

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

Periodic Reporting (Proposal Seven)

Docket No. RM2021-1

COMMENTS OF PITNEY BOWES INC.
(March 5, 2021)

Pursuant to Order No. 5756, Pitney Bowes Inc. (Pitney Bowes) respectfully submits these comments in response to the Postal Service's Petition to update the variabilities for certain types of purchased highway transportation.¹ These comments also respond to the comments filed in this docket by United Parcel Service, Inc. (UPS).²

The Postal Service proposes to update and improve the cost-to-capacity variability estimates in response to operational changes in the Postal Service's highway transportation network. Specifically, since the purchased highway cost-to-capacity variabilities were last estimated there have been two material operating changes: the increased use of seasonal highway transportation or "Christmas routes" to address seasonal volume peaks in letter mail and package volumes, and the introduction of Dynamic Route Optimization (DRO) contracts. *See* Petition at 1-3. Proposal Seven is, therefore, responsive to the Commission's prior direction that the Postal Service periodically update the variabilities of purchased highway transportation costs to reflect current operations. *See* Petition at 2.

Professor Bradley's analysis shows that updating the variability estimates as proposed by Proposal Seven will result in higher overall variabilities and higher attributable costs. Specifically, if

¹ *See* Order Granting Motion to Extend Comment Deadline (Feb. 22, 2021); Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven) (Nov. 9, 2020)(Petition).

² *See* Initial Comments of United Parcel Service, Inc. on Notice of Proposed Rulemaking on Analytic Principles Used in Periodic Reporting (Proposal Seven) (Feb. 26, 2021)(UPS Comments).

adopted Proposal Seven would have attributed an additional \$191.5 million in purchased highway transportation costs in FY2019;³ approximately half of which would be attributed to domestic competitive package products.⁴

The Petition, the associated workpapers and the supporting analysis by Professor Bradley, and the Postal Service's responses to the Commission's information requests all suggest that Proposal Seven will improve the accuracy of the variability estimates for purchased highway transportation costs. Accordingly, Pitney Bowes supports the adoption of Proposal Seven.

UPS supports Proposal Seven, but it does so only conditionally. UPS acknowledges that Proposal Seven is an improvement, but objects to the fact that the distribution keys and DRO capacity-to-volume variability draw from regular transportation. Calls for additional research are reasonable,⁵ but UPS goes much further. In the absence of what UPS would consider a "reasonable alternative" UPS urges that the Commission "should conservatively assume that all of the costs for these routes are caused by competitive products."⁶ The Commission should reject UPS's "alternative approach" as both unsound and unlawful.

UPS cites to its peak season cost petition to support the argument that the seasonal routes costs "are largely - if not entirely - incremental to competitive products."⁷ This argument, like the peak season cost petition, incorrectly assumes that competitive products are the only products with higher volumes during peak season. The Commission has previously considered and rejected similar arguments by UPS in the past:

The Commission also notes that demand for both Competitive and Market Dominant products increases during peak season, and, as a result, seasonal increases in costs are not exclusively attributable to Competitive products.⁸

³ See Michael D. Bradley, Research on Updating Purchased Highway Transportation Variabilities to Account for Structural Changes (Nov. 9, 2020) ("Bradley Report") at 53-54.

⁴ See *id.*

⁵ See Chairman's Information Request No. 1 (Dec. 17, 2020) at 2-3, Question 4; UPS Comments at 11-12.

⁶ UPS Comments at 5.

⁷ *Id.*, at 8.

⁸ Docket No. ACR2018, Annual Compliance Determination Report for Fiscal Year 2018 (Apr. 12, 2019) at 121 (citing USPS elasticity regression estimates).

UPS gains nothing by citing to the treatment of Sunday Special Purpose Routes (SPR) as a basis to attribute all costs of Christmas routes and DROs to competitive products.⁹ Sunday SPRs are not analogous to Christmas routes and DROs. There is no reason to believe that the only products carried on Christmas routes and DROs are competitive products. In contrast, almost everything carried on a Sunday SPR was a competitive product because the Sunday SPRs were designed as package-only routes.

UPS's proposed "alternative approach" to assign all of the costs to competitive products must also be rejected as a violation of the statutory requirement that costs can only be attributed to products "through reliably identified causal relationships." 39 U.S.C. § 3631(b). UPS has failed to offer any evidence that all of the costs are caused by competitive products, a fact UPS is forced to concede throughout its comments by repeated asserting that the costs are "largely" caused and thus "largely" incremental.¹⁰

The Commission should use this proceeding to definitively reject UPS's obviously biased "when in doubt, attribute it all to competitive products" approach. The Postal Service has developed its costing models over time under Commission oversight and with transparency to all stakeholders. Continued, incremental refinement of those models is the right approach. UPS's proposal would further its own interests without regard to the statutory requirements, the Commission's previous holdings, or sound economics. The Commission should reject proposals that degrade, rather than improve, existing costing methodologies and those that would harm competition and, by extension, the consumers, business and any other parties that rely on the Postal Service to provide efficient, cost-effective service.

⁹ See UPS Petition at 14, n.33.

¹⁰ UPS Comments at 8, 18.

For the reasons stated above the Commission should adopt Proposal Seven and reject UPS's "alternative approach."

Respectfully submitted:

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Michael F. Scanlon
K&L GATES LLP
1601 K Street, NW
Washington, DC 20006
Telephone: (202) 661-3764
E-Mail: michael.scanlon@klgates.com

Counsel to PITNEY BOWES INC.