchase quantity of forever stamps is two stamps. Self-Service Kiosks accept only debit and credit cards, so whether the price is 52 cents or 55 cents, or \$1.04 or \$1.10 for two stamps, does not affect convenience. Consequently, for customers who pay by debit or credit card, whether at a Self-Service Kiosk, Postal Service retail counter, or consignment sale vendor such as Walgreens or Costco, cheaper is better, and 55 cents per stamp certainly would not be more “convenient” than 52 cents.

The previous paragraph mentioned forever stamps. For domestic mail, the Postal Service sells forever postage stamps for one-ounce letters, two-ounce letters, three-ounce letters, additional ounces, and one-ounce letters paying the nonmachinable surcharge. The prevalence of forever postage stamps destroys the Postal Service’s argument that prices that are divisible by five would be more convenient for customers than prices that are not divisible by five. One central benefit and purpose of forever postage stamps is to ease rate transitions. Customers no longer need to care from day to day about the current prices for one-ounce letters, additional ounces, and the nonmachinable surcharge. Also, customers typically buy a supply of forever stamps at the current price and use the stamps whenever they need to, regardless of the price in effect on the day of use. When customers need more stamps, they buy in quantities such as 20 or 100 — quantities that lead to round numbers for the total purchase. And they probably pay with debit or credit cards as well, so they do not care whether the purchase price is an even number.

The Postal Service's suggestion that prices that are divisible by five would appeal to retail customers who use stamps relies on nostalgia for the days of yesteryear when customers maintained a stash of low-denomination stamps and applied multiple stamps to a two-ounce letter. Avoiding odd postage prices might have been convenient for customers in the old days. However, forever postage stamps have relegated those days to the history books. One-ounce forever stamps and additional-ounce forever stamps are all the stamps that most customers need to send their mail conveniently, regardless of today's prices.

If the Postal Service's assertion that customers somehow would prefer a price of 55 cents instead of 52 cents is not implausible enough on its face, imagine the following question posed in a public opinion poll: "Which price to mail a letter would you prefer — 52 cents or 55 cents?" Fifty-two cents would prevail.

Lastly, the Commission should consider whether the customers most likely to purchase one stamp at a time and count pennies at the retail window have a lower income than customers who purchase 20 or 100 stamps at a time. These customers may not appreciate the supposed "convenience" of a higher price.

III. STATUTORY CONSIDERATIONS

A. Simplicity of Structure

Section 3622(a) required the Commission to establish "a modern system for regulating rates and classes for market-dominant products." 39 U.S.C. § 3622(a). When revising this system, the Commission must consider "simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services[.]" 39 U.S.C. § 3622(c)(6).

In claiming that prices that are divisible by five would contribute to "simplicity of structure," the Postal Service seriously misconstrues this clause. The correct focus is on the *structure* of rates and classifications, not the actual, individual rates or prices. Even assuming hypothetically that price divisibility by

five could contribute to convenience, a price of 55 cents to mail a letter would not be *structurally* simpler than 52 cents — if 55 cents even would be simpler at all. Several examples of features of the rate and classification structure that affect individuals and small businesses and that *do* implicate simplicity of structure will illustrate proper application of section 3622(c)(6):

- **Shape-based rates** for letters, flats, and parcels **complicate** the rate and classification schedule. Shape-based rates require individuals and small businesses to understand complex rules for defining letters, flats, and parcels.
- **Forever postage stamps** **simplify** the rate and classification structure by shifting customers' focus from the price that applies today to the type of mail piece that they are sending. Forever postage stamps reduce the amount of information that customers need to know.
- By charging the **same price for additional ounces for letters and flats**, the Postal Service **simplifies** the number of additional-ounce prices that customers must know. Once a customer establishes the correct first-ounce price for a letter or flat, the customer can apply this single additional ounce rate to finalize the mailing.
- The **nonmachinable surcharge** **complicates** the rate and classification schedule. Many customers are not aware of the surcharge, and parsing the definition of machinability adds complexity to the process of mailing a letter.

These features of the rate and classification schedule *do* implicate the “simplicity of structure” criterion of section 3622(c)(6). In contrast, setting a price for one-ounce stamped letters that is divisible by five does not promote any simplicity in the structure of rates or classifications. Nothing about a price of 55 cents would be *structurally simpler* than a price of 52 cents — not for conceptual understanding, not for the vast majority of postage purchase transactions, and

not in an era of forever postage stamps. In fact, the rate and classification structure already is too complicated for retail customers who may wish to send the occasional piece of mail that is not a one-ounce letter. This proposal to increase the price for a one-ounce stamped letter to 55 cents, dressed up in a claim that it will benefit the public due to its divisibility by five, in reality will saddle Americans with the largest price increase in history for one-ounce stamped letters. The proposal will do nothing to address the actual complexity in the rate and classification structure that customers face whenever they want to mail an item that is not a one-ounce, machinable, First-Class letter — such as a #10 envelope containing their state or federal income tax return or eight folded sheets of paper for their accountant. The Commission must not allow the Postal Service to ignore section 3622(c)(6) when devising ever more complicated features of the rate and classification schedule and then to hijack this section to support an entirely unjustified price increase that will negatively affect nearly every American.

