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

Notice of Market Dominant Price Adjustment	)))	Docket No. R2020-1

COMMENTS OF THE ASSOCIATION FOR POSTAL COMMERCE IN RESPONSE TO ORDER NO. 5318 (November 27, 2019)

Pursuant to Order No. 5318, the Association for Postal Commerce ("PostCom") submits these comments on the Postal Service's revised Market-Dominant Price Adjustment, filed November 20, 2019 and scheduled to take effect on January 26, 2020. *See* United States Postal Service Response to Order No. 5302 ("USPS Response"). One of the goals of the existing system of regulations, and of the Postal Accountability and Enhancement Act ("PAEA") more generally is to ensure predictability with regard to price changes. PostCom believes that in its initial ruling in Order No. 5302, the Commission correctly insisted on the use of an established methodology for determining cap compliance in ruling that the initially proposed rates exceeded available cap authority. PostCom does not believe the Postal Service intended, through use of a novel approach, to wring more revenue from existing cap authority. However, introduction of a novel approach to cap compliance calculation in an annual price adjustment introduces unnecessary complications that work against predictability in rates.

The Postal Service's spirited request for reconsideration notwithstanding, to their credit, the proposed remedy – reduction of the proposed rate for First-Class Mail 5-Digit Automation letters from 39.1 cents to 38.9 cents—offers an elegant solution. This change would bring proposed rates into compliance without creating the need for numerous other adjustments in First-Class Mail rates. As the time period for mailers to prepare for and implement software changes in response to the Postal Service's new rates is already shortened compared to historical standards, avoiding further complications in rate design is an important consideration. The Commission should set aside the Postal Service's request for reconsideration and approve the proposed "Scenario 3" setting the First-Class Mail 5-Digit Automation letter rate at 38.9 cents.

Additionally, reduction of this rate from 39.1 cents to 38.9 cents will improve the passthrough associated with this rate from 82.4% under the initially proposed rate to 88.2%. USPS Response at 19. This increased passthrough is a positive step, as it means the passthrough will move closer to 100%. But it raises the question of why the passthrough has not increased further, and why the Postal Service initially proposed a greater increase in this rate that would have set the passthrough even further from 100%. The Postal Service's arguments for failing to pass through all the cost savings associated with this workshare activity do not hold weight.

The Postal Service argues that "[t]here is no statutory requirement that passthroughs be exactly 100 percent" and that it must only "ensure that the workshare discounts do not exceed 100 percent." USPS Response at 16. While there is no prohibition in the statute on setting discounts below 100% comparable to the limitations on passthroughs exceeding 100% in 39 U.S.C. § 3622(e), the statute does direct the Postal Service "[t]o maximize incentives to reduce costs and increase efficiency" (Objective 1) and to account for "the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service" (Factor 5) and "the need for the Postal Service to increase its efficiency and reduce its costs, including infrastructure costs, to help maintain high quality, affordable postal services" (Factor 12). Workshare discounts that do not pass through 100% of avoided costs do not maximize incentives to reduce costs and increase efficiency as they incent inefficient preparation of mail. Similarly, they do not fully account for the degree of preparation of mail performed by the mailer and the effect of that preparation on reducing Postal Service Costs, and they do not account for the need for the Postal Service to reduce its costs and increase efficiency. Instead, they send inefficient price signals that can result in the Postal Service incurring more costs to process mail than it would if the private sector performed the relevant work. Thus, while passthroughs below 100% are not strictly prohibited, the statute certainly directs that they should be increased whenever possible. Indeed, a primary goal of the PAEA is to incent efficient operation, as illustrated by the fact that passthroughs above 100% are allowed when reducing the discount would impede the efficient operation of the Postal Service.

There are other aspects of the reasoning in the USPS Response with which PostCom disagrees, including its interpretation of Factor 3 (USPS Response at 13) and its legalistic approach to price setting epitomized by its contention that "the point of the market-dominant price cap rules is to delineate how high the Postal Service can increase rates." USPS Response at 18. But the Commission need not address these issues if it declines to reconsider Order No. 5302. Accordingly, PostCom recommends that the Commission decline to reconsider Order No. 5302, accept the 38.9 cent rate for First-Class Mail 5-Digit Automation, and promptly issue an order in time for these rates to take effect on January 26, 2020.

Respectfully submitted,

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