

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes }

Docket No. R2006-1

MAIL ORDER ASSOCIATION OF AMERICA
ANSWER
TO
MOTION OF COALITION OF CATALOG MAILERS
TO REOPEN AND SUPPLEMENT THE RECORD

Introduction

The Coalition of Catalog Mailers' ("CCM") Motion "requests that the Commission reopen and supplement the record" Motion at 10. The Mail Order Association of America ("MOAA") agrees with CCM that the Commission's recommended rates for Standard Mail Regular flats "will unnecessarily threaten the vitality of the catalog industry." *Id.* MOAA, however, also agrees with the Postal Service's position that because the Governors' requested change in rates "would be consistent with the evidentiary record as it currently exists, their adoption by the Commission would not require any additions to that record." Postal Service Initial Statement dated March 28, 2007 at 1, 2. CCM recognizes that the record need not be reopened if the Commission determines that "the record is already sufficient to grant rate relief for Standard Mail Regular flats." Motion at 8 (footnote omitted).

Therefore, MOAA respectfully requests that the Commission act quickly on the Motion. If denied, MOAA also requests the Commission to adopt an accelerated schedule for comments that would permit the Commission to respond to the Governors' request prior to the May 14 effective date for rate changes.

The Existing Record Supports Lower Rates For Flats

The relief that has been requested by the Governors in its Request for Reconsideration can be granted by the Commission on the basis of the existing record. As noted in the Governors' Decision, the Commission's recommended rates result in "steep price increases for flats, with increases of more than 40 percent." Decision of the Governors at 9. The Commission's expertise provides a sufficient basis for finding that rate shock is inevitable with rate increases of that magnitude. As stated by the Governors, the rates present "the risks of misjudging how mailers (and thus mail volumes) would respond increase significantly with rate changes of this magnitude." *Id.* The Governors' Decision persuasively discusses why the steep increases in flats would affect the vitality of the catalog industry. *Id.* at 9, 10.

MOAA also submits that the Commission can take official notice of the fact that catalogs, which every consumer receives, have production difficulties that differ from those that would affect other types of mail, *i.e.* advertising material within a shared mailing, which generally are small, simple pieces designed to be valid for a limited period of time. Under those circumstances advertisers are in a position to adjust prices quickly as necessary to take account of increased postage costs. Multipage catalogs face a longer production lead time and prices that will remain in effect for an extended period. In sum, catalog production, including the physical production as well as the choice and pricing of the products contained in the catalog, is something that requires advance planning and cannot quickly be modified on the basis of an unexpected postage rate increase.

The rate increases that have been imposed upon catalogs are unwise. Such large rate increases will inevitably damage both catalog companies and the future of the Postal Service. Large rate increases for the Regular subclass, which has volumes much greater than the ECR subclass, are contrary to the interests of all mailers because Standard Mail as a whole will have a growing importance in providing sufficient mail volumes to enable the continuation of universal service at reasonable rates. As stated in MOAA's Initial Brief:

Imposing a rate increase on Standard Mail Regular of the size proposed by witness Mitchell would undoubtedly result in rate shock for mailers dependent upon that subclass. His proposed 17.5 percent average rate increase for Standard Mail Regular is larger than should be imposed upon any class or subclass of mail unless absolutely

necessary because of attributable costs or other factors. It would be bad policy to impose such a drastic increase upon Standard Mail Regular, a subclass of mail which together with Standard Mail ECR, is going to become ever more important to the Postal Service in sustaining sufficient volumes to continue to provide a viable service for all mailers.

MOAA Initial Brief at 10.

Although the Commission's recommended rates are less draconian than those proposed by Mitchell, they nevertheless are well within "rate shock" levels, as is recognized by the Governors' Decision.

Postal Service witness Kiefer's testimony makes it clear that large rate increases for Standard Mail Regular flats would be counterproductive and harm the future of the Postal Service.

I do not believe that existing rate relationships are carved in stone and must never change. Indeed, I am sympathetic to the view, strongly advocated by Valpak in this docket, that Standard Mail flats should bear a greater share of the Standard Mail institutional cost burdens. Yet, at the same time, I understand that most Standard Mail flats are making significant positive contributions, and I am sensitive to the impacts that rapid changes in relative prices might have on the businesses of those customers who mail Standard Mail flats. Therefore, I strongly believe that changes in relative letter-flat prices should be evolutionary, not revolutionary. Witness Mitchell's approach would jump instantly to his preferred rate relationships, heedless of the consequences his proposed pricing would have on mailers' businesses. I believe that relative letter-flat prices should adjust gradually, even after considering that the "evolution" has been delayed because of a number of unrelated factors.

Tr.33/011133-34A. USPS-RT-11 at 20, 21.