B. Effect on the Public

As discussed above, the “simplicity of structure” criterion does not support the Postal Service’s proposal. The proposal fails for another significant reason as well: the highest postage price increase in history would have a profoundly negative effect on the general public and many business mail users.

Section 3622(c)(3) requires the Commission to consider “the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters[.]” The Postal Service glosses over this requirement, mainly offering a completely unpersuasive, if not disingenuous, excuse.

The Postal Service’s proposal asserts that the “impact of this increase should be mitigated by the fact that the Postal Service is effectively reducing the prices for pieces heavier than one ounce and for nonstandard shaped pieces.”²

² Notice at 7.

A footnote adds, “Thus, for example, many holiday cards and invitations will be sent at a less expensive overall rate than before.”³ However, these decreases will not mitigate the overall effect of this increase.

In FY 2017, the Postal Service processed 10.27 billion letters that paid the price for a one-ounce stamped letter.⁴ Additional-ounce volume comprised 277.89 million of these letters, a mere 2.7 percent of the total volume.⁵ Non-machinable volume totalled 56.01 million letters, a tiny 0.6 percent of total volume.⁶ Combined, these rate decreases account for only 3.3 percent of total volume. They do not, in any meaningful way, “mitigate” the effect of this huge price increase on the general public and many business mailers.

Also, the assertion that “many holiday cards and invitations will be sent at a less expensive rate than before,” while strictly true, ignores the fact that *most* holiday cards pay the one-ounce rate for machinable letters and would, in fact, pay 55 cents instead of 50 cents. Wedding invitations with RSVP cards may be the only category of invitation envelope expected to pay for an additional ounce, but price relief for wedding invitations does not justify a huge price increase for nearly all other letters.

By citing the price decrease for additional ounces and the nonmachinable surcharge, the Postal Service is deliberately trying to divert attention away from the five-cent price increase for 96.7 percent of the First-Class stamped letter volume. Never before has a basic stamp price increased by five cents. This increase also is 10 percent. Percentage increases are somewhat misleading because when rates were under 10 cents, the increases were always at least 20 percent. Nonetheless, for perspective, in modern times, the last increase as high as 10 percent occurred in 1995, when the rate rose from 29 cents to 32 cents. Back then, costs and other factors justified the increase. This time, the Postal

³ *Id.*, fn. 10.

⁴ USPS-LR-R2019, FY 2017 FCM, Worksheet “A-1 Single-Piece Letters.”

⁵ *Id.*

⁶ *Id.*

Service has offered no justification for this increase aside from the debunked assertions that rates divisible by five will improve simplicity of structure and will be more straightforward and convenient than cheaper rates that are not divisible by five. If section 3622(c)(3) has any meaning, surely it must prevent the largest postal rate increase in history that also has no support in fact or law.

C. Not Just and Reasonable

The absence of factual or legal support for the five-cent increase in stamp price also leads to the inescapable conclusion that this increase would not be “just and reasonable.” Section 3622(b)(8) requires the Commission to “establish and maintain a just and reasonable schedule for rates and classifications[.]” This section does provide some latitude, noting that the “objective under this paragraph shall not be construed to prohibit the Postal Service from making changes of unequal magnitude within, between, or among classes of mail.” Nonetheless, section 3622(b)(8) and 39 C.F.R. § 3010.12(b)(7) require the Postal Service to provide *some* rationale and plausible reason or justification for a record-high price increase in the rate that most directly affects nearly every American who uses the postal system. Otherwise, section 3622(b)(8) would have no meaning. Instead, the Postal Service has provided only assertions that collapse under scrutiny. The proposed price increase from 50 cents to 55 cents is unjust and unreasonable.

IV. THE POSTAL SERVICE’S “ASSURANCE” IS A PRICE INCREASE

The Postal Service tries to sell the five-cent increase in the one-ounce rate for stamped machinable letters by presenting the following assurance: “Importantly, the Postal Service intends to maintain this simplicity of structure for retail customers into future years, meaning that Stamped Letters may not see an increase in every price case (subject to the business conditions that obtain in coming years).”⁷ This statement of intention is not legally enforceable.

⁷ Notice at 7.

Moreover, this statement is a price increase disguised as reinsurance. Once the price otherwise would reach 56 or 57 cents, the Postal Service likely will remind us of this plan and raise the price to 60 cents to maintain divisibility by five. Therefore, far from providing comfort, this statement actually means that individuals and small business always will be paying more than they would have paid otherwise, and they will be paying it *sooner* than they otherwise would have. The Postal Service is not proposing a pay-now, save-later scheme centered on a 55-cent price. Rather, the Postal Service wants customers to pay more now and to pay more later. Thus, this largest price increase in history in fact is just the beginning. It will constitute a permanent excessive price increase, with the Postal Service plowing these extra revenues into its coffers for years to come. The Commission needs to stop this plan now by finding that the price increase from 50 cents to 55 cents does not comply with section 3622.

V. CONCLUSION

While the Postal Service may have some pricing discretion, increases still must comply with the statutory guidelines. The Postal Service's claim that maintaining a price for one-ounce, machinable, stamped First-Class letters that is divisible by five does not support simplicity of the structure of the rate and classification schedule — the only criterion on which the Postal Service relies. This proposed increase also would be unjust and unreasonable and would negatively affect the general public and many businesses. Therefore, the Commission should determine that this increase does not comply with section 3622.

Respectfully submitted,

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