Witness Kiefer's testimony criticizes witness Mitchell's attempt to "fix" the letter-flat cost differential "virtually in one step." Tr.33/011134A. USPS-RT-11 at 21 (footnote omitted). As he concludes: "The upshot of Mitchell's desire to fully recognize the letter-flat cost difference in rates is to place an excessive adjustment burden on Standard Mail Regular flats." *Id.* at 21. He concludes that the resulting increases exceeding 40-50 percent represents a lack of "adequate concern for impacts on mailers." *Id.* That testimony is applicable to the Commission's recommended rates and is more than adequate support for the Commission to adjust the letter-flat rates, as requested by the Governors, rates that represent a passthrough of 100 percent of cost differences rather than the 95 percent recommended by Mitchell.

There Is No Record Support For Increases In The Rates For Flats As Large As Those Imposed By The Commission's Recommended Rates

Generally, witness Kiefer's rebuttal testimony as found on pages 20 through 26 provides solid evidence upon which this Commission could now respond positively to the Governors' Order requesting Reconsideration by moderating the rate increases for Standard Mail Regular flats. In addition, witness Kiefer's testimony discusses the lack of record support for a "massive restructuring of Standard Mail rates".

It is clear that witness Mitchell's excessively narrow focus has led him to propose a massive restructuring of Standard Mail rates without providing any evidence of the repercussions of his proposals. Mitchell's analysis is too incomplete to rely on as the basis for so significant a rate restructuring.

Tr.33/011136A. USPS-RT-11 at 26.

The Commission's recommended rates would result in "a massive restructuring of Standard Mail rates without providing any evidence of the repercussions of [those rates]". Just as Mitchell's analysis was too incomplete to rely on as a basis for "so significant a rate restructuring", there also is nothing in the record to support the significant restructuring that would result from the Commission's recommended rates.

The Commission Has Recognized The Need To Moderate Rate Increases

In its Decision, the Commission has already recognized the need to moderate rate increases as a result of rate shock. In its discussion of the rates for Periodicals, attempting to minimize rate shock for any particular mailer of Periodicals, the Commission stated that the "Act does not prescribe the use of a specific analytic tool or technique in assessing effect on mailers. In fact, reducing the requisite consideration of impact on mailers to a single statistical technique would not appear to be consistent with the statute." PRC Rec. Dec. R2006-1 at 329 ¶ 5698.

No additional evidence is required to support the proposition that the Commission can find that rate increases of the size that have been recommended for Standard Mail Regular flats in this proceeding will result in rate shock and impose hardship upon mailers.

Conversion From Flats To Letter-Size Would Be Difficult To Impossible For Catalogs

The Commission should also revisit its conclusion about the ability of mailers to convert from flat to letter-size mail in order to ameliorate the high rate increases recommended in this decision. PRC Op. and Rec. Dec. at 249, ¶ 5470. Letter-size mail is subject to a maximum thickness of ¼ inches. Thus, many catalogs could not be converted without drastically reducing advertising content. Further, converting even those catalogs that are of sufficiently small size to be susceptible to conversion to letter-size pieces is not something that can be accomplished quickly. The overwhelming majority of catalogs in their existing format would have to be folded to fit the maximum letter-size and would otherwise need to be configured in such a way that they could be processed by letter-sorting machines. Further, such reconfiguration could well have an affect upon the effectiveness of the catalog.

Valpak witness Mitchell recognized the difficulties of converting flats to letters.

Many flats could not in any reasonable way be converted into a letter. Others are part of a business model that would not be served by a letter instead of a flat. Decisions to change format are often accompanied by other changes as well, such as different quality or thickness of paper or the inclusion of art or photographs.

Tr. 25/8836.

In sum, although there may be some types of Standard Mail Regular flats that are easily susceptible to conversion, it is clearly not a conclusion that applies generally, and has little application to catalogs. *See* Governors Decision at 10 and Initial Statement of the United States Postal Service on Reconsideration, March 28, 2007 at 9-12.

The Commission Could Reassess Its Volume Projections.

MOAA also suggests that the Commission could assess the elasticity assumptions used in making volume projections as a result of the recommended rates. The letter addressed to the Commission by James O'Brien of Time Inc., dated April 11, 2007, suggested that elasticity assumptions "are subject to reasonable adjustment and the PRC can reasonably assume that with a lower Standard flat

rate and higher volume levels, the same amount of revenue would be generated.” This is an area that could be explored by the Commission on the basis of the existing record.

A Delay In The Rate Increase For Flats Would Be Helpful

Another possibility that MOAA urges the Commission to consider is suggesting to the Governors that the increased rates for flats be delayed. This would permit mailers to adjust more readily to the rates that have been recommended by the Commission. As stated in the Coalition’s motion: “A transition period would allow catalogers to mitigate the impact of the rate increase.” Motion at 8. The timing of rate implementation is within the sole discretion of the Governors, but as a response to the Governors reconsideration request, the Commission could appropriately make that suggestion.

Summary And Conclusion

The CCM’s motion contains a useful discussion of the detrimental effect the Commission’s recommended rate increases for Standard Mail flats would have upon the catalog industry. The Commission should rebalance the Standard Mail letter and flat rates, as requested by the Governors, and it can do so on the basis of the existing record.

Respectfully submitted

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